

The Insurance Business Transfer

A restructuring tool for the commercial runoff (re)insurance industry pursuant to Rhode Island amendments to Insurance Regulation 68

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How to exit from runoff?

“Reinsurance is ...
like hell – easy to enter and
almost impossible to exit.”

Warren Buffet, 2003



Source: Wikipedia

Introduction

The Insurance Business Transfer

- ▶ Effective August 18, 2015, the RI Department of Business Regulation has approved amendments to Insurance Regulation 68, providing for Insurance Business Transfers (IBT).
- ▶ As a public policy matter, the amendments to Insurance Regulation 68 fill a huge void in the current regulatory environment for runoff business and balances the needs of all stakeholder's in the transaction.
- ▶ The IBT is modeled after the UK Part VII transfer that has significantly helped the UK insurance market to restructure.

Today's panel members

- ▶ **David Scasbrook** – Transaction Executive (Retrospective and Restructuring), Swiss Re
- ▶ **James (Jay) Votta** – Principal, Insurance and Actuarial Advisory Services, Ernst & Young LLP
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Overview of the RI IBT

What is it?

- ▶ Insurance department approved and court-sanctioned legal transfer (novation) of some or all of the commercial insurance or reinsurance business of one company (need not be a RI insurer) to another company (must be a RI insurer) including attaching reinsurance.
- ▶ The IBT applies to reinsurance of any line of business other than life and insurance of any line of business other than life, worker's compensation and personal lines insurance.
- ▶ All transferring policies must have an expiration date more than 60 months from the date of filing for approval of an IBT plan and be in a closed book of business or reasonably specified group of policies.

How does the RI IBT work?

The RI IBT is a court-sanctioned legal transfer of some or all of the policies of one company to another company, including the reinsurance protections on the transferring policies.

Preparatory steps

- ▶ Good planning and project management are essential to a successful transfer.
- ▶ To minimize risk of objection and to achieve regulatory and court approval for the transaction, consider and plan for potential issues that may arise.



Regulatory review

- ▶ Regulator in transferring company's state of domicile must approve IBT plan.
- ▶ Assuming company submits application to the Insurance Division of the RI Department of Business Regulation (Department) for approval of the IBT Plan.



Judicial review

- ▶ Upon review and approval by the Department, the assuming company then files a Petition for Implementation with the Superior Court for approval of the IBT Plan.
- ▶ The assuming company must present evidence to the court that the transfer does not materially adversely effect policyholders.

Application of the RI IBT

IBTs can be used for intra-group restructuring purposes (internal transfer) as well as to provide an opportunity to exit a certain market or product line (external transfer).

- ▶ Combine similar business from one or more subsidiaries, placing all into a single company
- ▶ Transfer business between third parties
- ▶ Separate out different books of business, placing them into separate companies

Benefits of the RI IBT

Transferring company

- ▶ Capital efficiency
- ▶ Group restructuring
- ▶ Regulatory and operational efficiency
- ▶ Corporate simplification/consolidation of legacy business
- ▶ Removal of non-core lines
- ▶ Economic and legal finality
- ▶ Removal of risk of adverse loss development
- ▶ Favorable consideration from investors

Assuming company

- ▶ Regulatory and operational efficiency
- ▶ Potential opportunity for tax savings
- ▶ Market presence/increased share
- ▶ Creation of center of excellence
- ▶ Profit from efficient management/exit
- ▶ Consolidation of legacy business
- ▶ Rational process to enter runoff market at opportune time

Planning for the IBT

To minimize risk of objection and to achieve regulatory and court approval for the transaction, consider and plan for some or all of the following issues which may arise:

- ▶ Objections
- ▶ Timing
- ▶ Approval
- ▶ Other state regulators
- ▶ Cost for transfer/costs for transaction
- ▶ Policyholder notification
- ▶ Reinsurers
- ▶ Information required
- ▶ Commercial sensitivities
- ▶ Operational expense and liability – total price for runoff adequately protects targeted profitability
- ▶ Legal challenges

The expert report

The role of the expert

- ▶ Application for approval of an IBT Plan must be accompanied by an expert report describing the transfer and its effect on policyholders and others (i.e., remaining policyholders, transferring policyholders and accepting policyholders)
- ▶ Assist and inform regulators and the court

What should the expert consider?

- ▶ Two main aspects which form the opinion:
 - 1) Effect on security of policyholder's rights
 - 2) Level of service provided to policyholders
- ▶ Determine whether assets of companies are sufficient to meet the liabilities

RI IBT versus Vermont Legacy Insurance Management Act (LIMA)

Differences between RI IR 68 and VT LIMA

RI IBT	Vermont LIMA
<ul style="list-style-type: none">▶ No opt-outs▶ Assuming company must be RI commercial runoff insurer▶ Includes reinsurance of all lines other than life and insurance of all lines other than life, workers' compensation and personal lines insurance▶ Requires regulatory and judicial review and approval	<ul style="list-style-type: none">▶ Opt-outs permitted▶ Any Vermont entity can assume legacy business▶ Restricted to closed blocks of non-admitted commercial property and casualty insurance and reinsurance▶ Process is solely regulatory

Conclusion

- ▶ Insurance Business Transfers (IBT) pursuant to Rhode Island Insurance Regulation 68 represent a means to bring finality to runoffs while protecting policyholders and ensuring the integrity of the regulatory process.
- ▶ The importance of the IBT transaction is the ability to provide a fair solution that balances the needs of all of the company's stakeholders.
- ▶ It is expected that, over time, the IBT will become a widely accepted business practice in the US marketplace as it has significant strategic importance as a restructuring tool for insurance companies while also ensuring that the interests of policyholders are protected.

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