(Re)insurance run-off

2018 PwC Global Insurance Run-off Survey
and
Recent legislative developments in the U.S. for insurance restructuring

Presented by
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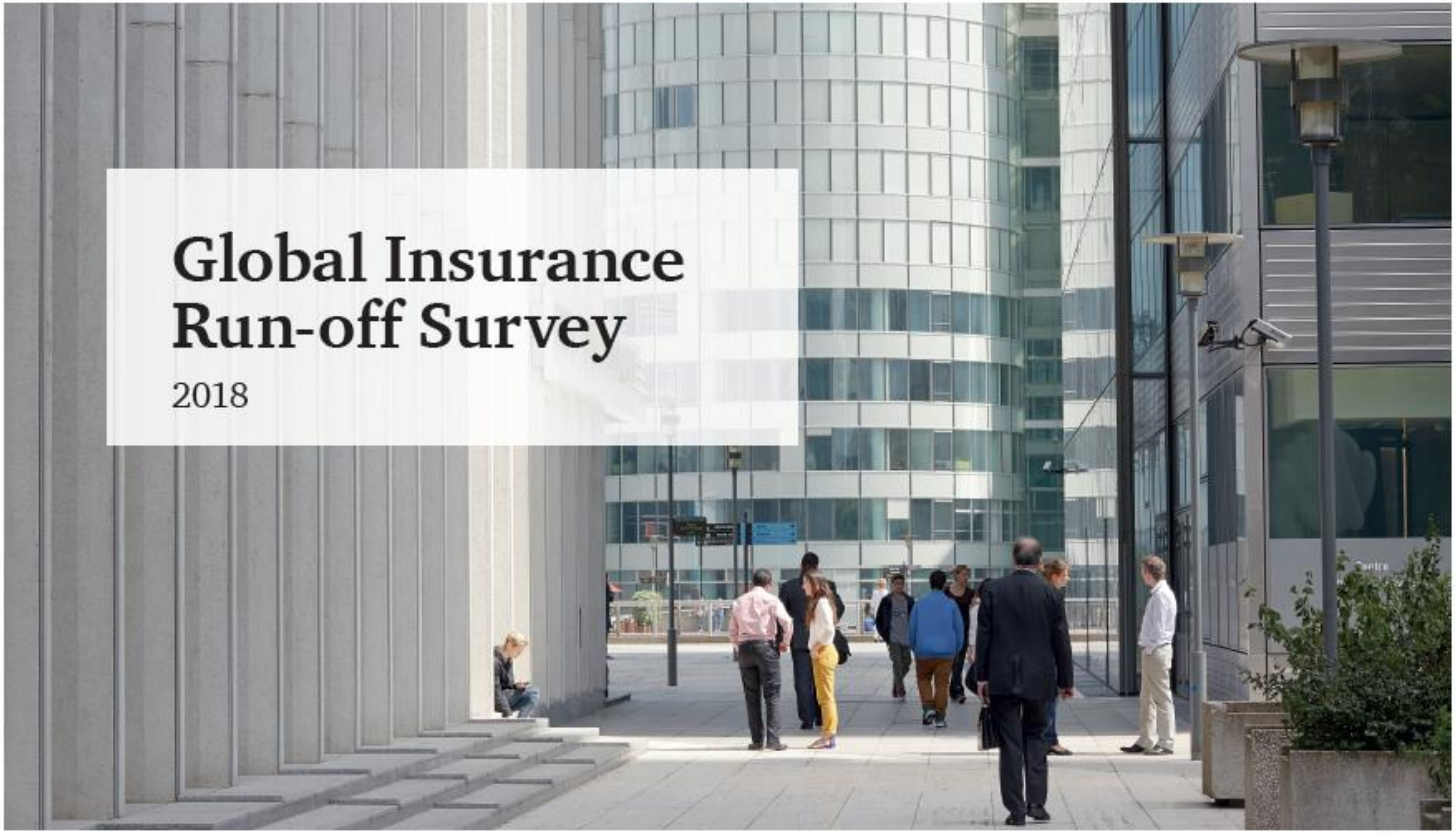
Global Insurance Run-off Survey

2018



In conjunction with:

irla

AIRROC

pwc

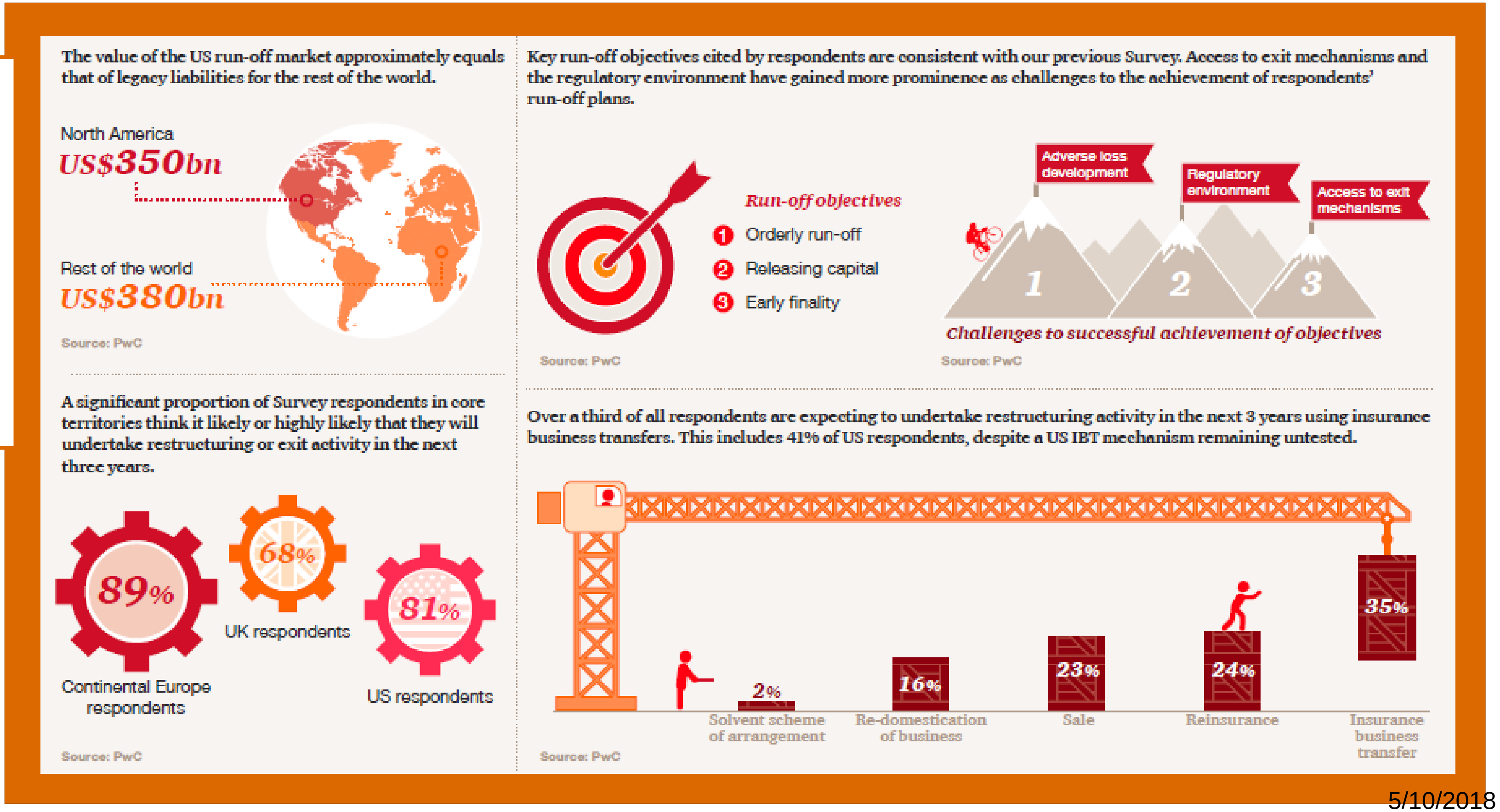
www.pwc.com/globalinsurancerunoffsurvey

The global non-life run-off market

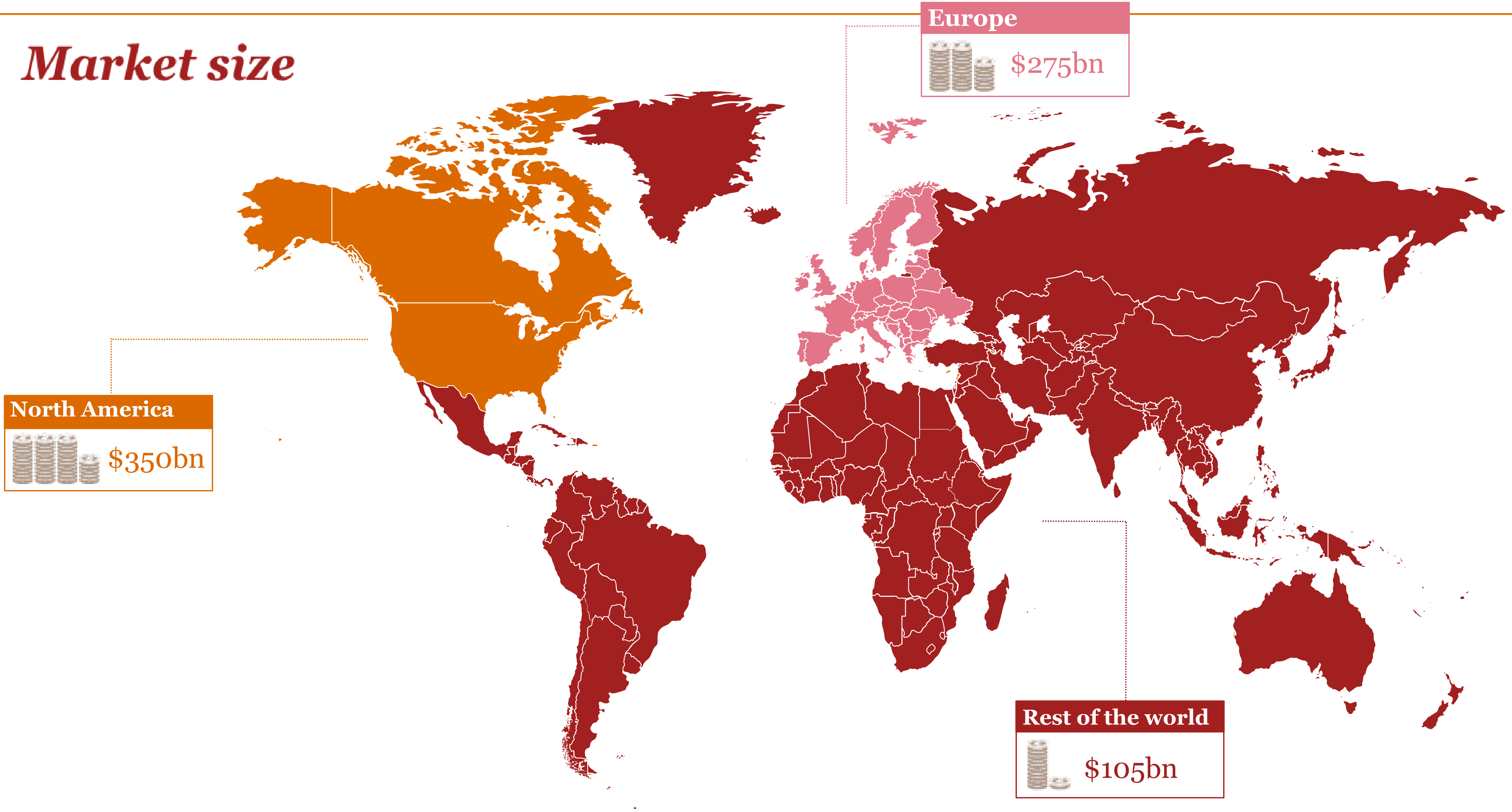
Highlights from our eleventh run-off market survey

PwC's UK Insurance Liability Restructuring team conducted the survey in conjunction with IRLA and AIRROC on a global basis for the first time.

You can access the full survey report here:
www.pwc.com/globalinsurancerunoffsurvey



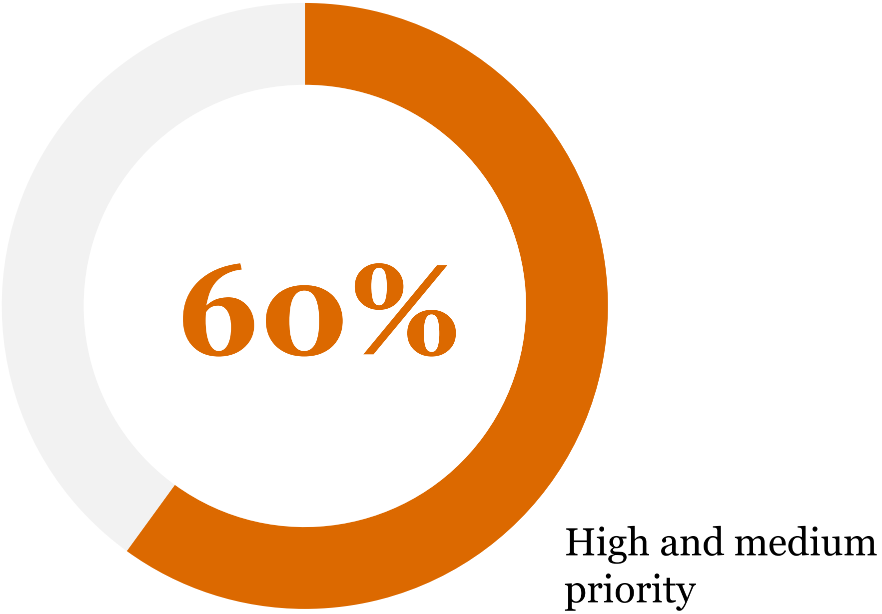
Market size



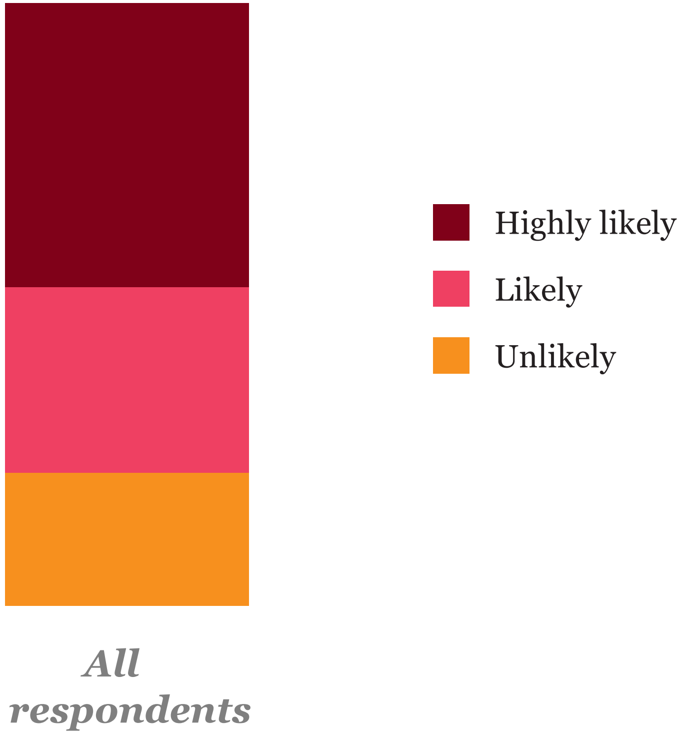
Source: PwC Global Insurance Run-off Survey 2018

Survey respondents believe that the (re)insurance run-off sector will continue to be vibrant

Run-off and legacy management on global board agendas

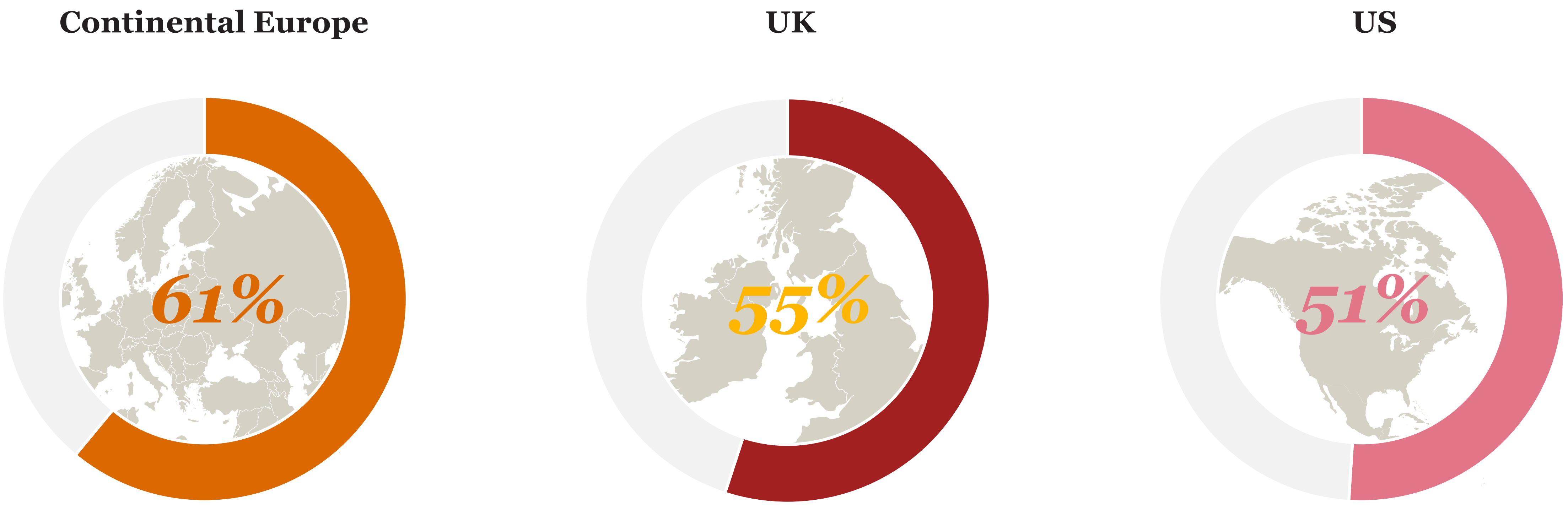


Likelihood of restructuring or exit for discontinued business in the next three years



Source: PwC Global Insurance Run-off Survey 2018

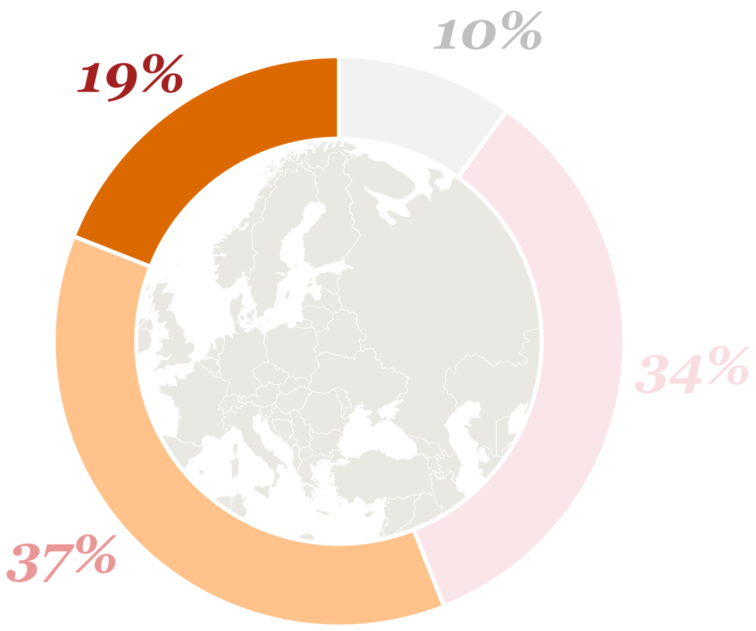
Respondents who believe there will be at least ten territory transactions in the next two years



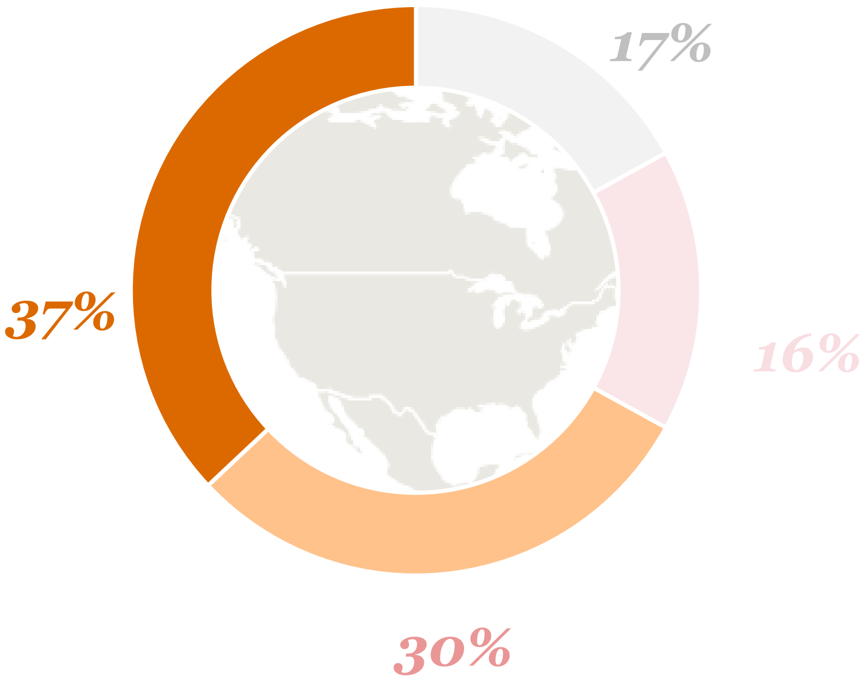
Source: PwC Global Insurance Run-off Survey 2018

Value of run-off disposals in 2018 and 2019

UK and Continental Europe



US



<US$12.5m | US$12.5-65m | US$66-125m | >US$125m

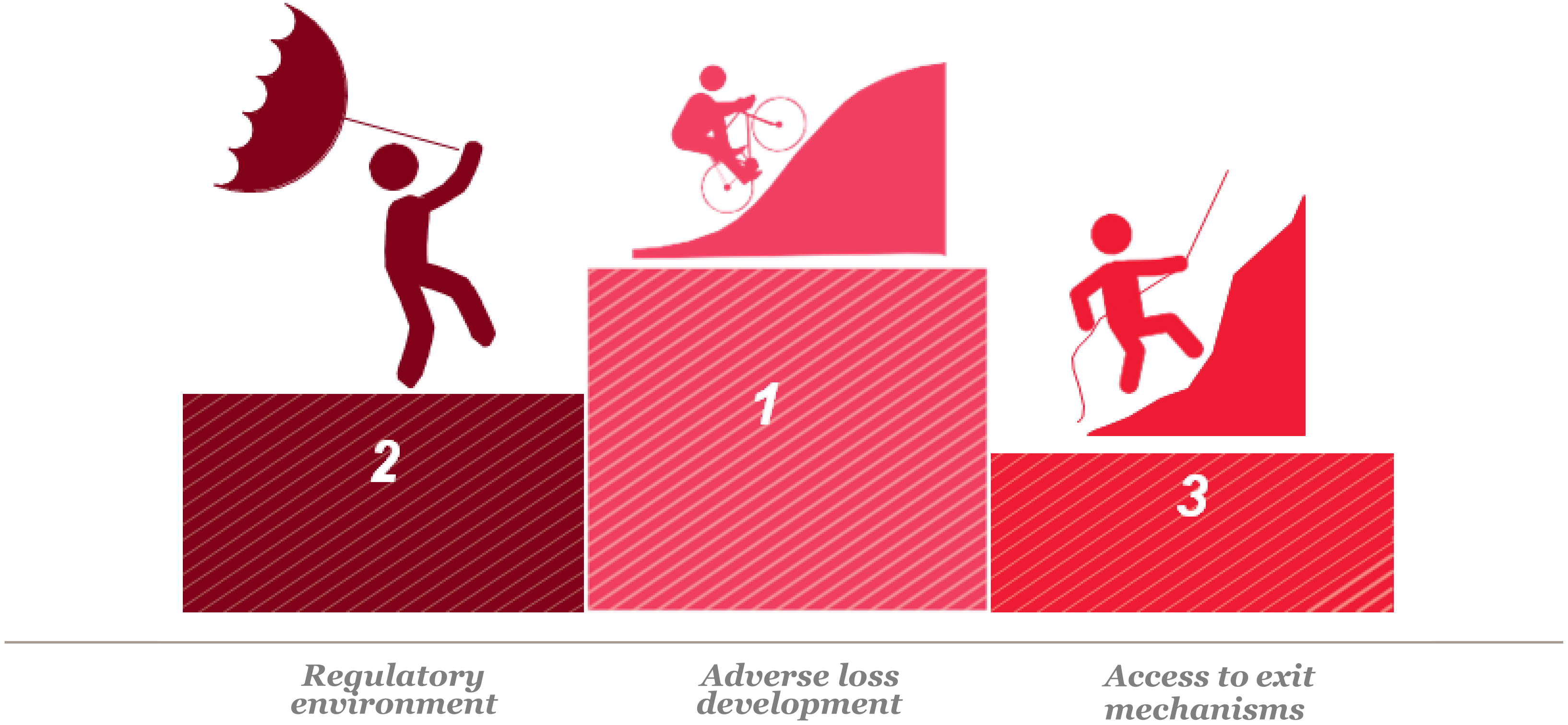
Source: PwC Global Insurance Run-off Survey 2018

Key objectives for run-off business

1. Orderly run-off
2. Releasing capital
3. Early finality

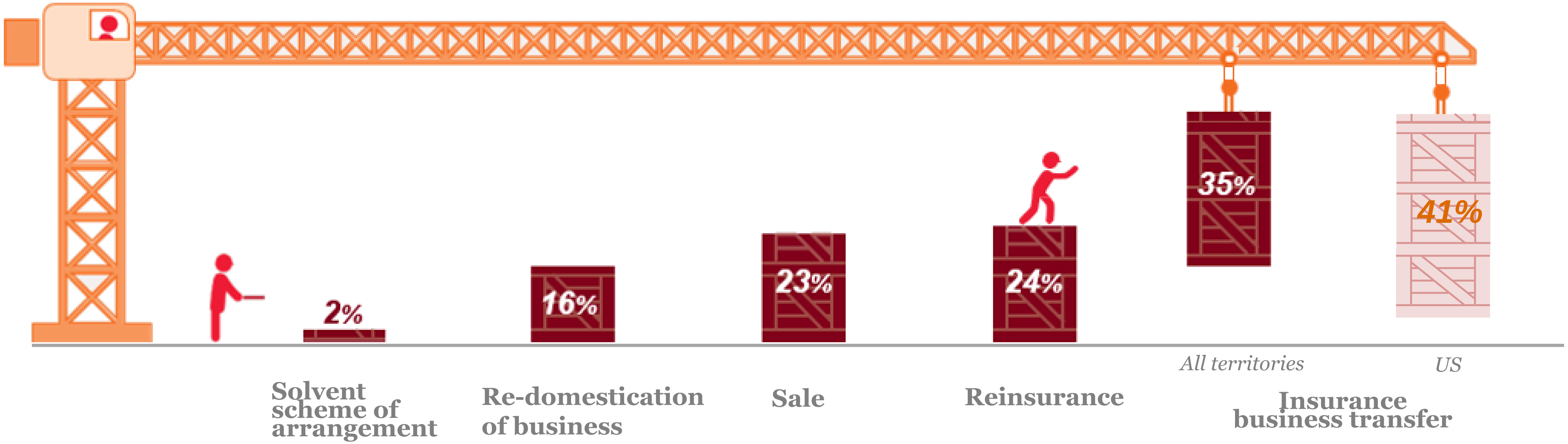
Source: PwC Global Insurance Run-off Survey 2018

Major challenges affecting the achievement of run-off objectives in 2018 and 2019



Source: PwC Global Insurance Run-off Survey 2018

Key restructuring or exit tools for the next three years



Source: PwC Global Insurance Run-off Survey 2018

Rhode Island Insurance Business Transfer

A restructuring tool for the commercial P&C run-off industry

- Rhode Island is the first jurisdiction in the U.S. to pass legislation providing for IBTs for commercial P&C runoff liabilities (August 2015).
- The IBT is a restructuring tool with the goal of economic and legal finality for the transferred polices. Its potential benefits include increased capital and greater operational efficiency.
- The RI IBT approval process is a closely monitored review that requires regulatory and judicial approval for the transfer of some or all of a company's commercial runoff liabilities to a RI insurance company. The transfer results in a court-sanctioned novation of the transferred policies.

The main requirements for the RI IBT approval process include:

1) An independent expert report that evaluates the impact of the transfer on affected policyholders;
2) Notification to all affected policyholders;
3) Review and approval from regulators in the transferring and assuming companys' state of domicile;
4) A hearing and an opportunity to be heard; and
5) Judicial review and approval.

The RI IBT is modeled on the UK Part VII Transfer

The UK Part VII transfer has a successful track record

YEAR	No. 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	12
TOTAL	**251**

- *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.*
- *Several larger companies have used the Part VII transfer.*

Application of the IBT

A tool with flexibility in mind

Combine similar business from one or more subsidiaries, putting all into a single company

- Allows a corporate group to reduce the number of its regulated companies.
- Releases excess capital for potential use elsewhere.
- Potentially saves ongoing management, regulatory and administrative costs.

Transfer business between third parties

- To obtain business.
- To exit business.
- More flexible than a sale as it involves only run-off liabilities apart from the whole company.
- Ability to partner with capital

Separate out different books of business, putting them into separate companies

- Separate old liabilities from new business.
- Potentially more efficient capital deployment.
- Separate out liabilities that can be held to expiry or commuted.
- Separates books of business to be sold from those to be retained.

Why consider an IBT?

Potential benefits for the transferring and assuming company

► An IBT either within a group (internal) or outside to another (re)insurer (external) can restructure the company for the future by segregating runoff liabilities from ongoing operations with a lower capital requirement.

► In many companies, runoff and new business liabilities are carried at higher capital levels than necessary to support the legacy liabilities on a stand alone basis. Capital deployed for run-off could be reduced to free up overall capital.

► While the specific business motivations for each transfer will differ, there are a number of common themes which apply to both the transferring and the assuming companies with the predominant objectives and drivers for an IBT.

TRANSFERRING PARTY		ASSUMING PARTY
Group restructuring	Capital efficiency	Regulatory and operational efficiency
Reduced risk	Reduce regulatory/reporting burden	Increased market presence
Operational efficiency	Entry or exit from market	Creation of center of excellence
Removal of non-core lines	Separate old and new business	Consolidation of legacy business

Recent legislative actions

Responses to industry interest in restructuring legislation

October 1, 2017 – Connecticut House Bill 7025 effective, authorizing domestic insurers to divide.

May 1, 2018 – Oklahoma Senate Bill 1101 passed providing for insurance business transfers that apply to life, health and P&C insurance.

February 15, 2018 – Illinois Bill HB5160 filed creating Domestic Stock Company Division Article (similar to CT). Expected to be signed by Governor late May/early June 2018.

March 15, 2018 – Georgia state senate passes House Bill 754 allowing Georgia-domiciled insurers to divide into one or more parts. Will become law on July 1, 2018 even if Governor doesn't sign.

OK Insurance Business Transfer legislation

A potentially important development

- Legislation applies to life, health and P&C insurance.
- Closely modeled on UK Part VII transfer.
- Allows one company (that does not have to be an OK company) to transfer policies to another company (that does have to be an OK company).
- Broader in scope than the RI IBT – applies to all lines of business and is not restricted to run-off.
- Unlike RI regulations, transferring policies need not have termination dates five years prior to filing for an IBT Plan.
- Approval process requires regulatory and judicial review and approval.
- Requires opinion from independent expert that policyholders are not adversely affected.
- No policyholder consent required and no opt outs.
- Results in economic and legal finality for transferring company for transferred business.

Division legislation (CT legislation)

"De-merger"

- Allows a domestic insurer to divide into two or more insurers and allocate assets and obligations, including insurance policies, to the new companies.
- Essentially a "de-merger." Only requires regulatory approval of the plan of division.
- Can restructure business and operations into separate insurers, either to promote operational efficiencies or for sale to a third party.
- 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.
- Plan of division cannot become effective unless approved by the Commissioner after reasonable notice and a public hearing, if the Commissioner determines notice and hearing are in the public interest.

Conclusion

- The 2018 PwC Survey indicates that runoff is a priority for their organization and that further restructuring activity is likely in the forthcoming years.

- Survey respondents noted that their interest in transactions, capital efficiency and potential finality solutions for runoff management in the US continues to grow.

- Companies holding liabilities for discontinued business are looking for effective exit solutions to facilitate operational and capital efficiencies and gain legal finality.

- State regulators are beginning to recognize the industry's interest in new restructuring tools and have passed new restructuring legislation.

- In the US, companies now have options to restructure. Insurance business transfers are predicted to impact the run-off market in the next two years.

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