

Business Insurance

New York Seeks Private Takeover of Runoff

Unusual tactic used in Midland liquidation

By ZACK PHILLIPS

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EAST RUTHERFORD, N.J.—The New York Liquidation Bureau will solicit proposals from private runoff companies to take over the 22-year-old liquidation of Midland Insurance Co., a state official said.



Mark G. Peters, special deputy superintendent in charge of the Liquidation Bureau, said the agency would release a request-for-proposals in the next few months seeking bidders to manage the liquidation, which began in 1986.

Mr. Peters disclosed the plan during a speech at the annual AIRROC/Cavell Commutation & Networking Event, which was held Oct. 20-22 in East Rutherford, N.J., and sponsored by the Assn. of Insurance & Reinsurance Run-Off Cos. and Cavell Commutations, a unit of London-based Randall & Quilter Investment Holdings P.L.C.

Mr. Peters said he is not aware of any public liquidation bureau anywhere in the United States using such an approach.

"At end of the day, no one's tried it before, but we cannot continue along and end up waiting another 20 years," he said. "My hope is that it works. My hope is that it will be a model that we use and many of my fellow liquidators use to get (a long-running liquidation) off the state funds desk quicker."

The Liquidation Bureau oversees insolvent insurers in New York.

Midland Insurance, which sold various types of insurance and reinsurance and wrote excess coverage for Fortune 500 companies, went into liquidation in 1986. Companies bidding on the Liquidation Bureau's RFP must propose a price to take over all of the company's assets and liabilities. The New York Liquidation Bureau hired Seattle-based Milliman Inc. to evaluate how many cents on the dollar the Liquidation Bureau could afford to pay, and that will be the floor for bids, Mr. Peters said.

Even if no responses to the solicitation satisfy the bureau's requirements, the bids themselves will help the agency evaluate how to bring an expeditious end to the liquidation, he said.

"We've certainly had a number of financial institution-type bidders who'd be interested in buying a company like Midland," Mr. Peters said. "It's obviously an investment not correlated to the stock market."

Midland has \$924 million in assets—including \$38 million in cash and \$228 million in total invested assets—and \$2.9 billion in liabilities, according to bureau figures.

Jonathan Rosen, chairman of the AIRROC Board of Directors, said the industry is skeptical the approach will work; the bureau is seeking bids from companies willing to pay higher dividends than the bureau projects paying, but a firm presumably would bid to purchase the estate only if it felt it could make money out of the deal.

"If privatizing Midland will create value for policyholders—because they're really the stakeholders in an insolvent estate—more power to them," Mr. Rosen said via e-mail. "My concern is if you put it out to bid, whoever tenders will be looking to extract value and that appears inherently problematic to achievement of a successful bidding process."

Mr. Peters also offered an update on Executive Life Insurance Co. of New York, which went into rehabilitation in 1991 and now pays structured settlement annuities to about 11,000 accident victims and others. A 2007 review found that ELNY might not be able to meet its future obligations and faced a projected \$2 billion deficit in 12 to 15 years. The Liquidation Bureau brokered a deal with private insurers and life insurance guaranty funds last year to raise \$650 million to cover the deficit.

Mr. Peters said the bureau has received financial commitments from industry that exceed the \$650 million, but still has not finished the effort affecting Midland Insurance.

"It is not finished, but we are a lot closer now than we've ever been," Mr. Peters said. "While I would be rash to guarantee that it's going to work, I feel more optimistic about it now than I did a year ago."

Also at the New Jersey gathering, Mr. Peters said that his agency is in the process of completing the first financial audit in its 99-year history. Two of those audits are now available on the bureau's Web site.

The audit noted that volatility in financial markets this year may materially affect the value of ELNY's assets and its ability to raise sufficient funds.

The networking event attracted 462 attendees, making it the largest commutation event ever held, said AIRROC Chief Executive Officer and Executive Director Trish Getty.