



Oklahoma IBT : Market Update and the Enstar Case Study

IAIR Issues Forum

NAIC Summer Meeting

Portland, OR

August 11, 2022



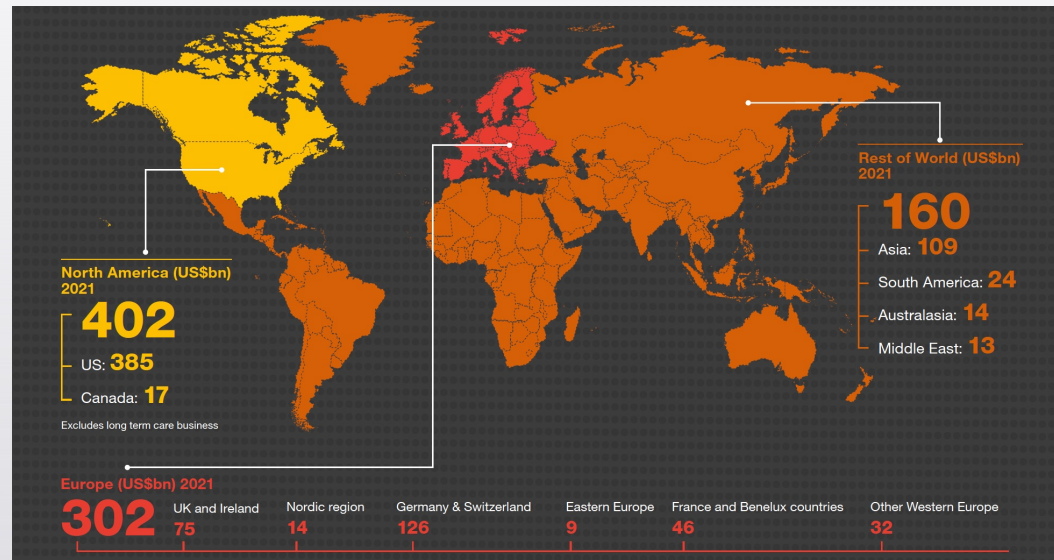
Presenters

- Antuanya "Bo" DeBose,
Assistant General Counsel,
Legal Division, Oklahoma
Department of Insurance
- James Mills, Vice President –
Legal Counsel, Enstar US
- Carolyn Fahey, Executive
Director, AIRROC



Geographical Breakdown of Global Non-Life Runoff Reserves

Total global non-life
run-off reserves
\$864bn

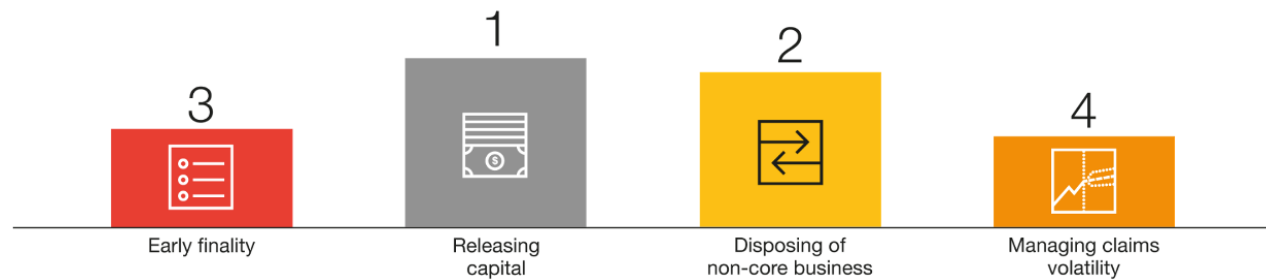


Source: PwC Global Insurance Runoff Survey 2021. <https://www.pwc.com/gx/en/industries/financial-services/publications/global-insurance-run-off-survey.html>

Runoff Drivers

Run-off drivers

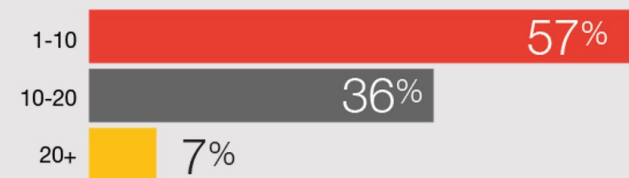
What do you think will be the main reasons for entering into restructuring activity?



Source: PwC Global Insurance
Runoff Survey 2021.
<https://www.pwc.com/gx/en/industries/financial-services/publications/global-insurance-run-off-survey.html>

Insurance Business Transfer (IBT)

How many IBTs and/or divisions do you think will occur over the next 3 years?

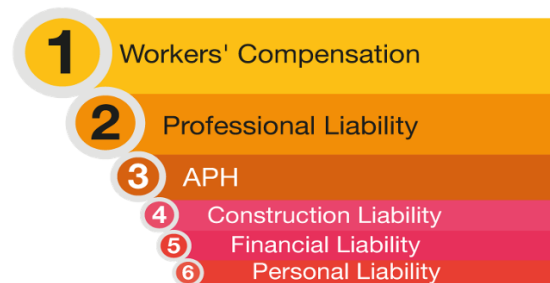


Key Trends Runoff Transaction Market

Increase in available capital in the market	Highly active market	Slight decrease in Estimated Gross Liabilities transacted	12+ consolidators transacting
Competitive pricing environment	Increase in diversity of liabilities transacted	Covid-19 not expected to significantly impact run-off consolidators	North America accounting for over 50% of transactions

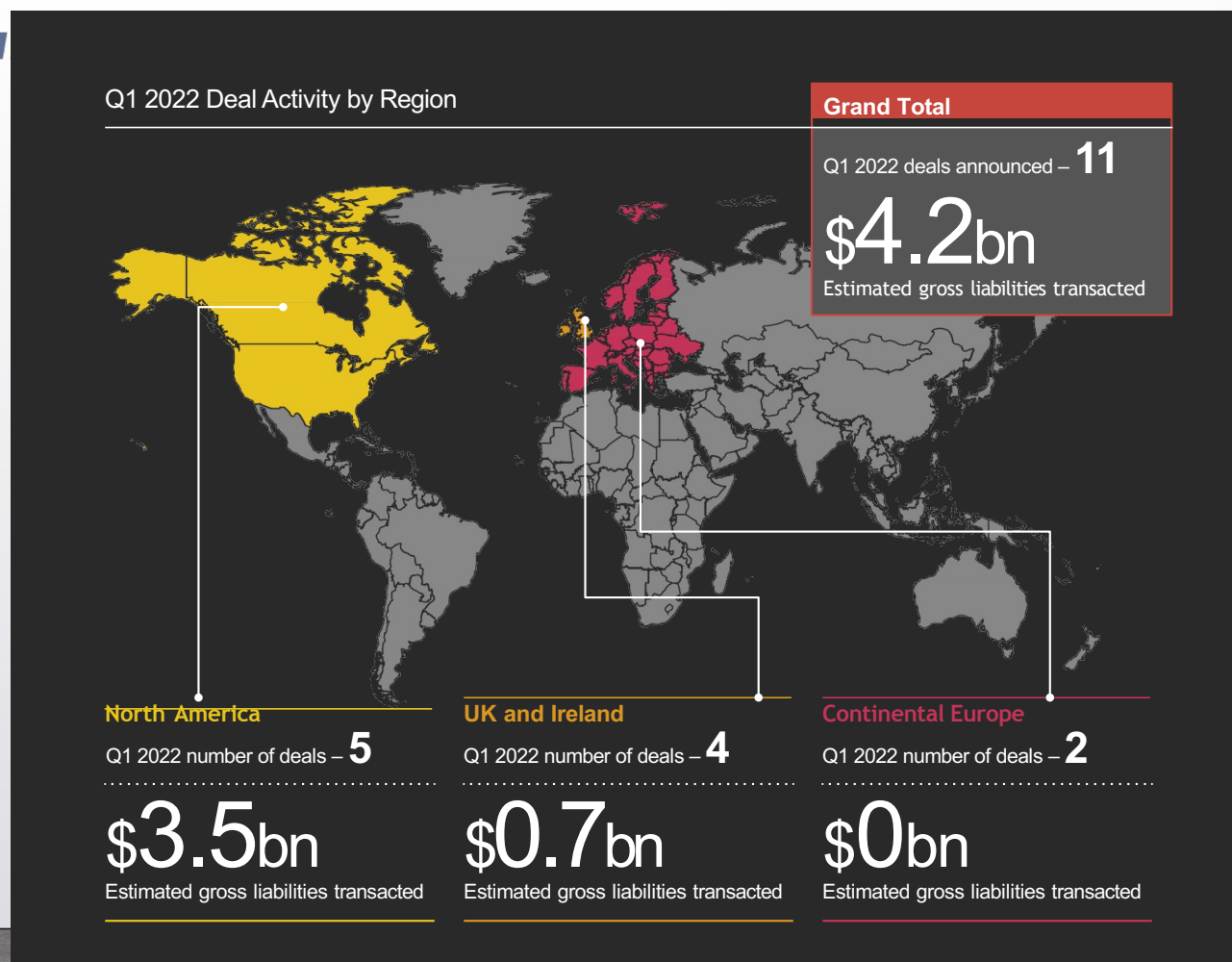
Transacting lines

Which lines of business do you predict as most likely to transact over the next 3 years?



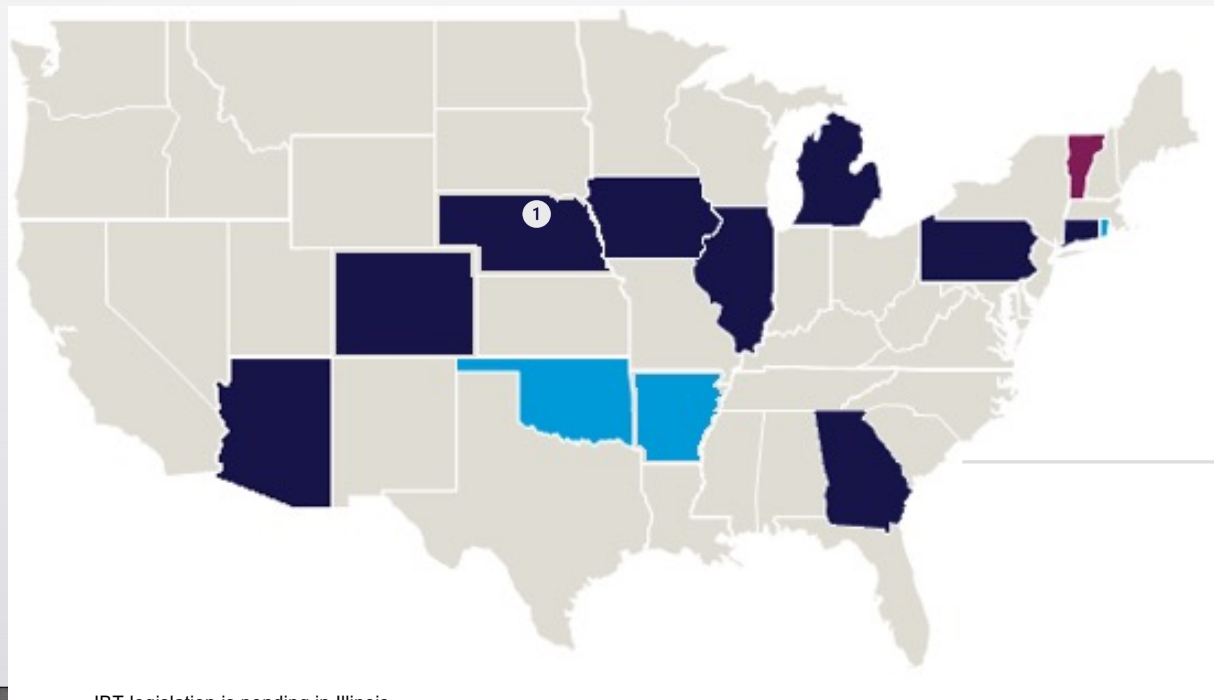
Source: PwC Global Insurance Runoff Survey 2021.
<https://www.pwc.com/gx/en/industries/financial-services/publications/global-insurance-run-off-survey.html>

Deal Activity by Region – Q2 2022



Restructuring Legislation

State Legislation to Facilitate Restructuring Options



IBT legislation is pending in Illinois

Insurance Business Transfers

Arkansas

Oklahoma

Rhode Island

Division Statutes

Arizona

Colorado

Connecticut

Georgia

Illinois

Iowa

Michigan

Nebraska

Pennsylvania

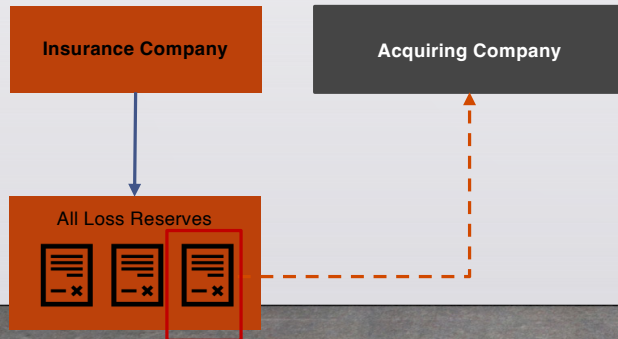
Other Legislation

Vermont

New US Restructuring Mechanisms

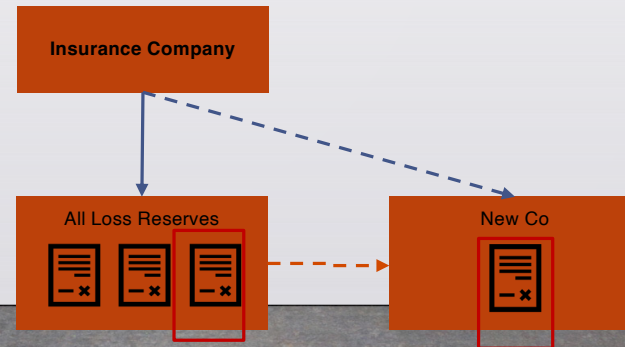
Insurance Business Transfer

- Chosen policies can be novated to a third party through regulatory process



Corporate Division

- Create new statutory entity and select specific policies to be attached to the formation





The IBT is Modeled on the UK Part VII Transfer

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, life and runoff.

Approximately 30% of these transfers relate to life business

Part VII Transfers have involved both life and non-life business.

Many US companies have used the Part VII transfer in the UK.

Year	# 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	17
2018	16
2019	12
2020	19
2021	3
TOTAL	306



IBT in OK, RI, AR

Legislation overview

- IBTs allow for the transfer of a block of business by way of a statutory novation requiring the support of an independent expert report as well as court approval
- The IBT is modeled on the UK Part VII Transfer legislation
- In 2015 Rhode Island adopted IBT legislation under its 2002 statute that applies to P&C commercial runoff business
- In 2018 Oklahoma passed IBT legislation that applies to all lines of insurance.
- In 2021 Arkansas joined the states where an IBT can be executed.

Benefits

- Enables a company to sell or segregate an embedded block of business
- Achieves full finality for selling insurers where current reinsurance solutions leave gross exposure on the balance sheet and counterparty risk at a net level
- The buyers are able to implement a full consolidated balance sheet achieving capital and operational efficiency and economies of scale



Division in AZ, CT, GA, IA, IL, MI, NE, PA

Legislation overview

- Allows a domestic insurer to divide into two or more insurers and allocate assets and obligations, including insurance policies, to the new companies.
- Only requires approval by the domiciliary regulator.
- 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.

Benefits

- If the new insurance company is sold, would achieve finality for the seller.
- Less execution risk compared to IBTs as only requires one regulatory approval. Independent expert is optional. No court approval is required.
- Generates a separate legal entity that would generate demand from new entrants to the buying market as a platform



OKLAHOMA & INSURANCE BUSINESS TRANSFERS

Antuanya “Bo” DeBose

Assistant General Counsel



APPLICABLE STATUTE

- Oklahoma's IBT Act can be found at *Title 36, Section(s) 1681-1688*
- The Oklahoma IBT Act was enacted November 1, 2018.

Since Enactment of the IBT Act

- Oklahoma has successfully completed two (2) IBTs.
 - *Sentry IC to National Legacy IC*
 - *Providence Washington IC to Yosemite IC*
- Two (2) IBTs are currently pending.

Sentry Insurance Company to National Legacy Insurance Company

- *Sentry* transferred a number of its ECRA reinsurance contracts to *National Legacy*.
- After the District Court approved the transfer, *National Legacy* replaced *Sentry* as the reinsurer under each of the transferring contracts for which *Sentry* was previously the reinsurer.
- All other terms of the contracts were unchanged. Staff administering the *Sentry* policies remained the same.
- Reason for transfer: Structural.
- Timeline:
 - **10/2/2020:** Sentry files Application for approval of IBT plan with OID
 - **11/23/2020:** OID issues Order allowing parties to file Plan with District Court
 - **8/26/2021:** Final Approval by District Court.

Providence Washington Insurance Company to Yosemite Insurance Company

- Both of these insurers were owned by the same group and are in run off. (No longer issuing policies).
- This IBT transferred the subject business, together with the reinsurance from *Providence Washington* to *Yosemite*.
- Reason for transfer: Structural.
- Timeline:
 - **11/13/2019:** PWIC files Application for approval of IBT plan with OID
 - **11/26/2019:** OID issues Order allowing parties to file Plan with District Court
 - **10/15/2020:** Final Approval by District Court.

IBT Procedure

- Parties start with OID.
- Initial Considerations
 - OID has initial meeting with potential applicants.
 - Review a summary diagram, including pre- and post- transfer structure of each party;
 - Review of portfolio that is transferring;
 - Review of high level capital plan and list of liabilities;
 - Review of proposed timetable for transfer

IBT Procedure

- Appointment of Independent Expert
 - Both parties (assuming and transferring insurer) must jointly nominate at least two individuals to act as IE for the IBT.
 - Our Commissioner will review the nominees and either select one or reject all. If he rejects the nominees, he will select the IE.
 - The IE will review the proposed IBT plan and determine whether the transfer will cause a material adverse effect on policyholder. IE will generate a report.

IBT Procedure

- OID Review: Pursuant to *36 O.S. Section 1686(A)*, the Applicant must file IBT plan with OID, including the IE report.
 - OID will authorize the submission of the Plan to the District Court, unless it is finds that the IBT will cause a material adverse effect on the interests of policyholders, reinsurers, or claimants that are part of the subject business.

IBT Procedure

- District Court
 - After OID approval, the assuming insurer, transferring insurer, or reinsurer may file a petition with the District Court seeking an order of approval and implementation of the IBT Plan. *36 O.S. Section 1686(B)(1)*.
 - The District Court then issues a Scheduling Order and sets the matter for status conference and hearing
 - After the court issues the scheduling order, the petitioner shall mail and publish notice of the matter. *36 O.S. Section 1686(B)(6)*.
 - District Court will approve IBT Plan as long as it will not materially adversely affect the interests of policyholders or claimants of policies which are part of the subject business, the court shall enter judgement in favor of the petitioner.

NOTICE

- Pursuant to 36 O.S. Section 1685, the required notice shall be sent:
 - To the chief insurance regulator in each jurisdiction in which the transferring insurer: 1) holds or has ever held a COA and 2) in which policies that are part of the subject business were issued or policyholders currently reside
 - To the National Conference of Insurance Guaranty Funds, the National Organization of Life and Health Insurance Guaranty Associations and all state insurance guaranty associations for the states in which the transferring insurer
 - To reinsurers of the transferring insurer pursuant to the notice provisions of the reinsurance agreements applicable to the policies that are part of the subject business, or where an agreement has no provision for notice, by internationally recognized delivery service;
 - To all policyholders holding policies that are part of the subject business, at their last-known address as indicated by the records of the transferring insurer or to the address to which premium notices or other policy documents are sent.
 - Notice shall also be sent to the transferring insurer's agents or brokers of record on the subject business;
 - By publication in a newspaper of general circulation in the state in which the transferring insurer has its principal place of business and in such other publications that the Commissioner requires.



QUESTIONS AND DISCUSSION

(Please let me know!)





Case Study: Enstar IBT

Apply to the Oklahoma Insurance Commissioner

Obtain an Independent Expert opinion

Receive regulatory approvals (OK & RI)

File with District Court and notify stakeholders

Court hearing to approve IBT



Case Study: Enstar IBT

Apply to the Oklahoma Insurance Commissioner

Both PWIC and Yosemite were managed by Enstar (US) under shared services agreements

**Transferring Insurer –
Providence
Washington Insurance
Co (“PWIC”)**

Rhode Island domicile

Commenced business in
1799

In run-off since 2004

Wholly owned by Enstar
from 2010 to 2021

**Assuming Insurer –
Yosemite Insurance
Co (“Yosemite”)**

Oklahoma domicile

Commenced business in
1964

Holds 49 licenses in US

Wholly owned by Enstar
since 2018





Case Study: Enstar IBT

Obtain an Independent Expert opinion

Purpose: to assist the regulator and court in connection with their review of the IBT

The Independent Expert's report includes:

- Analysis of the reserves for the subject business
- Analysis of the financial condition of each company
- Review of the plans for administering the subject business
- Any information the regulator requests be considered
- The ultimate objective of the report is for the Independent Expert to provide an opinion on whether the proposed transfer has a material, adverse impact on policyholders





Case Study: Enstar IBT

Receive regulatory approvals (OK & RI)

36 O.S. § 1686(A)(1)(m):

Application Procedure.

An Insurance Business Transfer Plan must be filed by the applicant with the Insurance Commissioner for his or her review and approval. The Plan must contain the information set forth below or an explanation as to why the information is not included. The Plan may be supplemented by other information deemed necessary by the Commissioner:

- evidence of approval or nonobjection of the transfer from the chief insurance regulator of the state of the transferring insurer's domicile





Case Study: Enstar IBT

File with District Court and notify stakeholders

- Scheduling hearing – December 17, 2019
- Notice of hearing mailed by January 15, 2020
 - Every state regulator and guaranty fund
 - Over 60,000 policyholders, 269 reinsurers and 122 agents and brokers
- Publication notice – Wall Street Journal & Providence Journal – January 15, 2020
- Deadline for filing comments, objections, evidence and requests to appear – March 17, 2020
- Court hearing – May 13, 2020





Case Study: Enstar IBT

Court hearing to approve IBT

- No objections were made or requests to appear
- Three comment letters were received from AZ Department of Insurance, National Organization of Life and Health Insurance Guaranty Associations (NOHLGA), National Conference of Insurance Guaranty Funds (NCIGF)
- Testimony by: OK Insurance Department, PWIC & Yosemite, Independent Expert
- Judgment and Order of Approval and Implementation of the Insurance Business Transfer Plan – October 15, 2020; Final notices mailed and publication notice – December 2020; Additional State approvals from VA and WI in 2021.





Case Study: Enstar IBT

Business reasons for undertaking IBT process - generally

- Efficient use of capital
 - Ability to divest non-core business and redeploy capital
 - Saves costs and protects financial solvency of seller entity
 - Internal reorganization to reduce management and other costs
- Focused management of non-core lines
 - Specialized live or run-off carrier can handle the business more efficiently
 - Better policyholder service
- For PWIC – preparation for divestment (which occurred in 2021)
 - Minimize direct liabilities
 - Minimize reinsurance accounting and credit for reinsurance requirements



Case Study: Enstar IBT

Lessons Learned

- **Communications Plan**
 - Not legally required, but key document to identify key stakeholders for notice and forms of notice
- **Due Process** (i.e. making sure stakeholders are aware of the transaction) is critical for enforcement of the final award
 - Plan early – PWIC plan took multiple months to complete
 - Get regulator buy-in
 - Get court sign off – you don't want to get to the final hearing and find that the stakeholder notice was deficient
- **Form of Notice**
 - No standard form
 - Include in the Communications Plan
 - Get regulator buy-in
 - Get court sign off
 - Avoid using the word “beneficiary”
- **Operations**
 - Make sure your call center is prepared once notices are mailed
 - Make sure the phone number works
 - Make sure there is a script for the call center

Case No. CJ-2019-6689
In the District Court of Oklahoma County, State of Oklahoma

Case No. CJ-2019-6689

January 9, 2020

T1*P1*S1*****ALL FOR AADC 296
Heavenly Fudge Shoppe Inc
Po Box 1460
Cherokee, NC 28719

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On November 13, 2019, PWIC, in conjunction with Yosemite (individually an “Insurer” and together the “Insurers”), initiated this process by filing an IBT Plan with the Insurance Commissioner of the State of Oklahoma (“Commissioner”)(individually a “Party” and together with the Insurers the “Parties”). After evaluating the IBT Plan, the Commissioner, with benefit of the analysis of an Independent Expert, determined the IBT Plan’s approval and implementation will not have a material adverse impact on the interests of Policyholders or claimants of insurance policies to be transferred (“Subject Business”).

On November 26, 2019, PWIC filed a Petition with the Court applying for an Order of Approval and Implementation of the IBT Plan. If the Court enters such an order, Policyholders of the Subject Business will not have the option to opt out of or reject the transfer and novation.

Date: May 13, 2020,
Time: 9:00 AM CST.



The IBT Act allows entities to file comments, objections, evidence and requests to appear before the Court at the Approval Hearing if the entity is a Policyholder, or considers himself, herself or itself to be adversely affected by the IBT Plan. However, such filings or appearances shall not confer standing on any entity. All comments, objections, evidence or requests to appear must be filed with the Court no later than March 17, 2020. Such entities and their filings must conform with the processes established by the Court, the Oklahoma Statutes and other applicable rules and laws, including, but are not limited to, serving all Parties with copies of all documents filed with the Court pursuant to OKLA. STAT. TIT. 12, § 2005. All entities shall bear their own costs and attorney fees.

If the Court grants the relief requested in the Petition, it will establish a date or dates ("Effective Date") upon which Yosemite will assume all of the respective obligations of the Subject Business, including the underlying insurance policies and reinsurance agreements. Upon the Effective Date, Yosemite will also be responsible for the administration and payment of all claims and benefits of its assumed obligations. For insurance policies and/or reinsurance agreements in the Subject Business which are regulated by Massachusetts or New York, the Petition requests a separate Effective Date for the transfer and novation to occur after Yosemite secures a Massachusetts and/or New York insurance license, respectively.

Upon the Effective Date, Yosemite will be directly liable to Policyholders to the same extent as PWIC immediately prior to the Effective Date. Consequently, the Policyholders' respective obligations with PWIC will be extinguished. Except for substituting PWIC with Yosemite, the respective obligations stated in the Policyholders' policies will not change as a result of the IBT Plan.

An electronic copy of the IBT Plan is available at <https://enstargroup.box.com/v/PwicYosemiteIBT>. Upon the request by a Policyholder which is unable to readily access electronic copies of the IBT Plan, PWIC will provide a hard copy via the United States Postal Service, First Class postage prepaid.

Additional information concerning the IBT Plan may be obtained by contacting:

<u>Oklahoma Insurance Commissioner:</u>	<u>Transferring Insurer:</u>	<u>Assuming Insurer:</u>
Oklahoma Department of Insurance	Providence Washington Insurance Company	Yosemite Insurance Company
Five Corporate Plaza, Suite 100	Suite 330	Suite 330
3625 NW 56 th Street	475 Kilvert Street	475 Kilvert Street
Oklahoma City, OK 73112	Warwick, RI 02886	Warwick, RI 02886
Telephone: (405) 521-2828	Telephone: 401-453-7000	Telephone: 401-453-7000
Toll Free - OK: (800) 522-0071	Toll Free: 800-597-2755	
www.ok.gov		

IN WITNESS WHEREOF, PROVIDENCE WASHINGTON INSURANCE COMPANY has caused this Notice to be executed by its President & CEO, as of the 8th day of January 2020.

PROVIDENCE WASHINGTON INSURANCE COMPANY


By: Paul Brockman
Title: PRESIDENT & CEO



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Thank You!

- Antuanya "Bo" DeBose, Assistant General Counsel, Legal Division, Oklahoma Department of Insurance, Bo.DeBose@oid.ok.gov
- James Mills, Vice President – Legal Counsel, Enstar US, James.Mills@enstargroup.com
- Carolyn Fahey, Executive Director, AIRROC, carolyn@airroc.org

