Current restructuring options in the US

- Current restructuring options are limited to sale, reinsurance/LPTs or novation.

- Non-core or run-off business remains embedded in ongoing business with no effective option to segregate the business.

- Frequently companies use loss portfolio transfers to transfer blocks of business – ultimately liability remains with the original insurer.

- Currently the only way to effectively transfer a block of business in the US is by way of a policy novation process.

- The current process of novating policies is inconsistent among the states, cumbersome, time-consuming and expensive; in most instances it will be impossible to obtain positive consent to a novation from all policyholders, especially on older books of business.
Why restructure?

• Efficient use of capital

  • Ability to divest non-core business and redeploy capital

  • Saves costs and protects financial solvency of seller entity

  • Internal reorganization to reduce management and other costs

• Focused management of non core lines

  • Specialized live or run-off carrier can handle the business more efficiently

  • Better policyholder service
States Introducing Legislation to Facilitate Restructuring Options

- Expectation that as pioneering states introduce legislation supporting restructuring options, more states will follow suit
- Vermont has implemented transfer legislation - LIMA
- Rhode Island has fully implemented insurance business transfer (‘IBT’) regulation
- Oklahoma IBT legislation signed into law in early May; effective Date of November 1, 2018
- Division laws have taken effect in Connecticut, Pennsylvania and recently Michigan and Illinois
- Recently Governors of Iowa and Georgia vetoed division legislation
Insurance Block Transfer Legislation

• An insurance business transfer (IBT) is the ability to transfer a block of insurance business from one insurance company to another without the need for policyholder consent

• Rhode Island (RI) - first jurisdiction to pass IBT legislation (limited to P&C commercial run-off business – no Workers’ Compensation)

• November 1, 2018 - Oklahoma Insurance Business Transfer Act became effective; this applies to all lines of insurance and is not limited to runoff

• OK IBT legislation is similar to existing legislation in the UK known as the Part VII transfer
Overseas Legislation

- In the European Union, member states are required to have mechanisms for the transfer of insurance business, many of which have been used successfully for a number of years

- For example, a UK Part VII transfer:
  - Allows for the transfer of a block of business by way of a statutory novation
  - Transfers outwards reinsurance with the policies (as well as other assets and liabilities where required)
  - Needs UK regulator approval
  - Requires court approval and independent expert report
Regulatory Safeguards – Checks and Balances

• Robust procedure of Checks and Balances:
  • Approval of the Domestic Regulator of the Transferring company
  • Regulatory review and approval by the Domestic Regulator of the Assuming company (E.g. Oklahoma under its IBT statute)
  • Independent Expert Review
  • Court Review and approval

• Significantly more checks and balances than a standard Form A review

• Over 250 transfers completed in Europe under similar legislation without issue
Regulatory Safeguards (Notice and hearing)

• Due Process - Extensive Notice Provisions
  • Policyholders
  • Agents and brokers of record
  • State regulators
  • State Guarantee Funds
  • Reinsurers

• Ability to comment and present evidence to the court at the hearing

• Assuming Insurer will be regulated in the same states as the Transferring Insurer under its certificate of authority
Model Act

• Why do we need a Model Act?

  • Need consistency amongst the states

  • Avoid disputes over conflict with other states laws

  • Part VII of the 2000 Financial Services and Markets Act in the UK, derived from EU directives (similar to Federal legislation) requiring other EU member states to implement similar legislation relating to IBT