

## DARAG acquires HVAG

**DARAG (Deutsche** Versicherungs- und Rückversicherungs-AG) has acquired a majority shareholding in Hamburger Versicherungs-Aktiengesellschaft (HVAG).

Hamburg-based HVAG was active in the German market from 1999 to 2008 as a broker/insurer in the industry and transport insurance business. At the end of 2008, the company ceased underwriting new business and has since been entirely in run-off. As at 31 December 2009, HVAG's claims reserves amounted to €5.4 million.

The acquisition of 70 per cent of the shares will make DARAG the majority shareholder of HVAG. The Berlin-based specialist insurer is acquiring 55 per cent of the share contingent from the principal shareholder Mitsui-bussan Insurance, a subsidiary of the Japanese Mitsui & Co. Just under 15 per cent of the shares were purchased from minority shareholders. The transaction price was not disclosed.

With the sale of its shares, Mitsui-bussan is terminating its insurance activities in the German market, thereby avoiding a lengthy solvent liquidation.

'In DARAG, we are pleased to have found a professional partner on the Ger-

man market to handle the run-off of HVAG, with the experience to drive the winding-up process forward. Mitsui-bussan's decision to transact the deal with DARAG was primarily based on the company's financial soundness as well as its competence and experience in claims management,' says Taku Matsumoto, president of Mitsui-bussan Insurance, Tokyo.

DARAG is an active German insurance company that specialises in taking over the inactive or discontinued business of direct insurers and reinsurers. Arndt Gossmann, DARAG executive board member responsible for transaction management, says: 'As well as portfolio transfers, the acquisition of HVAG in the run-off phase is a textbook transaction for DARAG. The challenges associated with run-off are our bread-and-butter business and we will offer HVAG the best possible support during the winding-up phase. Our first priority in this process is the interests of the policyholders.'



**Arndt Gossmann**

## Compre sets up Swiss company

**Compre Group** has established a service company in Switzerland. Compre Services (Switzerland) AG is registered in Baar with a branch office in Basel. The new company has been appointed by Alea (Bermuda) Ltd to assist in managing the Swiss-based run-off of the remaining business written by Alea Europe Ltd, which merged with Alea (Bermuda) in September 2009.

Martin Kanwar has been appointed managing director of the Swiss company and is joined on the board by Mikko Sinko, Nick Steer, John Halls and Andreas K Rudolf. Two of the staff previously employed by Alea will transfer to Compre's Basel office.

'We are delighted to announce our latest service company here in Switzerland which we are confident will enhance our local presence and further contributes to the continued development of our expanding European service operations,' said Mikko Sinko, chairman of Compre Holdings, speaking at the company's launch in Zurich.

In addition, Compre Broker Services has appointed Mark Lewis as claims manager. Bill Rookes, director of Compre Broker Services, says: 'I am delighted to welcome Mark back to the company. He is both a former colleague and friend and brings with him a unique blend of interpersonal and technical skills.'

Compre Broker Services is based in London and focuses on claims broking services, commutation negotiation, reinsurance debt recovery and debt purchase.



**Martin Kanwar**

## Solvency II delayed

**Implementation of** Solvency II is to be put back by two months, to 31 December 2012. Michel Barnier, EU commissioner for financial services, said the change had been made to bring the implementation date into line with the end of the financial year for most European insurance companies.

Barnier said he was aware of insurers' concerns but he did not expect the whole European insurance industry to have to increase its capital due to Solvency II. He urged insurers to express their opinions through participation in the QIS 5 quantitative impact study.

The CEA, the European insurance and reinsurance federation, has reiterated its support for the EU's new Solvency II regulatory regime but called for more work to be done on the Level 2 measures that will put the flesh on the bones of the

Framework Directive. It has also called for changes to the draft specifications for QIS 5.

Speaking at the European Commission's public hearing on the Level 2 implementing measures, the CEA's director general, Michaela Koller, said: 'Although we welcome the modifications that the European Commission has already made to the implementing measures and the QIS 5 specifications, the proposed measures are still too conservative in many areas and much work remains to be done before they truly reflect the economic, risk-based principles that form the basis of the Framework Directive.'

At the hearing, Koller warned of the dangers of imposing overly conservative capital requirements on the insurance industry through the implementing measures.

## Scottish Lion sold

**Scottish Lion**, whose proposed solvent scheme was the subject of an appeal to the Scottish court earlier this year, has been sold by its owners Audley Gilroy Insurance Capital Management to Berkshire Hathaway subsidiary National Indemnity. Berkshire generally favours a long term rather than accelerated run-off strategy.

Dan Schwarzmann, partner at PricewaterhouseCoopers and adviser to Scottish Lion, told *Run Off & Restructuring*: 'We were delighted to work closely with Audley Gilroy on a solvent scheme for Scottish Lion, and on the recent successful Scottish Lion appeal which was a groundbreaking result for all companies looking to promote solvent schemes.'

He said Audley Gilroy's continued commitment to solvent schemes was demonstrated both by that appeal and in Caspar Gilroy's co-ownership of Minster Insurance. 'The Minster scheme, which we also advised on [and achieved court sanction on 16 March] is one of the largest single company solvent schemes to be brought to market involving both direct and cedant creditors,' said Schwarzmann.

'We remain focused on creating value for our clients through advising on a variety of exit mechanisms, and as Mr Gilroy has confirmed, Audley Gilroy are very pleased with the overall outcome.'

The Minster scheme became effective on 25 March and the final claims submission date is 21 September 2010.

See also feature article, page 32

## R&Q buys La Licorne

**R&Q Group** has acquired La Licorne Compagnie de Reassurances SA, a French reinsurer in run-off, from Maaf Assurances SA. The business is managed by Global Re in Paris.

La Licorne has been in run-off since 1991 and comprises mainly third party motor reinsurance business. It had net reserves of around €8.3 million at 31 December 2009 and a net asset value of around €3.7 million as at 31 December 2008 (the date of the latest available audited accounts). The consideration, payable by Randall & Quilter Investment Holdings in cash from existing resources, is €3.2 million.

Ken Randall, CEO of R&Q, says: 'We are pleased to have successfully concluded the acquisition of La Licorne, our first insurance investment in France. This transaction is proof of the value of the strategic partnership we have developed with Global Re in Continental Europe, where local expertise and knowledge are vital.'

R&Q Group's final results for 2009 saw a rise in income but reduced profits due to cost of acquisitions and the Equitas settlement. Total group income was up 17 per cent at £26.4 million (2008: £22.5 million) while profit before tax fell to £0.26 million (2008: £8.76 million). Total group net investment income was £11.4 million (2008: £12.0 million) a return of 4.1 per cent.

Chairman and CEO Ken Randall said: 'The group as a whole delivered a small pre-tax profit of £0.26 million in 2009 and maintained its total dividend for the year at 7.0p per share (equivalent to a yield of 6.5 per cent as at 28 April). This was achieved despite the substantial settlement paid to Equitas, continued volatility in the investment markets and tougher trading conditions in the run-off servicing arena. It is proof therefore of the strength of our diversified business model.'

See feature article, page 14, for more on R&Q's activities

## Compre – Stepping up to the challenge.

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# Solvency II prompts rethink on run-off

**Solvency II** is causing European insurers to review books of business in run-off with a view to releasing capital, says a report by PricewaterhouseCoopers\*. Over half of the insurers surveyed for the report anticipate that Solvency II will lead to a greater cost of capital and 68 per cent think it will make them focus on their discontinued businesses and the exploration of exit options. But despite these findings only 16 per cent of insurers see their companies exiting lines of business as a result of Solvency II.

The financial crisis appears less of a concern this year than last, though 44 per cent say it has driven cost reduction initiatives. This year 90 per cent of respondents have a strategic run-off plan in place – an increase of 18 per cent on 2007. Of those with plans in place, 78 per cent cite commutation strategy as a component of their plans and 64 per cent encompass an exit strategy; 59 per cent of Continental European respondents said exit strategies were a key feature of their plans, compared with 89 per cent of those in the UK.

'It is clear that European insurers are carefully considering their discontinued operations, and exit mechanisms which deliver value are becoming more of a focus

throughout Europe,' says Dan Schwarzmann, partner in the solutions for discontinued insurance business team at PricewaterhouseCoopers. 'The impending arrival of Solvency II and the associated impact on capital will make dealing with run-off even more important and we are now seeing major groups taking positive steps to exit discontinued portfolios.'

'At the same time, with the recent ruling on Scottish Lion making it very clear that a solvent scheme of arrangement can be used to change contractual rights with a policyholder and exit a business, we predict that this tool will be used more by European businesses to deal with run-off portfolios,' adds Schwarzmann.

Alongside the concerns around tied up capital and the associated costs, insurers also cited the availability of skilled resources as a challenge to their ability to deal with discontinued business. This is perhaps why 39 per cent of insurers currently outsource their run-off operations. However, 59 per cent of insurers are either not currently outsourcing their run-off operations or not planning to do so. Outsourcing is, unsurprisingly, more popular in the UK than in Continental Europe, with claims and collections being

the activities most often outsourced on the Continent.



**Dan Schwarzmann**

Interestingly, under half of respondents expect to use insurance business transfers as their means of exit. This is in contrast to last year's survey which showed that 98 per cent of respondents expected an increase in transfers in Continental Europe following the implementation of the Reinsurance Directive. This decline in appetite for transfers may be as a result of the recent ECJ ruling relating to a transfer of a Swiss Re portfolio which said the transaction was liable for VAT.

Other key findings from the survey include:

- Total estimated liabilities rose again this year to €205 billion, following a fall to €196 billion last year. This increase has been driven by UK insurers ceasing to write certain product lines such as financial guarantee and credit insurance, but is partially off-set by continued commutation activity in the existing run-off market.
- Consolidation amongst UK run-off providers and a healthy deal appetite from the traditional run-off acquirers will continue in 2010. Over 60 per cent of respondents believe there will be more than two significant transactions in the next two years.
- Long tail claims and counterparty interest again feature highly as being major obstacles to obtaining finality.
- When asked what run-off would look like in 2015, responses varied but there was some consensus around it being a highly skilled industry with growth in Continental Europe and the US.

\*The PricewaterhouseCoopers fourth annual survey, *Unlocking Value In Run-Off*, produced in conjunction with the Association of Run-Off Companies, analysed questionnaire results from a cross-section of professionals from discontinued and live insurers in both Continental Europe and the UK. The full survey can be downloaded at [www.pwc.co.uk/discontinuedinsurance](http://www.pwc.co.uk/discontinuedinsurance).



This year's ARC Congress saw the London run-off community in a reasonably optimistic mood, with a good turnout for the morning seminar programme that led off the new look, one day event. Despite the non-appearance of new run-off business that many had expected to emerge from the financial crisis, delegates heard encouraging news on several fronts. A panel debate on the future of run-off heard some say they felt the market was likely to shrink, but most were more optimistic about future levels of activity.

# Tawa moves into profit

**Tawa announced** an after tax profit for 2009 of \$11.2 million (2008: loss of \$42.4 million). The group's net assets increased by \$13.8 million to \$228.4 million at 31 December 2009.

In November last year Tawa acquired PRO for \$8.7 million in cash. PRO's contribution to 2009 profits was \$1.4 million. From 1 January 2010 Tawa will share profits with Swiss Re on a 50/50 basis over the next five financial years subject to an overall cap of £12 million.

Gilles Erulin, chief executive, told *Run Off & Restructuring*: 'Technically we are making a lateral move to extend our services and PRO has been servicing the live markets for some time. However it is also very important that all our people stay in touch with the current market, that they permanently regenerate their knowledge of what is going on in today's market so that when a new run-off comes on the market they are in touch with relevant issues, for example the Chilean earthquake claims.

'We have also been able to maintain the rate of descaling of our run-off portfolios and are particularly pleased that on 31 March 2010 Tawa plc received \$35 million in cash resulting from a capital reduction in KX Re.'



Gilles Erulin

Referring to Tawa's plans for descaling, Erulin told *Run Off & Restructuring* that he was confident that the company's current run-offs would be run off to finality within a few years: 'Our expertise has always been focused on rapidly downscaling liability; our three run-offs are now very mature and we are looking to accelerate their finality, so I expect CXRe to be finished within the next

two years, PXRe within three to five years and KX within eight years.

'We are confident that our current platform puts us in an excellent position to take advantage of opportunities in 2010, both in portfolio acquisition and in providing services to the market, and we look forward to continued success.'

In response to scepticism from competitors in the market about the possible outcome of the PRO acquisition, Erulin stressed that 'we are in this business for the long term; our senior management, who are behind all key decisions, are the same people who were there at the start ten years ago and they are long term players, not short term bonus players.'

## New board for Charles Taylor

**A new board** of directors has been appointed at Charles Taylor Insurance Services (CTIS). It says it will 'focus on realising the growth opportunities in the market for outsourced insurance services.' CTIS, formerly Axiom Consulting, was acquired by Charles Taylor Consulting in May 2009 and Stephen Card was appointed as its CEO on 1 March 2010. The other new directors, all drawn from within CTC and CTIS's senior management team, are:

Peter Clarke, director – financial reporting specialist team; Alan Prime, head of commutation services, run-off portfolios

and cedant and reinsurer commutations; Vivienne Sullivan, who joined in 2009 from Navigant Consulting, is head of claims & market services; George Fitzsimons is CTC's group finance director; Martin Fone, chief executive and senior underwriter of the specialty risks department; Ivan Keane, group company secretary and legal counsel.

Charles Taylor Consulting's results for 2009 showed a rise in revenue to £96.6 million from £80.8 million in 2008, and a rise in pre-tax profits to £15.7 million (£9.9 million).

## events

7-10 June

### Norwich Rendez-vous

St Andrews Hall, Norwich

Contact: [www.rqih.co.uk/rendezvous](http://www.rqih.co.uk/rendezvous)

8 June

### AirSP Real Ale Evening

Ribs of Beef, Norwich

Contact: [www.airsp.org](http://www.airsp.org)

9-10 June

### IntAP Technical Meeting

Norwich

Contact: [www.intap.org](http://www.intap.org)

11 June

### CEA 2nd International Insurance Conference

Grange St Paul's Hotel, London

Contact: [conference.cea.eu](http://conference.cea.eu)

14-17 August

### IAIR Quarterly Meeting

Seattle, USA

Contact: [www.iair.org](http://www.iair.org)

11-16 September

### Rendez-vous de Septembre

Monte Carlo, Monaco

Contact: [www.rvs-monte-carlo.com](http://www.rvs-monte-carlo.com)

13 September

### AirSP Annual Dinner

Quai des Artistes, Monaco

Contact: [www.airsp.org](http://www.airsp.org)

15 September

### ABI Investment Conference 2010

Grange St Paul's Hotel, London

Contact: [www.abi.org.uk](http://www.abi.org.uk)

16 September

### IAIR London Seminar

Reynolds Porter Chamberlain, London

Contact: [www.iair.org](http://www.iair.org)

6 October

### Reinsurance Contract Wordings and Disputes

Bermuda

Contact: [www.falconbury.co.uk](http://www.falconbury.co.uk)

7 October

### ARC Academy - Tomorrow's Claims: 2010 and beyond

Barlow Lyde & Gilbert, London

Contact: [www.arclegacy.eu](http://www.arclegacy.eu)

18-20 October

### New Jersey Rendez-vous

New Jersey, USA

Contact: [www.rqih.co.uk/rendezvous](http://www.rqih.co.uk/rendezvous); [www.airroc.org](http://www.airroc.org)

21-22 October

### Reinsurance Claims Management

London

Contact: [www.falconbury.co.uk](http://www.falconbury.co.uk)

28 October

### Current issues in Insurance Exit Strategies

London

Contact: [www.falconbury.co.uk](http://www.falconbury.co.uk)

4 November

### ARC Members Annual Dinner & Awards

London

Contact: [www.arclegacy.eu](http://www.arclegacy.eu)