

THE SYSTEMATIC APPROACH

Eric Haller, of Fleming Re, defines the company's business strategy for the run-off market

Captive Review (CR): What business strategy has Fleming Re adopted?

Eric Haller (EH): The middle-market run-off insurance sector is currently underserved with regard to competitive exit opportunities. Our focus is to address the inefficiencies in the market by providing competitive solutions that are easy for counterparties to understand and execute. We pride ourselves on our ability to quickly assess and understand our clients' objectives and then structure unique solutions that are better aligned to accomplish those objectives – whether it be finality, shared risk taking, speed to closing or maximising liquidity. This takes patient capital, a deep understanding of how various risks develop, and the ability to quickly identify areas for improvement through motivated claims management.

Our strategy is to combine significant access to low cost capital with a longer time horizon and a deep experience in underwriting and claims management with a goal of building an innovative permanent company that specialises in legacy solutions. Based on our transaction structuring and underwriting experience, we are uniquely positioned to provide customised solutions to entities with the most complex structures and risks.

We are incredibly excited about the coming year. We are currently working to develop a systematic approach to defragment the many pockets of trapped collateral in the North American captive and middle-market insurance space. This will yield tremendous dividends to an industry in the midst of rapid restructuring, consolidation and technological innovation.



Eric Haller

Eric Haller is CEO at Fleming Re. With over 20 years of industry experience, he has held senior positions at various international insurers. Prior to Fleming Re, Haller was the chief financial officer and chief risk officer of Safe Harbor Re, led the North American M&A team at Randall & Quilter Investment Holdings, Ltd (AIM: RQIH), headed the Strategic Planning Group at Athene Holding, Ltd, the Apollo backed reinsurer and worked at XL Capital holding several positions in the Investment Management Group.

One of our strategic initiatives is to focus on key differentiators within the current landscape which is being impacted by market disruptors. We are developing solutions focused on technological innovations in underwriting and origination of legacy transactions to provide better and faster pricing that will provide efficiencies to the run-off industry and will positively impact pricing. We are also developing new products that will be combined with proven structures to enhance the solutions available to counterparties.

Fleming Re is redefining the approach to run-off transactions. We are focused on and actually embracing the inefficiencies in the middle market and have developed solutions that will achieve the goals of the parties involved as well as making run-off transactions more attractive and readily available for all entities in the North American and European insurance sector.

CR: How do you see the future of the run-off sector?

EH: The expectation for the future of run-off is one of continued growth. With the transparency required by Solvency II, IFRS reporting, industry consolidations as well as interest in new structuring mechanisms in the US and planning for the uncertainty surrounding Brexit, we should expect more causes for non-core business to be evaluated. Drivers of run-off transactions vary and include not only discontinued lines of business or companies but more recently an increased demand for finality solutions driven by merger and acquisition activity. There are distinct advantages to putting a book of business or a company into run-off as a strategic corporate solution. These range from capital relief, legal finality from liabilities, improved solvency, reduced burden of operating expenses resulting in more effective capital structures, as well as favourable tax treatment.

As market disruptions drive demand for new products and solutions, run-off is becoming more readily accepted as a strategic tool for discontinued lines of business and carrier consolidations as part of overall efficient management of capital through insurance cycles. There is an increased level of appreciation of the benefits surrounding run-off. It is gaining wider recognition as a viable liquidity and financing solution that works for all businesses with insurance liabilities. As markets continue to mature and accept run-off and finality solutions, they will favour solution providers who have a proven track record, continue to innovate and help the market evolve.

CR: Do you see the Bermuda market as strategic for Fleming Re?

EH: Bermuda has a long track record as an effective regulator in the global market and Solvency II equivalence, and NAIC recognition makes this even more powerful. The long-term stability of Bermuda's legal and regulatory environment is well known, and its history as a financial services, insurance and reinsurance hub is strong and resilient. The EU Commission's determination of full Solvency II equivalence, including group supervision equivalence, strongly supports the reputation of Bermuda being a respected member of the international (re)insurance and regulatory community. Bermuda's Solvency II equivalence is an important factor and advantage for access to European markets.

Bermuda's captive, commercial insurance and reinsurance sectors have a good understanding and experience of the run-off market and Bermuda has been home to many established global, non-life run-off companies. Bermuda is well positioned to gain traction in the run-off market and be a conduit for innovative new companies to form in a mature jurisdiction known as a leading innovator of risk transfer.

Many countries have adopted an approach that limits reinsurers to trading with entities domiciled either in a Solvency II compliant country or in one with equivalence – such as Bermuda. The situation could be made more complex by the UK's departure from the EU. Since Bermuda also has very close historic links with the UK, it is a very favourable jurisdiction from which to write business in all of the aforementioned jurisdictions.

CR: How does Bermuda as a jurisdiction help support the strategic initiatives of Fleming Re?

EH: Bermuda is known for its sophistication around risk transfer, strong infrastructure, robust and respected regulation, deep pool of expertise, plus experienced servicing partners which has resulted in its selection as an incubator for innovation and pioneering ideas. Bermuda's (re)insurance sector has always been highly collaborative, bringing together the regulator with industry both locally and overseas with a focus on making the jurisdiction a leader in risk transfer and run-off solutions.

The run-off sector and its associated companies are using Bermuda for the same reasons such firms have always done: because of its extensive commercial offering, expert professional services commu-



nity, and flexible yet globally respected regulator that understands run-off and the evolving innovation around them.

Bermuda's legal, regulatory and commercial infrastructure has always provided clients and associates comfort that their assets and business interests are being managed with good governance and protection and welcomes future opportunities that may arise.

CR: What differentiates Fleming Re from its peers?

EH: Fleming Re has an established pipeline with a significant number of proprietary transactions. Our team has industry knowledge across various jurisdictions and lines of business coupled with significant experience in structuring customised transactions. We work with our clients to understand and clearly define their needs and then specifically tailor solutions to achieve their goals.

Fleming Re recently completed a loss portfolio transfer (LPT) for a legacy book of general liability claims in run-off to facilitate a corporate M&A transaction. The LPT was completed in an extraordinarily short timeframe to facilitate a M&A transaction between third parties. We received exclusivity, performed due diligence, negotiated agreements and received regulatory approval within 30 days. As part of the transaction, Fleming Re will assume

responsibility for the claims administration function in addition to underwriting and assuming the legacy risk. We were selected as the preferred counterparty due to our reputation, experience and confidence we instilled that we could proceed quickly and mitigate the execution risk. Transactions like this confirm the broader market is receptive to the solutions Fleming Re offers and we are on track to close several more transactions in the coming quarters.

Fleming Re is at the forefront of identifying, structuring and implementing innovations that will change the sector. We are able to innovate processes in order to move the market to the 'next level' as it continues to evolve. These include incorporating 'insurtech' to create efficiencies in underwriting and origination as well as offering additional benefits while structuring transactions effectively to achieve clients' goals.

Fleming Re also focuses on maintaining a low operating cost structure compared to the industry through the use of technology, which is enhanced by focused outsourcing and will positively impact pricing. Our expertise and leveraging of best-in-class infrastructure provides a platform for identifying certain processes in managing claims to achieve favourable outcomes. Key differentiators such as these will make pricing, process and structuring more favourable and available to the general market. 