

Agenda

- 1 The Runoff Market – What is Runoff?
- 2 AIRROC's Role
- 3 Trends in the Runoff Market
- 4 Management – Active vs. Runoff Business
- 5 What Does the Future Look Like?



Audience Polling Question

How do you define runoff?

Business Where:

- Premiums are no longer written
- Any discontinued line of business
- 1986 and prior
- Non-core to the group
- All of the above




Runoff Market – What is it?

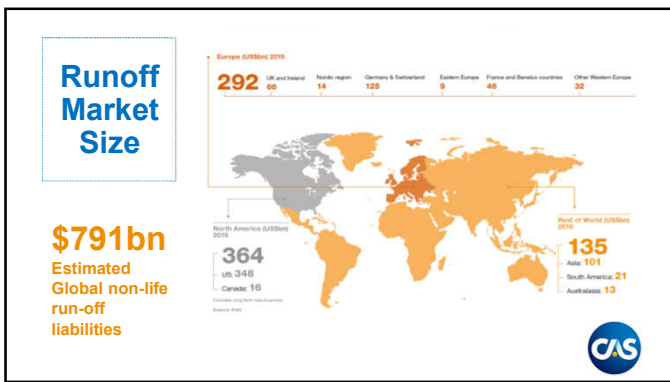


Predominant Lines of Business in the Runoff Market

Types of claims exposures	Mean
Asbestos	41.6%
Workers' Comp	22.8%
Professional lines	12.6%
Accident / health	6.6%
Environmental	4.0%
Product	2.6%
Other latent	1.9%
Construction defect	1.5%
Other	6.3%

From EY/AIRROC(re)insurance runoff survey. In Search of Finality - annual survey





Runoff Market in the U.S.

U.S. runoff market is estimated to be \$364 billion in liabilities for non-life insurance, according to a recent study performed by accounting firm PwC.

- Could be over \$1 trillion if include life insurance and long-term care.

Includes liabilities from:


 Insurers


 Reinsurers



 Captives


 Self-Insurers


 RRGs


 Etc.






AIRROC


Do you know what the acronym AIRROC stands for?


Enter your responses in the chat box!




AIRROC's Mission and Vision

 AIRROC is a non-profit organization of insurance and reinsurance companies that have legacy business in their portfolio. We have been supporting the industry for 15 years.

 AIRROC's Vision is to be the most valued (re)insurance industry educator and network provider for issue resolution and creation of optimal exit strategies.

 AIRROC's Mission is to promote and represent the interests of entities with legacy business by improving industry standards and enhancing knowledge and communications within and outside of the (re)insurance industry.





AIRROC Members


AIG, Allianz, Allstate, Argo Group, Armour Risk, Arrowpoint Capital, AXA Liabilities Managers, Brandywine/Chubb, Carrick Holdings, Catalina, CNA, Compre, Crawford, DARAG, Dominion, Enstar, EWI Re, Federated Re, Fleming Re, Guy Carpenter, Lockton Capital Markets, Munich Re, NY Liquidation Bureau, OK Insurance Dept, Orion/PwC, Premia Re, PRO, QBE, R&Q, Requiem, Resolute, RiverStone, ROM Re, Safety National, Sentry, Sirius, Swiss Re, The Hartford, The Home, TigerRisk, Travelers, Willis Towers Watson, Zurich





AIRROC Committees

- AIRROC Operates with a committee structure to accomplish our goals and serve the industry
- Standing Committees Include:
 - Education and Webinars
 - Actuarial
 - Digital Content
 - CLP (Certified Legacy Professional) Designation
 - International Outreach
 - October Forum
 - Regulatory Task Force
 - Finance
 - Governance
 - NextGen Task Force



Current Trends in the United States Runoff Market

Limited Exit Options

- Sale
- Commutation
- Novation
- Reinsurance
- Loss Portfolio Transfer

Company-Driven Issues


- Larger companies entered into reinsurance arrangements with Berkshire Hathaway that aren't available to the general market
- Large amounts of capital are needed to support run-off portfolios, which is an obstacle to investors looking for returns

Market-Driven Issues

- Low interest rates
- Pricing pressures
- Specific difficulty with asbestos and environmental claims

Recent Legislation Approved

- Insurance Business Transfer Laws
- Division Laws
- Legacy Insurance Management Act
- NAIC Restructuring Working Group



States with Restructuring Legislation

Vermont LIMA transfer legislation

Rhode Island and Oklahoma insurance business transfer ('IBT') legislation

Arizona, Connecticut, Georgia, Illinois, Iowa, Michigan, Pennsylvania have various forms of Division legislation

Specific Benefits of IBTs

Transferor achieves full and final relief of its policy obligations

- No more worries about credit / counterparty risk

Specialized run-off carrier can handle the business more efficiently and provide better policyholder service

Improved organizational alignment and efficiencies for seller, with enhanced ability to redeploy capital more strategically

IBTs can allow for better pricing of runoff deals, given legal certainties achieved

Allows smaller acquiring companies to compete with larger companies; reduces collateral needs.

Non-Life Run-off

Methods of Acquisition for Run-Off Companies

Most jurisdictions have similar methodologies to enable business to be placed into run-off:

	Bermuda	USA	UK	Europe	All Other
Company Acquisition (stock purchase / merger)	✓	✓	✓	✓	✓
Reinsurance Loss Portfolio Transfer / RITC	✓	✓	✓	✓	✓
Direct Claims Transfer	Scheme of Arrangement	Insurance Business Transfer (limited to certain states)	Part VII Transfer	Various, under the 'Change of Control' Directive	Varies by Jurisdiction


Management

**Active Business
vs
Run-off Business**




Reserving

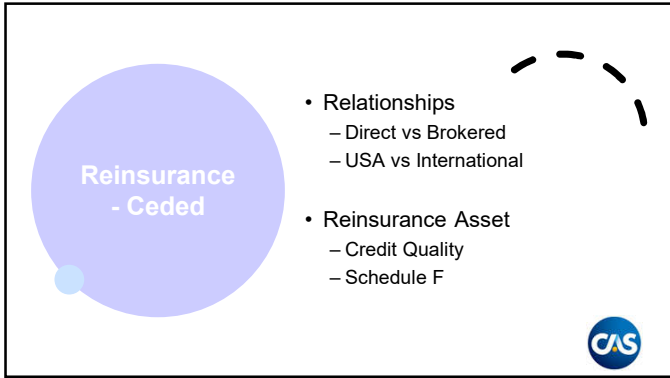
- Traditional Legacy Exposure (eg, Asbestos)
 - No real difference between an Active or a Run-Off Company
- Discontinued Lines of Insurance – Workers' Comp
- For a Run-Off Company, the approach requires an in-depth understanding of the individual claim adjustment strategy
 - Reserving Philosophy
 - Distribution of Claims
 - Workload
 - Claims Handling – In House vs Outsourced
 - Medical Management
 - Settlement Strategy



Investments


Investment Organization / Strategy	Cash Flow Analysis	Asset – Liability Matching
<ul style="list-style-type: none"> • In-house • Outsourced 	<ul style="list-style-type: none"> • Inflows • Outflows 	<ul style="list-style-type: none"> • Duration

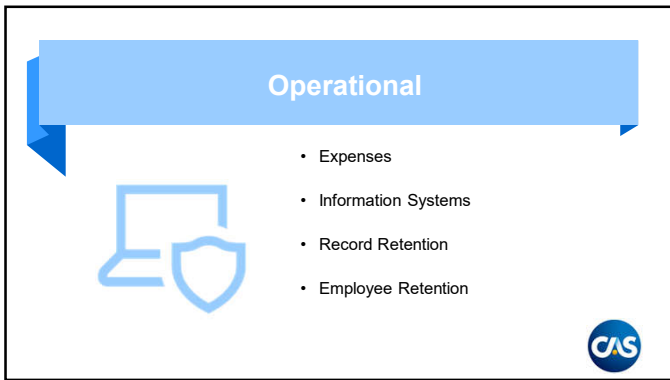




Reinsurance - Ceded


- Relationships
 - Direct vs Brokered
 - USA vs International
- Reinsurance Asset
 - Credit Quality
 - Schedule F

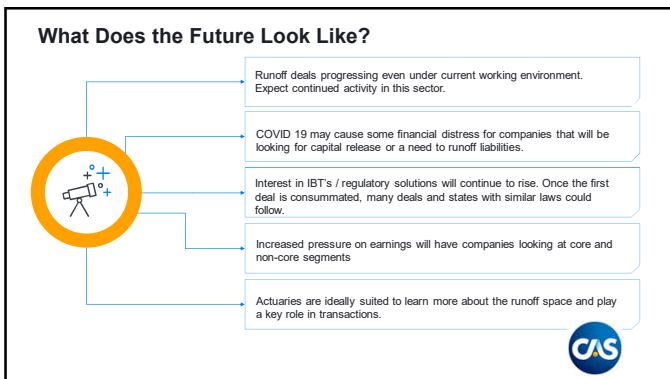




Operational


- Expenses
- Information Systems
- Record Retention
- Employee Retention





What Does the Future Look Like?

- Runoff deals progressing even under current working environment. Expect continued activity in this sector.
- COVID 19 may cause some financial distress for companies that will be looking for capital release or a need to runoff liabilities.
- Interest in IBT's / regulatory solutions will continue to rise. Once the first deal is consummated, many deals and states with similar laws could follow.
- Increased pressure on earnings will have companies looking at core and non-core segments
- Actuaries are ideally suited to learn more about the runoff space and play a key role in transactions.



Thank you!

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