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April 26, 2023

Superintendent Elizabeth Kelleher Dwyer,
Chair of the Restructuring Mechanisms (E) Working Group

Re: Best Practices Procedures for IBT/Corporate Divisions
Exposure Draft 4-4-23

Superintendent Dwyer and Members of the Restructuring Mechanisms (E) Working Group,

AIRROC is pleased to offer comments in response to the draft "Best Practices Procedures for IBT/Corporate Divisions". As a non-profit association AIRROC and its Board do not advocate for any specific position but provide resources and information. For that reason, AIRROC is not commenting on any specific aspects of the proposed best practices.

AIRROC is the only US based non-profit association focusing on the legacy sector of the insurance and reinsurance industries. Membership is on a corporate level and given the impact and importance of legacy business to the entire industry, AIRROC has attracted many talented and experienced participants that all have legacy or runoff business in their portfolio. The members include major US and international insurance and reinsurance companies, legacy acquirers, well-known rehabilitations, receiverships and liquidations, brokers, run-off managers and state insurance departments.

Because of our belief in the importance of clarity and discussion on the topic of runoff, AIRROC is requesting that the working group remove "Section X – Run-off Procedures" from the Best Practices Procedures for IBT/Corporate Divisions. We believe that the subject is distinct from the issues that this document is being developed to address, and that its inclusion confuses the distinct topics of restructuring and runoff. We would support the further discussion of runoff for inclusion in the white paper the committee is developing or in independent guidance as appropriate. We look forward to working with the members on identifying best practices around this important subject.

As referenced in the PwC Global Runoff Survey from 2022, the size of the global runoff market is $960 bn with $464 bn of those liabilities in North America. This is an increasingly important segment of the insurance market, and its management encompasses a broad range of insurers and activities. While this is an important indicator of the demand for more restructuring mechanisms within the insurance industry in recent years, it is important to note that these are distinct and separate issues.

Over the past two or more decades, the term “runoff” has been expanded to refer not only to the runoff of a particular contract, but also to entire books of business, to the insurance or reinsurance company itself and finally, to the entire sector of the market in which such business is administered. There have been many changes since the development of the 1997 Restructure White Paper, and before duplicating its analysis in a modern document it would be prudent to undertake a thorough discussion as to whether it remains relevant to today’s insurance industry.

How can runoff be defined? Runoff business is most widely defined as lines of business that are no longer written. The definition can vary widely by individual companies so this should be considered carefully. The definition of runoff can have different meanings based on situations.

Insurance and reinsurance companies voluntarily place lines of business into runoff for varying reasons: to discontinue a line of business for which they no longer have expertise or profitable experience, to re-focus their business strategy, to improve claims handling by transfer to those better equipped, and consequently improve their capital deployment. Also, as you are all aware, a state regulator can also put a company into receivership, insolvency or liquidation to protect the rights of policyholders, so the state appointed receiver administers the runoff. It is worth making the point that this “involuntary runoff” is very different from a “voluntary runoff” where there is a conscious decision by management to cease underwriting or dispose of a certain line of business as a strategic step. A “voluntary runoff” in these situations is in essence strategic portfolio management.

As the NAIC looks at the options and new states continue to adopt laws that create tools for restructuring, this is an opportunity to create a structure that can underpin the insurers in your state. Restructuring mechanisms provide the opportunity for insurers to grow and serve policyholders by giving them a way to change their operations to improve efficiency and let those that are experts in runoff take the helm.

In conclusion, AIRROC Is asking that the Restructuring Mechanisms (E) Working Group consider three main points:

1) Remove Section X from the draft “Best Practices Procedures for IBT/Corporate Divisions”.

2) Work with AIRROC and our member companies to conduct an updated analysis of the runoff sector in lieu of relying on a 1997 White Paper.

3) Consider adding this analysis to the in progress White Paper or in separate guidance.

AIRROC looks forward to a continued dialogue with the NAIC and more specifically the Restructuring Mechanisms (E) Working Group.

Respectfully Submitted,

Carolyn W. Fahey

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cc: Robin Marcotte and Dave Daveline, NAIC