Recovery positions

Uncertain times mean both legacy and live cedants are putting more effort into collecting the reinsurance asset. **Derek Austin** reports

Reinsurance recoveries have always been a major consideration for any run-off, being its major asset in the absence of premium income. The live market too has followed the lead of the legacy sector in paying more attention to the identification and collection of reinsurance recoverables, with cashflow more important than ever in a difficult economic environment, although the influence of ongoing business relationships remains a balancing factor.

Assistance with collections and recoveries has long been offered by a variety of service providers, from smaller specialists to larger outsourcers, along with law firms for those cases where gentle persuasion fails to get results. The message coming from practitioners in this area is mixed, with demand for collection services reportedly up in some quarters while less strong in some 'traditional' areas of activity.

'I think there has always been a fairly consistent demand from the run-off market for help with reinsurance recoveries because of the importance of cashflow to them,' says Colin Peck, partner with law firm Weightmans.

'In previous years, demand from the live market was more unpredictable, being more dependent upon the particular individuals within a live company's credit control team. I think it is fair to say that in recent years the live market has become as equally concerned with making reinsurance collections as quickly and efficiently as possible.' Often, he adds, demand for collection services relates to 'inherited' business in the wake of M&A activity at the cedant, or following changes at the reinsurer that lead to changes in their payment pattern.

Andrew Klivan, president of NRC, sees 'an increasing activity and aggressiveness by cedants looking to collect their recoverables. Much of this can be attributed to the economy and the uncertainty of the financial health of the reinsurers and cedants alike.' There are, he says, a number of factors at work, including 'companies in run-off on both sides of the debt looking to quickly maximise assets, and insolvent companies looking to marshal their assets so they can issue a final dividend and close down.' Post M&A, new management may be looking to increase their working capital and 'pay' for the merger, while increased scrutiny by regulators is also a factor.

Three reasons for increased focus on recoveries are picked out by Julian Ward, MD of JTW Connect. First, a spate of natural disasters (Japan tsunami, Thailand floods, New Zealand earthquakes) that necessitate heavy reliance on reinsurance collections. Second, pressures from compliance, regulation (Sarbanes-Oxley and Solvency II) and financial control (eg. Schedule F in the US where unless reinsurance recoveries from non-permitted reinsurers are collected within 90 days the asset is not allowable in the accounts).

Third, says Ward, 'in difficult economic times, maximising your assets and cash flow is essential. There is a need to collect as much as possible, as quickly as possible and as cheaply as possible (not withstanding that increased expenditure may be essential to achieve greater success).'

Peter Matthews, MD of Global Reinsurance Consultants, has long specialised in 'difficult' reinsurance recoveries. Working on a contingency basis, Global has made collections around the world, 'from Algeria to Zambia'. He sees a shift in the pattern of client demand, from traditional collections from overseas reinsurers, to the needs of live groups tidying up legacy business in advance of Solvency II.

'With regard to exotic or overseas reinsurance recoveries, there are less of these around than there used to be,' says Matthews. 'Many of the relationships with reinsurers that wrote typical long tail business back in the 1970s and 1980s have since been commuted, either directly with