

Secrets of a successful liquidation

December 2015 saw the end of the Legion insolvency in London. *Run Off & Restructuring* caught up with Gregg Frederick (ex Legion Insurance Co in Liquidation) and Mike Palmer (Citadel Risk) to discuss what was arguably the most successful US liquidation ever

Legion Insurance Company and Villanova Insurance Company (Legion/Villanova) were primarily engaged in property and casualty insurance, with health insurance representing a small proportion of their total business. Legion/Villanova belonged to a family of companies under Mutual Risk Management (MRM), a Bermuda-based holding company. In April 2002, the Pennsylvania Department of Insurance placed Legion/Villanova into rehabilitation. Both companies were placed into liquidation in July 2003. All policies were cancelled where applicable and guaranty associations paid off all outstanding covered obligations.

Q In summary how did the Legion liquidation start in London?

A (GF) Legion's only significant asset (post insolvency) was its reinsurance recoveries. A large part of these were placed into Lloyd's and the London company market by circa 14 London brokers. After being placed in liquidation, Legion stopped receiving proper collection services from the London brokers and decided to outsource the recoveries via a third party service collection firm. From 2004 to 2009 Helix UK Ltd was engaged to assist with collections. In 2009, Legion transferred its business to BMS, another London broker that commenced collection services. In 2012 Citadel Risk Services was appointed.



A (MP) In the early days there were so many unprocessed claim advices. It was an enormous task to recover files, review claims, process new and aged balances and then attempt the collection process. We consolidated over 14 brokers and processed in excess of 5000 paid and updated claim advices. Many of the claims sent to London were either not dealt with or just left in files. Many files had to be recreated and systematically updated.

Q What were some of the biggest initial hurdles?

A (GF) In short, London didn't want to pay! We had to convince them that the claims were bona fide and that there was an obligation to settle. In many cases that involved claims audits and, sadly, legal intervention. In addition, Legion's data was not fully automated so we had to put in place a new processing system and ensure data and advices which we subsequently sent to London were of a high standard.

A (MP) Gregg needed good supporting data and at the outset he didn't have it. Our job was to ensure the claims were correctly brokered regardless of the previous brokers, brought up to date and that all the supporting data was present. Initially it was all about paid claims; as the project went on it became more a matter of trying to come to a landing on total incurred and reserves. After that commutation was the focus.

Q How did you start to break down what must have been a colossal task?

A (GF) We knew that regular visits to London would be necessary and, in combination with Mike and the London team, we started up regular dialogue with the syndicates and companies. This continued whilst the whole process of advising, broking and adjusting went on. We started to collect certain claims and reconcile and administer in a more efficient way.

A (MP) Combined visits and meetings were essential to ensure that all parties were 'on the same page'. It is very easy to get frustrated with progress and for cedants to start some form of legal action when actually there is more administration or discussion to be had. Negotiation, patience and timing are very key when you have such a large and complicated debt/asset. Coming up with agreed priorities and targets were also important to ensure we were all focused on the same end result.



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Gregg Frederick

Q What other issues gave you most challenges?

A (GF) Reinsurers who had the clear objective of 'paying only valid claims' which actually means the company will do anything to not pay. This was typically pure run-off companies trying to minimise their loss experience. Unfortunately, it was these companies that usually resulted in litigation activities. Also, the clear delay of payments despite full support is so common in the London marketplace that most US companies with run-off business now view new business with London companies as last resorts for future opportunities that they may have.

A (MP) Although establishing an accurate 'paid' balance took significant effort it was trying to reconcile full and final commutations that was probably the toughest challenge. The data between all three parties – cedant, broker and reinsurers – were in most cases a

long way out! Reconciliations took months (in some cases years) and had to be done a few times over. New management, different opinions and yearly budgets meant that some companies deferred and/or changed initial commutation strategies.

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Mike Palmer

Q What were some of your best memories?

A (GF) While the London market presented its challenges, once initial barriers were broken and the real decision makers were contacted, it was very satisfying to achieve reasonable commercial solutions with those companies who truly stood behind their contractual obligations. The relationships with those people and the understanding of their values on the issues we had with them will always be valuable to me.

A (MP) So many really, but across the board you build up some fantastic relationships with both opposite numbers in Legion and with the syndicates and companies themselves. It's really

Q What made this such a successful liquidation and why were you able to recover over 90 per cent of the total asset?

A (GF) The success started at the top with the Insurance Department and the Liquidator providing full support to all staff in establishing the proper infrastructure – that was not just personnel, but investments in systems, consultants and other applicable business partners. Having such strong support allowed Legion the flexibility to deal with any types of audits, research, arbitration or litigation that the situations required. We regularly set aggressive goals to move the liquidation along, and with the support provided the objectives were consistently met or exceeded.

A (MP) Like so many projects that require a high degree of team effort, having agreed targets and (particularly at a senior level) getting buy-in on strategy and direction made it easier to move forward all the time. Clearly we were dealing with a state run Liquidation Department so administration was tight, but they were also very pragmatic which made the task easier. Having the ability to negotiate directly with debtors rather than seek client approval made the task more effective; clearly having the trust of the client is essential. ●

Legion statistics:

- Overall, in excess of £2 billion was recovered and commuted from Legion reinsurers
- Over 170 Legion reinsurers were based outside of the US
- 126 individual Lloyd's syndicates were involved
- In 2004 there were over 5000 unprocessed claims sitting in London
- Non-domestic carriers paid in excess of \$150 million
- Over 120 commutations have been completed
- Six arbitrations were held
- 42 claims inspections
- Virtually every dollar of paid claim was collected