RIVERSTONE®
A FAIRFAX COMPANY

# *The Importance of Claims Control in Run-off Transactions*

## NEED TO KNOW

*Run-off transactions are retrospective, not prospective in their nature.*

*Deal economics often remove one party from having any skin in the game.*

*Reputation and safe hands around claim handling are critical for all stakeholders.*

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## BACKGROUND

When most people think about reinsurance, they are thinking about prospective or forward-looking reinsurance. By definition, this is where the losses have not yet occurred. The insurer pays a premium to the reinsurer in return for some sharing of the future losses. At this point both parties' interests are aligned as reinsurers will share in future losses. In insurance run-off, we are considering losses that have already occurred. They may not have been reported to the insurer yet, but they have happened. If the insurer seeks to buy reinsurance to cover these past losses it is "retrospective".

## TRANSACTION STRUCTURE

A common structure where the seller looks to reinsure 100% of the past losses is known as a loss portfolio transfer (LPT). In this case, the seller pays a premium to the buyer and is no longer responsible for the financial impact other than the credit risk of the buyer. But, the seller does still have the reputational risk and ultimate responsibility because it has not legally transferred the liability. In the UK, Part VII transfers address this issue. In the US, a number of states are moving toward an Insurance Business Transfer (IBT) approach similar to Part VII.

## SKIN IN THE GAME

Given the seller no longer has financial skin in the game, its interests are not aligned with the buyer. This is why the reinsurer wants claims control because it is now their money paying the claims. Understandably, companies seeking run-off solutions are looking for legal and economic finality, as well as reputation management. That's why responsible run-off providers not only seek but often require control over claims processing and management in their deals (to learn more about how RiverStone approaches claims, see ***here***).

This issue of looking at claims, much less controlling them ongoing, comes up in the early stages of any deal. A common but risky approach is to perform limited claims due diligence and then outsource those claims to third-party administrators, who staff up with claims "professionals" that may not be experienced in handling the types of claims in question. That's not RiverStone's approach.

## SAFE HANDS FOR YOUR REPUTATION

We look at claims as something we want to see and control, and we price that into our deals. The reason we apply such care to any deal we engage is because we want to provide a "safe pair of hands" that any stakeholder should want – from the Board, to management, all the way to the individual insured. By giving RiverStone claims control, sellers get peace of mind because they can rely on RiverStone to manage claims through their entire lifecycle and protect sellers against reputational risk. Such risk can have enormous impact on the insurer in the eyes of regulators, shareholders (and on stock price) and the end insureds, who may have other policies with that same insurance provider.

## ABOUT RIVERSTONE

RiverStone is a group of insurance, reinsurance, and service companies specializing in the management of legacy and run-off insurance businesses and portfolios. With nearly 500 professionals with deep industry expertise in claims, customer service, litigation, and financial restructuring, we offer creative and varied deal structures to deliver sustainable outcomes you can count on.
We lean forward to develop and deliver innovative exit solutions to help shore up capital and meet board-level mandates to help focus an insurer's business. We know that reliability, security, and finality all come from an ability to not only assess the risk up front but to execute the deal at the scale and speed required by the business.

**For more information, please visit our website at *www.trg.com.***