



A new type of run-off acquisition business model was launched recently in Germany, created from the remains of a 50+ years old insurance company.

Barbara Hadley asked the chief operating officer of the new DARAG, **Arndt Gossmann**, about the story behind the relaunch, and what makes this new finality vehicle so different

Out of the ashes

The history of DARAG goes back to 1949 when it was founded in the former Soviet Union. In 1957 DARAG was sold to the German Democratic Republic (GDR) and after the reunification of Germany became the industrial and commercial P&C insurer of AXA. Its broker connections and claims handling capabili-

ties prompted WÜBA to acquire it in 2006; WÜBA subsequently became part of AIG in 2007.

In 2008 DARAG ceased underwriting but while AIG was making plans to close down the company in 2010, DARAG's chief executive officer, Gerold von Germar was looking for ways to save it. As a result, a new

type of run-off vehicle, tailor-made for the finality needs of Germany and the Continent, was designed and in summer 2008 the process to sell the new-look DARAG began.

The DARAG business model focuses on providing finality to all types of non-life business of European insurers and reinsurers. What makes

it different is that DARAG is a fully regulated active insurer in its own right. DARAG benefits from non-life licences for both direct and reinsurance business running in tandem with its run-off arm. The IT architecture includes both pillars of the business in one system and, as a result of von Germar's initiative at the end of last year, the company now has a system with multi-client capability. 'It enables in-depth analysis and handling of multiple portfolios,' notes Gossmann.

The credibility of the new model was manifested by the fierce bidding for DARAG, with 25 parties at the start. The battle between the final shortlist continued until just ten hours before the signing was agreed to Augur Financial Holding Vier GmbH & Co KG, the investment arm of Augur Capital.

Arndt Gossmann joined the executive board of DARAG in May this year as chief operating officer, overseeing transaction management, claims handling and marketing. Previously he headed up KPMG's insurance restructuring business in Germany. So what prompted the career change? Gossmann felt it was time to put into practice the advice he had been handing out to clients over the years. 'There is a time to reflect situations and there is a time to proclaim solutions. At some point you have to do it. And I had to do it because I believe in it.'

As far as Gossmann is concerned, DARAG has seized the initiative in the market at the right time: 'The entire framework for doing insurance business is changing – decreasing asset income, competition, shrinking margins, increasing claims and regulation escalate the challenge for the industry.' While being less affected by the current crisis, the insurance industry has started to question itself and to improve in all areas, including a much more proactive management of technical reserves.

Gossmann bases his view on more

than a decade of restructuring advice. 'Active management requires tools: the obvious aim in liability management is finality,' he points out. 'And DARAG's key product is finality. We just respond to a simple demand in the moment it is given birth.'

Although German and other Continental insurance markets have been resistant to the concept of outsourcing or selling off their run-off to a third party, citing reputational risks and staff commitments, Gossmann is confident that DARAG will be able to overcome this hurdle.

'Yes, you may witness a reservation to outsource but there is no reluctance to sell if the terms are fair and if the buyer is credible,' he says. 'There is natural advantage for DARAG being situated in Germany rather than flying in from abroad. There is another in DARAG being an independent but fully regulated insurer.'

'Any transfer to DARAG is based on an agreement between two insurers, by appointment of the regulator. Whatever we will do we will do thoroughly in order to keep our business model credible and attractive to sellers.'

DARAG's business model is strictly designed to de-risk the seller's balance sheets – in other words, to provide finality. 'We always take the risk on board. And beyond, we offer some extras to facilitate an attractive transaction for both sides. We take the full handling of the claims and the human resources if that helps,' says Gossmann. 'At the moment we are negotiating a case whereby we would keep the handling with the seller. DARAG takes the risk on-balance and outsources the handling back to the seller.'

'In any case we are not a service provider. We are focusing our efforts on acquiring run-off. DARAG is a solid buyer addressing the sellers' concerns,' he adds. 'Reputational expectations of the buyer will be fully respected. DARAG's business model is aiming for recurrent transactions –

and transactions must result in a win-win-situation to become recurrent.'

Gossmann also has strong feelings about preferences on the type of business. 'The transferring insurer decides about what parts of the business he would like to de-risk. We will respond with a fair pricing. I think a professional buyer of run-off-business must act as market maker. Hearing London players talk, I sometimes have the impression that some of them (not all) would like to pick and choose their business as though they were in a restaurant.'

At the end of the day, Gossmann stresses, DARAG is a finality route itself. It is not an intermediary. 'Any insurer who transfers business to us can rely on the fact that we will not give up the control of the business that was entrusted to us.' Which is why schemes of arrangement are not on the agenda: 'We would take on board scheme affected business but we would not initiate it.'

Although DARAG is structured so that its live underwriting is managed separately from the run-off business side, when it comes to claims handling Gossmann is unequivocal: key skills must be deployed as efficiently as possible. 'With regard to claims handling we feel skills to be more important than structures. We want the best available source to work on a file. No matter whether it is own underwriting or whether it is run-off taken over. Claims handling is where the value is distilled.'

Which is why he is clearly delighted with the staff he has at DARAG: 'I must say that I am deeply impressed by their skills and their experience. The entire crew is highly motivated and we have a team of very experienced claims handlers in general property casualty as well as in special lines. None of our senior claims handlers has less than ten years of experience in their field. Our fantastic team gives us the comfort that we are able to successfully manage the business we get.' ●