Exiting the Market and Receivership

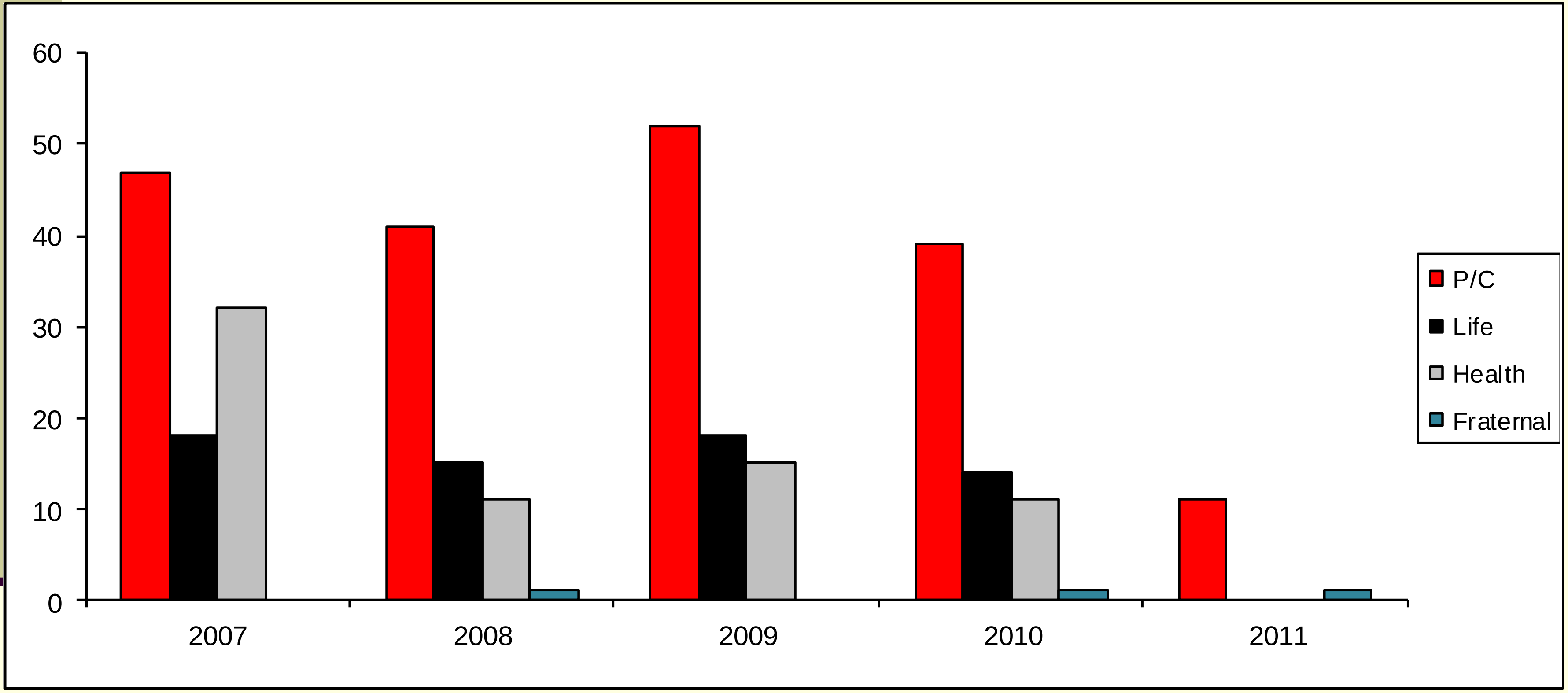
David Vacca
Assistant Director
Insurance Analysis & Information Services

Presentation Overview

- Statistics
- Regulatory Scheme
- Intervention & Receivership
- Solvent Run-offs
- Guaranty Fund System
- Receivership Tools

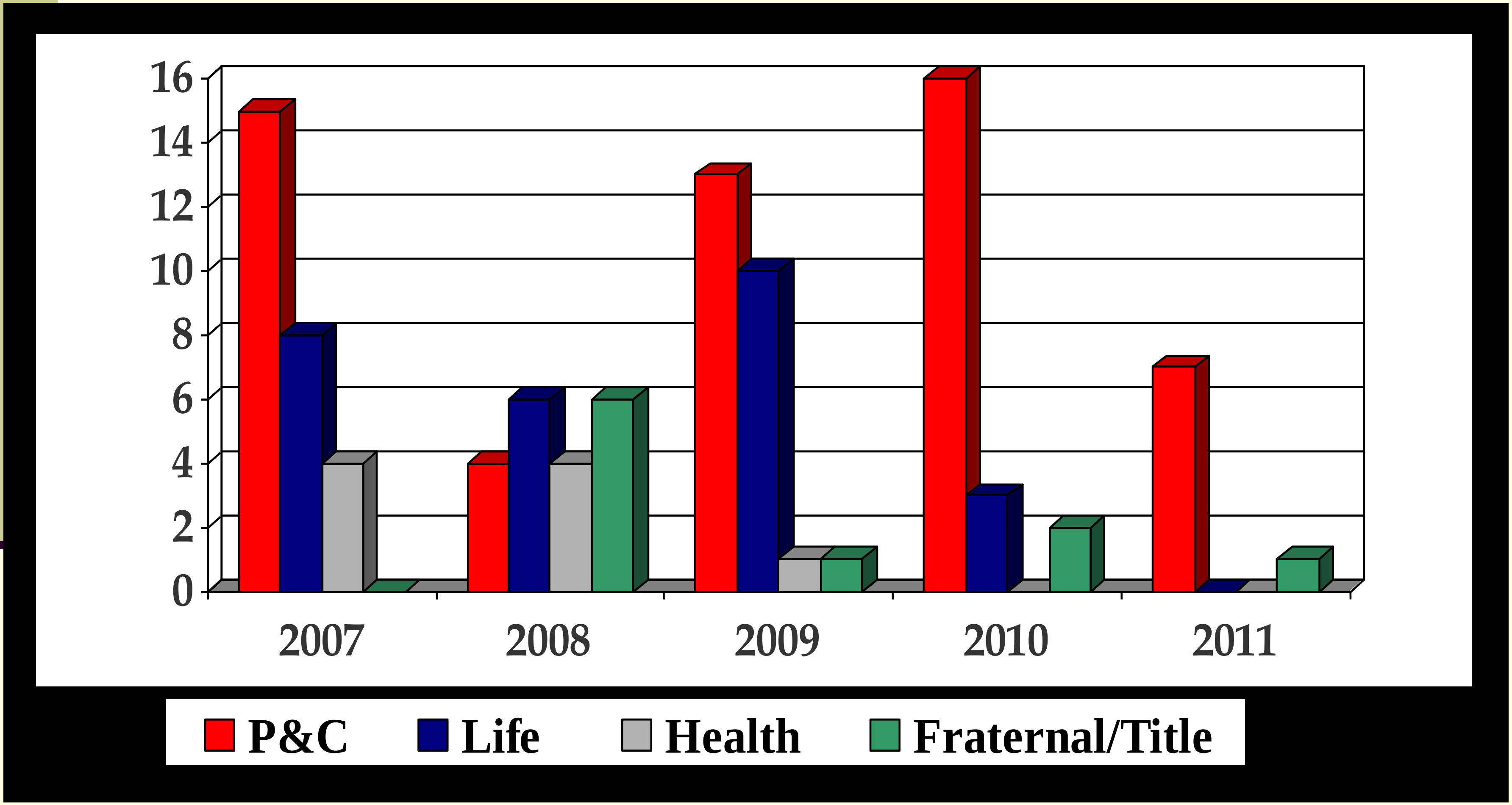
Trend with Voluntarily Out-of-Business

As of June 13, 2011



Trend with New Receiverships

As of June 13, 2011



Receivership & Run-off

Receiverships In-Progress

~335 Liquidations with $43 billion claims liability

~65 Rehabilitations with $9 billion claims liability

~21 Supervisions/Conservations with $3 billion claims liability

(All are filing to NAIC's Global Receivership Information Database)

Solvent Run-offs In-progress

Over 100 insurers with $35 billion in claims liability

Source: NAIC FDR/GRID

Regulatory Scheme

Troubled Company → Intervention → Receivership → Guaranty Fund

Regulatory Scheme

- Domestic insurers excluded from federal bankruptcy code 11 U.S.C. § 109 (b)(2)
- State law governs
- Jurisdiction is in state courts
- Insurance Commissioner commences proceeding
- Insurance Commissioner appointed receiver
- States utilize NAIC Insurer Receivership Model Act – IRMA (2005)

Intervention & Receivership

- Administrative (Prevention or Pre-Delinquency)
  - Hearing/Conferences
  - Corrective plans/orders
  - Restrictions on activities
  - Notice of impairment
  - Cease and desist orders
  - Supervision/Solvent run-off

Intervention & Receivership

- Judicial (Delinquency proceedings or receivership)
  - Seizure
  - Conservation
  - Rehabilitation
  - Liquidation

Intervention & Receivership

- Commissioner needs to objectively show domestic insurer:
  - Is Insolvent;
  - Is in unsound financial condition;
  - Has business policies, methods, or practices are unsound or improper; or
  - Through further transaction of business is hazardous to the public or its policyholders

Intervention & Receivership

- Seizure
  - Court may issue ex parte seizure order
  - Full hearing within 7 to 10 days
  - Usually, confidential to prevent a “run on the bank”

Intervention & Receivership

- Conservation
- Rehabilitation
  - Receiver must determine whether insurer can be rehabilitated
  - Receiver prepares a plan
  - Supervising court must review and approve the plan
  - Receiver implements the plan

Intervention & Receivership

- Liquidation
  - Court order
  - Establish dates
  - Assets marshaled and liquidated
  - Claims administered
  - Distribution to creditors according to priority statute
  - Closure of estate

Solvent Run-offs

- Run-offs can be a useful tool for insurer's management and regulators
- Run-off can be voluntary or involuntary
- Run-offs are becoming more common:
  - Insured's requirements for A-rated coverage
  - Increasingly difficult to disguise a developing troubled company
  - Protections offered by receivership may not be needed

Solvent Run-offs

- Run-off continues claims payments without the interruption
- An insurer in run-off can emerge as an ongoing insurer
- Run-off does not involve the procedural costs related to an insurer receivership
- Run-off may free up capital for better uses
- However, any run-offs can go into receivership

Guaranty Fund System

- What is the purpose of a state guaranty fund?
  - As a final protection aspect for certain covered lines, in the event that assets of a liquidated insurer are insufficient to satisfy the claims of policyholders, beneficiaries and third-party claimants, guaranty funds have been established by state law to provide coverage up to certain legally mandated limits

Guaranty Fund System

- Guaranty associations are triggered by liquidation of insolvent insurer
- Coverage from guaranty associations for state where policyholder resides
- Separate guaranty associations for property and casualty and life/health business
- National responses to multi-sate insolvencies are closely coordinated through the NCIGF and NOLHGA
- Goal is to replace insurance coverage with insurance coverage (not cash with cash)

Guaranty Fund System

- Elements of the NAIC P&C and Life and Health Insurance Guaranty Association Model Act has been adopted by the 50 states and D.C. of Columbia
- State guaranty associations have maximum benefits limits that are established by state law and can vary from state to state
- The laws of each state spell out what types of policies are protected by the associations
- Most licensed P&C, life and health insurance companies are required to be members of the state guaranty association

Guaranty Fund System

- Guaranty funds are amassed through assessments of insurers and the assets of the liquidated insurer
- Generally a post insolvency assessment structure with no substantial prefunding
- Assessments are based on member insurer's premiums written in covered lines of business in a state subject to an annual cap
- State insurance regulators have been successful with effectively administrating liquidations and utilizing guaranty funds to cover the majority of policyholder claims

Guaranty Fund System

- Capacity must be considered in context of:
  - Available insurer assets (often 90% or more of liabilities)
  - Timing of cashflow requirements to meet policy obligations
  - Assessment funding available to guaranty funds over the period when consumer benefits must be delivered (payment period)
- Theoretical maximum assessments of Life/Health system is $8.8 billion in one year
- Theoretical maximum assessments of P/C system is $7.1 billion in one year

Receivership Tools

- Global Receivership Information Database
- ClaimNet
- Receivers Handbook for Insurance Company Insolvencies

Global Receivership Information Database (GRID)

Grid is a voluntary database provided by the state insurance departments to report information on insurer receiverships for consumers, claimants and guaranty funds.

Global Receivership Information Database

Global Receivership Information Database (GRID)

GRID – Information Provided:

Global Receivership Information Database

- Company Demographics
- Receivership Court Order Details (including pdf documents)
- State Impact
- Lines of Business
- Claim Deadlines
- Business Activity (i.e., company writing or renewing business)
- Cancelled Policies by Line of Business
- Status of Receivership Tasks
- Claim Liability State Impact

Contact David Vacca

816-783-8134

Questions

??????????