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The
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Reporter

# SOBC Sandell Buys ASRRG

**American Safety Risk Retention Group Inc.** (ASRRG) has been acquired by **SOBC Sandell**, a run off management company whose leadership says they are actively looking to buy more distressed RRGs and captives in the future.

SOBC bought ASRRG, a Vermont-domicile captive that provided liability insurance to environmental remediation contractors, after working with regulators to create a plan to wind down the group. It's the second RRG acquisition for the company, which purchased Montana-based **PIA RRG**, a provider of professional liability errors and omissions coverage to independent insurance agents, in December 2016.

SOBC Sandell is a joint venture between **SOBC Corp.** and **Sandell Re Ltd.** that was first formed in November 2016. "We look for opportunities that are messy," said Stephanie Mocatta, chief executive officer of SOBC Sandell and founder and chief executive officer of SOBC Corp. "Something that's difficult, that we can add value to."

SOBC's strategy is to acquire a distressed insurance or reinsurance company that is approaching run-off, and take it through the process in the most economical and efficient way, she said.

When purchasing an RRG, "the most attractive thing that we offer to the members is finality," Thomas Hodson, the company's general counsel, said. "With closing we will redeem all the members' interest in the RRG and become the sole member, with a clear understanding with both the domicile state and the regulators in all of the other states where the RRG is registered that this RRG is in run off."

Mocatta said that what makes this strategy work is transparency with regulators and the members who after, selling their stake in an RRG or a captive, still remain as policyholders. "They want to know we are going to pay all valid claims promptly," she said. In some cases, SOBC may end up paying claims faster than the entity had been doing before the acquisition, she said.

SOBC makes money by buying the assets of these companies at a discount and then streamlining the run off process to make it faster and more efficient. The company will consolidate back office operations and sometimes provide liquidity, depending on the needs of the distressed entity, Mocatta said.

While SOBC does often speed up the run-off process, she said that the company is not afraid of taking on long-tail risks, including companies with environmental and asbestos claims. "While we're doing our due diligence we're writing our five year-business plan—we know what we're getting into."

"We've got very patient capital, very patient investors," Hodson added. "We don't need to have double digit returns every quarter."

Prior to the ASRRG deal, SOBC had already acquired nine insurance entities in run-off. It closed two, re-financed and restarted another as a live underwriting operation, and sold a further two after managing the liabilities to an acceptable level of risk. It currently owns companies in run-off in New York, Wisconsin, Montana, and Bermuda, as well as its back-office operation in Ohio. SOBC Corp., one of the partners in the venture, was originally founded in the UK by Mocatta in 2007.

Buying distressed companies this way "only works if you come away from a transaction like this with a strong reputation, and that's important to us. The regulators are not going to send more business our way if we've totally botched the process," Hodson said.

In some instances, Mocatta said, a company is too far gone to be run off successfully in this manner, which is why advisors and regulators will sometimes send distressed companies to SOBC to discuss their options as soon as trouble begins. "We can't stop a company from going under that's fundamentally doomed. The earlier we get in the better. The sooner you start cutting costs and paying claims fast, the more likely you are to save the company."

Depending on the state of the acquired company, the deal can be structured in different ways, Mocatta said. For some RRGs that might involve deferred consideration where, if there are assets left over after the company winds down, those assets can be shared between both buyer and seller.

"We do see risk retention groups probably growing as part of our business, certainly in the next one, two, three years, because of the nature of what's going on in the commercial market," Mocatta said.

ASRRG was spun off in 2013 after its parent company, **American Safety Insurance Holdings Ltd.**, of Hamilton, Bermuda, was purchased by **Fairfax Financial Holdings Ltd.** of Toronto, Canada. Fairfax did not buy the RRG as part of that deal, leaving ASRRG on its own. Shortly after it became a stand-alone entity, ASRRG's ratings were downgraded, and it was never able to regain its position with the ratings agencies or build its book of business to profitable levels, leading to its eventual sale to SOBC Sandell.

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