Lessons from legacy

What can the 'live' market learn from legacy in terms of skills and practices? **Leslie-Ann Giovnilli** of AMS (Reinsurance) Services asks why one is seen as a poor relation to the other, when in reality they are both interlocked and interdependent

There has always been discontinued business, but until the late 1980s to early 1990s it was never of a size to become noticeable – it was just a fact of commercial life in the insurance and reinsurance cycle. Some business was renewed and some wasn't; this was then discontinued business and was filed away. But in the 1980s, with insolvencies and major losses occurring as well as asbestos and pollution deaths on the rise, legacy business – or run-off – began, ironically, a life of its own.

Legacy sector advisors soon began to appear. These came originally from the larger outsourcing firms but grew into new boutique firms specialising in insolvencies, reinsurance recoveries, inspection of records and other related services – the thinking being that some of the companies' problems were the late collections, poor records for reinsurance policies, claims backlogs and poor claims adjusting. The main, unspoken, thought of course was poor management, but as this specialist area developed it was seen to be never that simple.

It was quickly found that most insolvents, and legacy companies, were in worse shape on the claims side than anticipated. Not only were the backlogs of regular claims of considerable size, but reserves were outdated, letters of credit were being held for paid or closed files, brokers were holding on to funds they had received and recoveries were not being made in a timely manner, due to incomplete records and an almost non-existent broking service on wording production.

So these advisors came in and reviewed the reserves, reducing the letters of credit at the same time, cleared the backlogs and got the recoveries out into the market. New procedures were put into place, and in some cases large books of business were inspected, as the anticipated loss ratios were so different to actual it made the whole programme somewhat of a nightmare to recover from reinsurers in turn.

With the lack of underwriter involvement in the claims process and no further need to focus on particular clients, the claims department began a renaissance of its own. Gone were ex gratia and negotiated claims on the basis of increased renewal premium. Gone were the conversations where the adamant declaration of business not being written was found to actually have been included as incidental non-marine and full of very large claims.

The claims department started to take on this new life, developing new procedural systems, working on computer programmes for better and quicker recoveries, actually adjusting claims and asking for information – taking the lead role seriously (until, that is, it was determined that legacy adjusters weren't up to the lead role).

Does any of this sound like activity that live operations would not want to emulate? Indeed, if lead adjusters continue to put just 'seen' or 'noted' on a claim file I may think that this is indeed the case. How many times has a legacy company had on its books a file of some millions in reserves with very few updates and then, possibly the first notification to come through in three years, is recorded as 'noted'.

'Noted what?' was my own comment made of the leader. Are we in court, has the claim moved at all, is it extant, can we push to close it? Questions should be raised whether the company is active or not. Where does it say that you accept a claim notification and then the insurance company will hold a reserve ad infinitum? Consider that it does, however, say that if there is a letter of credit in existence that the claim will be undated each year ... and this means more than 'noted no activity'!

'A claims department can be run efficiently and successfully without slowing down the service'

There are some who say that the legacy style of claims adjusting is just an excuse to delay payment. Well I would agree that some companies do just this, not just legacy ones either. It is regretful that it is still not commercially understood and accepted that a claims department can be run efficiently and successfully without slowing down the service.

The accounts section, in fact, has the responsibility to release funds and it should be made clear that as a considered management decision, with the company being in legacy and not wishing to become insolvent, that only a certain amount of funds will be released each week. The commercial reality of live companies paying 'good' customers promptly is seen as a sound practice, so why not legacies' control of funds?

'Many legacy practitioners are returning to live companies as staff or advisors'

So if all legacy companies simply came out into the open about their payment process, brokers and live companies could surely have a clearer picture of what was happening, stop spreading the myth that legacy companies are badly run and accept the reality.

The legacy sector has moved on, solvent schemes are now a practice live operations are undertaking; peer reviews of claims, diary systems, reinsurance computer programmes – it all makes sense to get these things in early and not after the proverbial claims horse has bolted. Indeed many legacy practitioners are returning to live companies as staff or advisors. My own company has found that its expert witness and claim procedure work has been in demand across the board – recognition that prevention is better than cure perhaps.

There is recognition too that legacy, which has replaced claims as the perceived dead end career move, is in fact just one aspect of the range of skills that a good insurance practitioner could hold.

The opposite side of this is that the legacy sector do not hold themselves as separate to live. All participate in continuing professional development and many continue to take professional exams such as insolvency practitioner, mediator and even ACII.

The board of the Association of Run-off Companies, until recently, had almost a full compliment (nine) of serving directors with FCII, legal and IP qualifications. As professional people, and in some cases also business owners, they all kept an open mind regarding what was perceived as their field of expertise. Many have gone on to manage other legacy companies and some to capital management – another seeming innovation from legacy that live operations would not suffer from encouraging.

At the end of the day, the business is insurance and business management where choices in selective outsourcing are a viable option for any company if it has not its own experts in the required field, and whether these outsourcers are ´known´ as legacy service providers or not, the expertise is the overriding factor. Once a company goes into legacy there are always job losses, and maybe this is an element in their willingness to consider outsourcing of more work than live operations would normally consider.

Outsourcing has so many advantages, with a clear and precise outcome set out at the start, possible training of in-house staff as a feature, and many more senior staff on call than would be accessible if they were payrolled. My own view is that if we overcame the perceived prejudices, viewed the services on offer as improving the cashflow and skills of the company concerned and openly communicated, then the legacy sector would be recognised as a hot house of potential talent in the wider marketplace rather than the poor cousin.