



**INTERNATIONAL ASSOCIATION
OF INSURANCE RECEIVERS**
PROMOTING PROFESSIONALISM AND ETHICS

IAIR TECHNICAL DEVELOPMENT SERIES VI

**THE END OF THE ROAD: ISSUES IN CLOSING
RECEIVERSHIPS**

HANDLING UNLIQUIDATED ASSETS AT CLOSING:

A View from Another Angle



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The BA Landscape @ YE 2017

- Total book adjusted carrying value: \$353.4B = 5.6% total cash and invested assets of all US insurers (incl. captives)
 - \$204.8B affiliated and \$148.8B unaffiliated investments
 - Unaffiliated private equity, hedge fund and real estate investments of \$105B (up 9.9% from \$76B in 2016)
 - PE \$69B (largest strategy: \$39.8B in leveraged buy-outs); HF \$22B, RE \$14B = 30% total Schedule BA investments
 - Life and P&C companies had 94%
 - One small insurer reported HF exposure at 37% of cap & surpl.
- Forms: joint ventures, partnerships and LLCs with investments in common stock, real estate and “other” (incl.affiliated investments)

Source: NAIC's Capital Markets Bureau, U.S. Insurer Exposure to Schedule BA (Other Long-Term Invested Assets): Focus on Private Equity, Hedge Funds and Real Estate as of Year-End 2017

Overarching Regulation: SSAP No. 4

- An investment security (which back insurance operations or policyholder claims) are either “listed security” or “regulatory transaction” under the NAIC’s Purposes & Procedures Manual of the NAIC Investment Analysis Office
- Unless exempt, investment securities must be filed with the NAIC SVO for an NAIC designation
- There is no statutory accounting or reporting guidance for regulatory transactions
- An investment involved in such a transaction is nonadmitted, unless approved for admittance by the domiciliary state regulator as a permitted or prescribed practice; hence “*regulatory* transaction”
- If nonadmitted, the asset is either depreciated or amortized against net income as the estimated economic benefit expires

Practical Considerations

- BA assets comprise executory contracts with ongoing investments of \$, time and attention
- Liquidity is limited by restrictions on withdrawal
- These highly specialized commercial investments may involve esoteric businesses
- They may be tied to affiliates and former managers
- Higher potential for fraud given opaqueness of LLC and LP structures and lack of external verification (unlike listed or traded investments that have external quotes and verifiable custodial audit trails)
- An audit ≠ economic value
- Don't distrust what you don't understand
- Find qualified experts (not just lawyers & accountants)



*Thank
You!*