When Underwriters Leave Town: A Company Perspective

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Why do Underwriters Leave Town?

- Inadequate reserving practices
- Inability to adequately collect from reinsurers
- Insufficient capital for the Company to grow or maintain operations
- Market perception of Company’s viability
- Reallocation of capital to other business
- Going where grass is “greener”

What Happens As Underwriters Leave Town

- Insolvent schemes
- Solvent schemes
- Regulatory supervision/liquidation/run-off
  - Potential for removal from regulatory control
- Managed Run-off

Thoughts When Underwriting

- When writing business, controls should exist ensuring proper documentation
- Material documentation, correspondence and underwriters understanding should be readily present in underwriting files
- Understanding of reason insured chose the underwriter to cover risk
- Think about how to exit strategy for transaction/business should it sour
- Maintain file as risk matures

Moving to Run-Off

- Orderly transition to Run-off
- Prepare plan for ultimate disposal
- Determine possible exit solution(s)

Initial Transition to Run-off

- Maintain staff for orderly transition to provide
  - material information on each transaction
  - continuing underwriting and claims activities
  - possible exit strategies for each transaction
  - selection of expected best outcome
  - simplified   balance sheet
- Issues include
  - Staff morale may be low when entering run-off
  - Key individuals may improve outcomes of run-off
  - Need to maintain knowledge (through retention or transfer) of business

Managing Run-off

- Review entire portfolio with
  - underwriting perspective
  - claims perspective
  - reserves perspective
    - continuing as an on-going business
    - continuing by running off exiting portfolios
    - transforming to a disposal of liabilities
- Considerations of various unexpected influences in reserving
  - Perceived financial condition may offer opportunities for company in run-off
  - Market views of company may push it to certain decisions
  - Analyze contracts for potential to encourage actions of the counter-party to agree to termination of the (re)insurance contracts

Organizational Considerations

- Run-off is not core to an on-going organization
  - requires different competencies
  - less enthusiasm for run-off than for new business
  - time consuming operation if performed effectively
- Possible set-ups
  - run-off of a legal entity
  - management of all run-off operations within an "underwriting" area
  - sale of business to third party
  - transferal of run-off to a focused group

Potential Exit Strategies

- For New York domiciled US reinsurers – Regulation 141 – Managed reduction of liabilities with NYSID approval
- Policy buyouts and commutations
- Claim settlements
- Novations, assumption reinsurance and LPTs
- Sale of legal entity
- Part VII transfer
- Rhode Island's Restructuring Act
- Vermont's Legacy Insurance Management Act
- Natural expiration