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Tower Insurance Group
CastlePoint National Ins. Co.

Multi-State Regulatory Cooperation to Solve a National Problem

BACKGROUND
The Tower Group Companies (Pre-2014)

- Prior to acquisition by AmTrust in 2014, the Tower Group (NASDAQ: TWGP) was an acquisitive holding company that "rolled up" a number of P&C groups during the latter 2000s and thereafter.
- Collectively, Tower Group was licensed to write in all 50 state.
- Tower Group consisted of 10 insurers, domiciled in 6 states (NY, CA, MA, FL, NJ, ME).
- Tower was a nationwide writer of multi-line P&C business, with a mix of workers' comp, commercial multi-peril and personal lines.

BACKGROUND
The Tower Group Companies (Pre-2014)

What went wrong?

- Tower wrote much of its commercial business through MGAs and had lax underwriting controls.
- Dysfunctional management resulted in poor integration of the roll-up operation.
- The results of poor management and underwriting started emerging in late 2012 into 2013.

BACKGROUND
2014 – AmTrust Acquisition

- AmTrust proposed an acquisition of Tower during 2014.
- Acquisition (closed September 15, 2014):
  - Karfunkel Family Trust (a major stockholder of AmTrust) acquired Tower Group.
  - AmTrust & National General acquired Tower's renewal rights.
  - AmTrust, National General and ACP Re (a Karfunkel affiliate in Bermuda) collectively provided **$250 million in "Stop Loss" (Adverse Development) Reinsurance** as part of the deal, but attaching and paying out only after $1.38 billion in <u>paid</u> losses, and requiring a $56 million premium payment due in 2019 (i.e., longer-term reinsurance recoverable with associated premiums costs and collection risks).

BACKGROUND
2015 - More Development

- <u>2015 – More Adverse Development & Liquidity Problems</u>
  – During 2015, Tower losses developed by an additional **$410 million**, according to Tower's consulting actuaries.
  – Liquidity issues started to emerge as the reserves were "running off hot" and portion of assets tied up in "statutory deposits".

2016 – Regulatory Review of Proposed Tower Runoff Plan

- Proposal reviewed by all six domiciliary regulators.
- CDI actuaries reviewed Tower's 2015 Loss Reserves and found a deficiency of approximately **$900 million**, as compared to the $410 million found by Tower's consulting actuary.
- CDI's analysis confirmed by NY DFS retained actuary, Milliman.
- End Result: A pure "runoff plan" is not feasible absent much larger infusion. Liquidation and Guaranty Fund protection of policyholders is unavoidable.
- AmTrust and Karfunkel Family were briefed on these conclusions, and offered up an alternative liquidation-based proposal.

Conservation & Liquidation Plan
Pre-Conservation Planning

Key Features & Benefits:

- Pre-Conservation Mergers: Tower Companies in NY, NJ, FL, MA and ME merge into CA company (holding substantial Workers Compensation deposits) – CNIC – with domiciliary regulator approvals. **This is a challenge and can be deal-breaker!**
- Conservation: CNIC placed into conservation in CA immediately following mergers.
  - Key Benefits for Policyholders and IGAs: A single liquidation proceeding rather than 10 separate legal proceedings in 6 states: NY, CA, MA, NJ, FL & ME.
- Plan Approval Motion: On the same day as conservation, Commissioner files Motion to Approve Pre-Packaged "Conservation & Liquidation Plan".

Conservation & Liquidation Plan
Part 2: AmTrust Transactions

Key Features & Benefits:

- Commutation & $200 Million Infusion: AmTrust/Karfunkel will contribute $200 million towards runoff in lieu of the $250 million stop loss.
  - Key Benefit: Immediate cash flow for claims and "early access" distributions to IGAs; eliminates severe credit and collection risks on Stop Loss coverage.
- Fronted Policies Assumed: AmTrust or National General will assume all fronted policies.
  - Key Benefit: Takes claims on fronted policies off IGAs.
- Administration Services: AmTrust/National General provide no-cost administration services for up to 2 years.
  - Key Benefit: Value of up to $40 million over two years.

Conservation & Liquidation Plan
Benefits of Pre-Liquidation

Key Features & Benefits:

- Going from being in an illiquid position (not able to pay claims) to bringing claim payments current.
- Continued payment of benefits up to GA limits.
- Policyholders from all companies were no worse off post-merger than they were pre-merger.
- Allowed time to coordinate with Guaranty Funds across the country.
- Orderly accumulation of data –assisting GA’s with transition.
- Merger allowed for elimination (monetizing) duplicate deposits and collection of certain assets.

Questions and Comments?

- Contact Information:
  - David Wilson, wilsond@caclo.org (415-676-2120)