

Growing Runoff Market in the Region



London is considered to be the runoff centre of the world by many as a result of the large number of runoffs handled there including Equitas. However, Asia and the Middle East are gaining in importance as more and more companies from these regions seek exit solutions for their runoff portfolios. In this article, **Mr Peter S Matthews**, Managing Director of Global Reinsurance Consultants Ltd, gives us an insight into these major runoff markets and the key considerations in providing debt collection services in these regions.

There has been a definite shift in attitude from companies based in Asia and the Middle East, and rather than generally being reactive to legacy issues, reinsurers and cedants are now taking a more proactive attitude in seeking solutions. They do this by approaching third-party specialists such as Global Re either to collect debts due to them or assist them with finalising their inwards exposures from the London, European and US markets.

Improving Financial Ratings

A number of companies in the Asian and Middle East markets have realised that if they dispose of their runoffs either by a sale, proactive commutation strategy or possibly solvent scheme, they have the potential to improve their financial ratings.

Reflecting this trend, we have seen a marked increase of interest from companies in Asia and the Middle East for us to assist them with their legacy issues.

Capability and Time

A client should be aware of capability and time when outsourcing debt collection functions. Whoever you use to handle your legacy business you will have to utilise in-house capability to a certain degree in providing backup support. This is often one of the main reasons reinsureds and reinsurers have inadequate resources to deal with their runoff issues. However, this will eventually need to be addressed. So some in-house resource needs to be made available to assist the third-party runoff specialists in reaching effective solutions to the issues. However, if the correct experts are employed the amount of in-house

assistance needed can be kept to a minimum.

In addition, when a client is seeking to retain a consultant the most important consideration is the ability to deliver the required result. It is no good negotiating low fees if the runoff expert turns out not to be an “expert” at all.

Credit Risk

For a cedant faced with a reinsurer in a runoff situation, the first and most important consideration is whether the reinsurer in question poses a credit risk. This needs to be established from day one. If the answer is affirmative then immediate action should be taken in recovering any outstanding debt or seeking a commutation prior to the reinsurer becoming insolvent.

In order to be able to make this assessment, cedants should consult with runoff specialists such as Global Re. They may also need to retain third-party resource to achieve the most timely recovery possible.

Regardless of whether the reinsurer presents a credit risk or not, it is vitally important the cedant ensures that balances falling due remain up-to-date and are collected without delay.

Runoff Centres

While London remains the world’s centre, as the majority of problematic legacy business is written through London and the expertise is still there to deal with runoff proactively and cost-efficiently, in Asia, countries such as Singapore have certainly taken a far more proactive approach in recent years and consequently reduced substantially the country’s runoff liabilities.



Considering the geographic size of the Asian region, an ideal centre must be a hub to gain easy access to countries within the region, such as Singapore and Hong Kong. Secondly, it must also be able to attract the expertise that

can handle runoff across the regions. Language skills are essential. The Middle East requires Arabic/French and English. However, in Asia, the problem is that diverse languages apply even though English is widely spoken.▲

Global Reinsurance Consultants Ltd

Global Reinsurance Consultants Ltd has a specific focus on implementing commutation strategies and maximising reinsurance recoveries. The company prides itself on its flexible and innovative approach to clients' demands and, as a result, is continually evolving to serve clients' needs. High-growth ambitions include expanding services to cover the management of whole portfolios in run-off. In addition, through its subsidiary company Global Re Finality Solutions Ltd, the company boasts the capability to purchase sizeable books of reinsurance receivables together with whole companies in run-off.

In order to service global expansion plans, Global Re recently opened a Middle East Office located in Damascus, Syria. This local presence has proved invaluable for the company in developing business opportunities in the Middle East markets and has led to the possibility of opening more offices in Singapore or Hong Kong since these are well-regarded "hubs" as already mentioned.

Most of the company's business in the Middle East and Asian regions to date are from clients in the UK, Europe or the US that have outwards run-off reinsurance exposures in Asia and the Middle East. Global Re has assisted these clients in closing relationships and thus also helped reinsurers in the regions in bringing finality to these inwards exposures.

Statistically, the spread of Global Re's current operations is as follows:

- US\$15 million in balances (plus reserves and incurred but not reported (IBNR)) to collect from the Middle East and Asian regions over approximately 115 projects where Global Re have been instructed by multinational clients.
- This represents about 30% of Global Re's overall workload.

With regard to investment plans, the major decision by the company to open regional offices proves our commitment to the Middle East and Asia. However, the function of these offices will be to generate local business opportunities and develop purchase opportunities within these regions. Such purchases will provide "overnight" finality to run-off portfolios for potential clients and enable them to focus their efforts on their ongoing business which is what they do best.

Global Re said a contingency-based fee structure is its primary competitive advantage. As far as the client is concerned on the rare occasion that the negotiations fail there is no fee to pay. However, on 99.9% of cases the client/consultant partnership results in a "win/win" situation.

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