

RELIANCE INSURANCE COMPANY
(in Liquidation)

Acceleration of the Estate Lifecycle
Special Transactions

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RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
SPECIAL PURPOSE STATEMENTS OF ASSETS AND LIABILITIES - UNAUDITED
(In Millions)

ASSETS	June 30, 2018	December 31, 2017
Invested assets - net of secured creditors	\$ 1,376	\$ 1,506
Investments in affiliates	27	31
Total invested assets	<u>1,403</u>	<u>1,537</u>
Reinsurance receivable and recoverables	10	15
Early access advances to guaranty associations	1,635	2,277
Other assets	<u>17</u>	<u>20</u>
Total Assets	<u>3,065</u>	<u>3,849</u>
LIABILITIES		
Class (a) liabilities	28	46
Class (b) liabilities (estimated settlement value)		
Unsettled claims		
Guaranty association paid losses	\$ 1,964	\$ 2,864
Reserves for guaranty association losses	479	669
All other estimated reserves	<u>159</u>	<u>157</u>
Total unsettled claims	<u>2,602</u>	<u>3,690</u>
Notices of determination		
Guaranty association	1,513	484
All other	<u>1,190</u>	<u>1,181</u>
Total notices of determination	<u>2,703</u>	<u>1,665</u>
Gross class (b) liabilities	<u>5,305</u>	<u>5,355</u>
Asset distribution payments	<u>(2,089)</u>	<u>(1,322)</u>
Net class (b) liabilities	3,216	4,033
Class (e) liabilities	878	888
Class (g) liabilities	<u>33</u>	<u>33</u>
Total liabilities	<u>4,155</u>	<u>5,000</u>
Net deficit	<u>(\$1,090)</u>	<u>(\$1,151)</u>

Post Bar Date Settlement Status

- Filed for Bar Date in July 2014. Mailed to 41K claimants. Received 5 objections. After numerous legal filings, RIC negotiated and settled the objections. At year end 2015, CC approved a Bar Date of 3/31/16.
- Reviewed open POCs post bar date and developed the complex processes and systems required for settlement calculations and presentations to claimants and GAs.
- Settlement offers for policy level class (b) POCs accepted by 61 GAs (out of 62) and NODs issued for \$3.7B. Tennessee has objected to their NOD.
- Must address ancillary receiver issues in a few states where RIC had significant deposits.

Post Bar Date Settlement Status

- Settlement offers for administrative expense class (a) POCs accepted by 58 GAs (out of 59, TN has not responded) and NODs issued for \$380M.
- Resolved 162k (over 99%) POCs. Issued NODs for \$1.2B. Settled 350 accounts (out of 410) since the Bar Date and only 57 accounts (207 POCs) have not received an offer.
- In late 2018, CC approved application to increase distribution rate to 92%. Over \$600M disbursed in 12/18.
- Last illiquid asset was Canadian Branch in liquidation. Novation transaction completed in 12/18 releasing excess surplus of \$50+M to PA Liquidator.

Accelerated Closing Activities

- In 2006, Claim Review Audit Project was initiated for all lines of business and a pension model was applied to all WC claims with expected periodic payments.
- Over 2 years, evaluated over 70k claims and reserves increased from \$3B to \$4.1B. Significant manpower resources required as well as system and process enhancements.
- Established a uniform method of reserving claims as many GAs/Insureds/TPAs all had their own process, life tables and other assumptions in setting reserves.

Accelerated Closing Activities

- Provided ability to change escalation rates if expectations or assumptions changed and allowed for discounting using the same claim level payout patterns rather than a disconnected paid loss development factor process.
- Enhanced analysis of balance sheet liabilities to ensure appropriate distribution decisions and enabled an independent actuarial review process.
- Enhanced commutation negotiations as individual claim exposures are directly related to specific treaties and facultative certificates rather than through an allocation of bulk IBNR estimates.

Accelerated Closing Activities

- Reinsurance asset at 10/01 estimated at \$5.5B, net of offset and bad debt. Claim Review Project improved reinsurer confidence level in uniform process of reserve setting.
- Commutation Program implemented in 2008. \$4B cash recovered since 10/3/01, consisting of \$2B from commutations and \$2B from collections. Collection ratio (considering nominal value of commuted reserves) is over 97%. Reinsurance asset at 12/31/18 is \$1M.
- Estimated allowance for bad debt at 10/3/01 was \$500M. Actual write-offs and commutation haircuts - \$142M ITD.
- \$320M of reinsurance offsets granted ITD.

Accelerated Closing Activities

- Estimated Claim Valuation Process approved by Commonwealth Court in 2018. Assisted in timely NOD issuance based on updated information
- Many insureds would not provide information required by RIC to properly evaluate their claims.
- Court Order required insured, within 90 days, to provide all information that the insured wants Liquidator to consider in evaluating their POC and provide a POC value with supporting documentation.
- Order confirmed that if no response, a \$0 NOD is issued and no objection is permitted. RIC is not required to wait for further claim development.

Accelerated Closing Activities

- Large Deductible Collections – \$143M in collections for the GAs. Remaining collectible estimated at \$8.3M over the next 15-20 years.
- In 2003, RIC held \$1.6B in collateral for over 937 accounts. In 2018, implemented aggressive release program for accounts handling their own claims. At 12/31/18, holding \$89M in collateral for 191 accounts.
- RIC and GAs agreed to process where RIC will issue GA Supplementary Deductible class (b) NODs. RIC will bill the insureds based on the NOD amounts, eliminating the need for future deductible collections by RIC or GAs as well as retention of collateral.

Tax Restructuring Transaction

- After IRS refunds in 2015, RFS (parent company) notified RIC that, with no other assets, its planned to dissolve and distribute funds to its shareholders. This would have an extreme negative impact on RIC NOLs and tax liability.
- Extensive research/development with tax experts of potential options/transactions to separate RIC from the RFS consolidated return, to maintain and utilize its own NOLs, minimize taxes as well as control its tax positions and negotiations with the IRS. An optimal solution was identified.
- Transaction qualifies under bankruptcy exception in the IRS Code and will not result in any tax liability. It enabled transfer of over \$2.5B (originally \$4B) of NOLs from RFS to RIC as well as control of its tax filings and tax positions going forward.

Tax Restructuring Transaction

- Restructuring: RFS agreed to sell RIC shares back to RIC for \$1 and after recapitalization, RIC shares were issued to four GAs in cancellation of \$1,000 of indebtedness each.
- Negotiated terms with RFS, RGH (equity interest) and GAs.
- After pre-filing meetings with the IRS, the formal Private Letter Ruling request was filed in March 2016 and IRS approval of the transaction (based on representations by RIC and RFS) was received in August 2016.
- Restructuring required CC approval prior to closing and approval was received in late 2016.
- Many related agreements and interim transaction steps were approved by the parties and completed. Closing date was 12/31/16.

**Legion Insurance Company, in Liquidation
Villanova Insurance Company, in Liquidation**

Closing the Estates

Presented by: Robert Haberle

IAIR Presentation - February 15, 2019

Business Model

- Wrote captive and program business
- Extensive use of reinsurance – 250+ reinsurers
- Wrote business through MGAs & MGUs
- Claims administration handled by TPAs (200+)
- Claims count – 80% long-tail WC
- Limited IT systems
- Limited backroom support – claims, etc.

Pre-Liquidation Structure



- Management focus-
 - Marketing driven
 - Fronting company – Fees
 - Captive management
 - Placement of 90% risk with A+ reinsurers



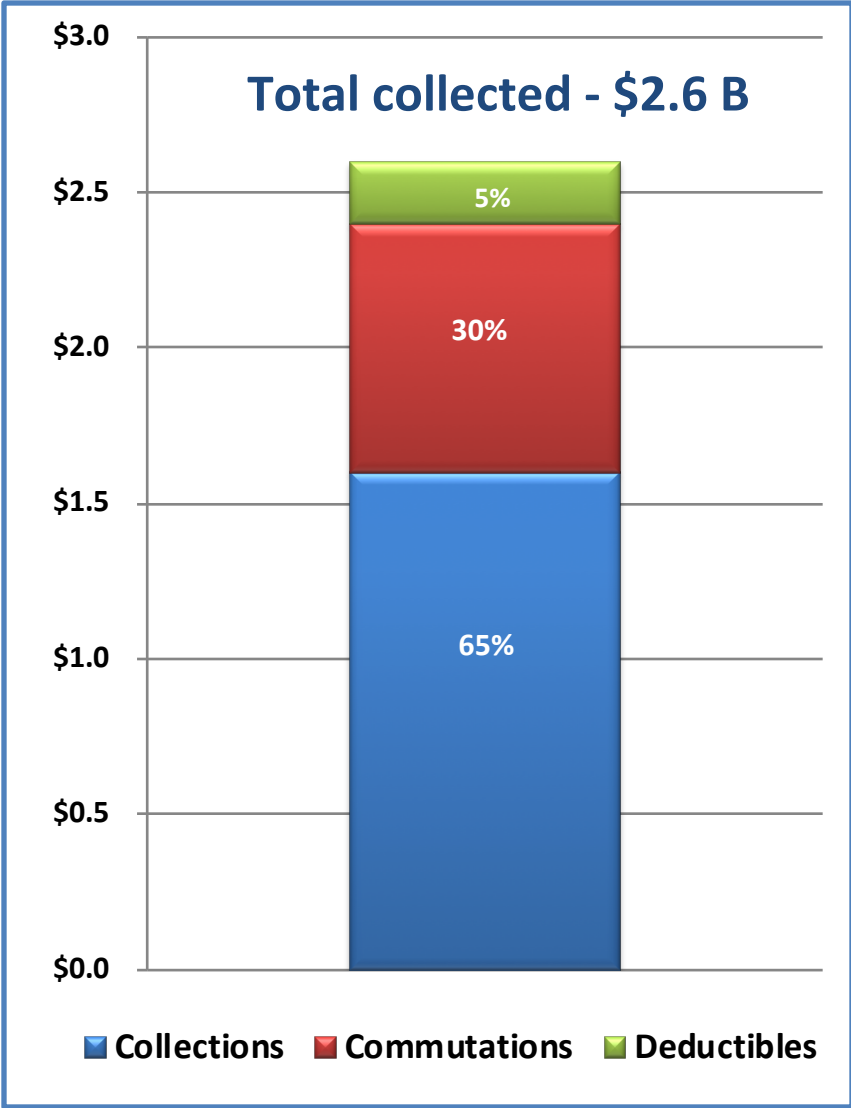
- Heavy use of TPAs, MGUs & MGAs
 - Claims data reporting issues
 - Limited IT systems
 - Limited claims department



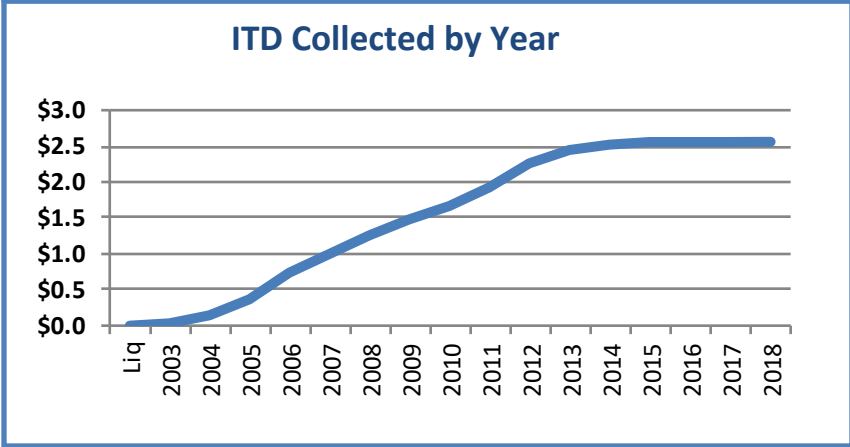
Building to Liquidate

- Hired claims staff
- Built IT systems
 - Claims – including validating all claims data
 - UDS/FIQ interface
 - Reinsurance – billing and commutations
 - POC/NOD
 - Distribution
 - Document retention and search capability
- Conducted claims review/certification
- Established reinsurance commutations process

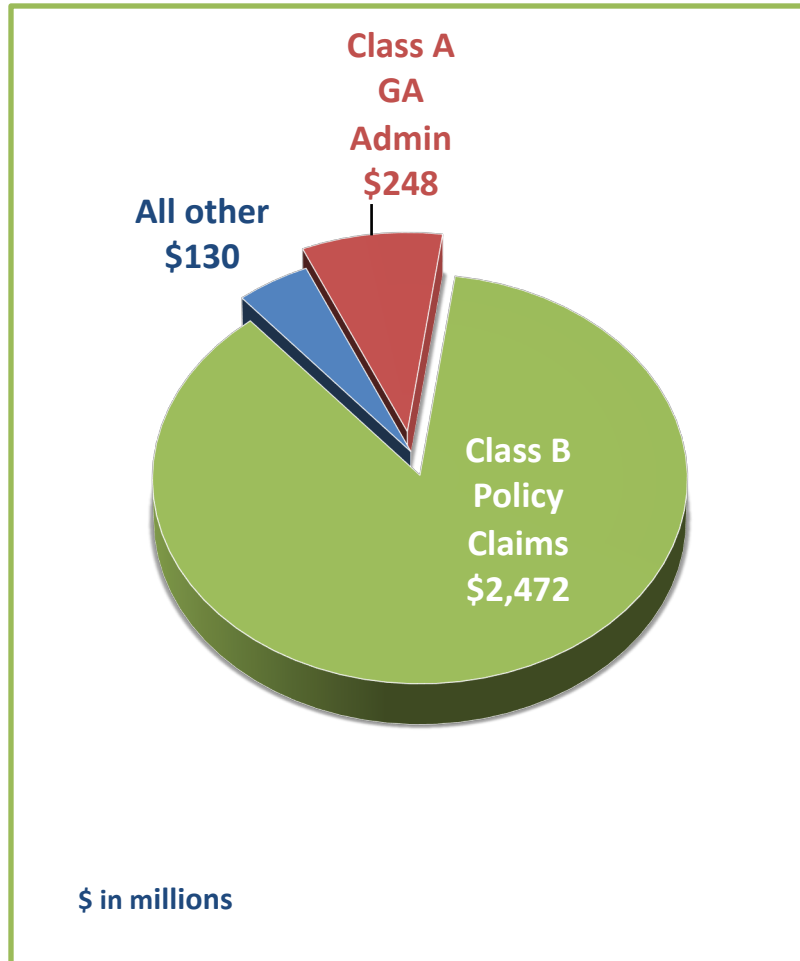
Reinsurance/Deductible Collections



- Collected \$2.6 B of original \$3.1B undiscounted reserves via billings, commutations, and collateral
- Arbitrated reinsurance disputes early on to resolve any issues - facilitating future commutation negotiations
- 99% of commutations were within the pre-established range
- Less than \$1 million of deductible balances deemed uncollectable



Notice of Determinations



- \$2.85 B total agreed claim allowed amount
- GA claims represent 98% of the class (b) claims
- 46,154 NODs issued – 22.2% with value
- Last NOD issued in 03/2018
- Final NOD objection resolved in 10/2018

Wrapping Up

- Notice of Final Accounting and Plan for Final Distribution approved on 11/20/18
 - Legion B level payment of at least 94%
 - Villanova B level payment of at least 64%
- File Application to Approve Final Accounting and Final Distribution
- Final distribution paid to creditors
- Shutdown operations