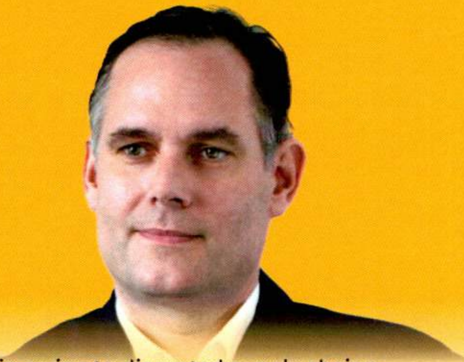

Legacy remains seller's market despite inflationary challenges

The competitiveness of the European non-life legacy sector means it is "still a seller's market" despite increasing inflationary pressures across the continent, according to Jens Ziser, managing director of Black Forest ReInsurance Consulting (BFRC).

Speaking to *The Insurer* ahead of the Baden-Baden Reinsurance Meeting, Ziser said recent inflation spikes have caused pricing challenges for some legacy books, particularly long-term books that must build in considerable assumptions around how portfolios will develop over the next 10 to 30 years.

"It's still a seller's market, because there are more players out there than there were approximately 10 years ago," Ziser said.

However, in some cases he said cedants have been unable to sell certain portfolios as the market hones its risk appetite amid inflation concerns.

"There are still markets out there who would like to buy, but there are also accounts on the trading table that don't get traded because of changing risk appetite from various players," Ziser said.

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In terms of deal size, Ziser noted the majority of transactions are small to medium-sized deals, usually between €20mn and €100mn, with occasional large deals in excess of €100mn.

Legacy portfolio inflation

Ziser said current macroeconomic conditions were impacting legacy portfolios, including so-called "greener books" from the soft market cycle between 2013 and 2018.

During periods of relatively low inflation, the majority of firms use the consumer price index (CPI) or wage index as the key measures, Ziser explained.

"However, inflationary impacts to legacy portfolios are very specific, so one cannot assume that normal standard inflation like the CPI or wage index applies. You have to take into account specific aspects like social inflation and inflation from the particular line of business," he said.

Legacy portfolio inflation is therefore often well above the normal CPI or wage index, he said.

In addition, different types of claims, such as those relating to motor, bodily injury or construction, can show distinctive inflationary impacts, Ziser explained.

For example, a medmal claim may require certain medical equipment that has now become more challenging to obtain owing to disrupted supply chains, while a motor claim may involve spare parts that are impacted by higher vehicle manufacturing costs.

Ziser said: "This makes it different compared to a few years ago, when inflation was at a more constant level. Now, pricing needs to get adjusted to address the specific short- and long-term inflation expectation of a portfolio. Thus prudent assumptions of future inflation are key in order to price adequately and profitably."

He added that the impacts of inflation can also provide an opportunity for clients to remove uncertainty from their books and sell these portfolios.

"It's good for both sides – it's good for the buyers because there's an opportunity to transact and make money. On the other hand, it's good for the sellers as a revenue opportunity to bring this risk off their balance sheet.

"It's an interesting market, but this time in the market firms are assessing portfolios, rather than trading them. Early next year, there will be better insight into how inflation impacts balance sheets and legacy portfolios, therefore I would expect to see more legacy projects and discussions."

Demographic changes widen the knowledge gap

Another significant issue facing the legacy market is demographic change, which has led to difficulties in finding talented and experienced employees that can deal with complex legacy issues.

The demographic change issue mainly refers to generational turnover as many senior figures across the legacy market approach retirement simultaneously, as well as a shortage of young professionals entering the industry.

Ziser highlighted that this talent issue is beyond the normal cycle of comings and goings within an industry because it pertains to the experience of the ageing population. And this is particularly important for the legacy industry, which requires experience and knowledge on both the buy and sell side of the market in order to understand how an exposure was underwritten at the time. "We see by the amount of discussions we're having with corporations that due to the demographic change it is getting increasingly difficult to get young and experienced talents on board. Here BFRC provides its consulting services to bridge the gap and support in legacy advisory before an exit solution takes place or is even considered," Ziser said.