

CAPTIVE & INSURANCE BUSINESS TRANSFER  
CONFERENCE



OKLAHOMA CITY

# Why Insurance Business Transfer?

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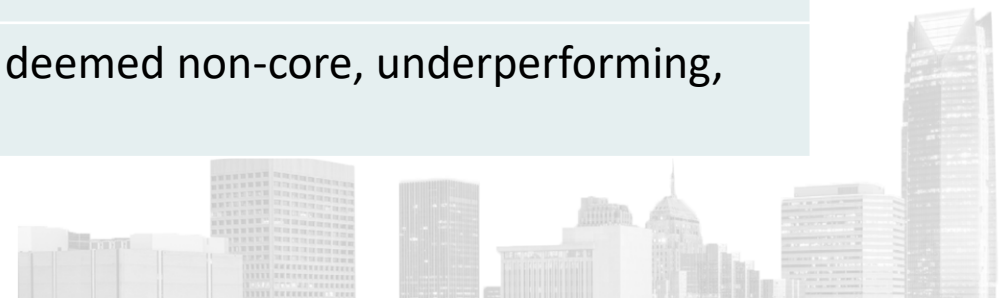
**AON**

**R&Q**

# What are legacy reserve transfers?

- An effective capital management tool and companies are motivated to use them for many reasons including, but not limited to:

Drive operational efficiencies	<ul style="list-style-type: none"> <li>• Eliminate costly legacy IT systems and reallocate resources to go forward business</li> </ul>
Reduce volatility of results	<ul style="list-style-type: none"> <li>• Mitigate/stop adverse deterioration on casualty reserves which are at risk due to rising costs associated with social and economic inflation</li> </ul>
Optimize use of capital	<ul style="list-style-type: none"> <li>• Release trapped capital to take advantage of new business priced at attractive rates</li> <li>• Reduce required capital to support rating</li> <li>• Take advantage of a strong pricing environment for legacy reserve transfers</li> </ul>
Support new business strategy	<ul style="list-style-type: none"> <li>• Discontinue business deemed non-core, underperforming, too volatile</li> </ul>



# Why are insurance business transfers needed?

- Traditional loss portfolio transfers do not achieve legal or full economic and operational finality
- Individual policy novation is not an efficient solution to transfer a block of business with finality
- The current process of novating individual policies is considered by the industry to be
  - Inconsistent among the states
  - Cumbersome
  - Time-consuming
  - Expensive



# Inspiration for a better finality solution

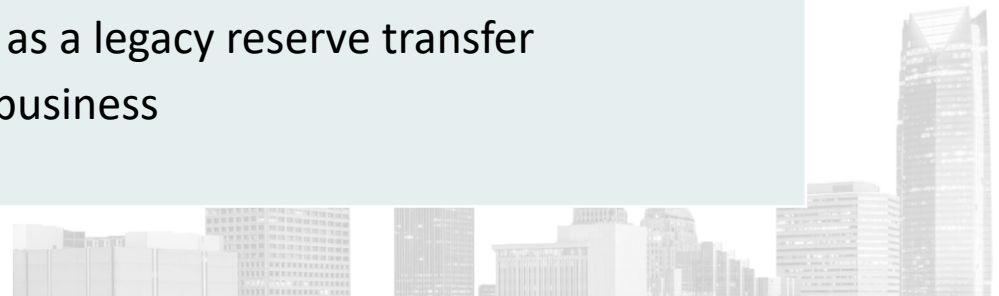
- In the UK, a Part VII transfer is a court-sanctioned legal transfer of some or all the policies of one company to another

## Context

- Governed by Part VII of the Financial Services and Markets Act 2000 (FSMA) with supplementary guidance set out in SUP 18 of the FSA handbook
- Over 300 completed since 2002
- Recently used extensively for Brexit to establish a legal entity in the EU

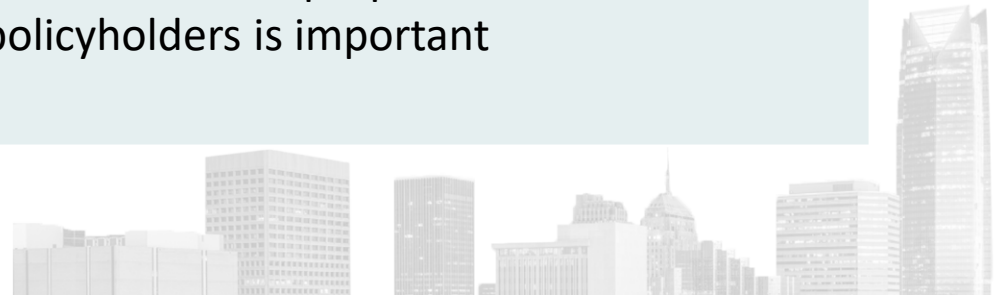
## How are they used?

- Combine similar business from two or more subsidiaries into one
  - The most common use
  - By reducing the number of regulated entities, a company can reduce costs and manage capital more efficiently
- Transfer business between third parties
  - Same motivations/benefits as a legacy reserve transfer
- Separate out different books of business
  - Like Corporate Divisions



# Part VII key requirements

- The process usually takes approximately 18 months
- Court approval
- Report by an Independent Expert – which assesses
  - Relative size of liabilities and risk of deterioration
  - Nature and amount of assets to be transferred and projected solvency ratios
  - Protection – reinsurance, guarantees, etc.
- Policyholder notification through mail and public advertisement
- Regulatory review by Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA)
  - The regulators are involved at appropriate points in these processes, including commenting on draft documents and approving the form of the independent expert's report
  - The regulators are entitled to be heard at court and its view of the proposed transfer and of whether suitable information is being provided to policyholders is important
- Parties permitted to object



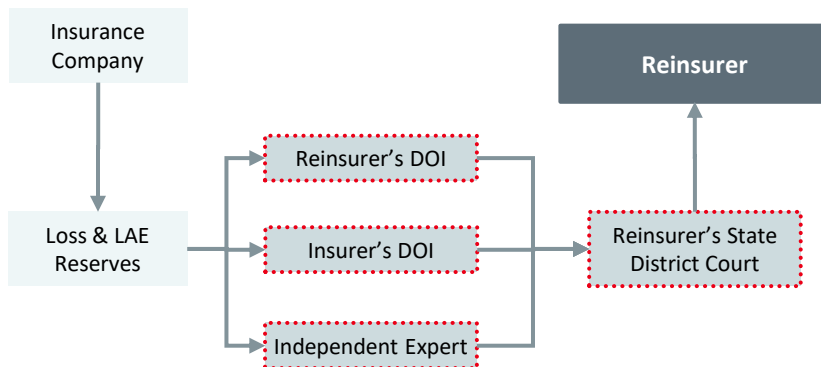
# Current finality options in the U.S.

## Insurance Business Transfer (IBT)

An insurance business transfer 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

Transaction provides total economic, legal and operational finality on subject business through a court order novation without policyholder approval

States with enacted IBT statutes: Arkansas, Oklahoma, Rhode Island

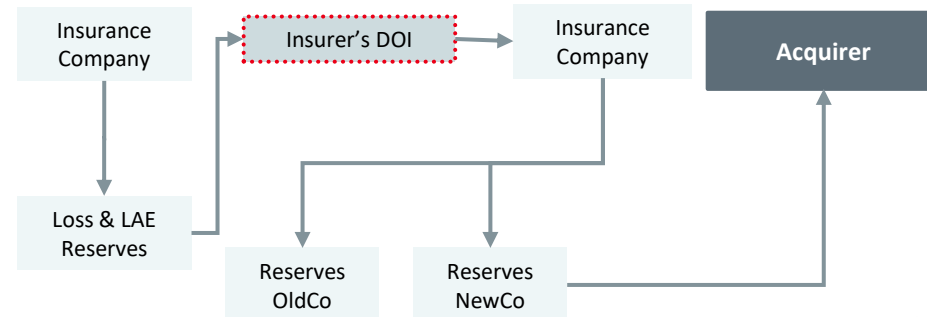


## Corporate Division (CD)

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

Transaction provide finality after new block of business is sold through M&A process

States with enacted CD statutes: Arizona, Colorado, Connecticut, Georgia, Illinois, Iowa, Michigan, Nebraska, Pennsylvania, Vermont (other legislation)





# What is the opportunity?

1

There is over \$400 billion of non-life runoff reserves in the U.S.

2

Record capital committed to legacy reserve transfers

3

Significant increase in demand and trend is expected to continue

4

It is in the public interest to have more restructuring options



# What happens?

1

Transferring Insurer and Assuming Insurer enter into agreement to proceed with an IBT, and will then advise the OID of their intentions.

2

An Independent Expert (IE) is appointed by the OID to review and prepare an independent report about the proposed IBT (approx. 90-120 days)

3

Upon completion of the opinion, the IBT Plan prepared by the parties is submitted to the OID.

4

The OID will review the IBT plan along with the IE opinion, and make a decision to approve it or not. (60-90 days)

5

Upon approval by OID, the IBT plan is filed with an Oklahoma state court for review and entry of order approving it.

6.

Both stages of the review (OID and the court) require a finding that the transfer will not result in a material adverse impact to policyholders.

7.

60 day notice is provided to impacted parties (policyholders, brokers, regulators, etc.) to review the IBT and raise questions or concerns before a court hearing.





























8.

Upon entry of a court order approving the IBT, notice is sent to the impacted parties (policyholders, regulators, brokers, etc)













# Legacy market overview

- There are many dedicated legacy reinsurers looking for new opportunities

													
													
HQ Bermuda	HQ Bermuda	HQ Bermuda	HQ UK	HQ Bermuda	HQ USA	HQ Bermuda	HQ Bermuda	HQ Malta	HQ Malta	HQ Bermuda	HQ Bermuda	HQ USA	HQ UK
Assets \$49b	Assets \$23.3b	Assets \$6.7b	Assets \$5.0b	Assets \$3.8b	Assets \$2.6b	Assets >\$2b	Assets \$1.0b	Assets \$1.0b	Assets <\$1.0b	Assets \$0.1b	Assets \$0.1b	Assets \$0.1b	Assets <\$0.1b
Funding Carlyle, T&D Holdings	Funding Listed (Nasdaq)	Funding Apollo	Funding CVC	Funding Listed (AIM)	Funding Fairfax	Funding Arch; Kelso	Funding Cinven; BCI	Funding Oaktree	Funding Keyhaven; Aleph; Crestview	Funding Sequentis	Funding Fleming Corp	Funding Maiden Holdings	Funding Terminum

# Legacy market overview

- In addition, traditional reinsurers remain interested in legacy reserve transfers

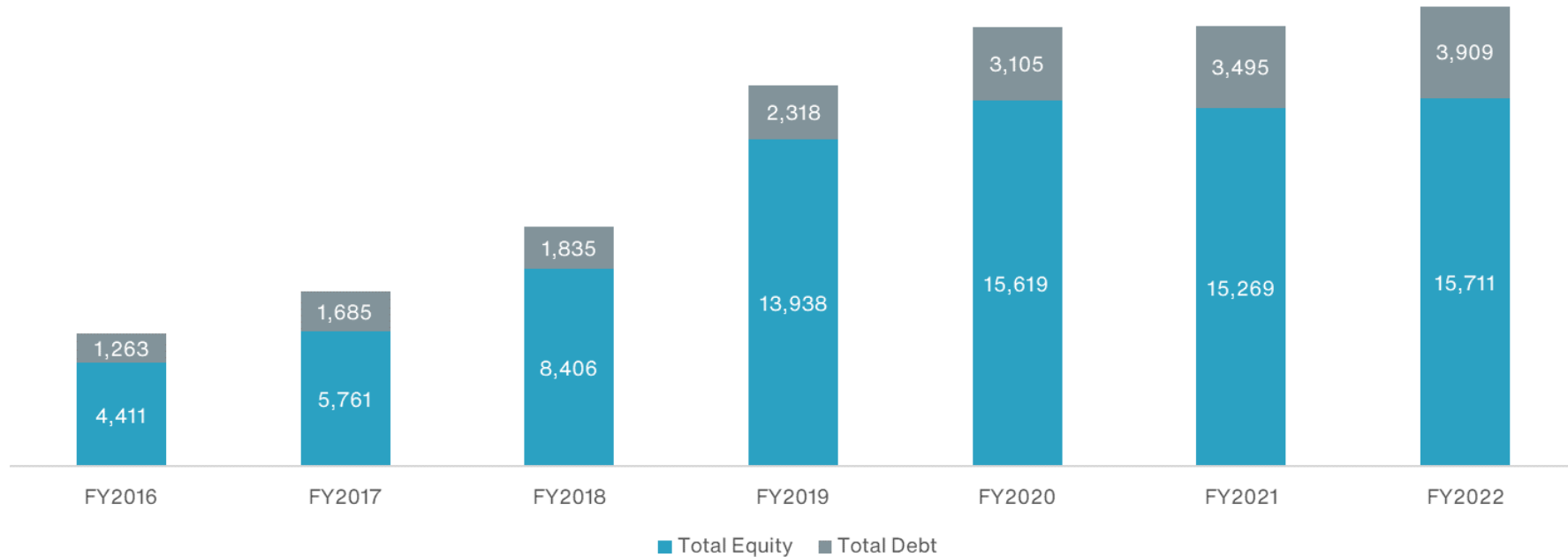
				
				
HQ Germany	HQ Germany	HQ USA	HQ Switzerland	HQ Germany
Assets >\$1t	Assets >\$300b	Assets >\$388b	Assets >\$175b	Assets >\$89b
Funding Listed (Germany)	Funding Listed (Germany)	Funding Listed (NYSE)	Funding Listed (Swiss)	Funding Listed (Germany)



# Capital dedicated to legacy market

- Despite publicly reported unrealized investment losses, committed capital is at an all-time high

*Figures in USD millions*



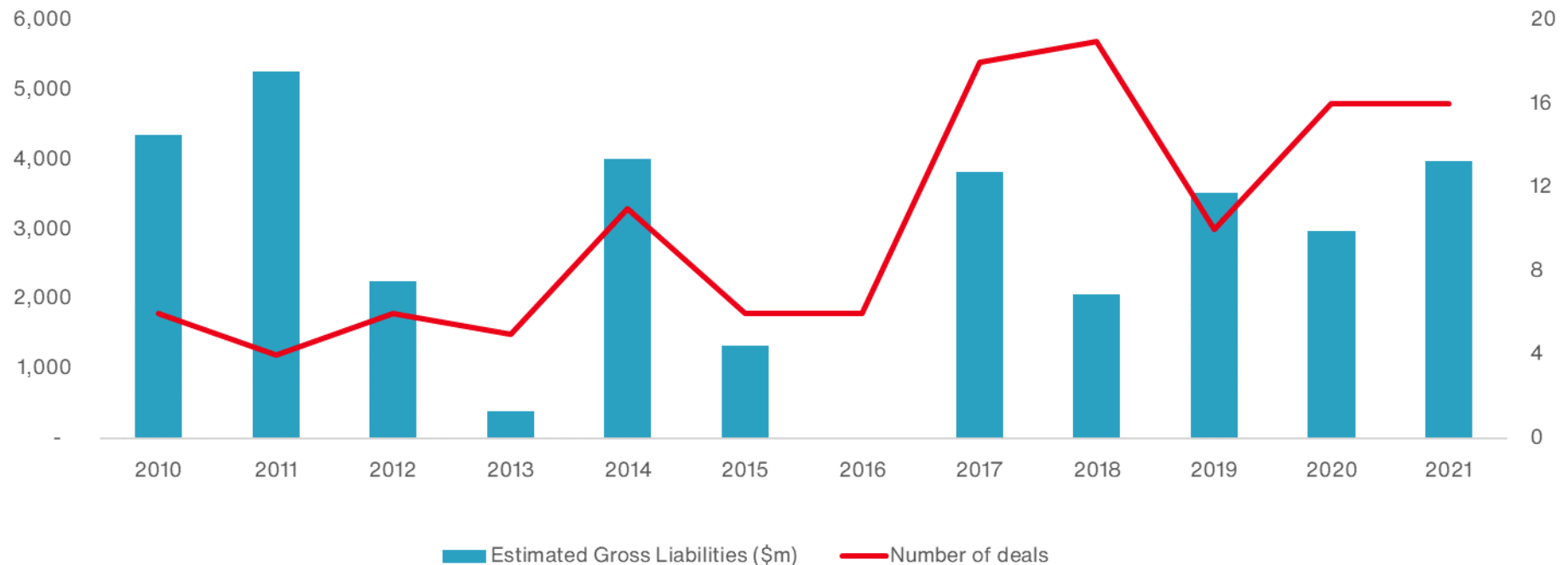
Source: Aon's analysis of publicly available information

Includes: Enstar Group Limited, Catalina Holdings (Bermuda) Ltd., RiverStone Holdings Limited Group, FGH Parent, L.P., Randall & Quilter Investment Holdings Ltd.; Compre Group; Premia Reinsurance Ltd., DARAG Europe Limited

Excludes: Marco at \$500m committed capital; Genesis; Nor does it include traditional writers

# Publicly reported U.S. legacy deals

- Significant increase in demand and trend is expected to continue



Source: Aon's legacy database of transactions



# Finality solutions align interests of all stakeholders

## Regulator

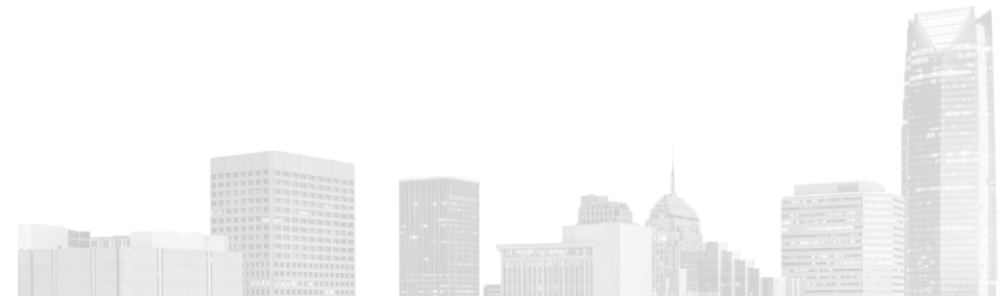
- Increase transparency on run-off reserves
- Attract new capital and jobs to the state
- Support new business development in live and run-off markets
- Capital stewardship is a statutory obligation

## Policyholder

- Goal of regulator is for the policyholder to be in as good or better position as before transfer
- Should receive better service on policies discontinued by original issuer
- Potentially receive better pricing on future policies

## Insurance Company

- Drive operational efficiencies
- Reduce claim volatility
- Optimize the use of capital
- Support new business strategy
- Achieve finality



# What needs to happen to achieve the opportunity?

## Streamlined Process

- The number of states that have adopted laws that permit either an IBT or CD transactions is low
  - IBT: 3 of 50 states
  - CD: 10 of 50 states
- And an IBT or CD in one state will not provide finality unless the decision is recognized by other jurisdictions
- More states need to adopt and align laws that permit IBT and CD transactions

## Licensed Reinsurance Markets

- It is best practice for a reinsurer to be licensed in all states where the transferring insurer was licensed or had ever been licensed with respect to the policies being transferred
- Obtaining a license can be difficult due to “seasoning” issues or because a state may be hesitant to grant a license to a company that is not writing ongoing business

## Experience

- There have been two successfully completed IBT transactions in Oklahoma and a successfully completed CD transaction in Illinois
- Experience is required for all stakeholders to gain comfortability with operational, accounting, and/or regulatory concerns





# National Legacy Insurance Company

## DRAFT Estimated Timetable for Insurance Business Transfer

	Ongoing Doc Drafting and Consultation with Oklahoma Insurance Dept (OID)									
<div>Independent Expert appointed</div> <div><ul style="list-style-type: none"><li>Provision of data</li><li>Additional questions/data</li><li>Report Drafting commences</li></ul></div>		<div><ul style="list-style-type: none"><li>OID has 60 – 90 Day review</li><li>OID then issues authority to proceed*</li></ul></div>		<div>30-day period to file request for Scheduling Order</div> <div>(Must include date and time for a status conference)</div>		<div>60-day comment period commences from the date of the last notice transmission</div> <div><ul style="list-style-type: none"><li>Dealing with queries/responses from notices</li></ul></div>		<div>File motion for scheduling order to enter the IBT into the court’s docket</div>		<div>Final Mailing notice of Court Approval</div> <div><ul style="list-style-type: none"><li>Final mailing</li><li>File note to the Court</li></ul></div>
	AUG 2022	DEC 2022	DEC-MAR 2023	MAR-APR 2023	APR-MAY 2023	MAY-JUN 2023	JUN-JUL 2023	AUG 2023	AUG-SEP 2023	OCT 2023
	<div>Complete Insurance Business Transfer Plan docs</div> <div><ul style="list-style-type: none"><li>Independent Expert final report provided to OID/Parties</li><li>IBT Plan and ancillary documents provided to OID</li><li>Submit to OID for review of all documents</li></ul></div>		<div>30-day period to submit petition to Oklahoma District Court</div> <div><ul style="list-style-type: none"><li>Applicants file Court petition plus all supporting documents</li><li>Plan</li><li>IE Report</li><li>Comms Plan</li><li>Affidavit evidence</li><li>Waiver requests (if any)</li><li>Draft policyholder documents and Notice</li><li>Domestic Regulator “non-objection”</li><li>Insurance Department Application Fee</li></ul></div>		<div>Within 45 days of receipt of Scheduling Order being issued, send out notice of hearing and complete agreed communication plan</div>		<div>Status Conference</div> <div>(To be held no less than 14 days after the conclusion of the comment period)</div>		<div>Court Date and Approval</div>	
						<div>Assumptions</div> <div><ul style="list-style-type: none"><li>Adherence to “indicative timetable”</li><li>No additional review time required by OK OID for IBT Commissioner approval*</li><li>No Court availability issues considered</li><li>No Oklahoma Insurance Department resource issues for review and comment</li></ul></div>				

\* Timetable is an estimation and is subject to change

