

# Run-off in France – Everything different?

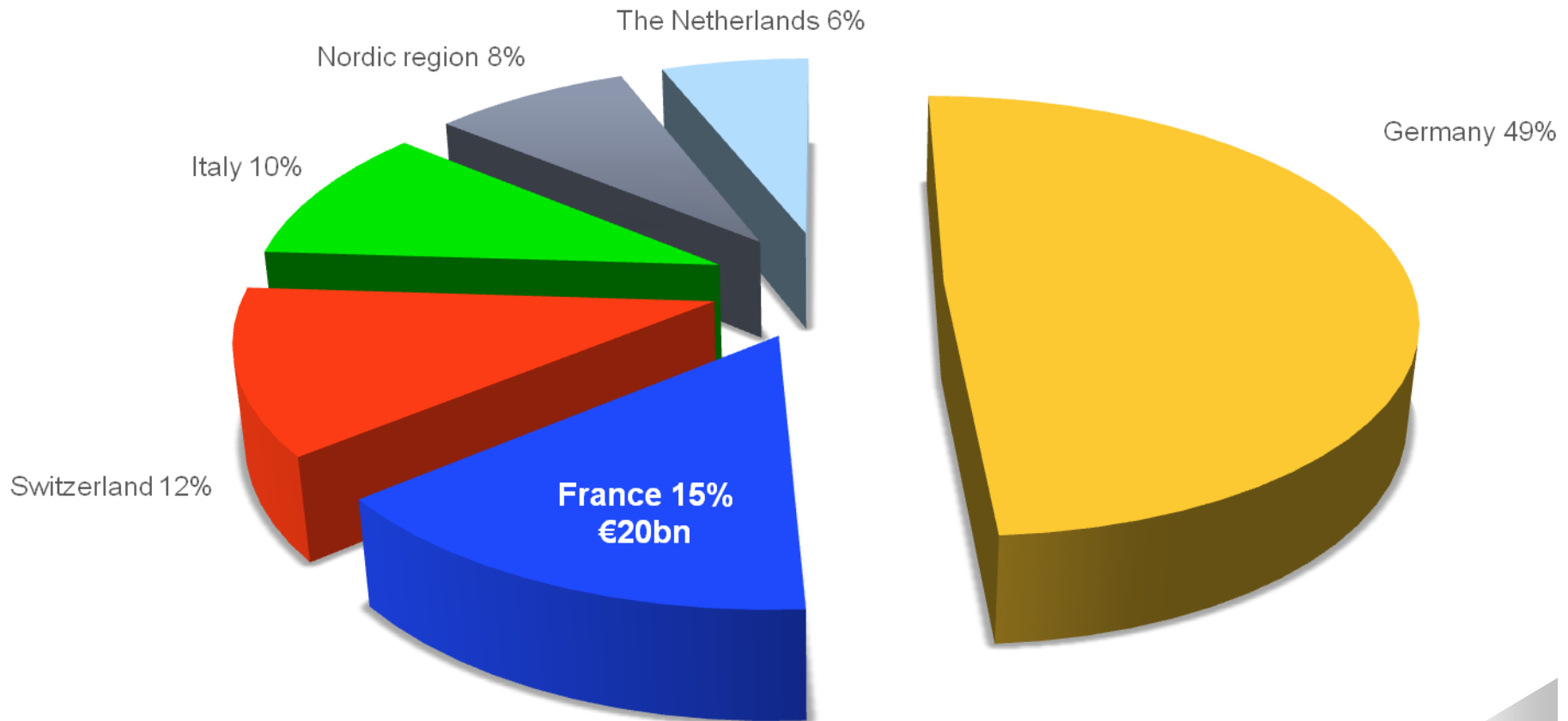


# France, second largest continental European run-off market?

- France/Benelux are considered the second-largest continental European run-off market after Germany/Switzerland by a Price Waterhouse Coopers survey of March 2009 which refers to roughly €33bn of legacy business for France and Benelux countries.
- Assuming that out of these €33bn 60% refer to France, there would be an amount of approximately €20bn.

# France, second largest continental European run-off market?

Split of Loss Reserve Volume in continental Europe



# France, second largest continental European run-off market?

- No official figures available
- Exception: Axa Group
  - The reserves managed by ALM stood recently at €4bn.
  - Most important portfolio in the market

# France, second largest continental European run-off market?

- Another important part of discontinued business in the hands of at least one of the big French reinsurers.
- Few other French reinsurers left in the market
- There is simply no Lloyds
- Many small companies who just did “normal” business.
- Difficulty to know real figure for French legacy business.
- The question if France is really the second largest continental European run-off market remains.

# Liability Management

- Run-off business in France is mostly managed in-house.
  - through purposely created companies (ALM)
  - or specially formed in-house units (ex-AGF, MMA)
  - or alongside active business (Groupama and others)
- French companies show little interest in outsourcing entire books of business.
- Demand for external support – such as claims management for direct business.

# Liability Management

- Some portfolio transfers to specialised service providers for *management*.
- No important portfolio transfers *as such* known.
  - Relative exception: Corifrance.

# Liability Management

- Global Re: physical presence in France to offer support for transferring and managing reinsurance portfolios.
  - Formerly Gerling Global Re, it was one of the major reinsurers present in the French market.
  - Based on an excellent relationship with ceding companies, quite an important number of finality agreements could be negotiated in the interest of both parties.
  - Know-how acquired through the management of own run-off – some €300m for the French market –now offered to third parties within the scope of service providing for run-off solutions.

# Liability Management

- Some locally present service providers may offer these options, though normally alongside their main claims management activities – “Gestion de Sinistres”.
- Any further service providers tend to be foreign companies travelling to France, though they do not usually have a physical local presence.
- A special case is ALM, because belonging to the Axa Insurance Group.

# Syndicat Européen de Gestion de Sinistres (SEGS)

- Most of companies mentioned, together with Global Re, are members of SEGS, the French association for service providers specialising in claims management and run-off.
- There are also members of other European countries belonging to SEGS.

# The European Reinsurance Directive and portfolio transfer

- The directive was implemented in French law on 13 June, 2008 followed by an act (décret) in November 2008.
- It is not known how the controlling authority, Autorité de Contrôle des Assurances et des Mutuelles, will handle this legislation as regards any possible portfolio transfer.
- No precise answer to the question.
- Transfer authorization procedure.

# The European Reinsurance Directive and portfolio transfer

- Unprecise legislation as to opposability.
- The position of FFSA, the professional representation of French insurers.
- Other possibilities of portfolio transfer.
- Severe requirements of Control Authority.
- VAT question unsolved

# Risk Carriers

- Three families of insurers in the French market
  - Stock companies (Axa, Allianz, Generali...)
  - Mutual companies
    - Mutual companies « with intermediaries » (MMA, Thelem, Areas, Mutuelle de Poitiers...)
    - Mutual companies « without intermediaries » (Macif, Maif, Maaf, Matmut, GMF...), having their own sales structure.
  - Bancassureurs (Crédit Agricole with Predica and Pacifica, Crédit Mutuel avec ACM...)

# Risk Carriers

- Fédération Française des Sociétés d'Assurance (FFSA)
- Gema
- Independency

# Risk Carriers

- Big multinational companies
- Diversified due to mutual and banking sectors
- International character of big groups
  - Eases implementation of best practice
- Competition and innovation
  - Creativity of mutuals
- Strength of the French market through
  - Existence of choice of mandatory coverage
  - Market solutions
  - State guarantee

# Risk Carriers

- Important concentration process
  - Stock companies:
    - Axa Group
    - Allianz
    - Generali
    - Groupama/Gan

# Risk Carriers

- Mutual companies:
  - Thélem, Areas...
  - Covea Group
  - SFEREN (Macif, Maif and Matmut)

# Risk Carriers

- “Bancassureurs”
  - Use banking network as sales structure for insurance products
  - impressive development

# Insolvencies

- Few insolvencies known in the French market.
- Normally, a weak company is saved by ACAM by means of a takeover by another insurer.
- There is little appetite for discussing legacy business issues due to this reason.

# FRANCE - run-off characteristics

- **Run-off management and attitude:**
  - So far very hesitant / reluctant due to:
    - Market solutions (Asbestos) and government guarantee
    - Blocked deposits
    - Bad experience with UK involvements in past
    - None of leading personalities has spread the word of a developing run-off market
  - Outsourcing or selling of run-off portfolio is not common practice
  - Special run-off departments only at few larger cedents
  - Potential for future development as consequence of Solva II and new management generation
- **Commutation attitude:**
  - High relevance of personal relationship between negotiation partners to start project
  - Very technical approach in negotiation
  - Role of broker in commutations varies from cedent to cedent
  - Intensive communication between cedent and broker



# Run-off market in France in comparison to UK



## France

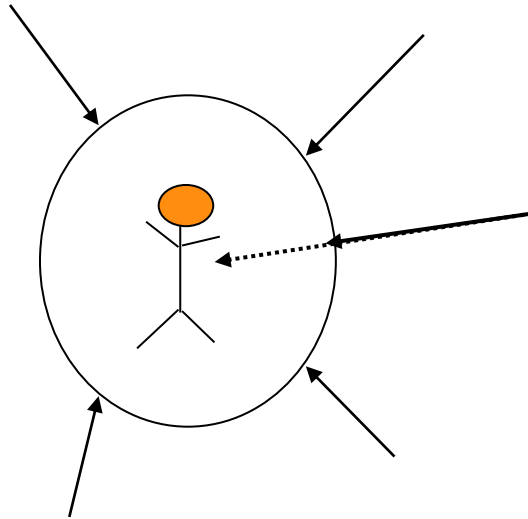
- Emerging market which is catching up
- No single and centralised market-place
- Less transparent and not specialised regulation
- French language (limited english)
- Limited Travelling mood
- New trends implementation take a lot more time
- Run-off is part within active companies
- Mostly in-house
- Rather hiding run-off portfolios
- Still very conservative on exit opportunities

## United Kingdom

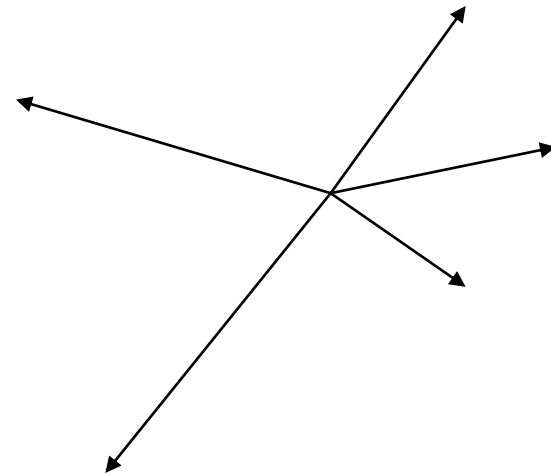
- Quite developed and experienced market
- Centralised market-place is London
- Active and specialised regulation
- English language
- Enjoy travelling
- Centre for insurance innovations & solutions
- Run-off is separate industry of its own
- High-level of outsourcing
- High transparency on run-off portfolios
- Open minded, pro – active approach

# Commutation attitude and negotiation styles

- **French style: outside blocking**



- **UK style: open to all directions**



# Final Remarks

- The French market is probably not as important a run-off playing field as assumed by many.
- French companies don't show a great interest for ceding their portfolios if any.
- The legal situation for portfolio transfers is all but clear.
- There has not been much success up to now for companies having tried to develop run-off business. Some have even retired from the market after several unsuccessful years.
- As a consequence it can probably be said that the French run-off market is different, perhaps not so much from other continental European countries, but at least from the UK one.
- **Will Solvency II bring the break trough?**



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