

In a first, NY State hopes to sell bankrupt insurer

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Twenty-three years ago, Midland Insurance Co. failed, sunk by billions worth of claims from policyholders suffering from exposure to asbestos, defective breast implants and HIV-tainted blood products. New York state officials, who have run it ever since, on Wednesday asked investors to take it off their hands.

“It’s time to move on,” says Mark Peters, special deputy superintendent for the New York Liquidation Bureau, which manages more than 60 insolvent insurers on the state’s behalf. “This could be a template for what we do in the future.”

A successful auction of Midland would be a coup, especially since it appears regulators will have their hands full in the coming years dealing with insurers driven into insolvency by the mortgage crisis. Former industry giant American International Group Inc. has been nationalized, and several prominent insurers are asking the federal government for bailout money.

Mr. Peters wouldn’t speculate what sort of price could be fetched for Midland, which is the second-largest insolvent insurer in state hands, with about \$1 billion of assets and \$3 billion of liabilities. But he says large insurers, banks and private equity firms have indicated interest.

Still, a sale is no sure thing. Mr. Peters says the state won’t accept less than the amount it could generate by winding down the insurer on its own. (He declined, naturally, to discuss that amount.) He also insists the state will demand that a buyer’s profits on the deal, above a certain level, be shared with policyholders so that no buyer makes what Mr. Peters called “an unjustified profit.”

Further complicating matters, about \$600 million of Midland’s assets are payments owed to it by reinsurers, which are companies that guarantee the risks of other insurers. The state has struggled to collect these payments and it’s unclear if a private owner would fare any better.

For all those reasons, it could be tough to persuade a buyer to pay the state a premium for Midland. “No one would take this company on a wing and a prayer,” says a senior insurance industry executive, who requested anonymity for fear of angering New York regulators.

Mr. Peters, however, reckons that a private Midland owner would be better-positioned to collect from reinsurers because it would likely be treated as a potential repeat customer. Reinsurers, he adds, see Midland essentially as an orphan in state custody whose claims can be put off.

If Midland can't be privatized, Mr. Peters says it would take up to another 10 years for the state to wrap up the company's affairs.

In the meantime, with AIG reeling and other leading insurers struggling, the state liquidation bureau's staff of 300 is bracing for more work, though Mr. Peters is unwilling to speculate which insurer might next come under his group's custody. "We're ready," he says, "for whatever happens."