

CAPTIVE & INSURANCE BUSINESS TRANSFER
CONFERENCE



OKLAHOMA CITY

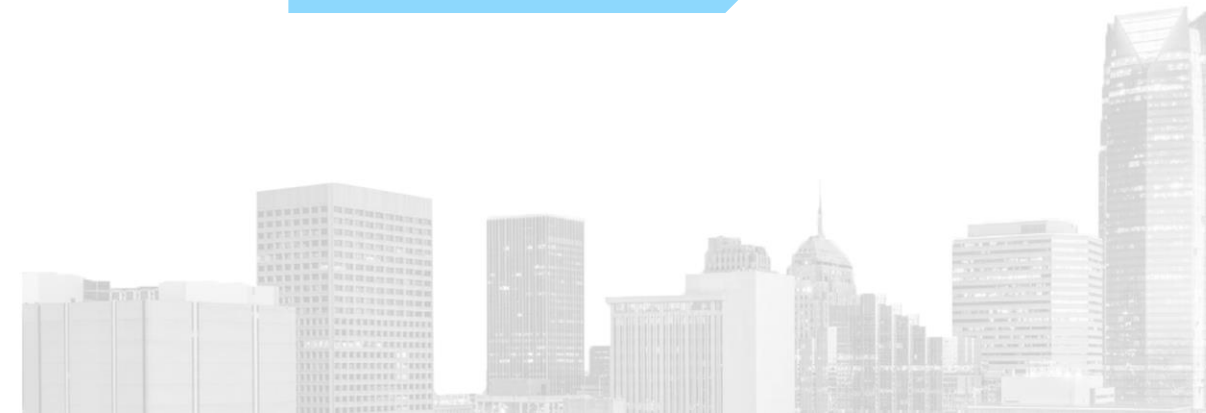
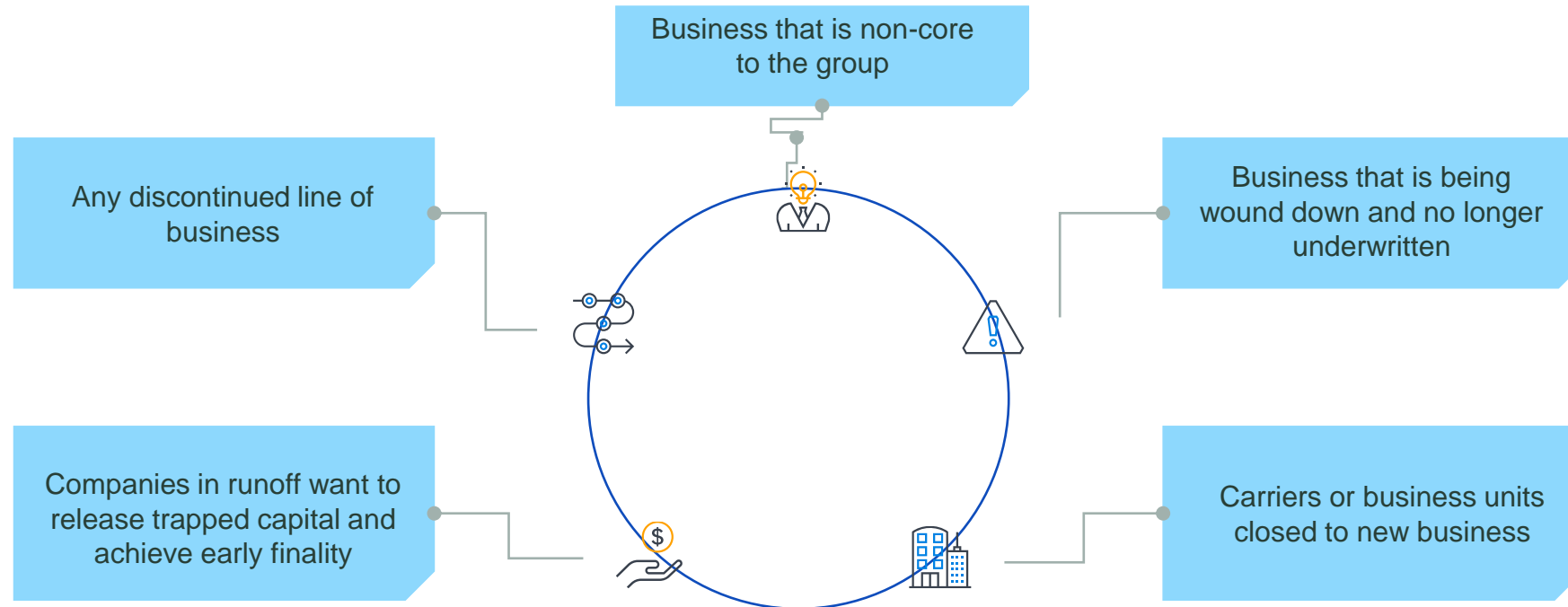
The Legacy Landscape / IBT's and Divisions

Panelists

- Carolyn Fahey
Executive Director, AIRROC
- Luann Petrellis
CEO, Catalina U.S.
- Robert Redpath
Senior VP and US Legal Director, Enstar US
- John Sparks
Odom & Sparks

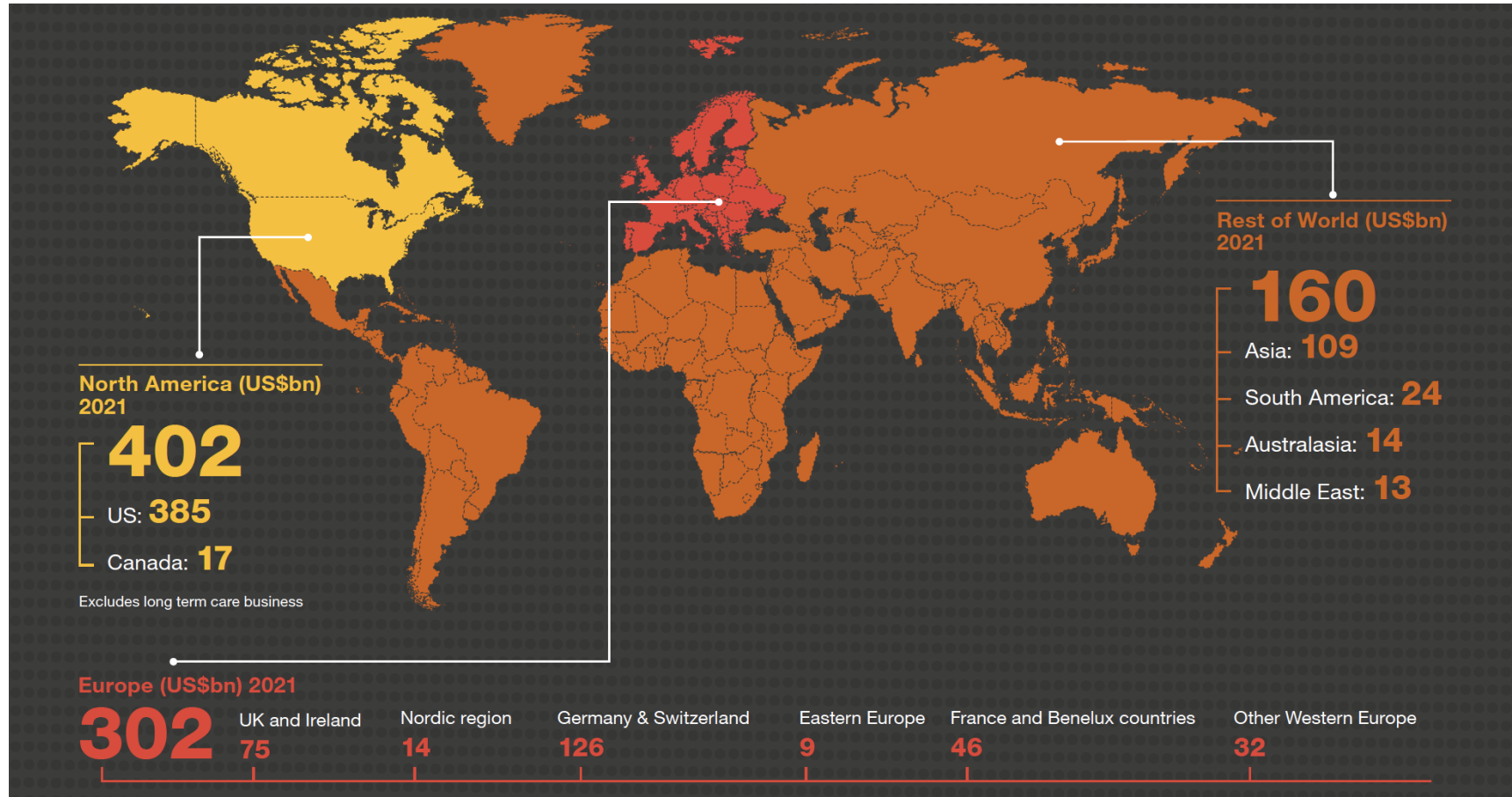


Definition of Runoff/Legacy --What is it?



Geographical Breakdown of Global Non-Life Runoff Reserves

Total global
non-life run-off
reserves
\$864bn



Source: PwC Global Insurance Runoff Survey 2021. <https://www.pwc.com/gx/en/industries/financial-services/publications/global-insurance-run-off-survey.html>

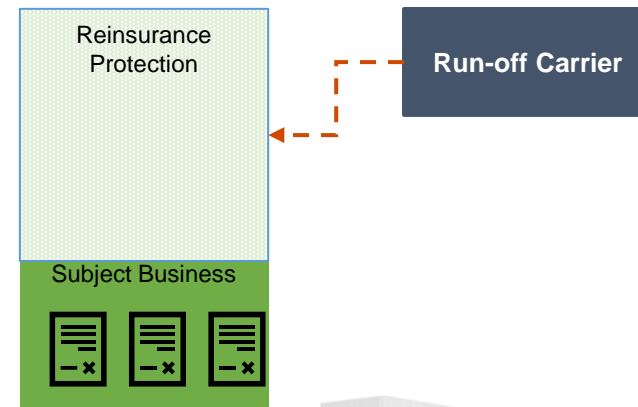
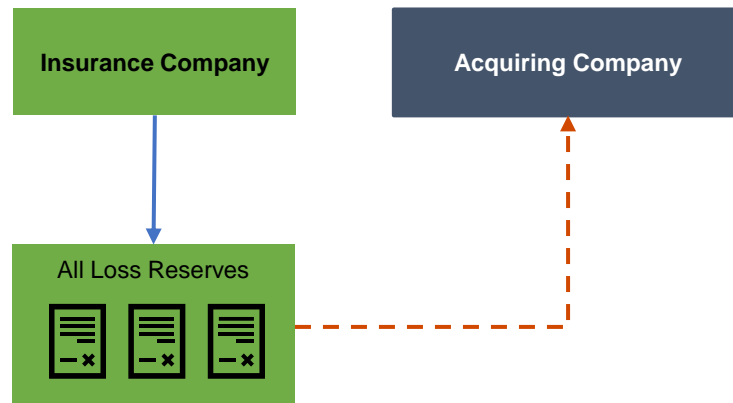
Current US Restructuring Mechanisms

Legal Entity Sale (M&A)

- Sell entire company to a third party
- All-or-nothing approach

Reinsurance LPT / ADC

- Ceding company retains legal liability
- Does not provide finality or full removal from financials



*Slides provided by Aon Capital Advisory

New US Restructuring Mechanisms

An insurance business transfer (IBT) is a process that allows for a transfer of a block of insurance business from one existing insurance company to another, modelled generally after Part VII transfers. An IBT results in “simultaneous transfer and novation” (see 36 O.S. Sec. 1686).

A division statute relies on state corporate and insurance statutes to create a new entity, provide it with a license to transact insurance, and then to move a portion of the business of an existing company into the new entity

In each type of process, the transfer of policies is accomplished without obtaining direct individual policyholder consent



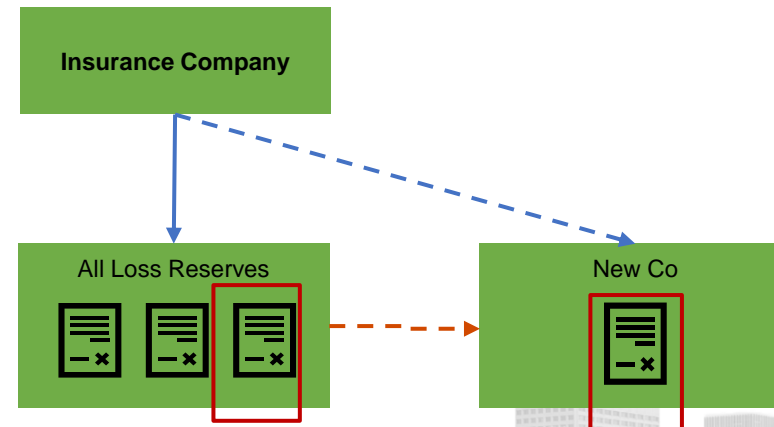
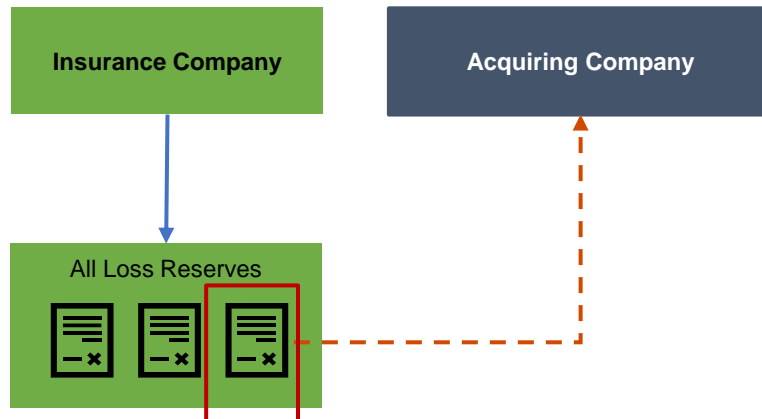
New US Restructuring Mechanisms

Insurance Business Transfer

- Chosen policies can be novated to a third party through regulatory process

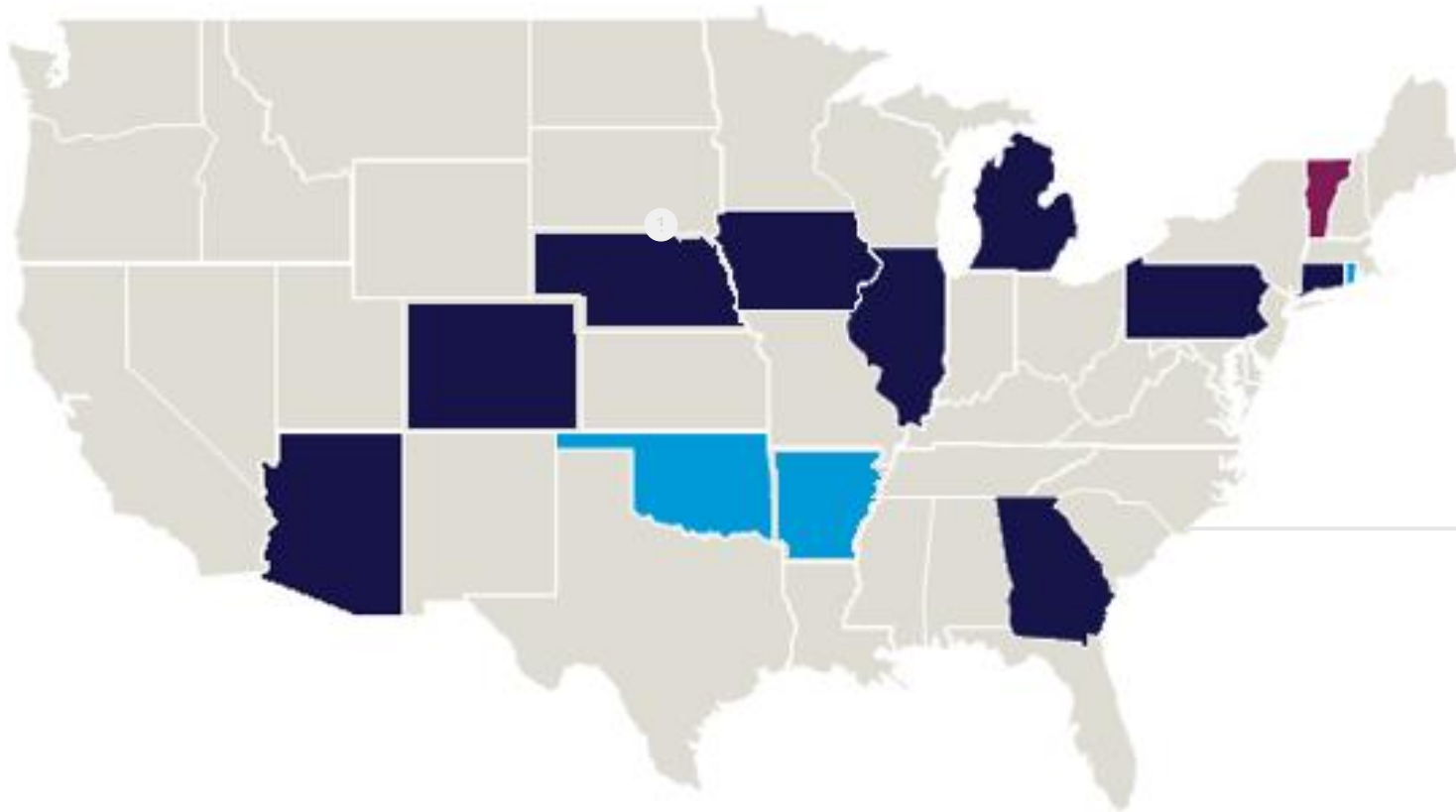
Corporate Division

- Create new statutory entity and select specific policies to be attached to the formation



Restructuring Legislation

State Legislation to Facilitate Restructuring Options



IBT legislation is pending in Illinois

Insurance Business Transfers

Arkansas

Oklahoma

Rhode Island

Division Statutes

Arizona

Colorado

Connecticut

Georgia

Illinois

Iowa

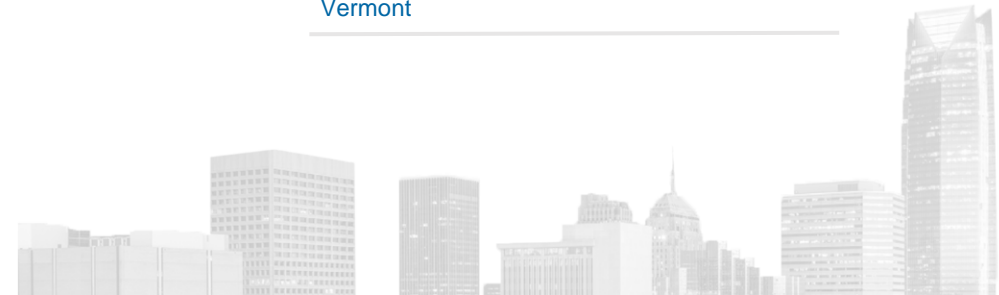
Michigan

Nebraska

Pennsylvania

Other Legislation

Vermont



The IBT is Modeled on the UK Part VII Transfer

There have been hundreds of successful Part VII Transfers to date.

The Part VII Transfer and its counterparts worldwide have been used for decades.

The Part VII Transfer applies to all lines of insurance, live and runoff.

Approximately 30% of these transfers relate to life business

Part VII Transfers have involved both life and non-life business.

Many US companies have used the Part VII transfer in the UK.

Year	# of Part VII Transfers
2002	3
2003	10
2004	18
2005	26
2006	29
2007	24
2008	18
2009	8
2010	12
2011	24
2012	15
2013	13
2014	11
2015	22
2016	6
2017	17
2018	16
2019	12
2020	19
2021	3
TOTAL	306

IBT in OK, RI, AR

Legislation overview

- IBTs allow for the transfer of a block of business by way of a statutory novation requiring the support of an independent expert report as well as court approval
- The IBT is modeled on the UK Part VII Transfer legislation
- In 2015 Rhode Island adopted IBT legislation under its 2002 statute that applies to P&C commercial runoff business
- In 2018 Oklahoma passed IBT legislation that applies to all lines of insurance, two transactions were completed so far (one in 2020 and one in 2021)
- In 2021 Arkansas joined the states where an IBT can be executed.

Benefits

- Enables a company to sell or segregate an embedded block of business
- Achieves full finality for selling insurers where current reinsurance solutions leave gross exposure on the balance sheet and counterparty risk at a net level
- The buyers are able to implement a full consolidated balance sheet achieving capital and operational efficiency and economies of scale



Why IBT?

Not for troubled companies

Every carrier has runoff! (It's yesterday's underwriting)

Brings operational, management, administrative efficiencies

Restructure and consolidate internally

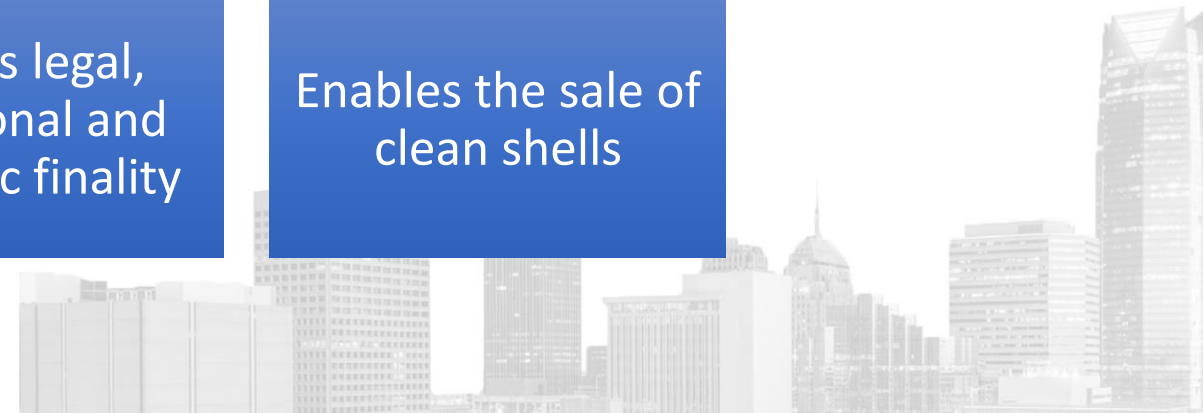
Releases capital for core or new business

Exit from or dispose of non-profitable business

Reduce risk and complexity within the company

Delivers legal, operational and economic finality

Enables the sale of clean shells



Division in AZ, CT, GA, IA, IL, MI, NE, PA

Legislation overview

- Allows a domestic insurer to divide into two or more insurers and allocate assets and obligations, including insurance policies, to the new companies.
- Only requires approval by the domiciliary regulator.
- Applies to any type of business and is not limited to closed blocks.
- Each “resulting insurer” is responsible individually for policies and other liabilities allocated to it under the plan of division.

Benefits

- If the new insurance company is sold, would achieve finality for the seller.
- Less execution risk compared to IBTs as only requires one regulatory approval. Independent expert is optional. No court approval is required.
- Generates a separate legal entity that would generate demand from new entrants to the buying market as a platform



Division Legislation Process

The Dividing Company must submit a plan of division to the Commissioner to divide into two or more insurers.

How state laws vary on

Whether a hearing is required

IL, CT – public hearing is discretionary

CO, IA, GA, MI – hearing required

Whether notice is required

IL, CT – notice is discretionary

CO, IA, GA, MI – various notice requirements

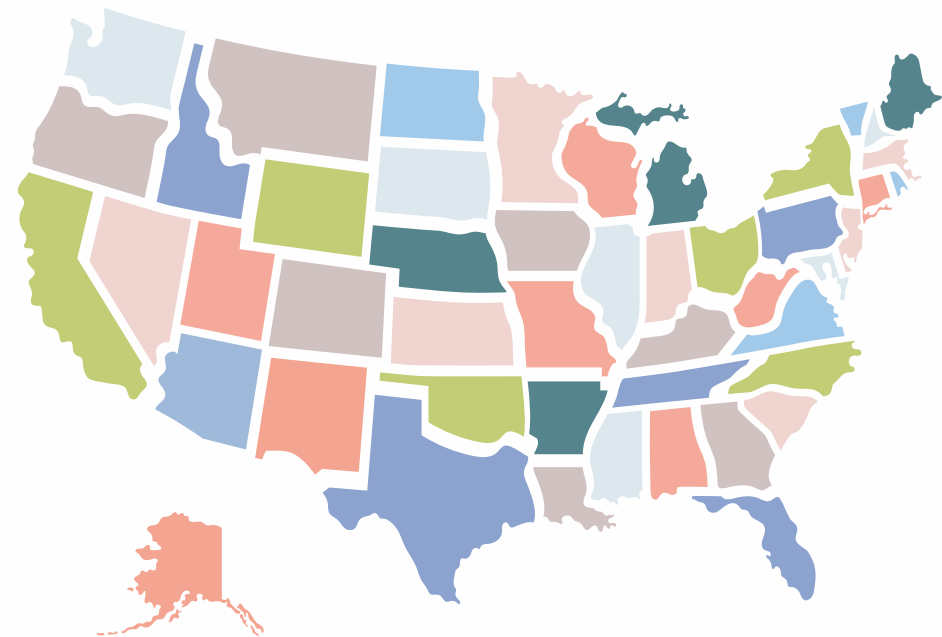
Whether an independent expert is required

CT, IL, MI, GA - no explicit requirement

CO, IA – independent expert required

Standards of review

Vary by state



Effect of Division legislation

When a division becomes effective, each Resulting Company is responsible individually for:

- (i) the policies and liabilities that the Resulting Company issues or incurs after the division; and
- (ii) the policies and liabilities of the Dividing Company that are allocated to the Resulting Company by the plan of division; and
- (iii) jointly and severally with the other Resulting Companies, for the liabilities, including policy liabilities, of the Dividing Company that are not allocated by the plan of division.

Division with Simultaneous Merger

New insurer needs to be licensed in each other state in which the allocated policies were issued or delivered.

As a practical matter, any such new insurer will need to be immediately merged with an entity holding the necessary state licenses for the allocated business.

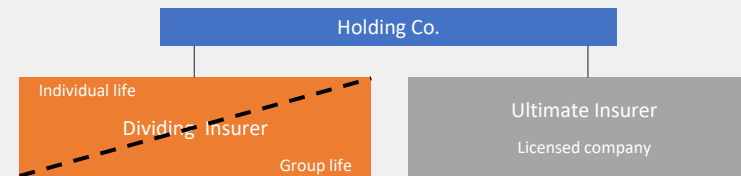
The Division statute contemplates the need for an immediate merger.

States have amended the insurance company merger law to permit the formation of a domestic insurer for the sole purpose of merging or consolidating in connection with a division.

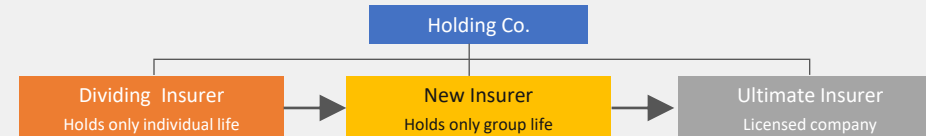
Example: Division and Simultaneous Merger Into an Affiliated Ultimate Insurer

Ultimate insurer is fully licensed company that can then be sold to or merged with an unaffiliated third party.

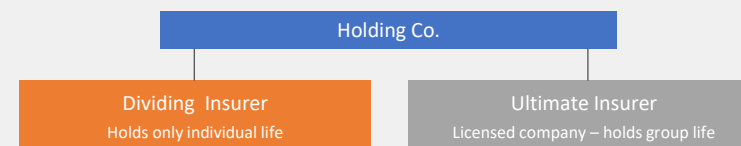
Structure before division:



Simultaneous division and merger into Ultimate Insurer:

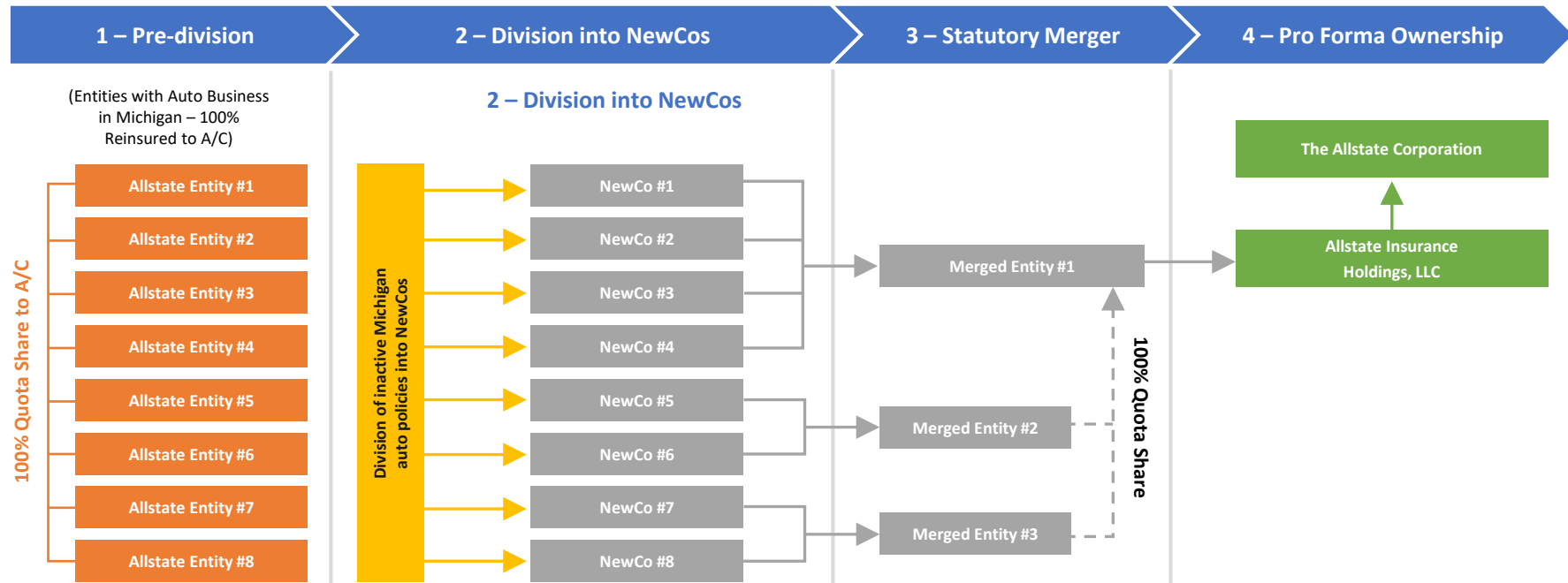


Structure after division and merger



Case Study: Allstate Executes Multi-company Division

- Division Structure Flow Chart



- IBD enables Allstate to better allocate capital and opportunity to further enhance operational efficiencies*

IBT vs Division Legislation

IBT

Legislation overview

- Allows for the transfer of business within a corporate group or to an unaffiliated entity
- Requires the support of an independent expert that finds no material adverse impact on policyholders
- Applies to all lines of insurance (except for RI)
- Requires notice to all policyholders and approval from regulator in state of transferee company
- Requires court hearing and approval
- Transferor can be from any jurisdiction; assuming company must be domestic insurer in state with IBT legislation

Benefits

- Enables a company to sell or segregate an embedded block of business
- Achieves full legal and economic finality for selling insurers
- Corporate simplification
- Operational and capital efficiency
- Consolidate separately regulated entities
- Segregate non-core from core business

Division

Legislation overview

- Allows a domestic insurer to divide into two or more insurers and allocate assets and obligations, including insurance policies, to the new companies
- Can reorganize business into separate insurers to promote operational efficiencies or to position for sale
- Requires approval by the domiciliary regulator
- Applies to any type of business and is not limited to closed blocks
- Each “resulting insurer” is responsible individually for policies and other liabilities allocated to it under the plan of division
- Most states require reasonable notice and a public hearing

Benefits

- If the new insurance company is sold, could achieve full finality for the seller
- Only requires regulatory approval
- Segregate non-core from core businesses
- Corporate reorganization
- More efficiently deploy capital

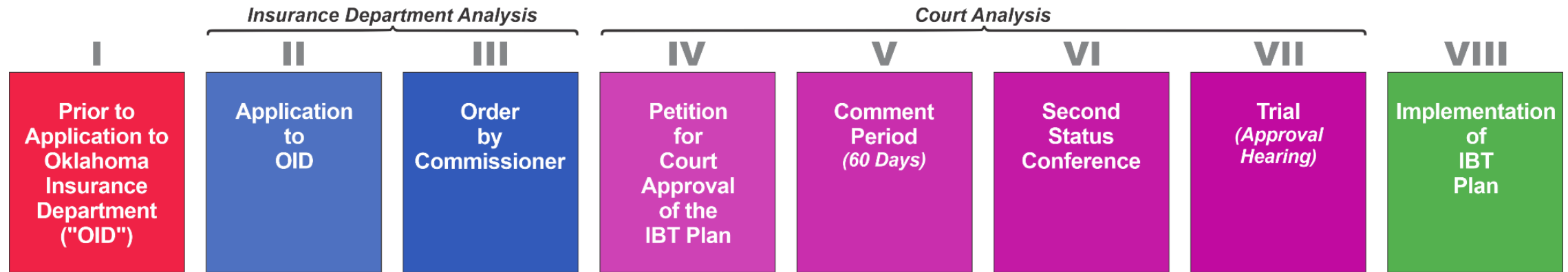
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OK Process / Case Study

OK IBT Procedure



Collect Data and Focus Goal

I – Prior to Application to Oklahoma Insurance Department (“OID”)

- 1) Preparation of IBT Plan Working Draft**
- 2) Informal discussions with Commissioner and OID**
- 3) Retain Independent Expert**
- 4) Develop Communication Plan**
- 5) Communicate with:**
 - Chief Insurance Regulator from transferring state
 - Reinsurers
 - Guaranty Funds, &
 - Other insurance sector associations
- 6) Revise IE Report**
- 7) Finalize IBT Plan, including the following exhibits:**
 - Communication Plan
 - IE Report, &
 - Non-objection letter from transferring state regulator



II – Application to Oklahoma Insurance Department (“OID”)

- 1) **Formally Submit IBT Plan to OID, including the following exhibits:**
 - Communication Plan
 - IE Report, &
 - Non-objection letter from transferring state regulator
- 2) **Informally submit Proposed Order to OID**
- 3) **The Proposed Order provided to the Commissioner provides that the Commissioner:**
 - 1) finds that the IBT will not cause a material adverse effect on the interests of policyholders, reinsurers, or claimants that are part of the subject business, and
 - 2) authorizes submission of the IBT for court approval.



Insurance Department Analysis

III – Order by Commissioner

1) Commissioner files Order:

- on Proposed IBT Plan, &
- Authorizing Applicant to submit the IBT Plan to an
 - Oklahoma District Court, &
 - Request the Court approve the IBT Plan.

2) Preparation of Petition consistent with Commissioner's Order and statutory requirements



Court Analysis

IV – Petition for Court Approval of the IBT Plan

1) File and Serve Petition

2) Orders:

- Protective Order for Confidential Financial Information
- First (1st) Status Conference Date

3) Status Conference and Scheduling Order:

- Provide Court public policy behind IBT Act
- Provide preliminary information on the particular IBT Plan,
the Subject Business, Transferring and Receiving companies
- Outline statutorily required sequence of events, &
- Set Notice and Second (2nd) Status Conference dates



Court Analysis

V – Comment Period (60 Days)

- 1) Transmit Notice to Policyholders, Regulators, etc., &
- 2) Due date for Objections and Requests to be Heard, if any

VI – Status Conference

Second (2nd) Status Conference

- Determine objections, if any, &
- Set dates for
 - Discovery,
 - Pretrial, &
 - Trial (Approval Hearing)



Court Analysis

VII – Trial (Approval Hearing) and Court Approval

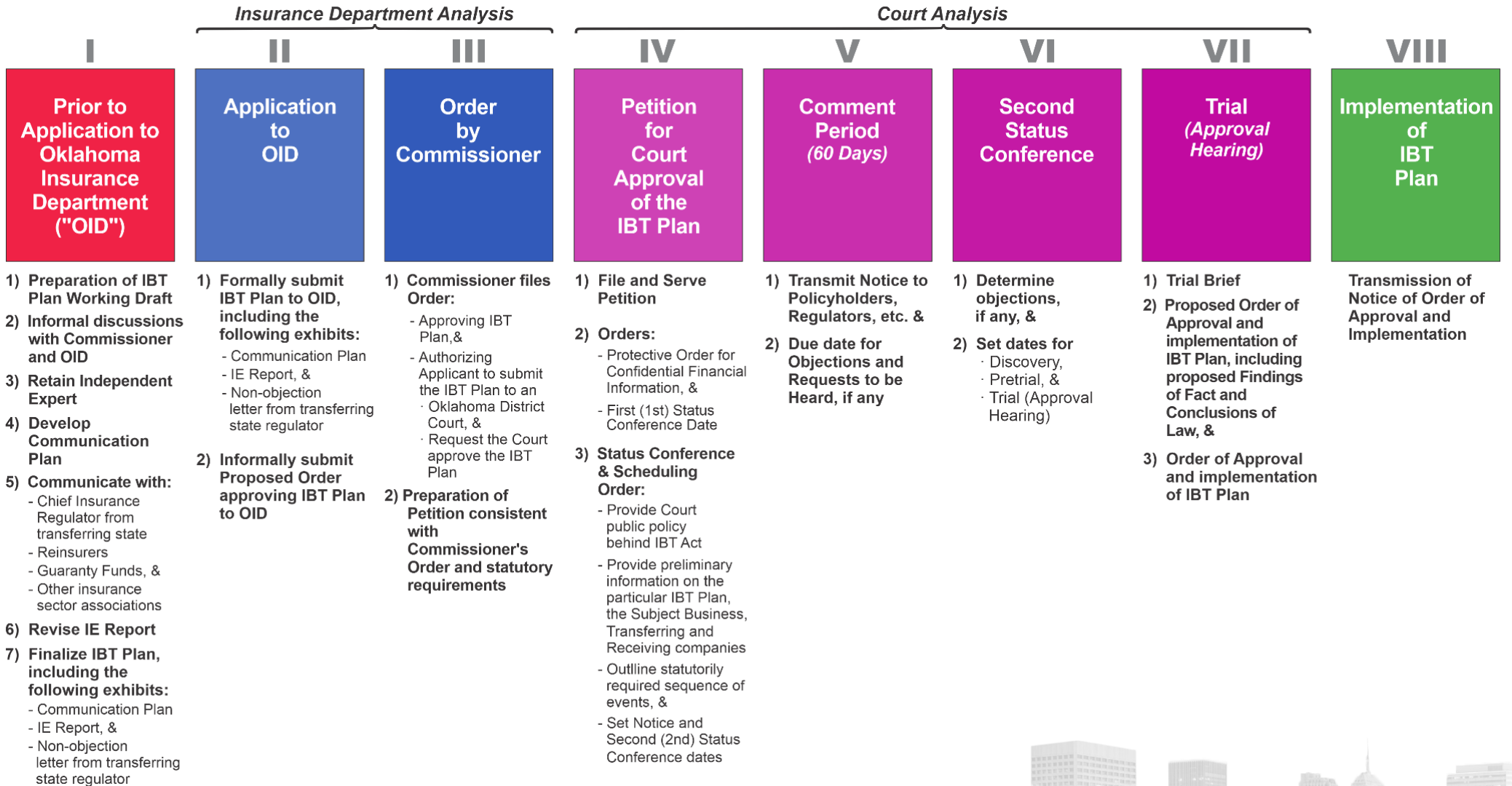
- 1) Trial Brief**
- 2) Proposed Order of Approval and implementation of IBT Plan, including proposed Findings of Fact and Conclusions of Law, &**
- 3) Order of Approval and Implementation of IBT Plan**

VIII – Implementation of IBT Plan

Transmission of Notice of Order of Approval and Implementation



OK IBT Procedure



Case Study: Enstar IBT

Apply to the Oklahoma Insurance Commissioner

Obtain an Independent Expert opinion

Receive regulatory approvals (OK & RI)

File with District Court and notify stakeholders

Court hearing to approve IBT



Case Study: Enstar IBT

Apply to the Oklahoma Insurance Commissioner

Both PWIC and
Yosemite were
managed by Enstar
(US) under shared
services agreements

**Transferring Insurer –
Providence Washington
Insurance Co (“PWIC”)**

Rhode Island domicile

Commenced business in
1799

In run-off since 2004

Wholly owned by Enstar
from 2010 to 2021

**Assuming Insurer –
Yosemite Insurance Co
(“Yosemite”)**

Oklahoma domicile

Commenced business in
1964

Holds 49 licenses in US

Wholly owned by Enstar
since 2018



Case Study: Enstar IBT

Obtain an Independent Expert opinion

Purpose: to assist the regulator and court in connection with their review of the IBT

The Independent Expert's report includes:

- Analysis of the reserves for the subject business
- Analysis of the financial condition of each company
- Review of the plans for administering the subject business
- Any information the regulator requests be considered

The ultimate objective of the report is for the Independent Expert to provide an opinion on whether the proposed transfer has a material, adverse impact on policyholders



Case Study: Enstar IBT

Receive regulatory approvals (OK & RI)

36 O.S. § 1686(A)(1)(m):

Application Procedure.

An Insurance Business Transfer Plan must be filed by the applicant with the Insurance Commissioner for his or her review and approval. The Plan must contain the information set forth below or an explanation as to why the information is not included. The Plan may be supplemented by other information deemed necessary by the Commissioner:

- evidence of approval or nonobjection of the transfer from the chief insurance regulator of the state of the transferring insurer's domicile



Case Study: Enstar IBT

File with District Court and notify stakeholders

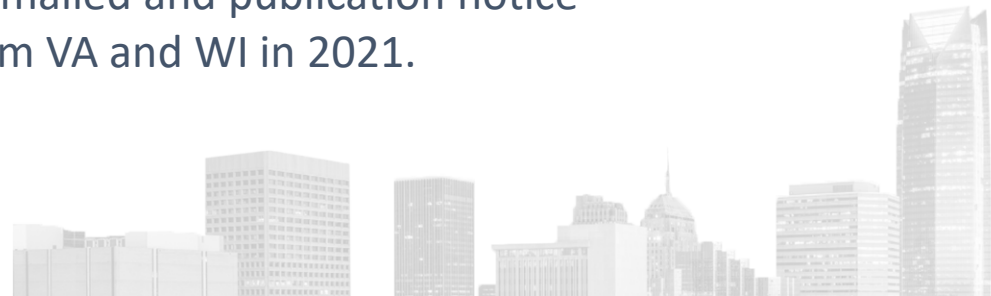
- Scheduling hearing – December 17, 2019
- Notice of hearing mailed by January 15, 2020
 - Every state regulator and guaranty fund
 - Over 60,000 policyholders, 269 reinsurers and 122 agents and brokers
- Publication notice – Wall Street Journal & Providence Journal – January 15, 2020
- Deadline for filing comments, objections, evidence and requests to appear – March 17, 2020
- Court hearing – May 13, 2020



Case Study: Enstar IBT

Court hearing to approve IBT

- No objections were made or requests to appear
- Three comment letters were received from AZ Department of Insurance, National Organization of Life and Health Insurance Guaranty Associations (NOHLGA), National Conference of Insurance Guaranty Funds (NCIGF)
- Testimony by: OK Insurance Department, PWIC & Yosemite, Independent Expert
- Judgment and Order of Approval and Implementation of the Insurance Business Transfer Plan – October 15, 2020; Final notices mailed and publication notice – December 2020; Additional State approvals from VA and WI in 2021.



Case Study: Enstar IBT

Business reasons for undertaking IBT process - generally

- 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
- For PWIC – preparation for divestment (which occurred in 2021)
 - Minimize direct liabilities
 - Minimize reinsurance accounting and credit for reinsurance requirements



Case Study: Enstar IBT

Lessons Learned

- **Communications Plan**
 - Not legally required, but key document to identify key stakeholders for notice and forms of notice
 - **Due Process** (i.e. making sure stakeholders are aware of the transaction) is critical for enforcement of the final award
 - Plan early – PWIC plan took multiple months to complete
 - Get regulator buy-in
 - Get court sign off – you don't want to get to the final hearing and find that the stakeholder notice was deficient
- **Form of Notice**
 - No standard form
 - Include in the Communications Plan
 - Get regulator buy-in
 - Get court sign off
 - Avoid using the word “beneficiary”
- **Operations**
 - Make sure your call center is prepared once notices are mailed
 - Make sure the phone number works
 - Make sure there is a script for the call center



before the Honorable Judge Susan Stallings in the Oklahoma County Courthouse, 320 Robert S. Kerr Avenue, Oklahoma City, Oklahoma, 73102.

The IBT Act allows entities to file comments, objections, evidence and requests to appear before the Court at the Approval Hearing if the entity is a Policyholder, or considers himself, herself or itself to be adversely affected by the IBT Plan. However, such filings or appearances shall not confer standing on any entity. All comments, objections, evidence or requests to appear must be filed with the Court no later than March 17, 2020. Such entities and their filings must conform with the processes established by the Court, the Oklahoma Statutes and other applicable rules and laws, including, but are not limited to, serving all Parties with copies of all documents filed with the Court pursuant to OKLA. STAT. TIT. 12, § 2005. All entities shall bear their own costs and attorney fees.

If the Court grants the relief requested in the Petition, it will establish a date or dates ("Effective Date") upon which Yosemite will assume all of the respective obligations of the Subject Business, including the underlying insurance policies and reinsurance agreements. Upon the Effective Date, Yosemite will also be responsible for the administration and payment of all claims and benefits of its assumed obligations. For insurance policies and/or reinsurance agreements in the Subject Business which are regulated by Massachusetts or New York, the Petition requests a separate Effective Date for the transfer and novation to occur after Yosemite secures a Massachusetts and/or New York insurance license, respectively.

Upon the Effective Date, Yosemite will be directly liable to Policyholders to the same extent as PWIC immediately prior to the Effective Date. Consequently, the Policyholders' respective obligations with PWIC will be extinguished. Except for substituting PWIC with Yosemite, the respective obligations stated in the Policyholders' policies will not change as a result of the IBT Plan.

An electronic copy of the IBT Plan is available at <https://enstargroup.box.com/v/PwicYosemiteIBT>. Upon the request by a Policyholder which is unable to readily access electronic copies of the IBT Plan, PWIC will provide a hard copy via the United States Postal Service, First Class postage prepaid.

Additional information concerning the IBT Plan may be obtained by contacting:

<u>Oklahoma Insurance Commissioner:</u>	<u>Transferring Insurer:</u>	<u>Assuming Insurer:</u>
Oklahoma Department of Insurance	Providence Washington Insurance Company	Yosemite Insurance Company
Five Corporate Plaza, Suite 100	Suite 330	Suite 330
3625 NW 56 th Street	475 Kilvert Street	475 Kilvert Street
Oklahoma City, OK 73112	Warwick, RI 02886	Warwick, RI 02886
Telephone: (405) 521-2828	Telephone: 401-453-7000	Telephone: 401-453-7000
Toll Free - OK: (800) 522-0071	Toll Free: 800-597-2755	
www.ok.gov		

IN WITNESS WHEREOF, PROVIDENCE WASHINGTON INSURANCE COMPANY has caused this Notice to be executed by its President & CEO, as of the 8th day of January 2020.

PROVIDENCE WASHINGTON INSURANCE COMPANY


 By: Paul Brockman
 Title: PRESIDENT & CEO



Legal and Regulatory Landscape

Legal issues that may arise in IBTs or Division transactions:

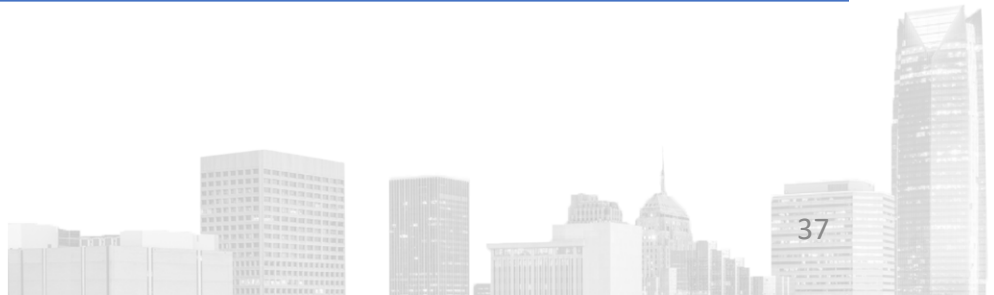
Due process/notice

States with anti-novation statutes

Guaranty fund issues

OK Guidance

McCarran Ferguson



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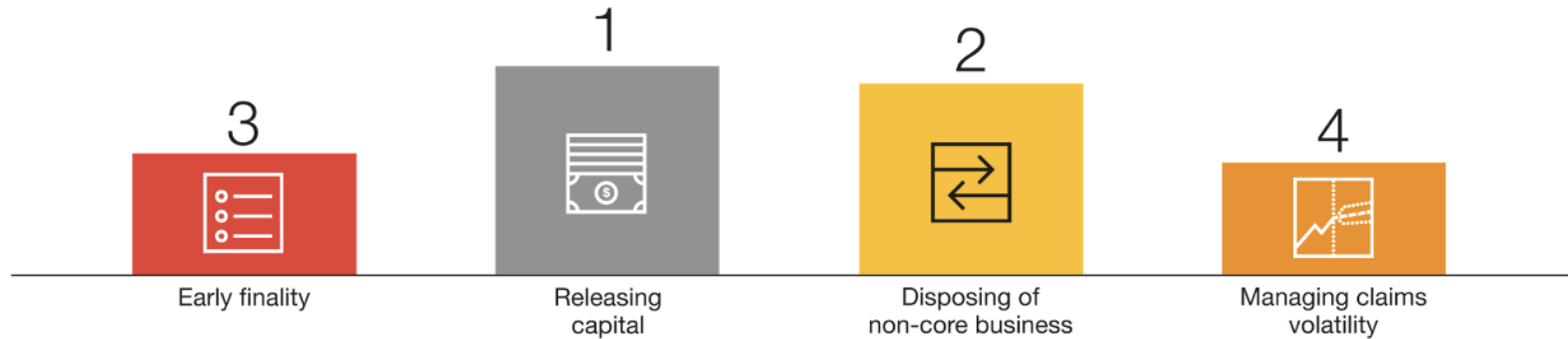
OKLAHOMA CITY

State of the Market

Runoff Drivers

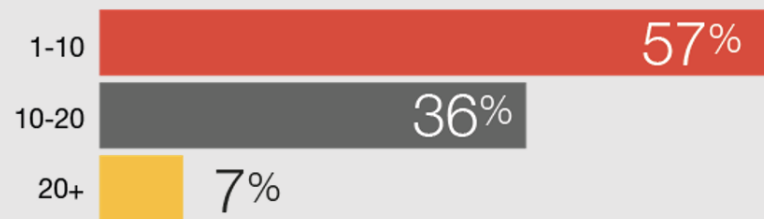
Run-off drivers

What do you think will be the main reasons for entering into restructuring activity?



Insurance Business Transfer (IBT)

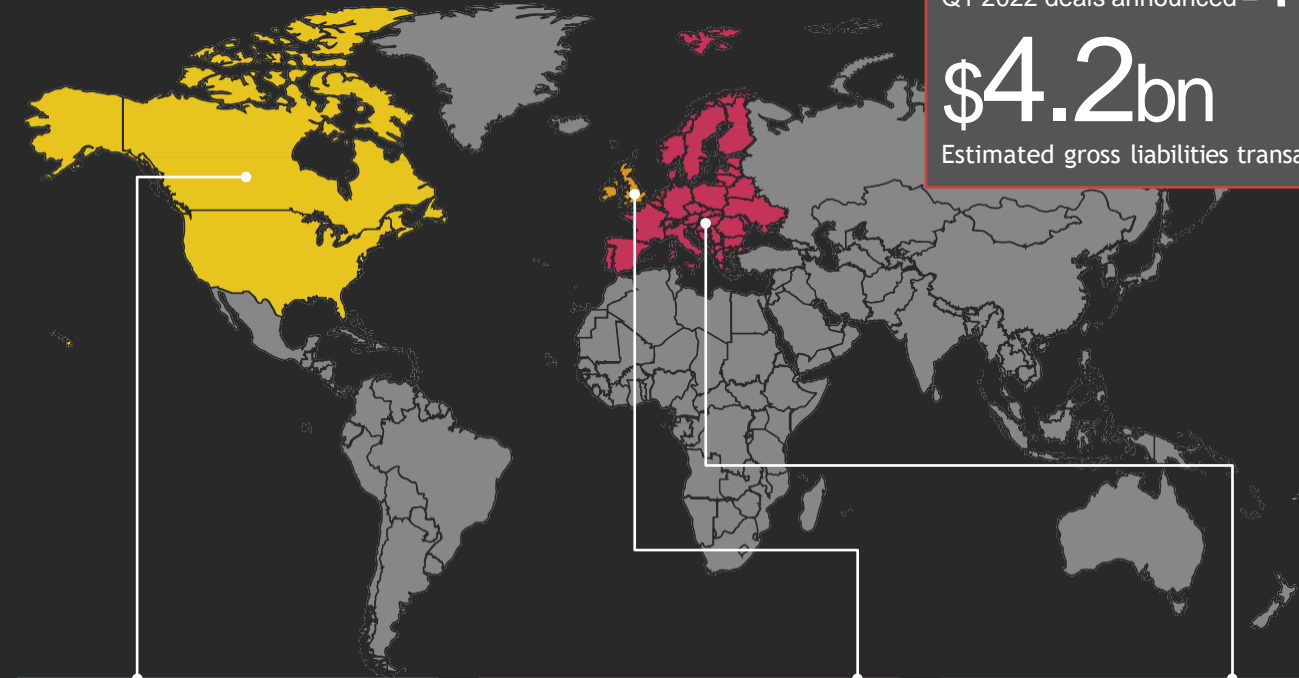
How many IBTs and/or divisions do you think will occur over the next 3 years?



Source: PwC Global Insurance Runoff Survey 2021.
<https://www.pwc.com/gx/en/industries/financial-services/publications/global-insurance-run-off-survey.html>

Deal Activity by Region – Q2 2022

Q1 2022 Deal Activity by Region



Grand Total

Q1 2022 deals announced – **11**

\$4.2bn

Estimated gross liabilities transacted

North America

Q1 2022 number of deals – **5**

\$3.5bn

Estimated gross liabilities transacted

UK and Ireland

Q1 2022 number of deals – **4**

\$0.7bn

Estimated gross liabilities transacted

Continental Europe

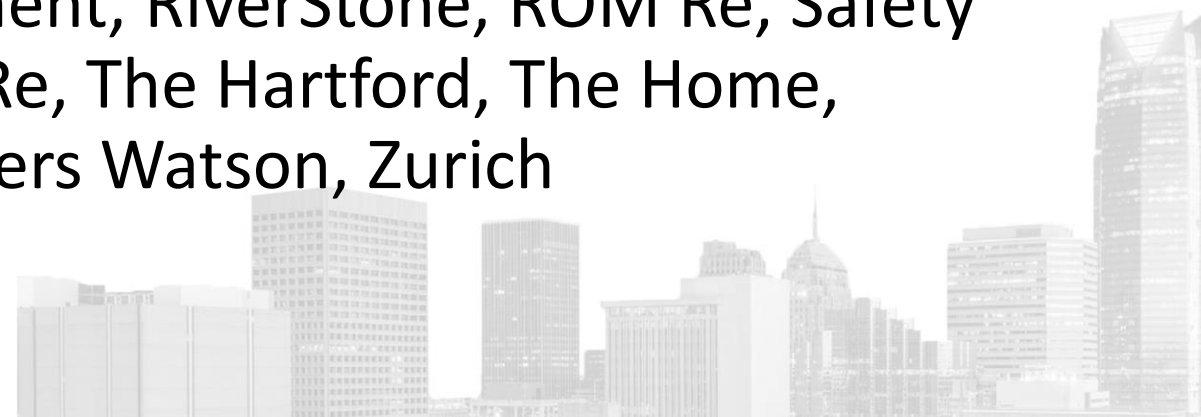
Q1 2022 number of deals – **2**

\$0bn

Estimated gross liabilities transacted

AIRROC Members

AIG, Allianz, Allstate, Aon, Argo Group, Arkansas Ins. Dept.
 Arrowpoint Capital, Armour Risk, Artex, AXA Liabilities
 Managers, BMS Re, Brandywine Holdings/Chubb,
 Broadspire/Crawford, Carrick Holdings, Catalina Re, CNA,
 Compre, DARAG, Davies, Enstar, Federated Re, Fortitude Re,
 Fleming Re, Gallagher Re, Genesis Legacy Solutions, Guy
 Carpenter, Munich Re, NY Liquidation Bureau, OK Dept. of
 Insurance, Orion, PA Dept. of Insurance, Premia Re, Pro Global,
 QBE, R&Q, Resolute Management, RiverStone, ROM Re, Safety
 National, Sentry, Sirius, Swiss Re, The Hartford, The Home,
 TigerRisk, Travelers, Willis Towers Watson, Zurich

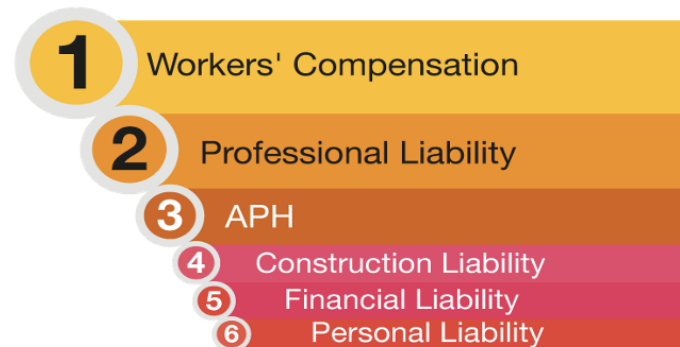


Key Trends Runoff Transaction Market

Increase in available capital in the market	Highly active market	Slight decrease in Estimated Gross Liabilities transacted	12+ consolidators transacting
Competitive pricing environment	Increase in diversity of liabilities transacted	Covid-19 not expected to significantly impact run-off consolidators	North America accounting for over 50% of transactions

Transacting lines

Which lines of business do you predict as most likely to transact over the next 3 years?



Source: PwC Global Insurance Runoff Survey 2021.
<https://www.pwc.com/gx/en/industries/financial-services/publications/global-insurance-run-off-survey.html>

NAIC Landscape



Concerns and
Conversations



Restructuring Working
Group and Subgroup



Trade Organizations and
Lobbying Groups



Guaranty Funds

Thank You!

Carolyn Fahey
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carolyn@airroc.org

Luann Petrellis
CEO, Catalina U.S.
LuannPetrellis@Catalinare.com

Robert Redpath
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robert.redpath@enstargroup.com

John Sparks
Odom & Sparks
sparksj@odomsparks.com



ODOM &
SPARKS

