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Allstate Seeks First-Of-Its-Kind Shift Of Policies Under Ill. Law

By **Shawn Rice**

Law360 (March 5, 2021, 10:45 PM EST) -- Allstate has made a bid to divide up more than $5 billion in inactive Michigan auto insurance policies into Illinois-based companies in a first-of-its-kind maneuver under Illinois' Stock Company Division Law.

If approved, Allstate would be allowed to divide and separate its auto business into newly formed insurers across state lines.

Allstate's shift of its Michigan auto business strikes at a time when the Wolverine state has put more pressure on insurers with personal injury protection reform. Michigan insurers were previously providing unlimited levels of PIP coverage, but regulation changes in July changed that. Now, Michiganders can choose to pay lower premiums by adjusting their level of PIP coverage.

The move by Allstate, which is an early sign for support by U.S. insurers for business divisions and transfers, was backed by the Illinois Department of Insurance at a Wednesday hearing before the agency.

Kevin Fry, the department's chief operating officer, told Law360 on Friday that the splits could have several benefits for insurers.

"Such a division enables insurers to allocate assets and liabilities for a host of purposes, including exiting one line of business to focus on another, promoting efficiency and effectiveness in managing run-off blocks of in-force policies, and enabling more efficient capital allocation within an insurance group," Fry said in a statement.

Allstate's case is not unlike the decisions insurers and regulators are making in Europe and the U.K. under Part VII of the U.K. Financial Services and Markets Act 2000 in response to Brexit. This past year, dozens of insurers **filed applications** in the U.K.'s High Court for so-called Part VII transfers, where the liability for policies is transferred from U.K. legal entities to those registered in Europe.

As it stands, Oklahoma, Vermont and Rhode Island have variations on their regulation for business transfers. Connecticut like Illinois has adopted a business division approach. The general differences behind each of these states' versions reflect the type of business that can be transferred and divided, if approval is needed by a state court or insurance regulator and if insureds like in the case of Allstate's application have the opportunity to object or not participate.

Allstate proposed new, divided companies licensed in Michigan for some of its auto business written by the Allstate, Encompass and Esurance brands.

Companies have runoff divisions in their offices to oversee existing claims. With business divisions like Allstate's most recent application, an insurer can isolate runoff business so it can merge new companies with the potential for selling off the business, according to Daniel A. Cotter of Howard & Howard PLLC.

Cotter told Law360 on Friday that these divisions are the first step.

"A company like Allstate with a large line of business, this now gives them a chance to see if they can get an acquisition of certain lines of business," he said, acknowledging business divisions will be more common as states consider similar legislation.

At Wednesday's hearing, Allstate argued Michigan's PIP reform created two separate books of business in the state. By allocating its capital, Allstate looks to free itself for better investment and insurance offerings in Michigan.

Other insurers looking to follow suit in Illinois will have to show their intentions won't defraud the policyholders. The new businesses will have to be licensed in the new state and not violate any fraudulent transfer acts. Solvency is another primary concern for any business division.

A spokesperson for Allstate told Law360 on Friday the divided companies would help address the "natural split" in Michigan personal injury protection policies that could use lower levels of PIP coverage, which would allow the company to "more effectively" manage its business in the Wolverine state.

"Our filing with the Illinois DOI reflects the innovative opportunities offered by the Illinois division law, which envisions more efficient use of capital for the good of consumers," the spokesperson said.

Allstate also commented that customers will not be impacted by these plans of division.

The Illinois Department of Insurance is represented by Stephen W. Schwab and Carl H. Poedtke III of DLA Piper LLP.

Allstate is represented by Richard Mancino, Allison J. Tam and LaRue L. Robinson of Willkie Farr & Gallagher LLP.

The case is In re: The Plans of Division of Allstate Insurance Co. et al., case number 21-HR-0010, before the Director of Insurance for the State of Illinois.

--Additional reporting by Martin Croucher. Editing by Janice Carter Brown.