

# London Market Actuaries Group

## Part VII and related transfers

3 April 2007

**“Structural  
change could  
save Swiss Re  
SFr500m”**

**“Berkshire Hath  
A Way Out for  
Equitas and  
Lloyd’s”**

**“Equitable red-letter day”**

## The basics: What is a Part VII transfer?

The transfer of some or all of the insurance business of one company to another.

- Policies, liabilities and assets can be transferred together (assets can include related reinsurance policies)
- Effected by means of a court order
- Not voted on by policyholders, but policyholder protection is paramount and includes:
  - Notification requirements and opportunity to object
  - Report by independent expert on the effect on policyholders
  - FSA approves the form of the independent expert's report
  - Court sanctions transfer only if satisfied that it is appropriate

## Many different uses: Examples

<b>Use</b>	<b>Example</b>
Transfer in connection with acquisition	GE to Swiss Re
Combining multiple subsidiaries	Aviva
Restructuring overseas	XL Re
Separating live and discontinued business ready for sale	Aioi
Restructuring involving Lloyd's business	Syndicate 982 to Sterling
Transfer of non-schemable policies	Various
Restructuring between countries	ACE Europe
Finality for Names without terminating policyholders' cover	Equitas

## Top tips for a tip-top transfer

1. Planning
2. Project management
3. Policyholder point of view
4. Practicalities
5. Prompt engagement of interested parties
6. Planning!



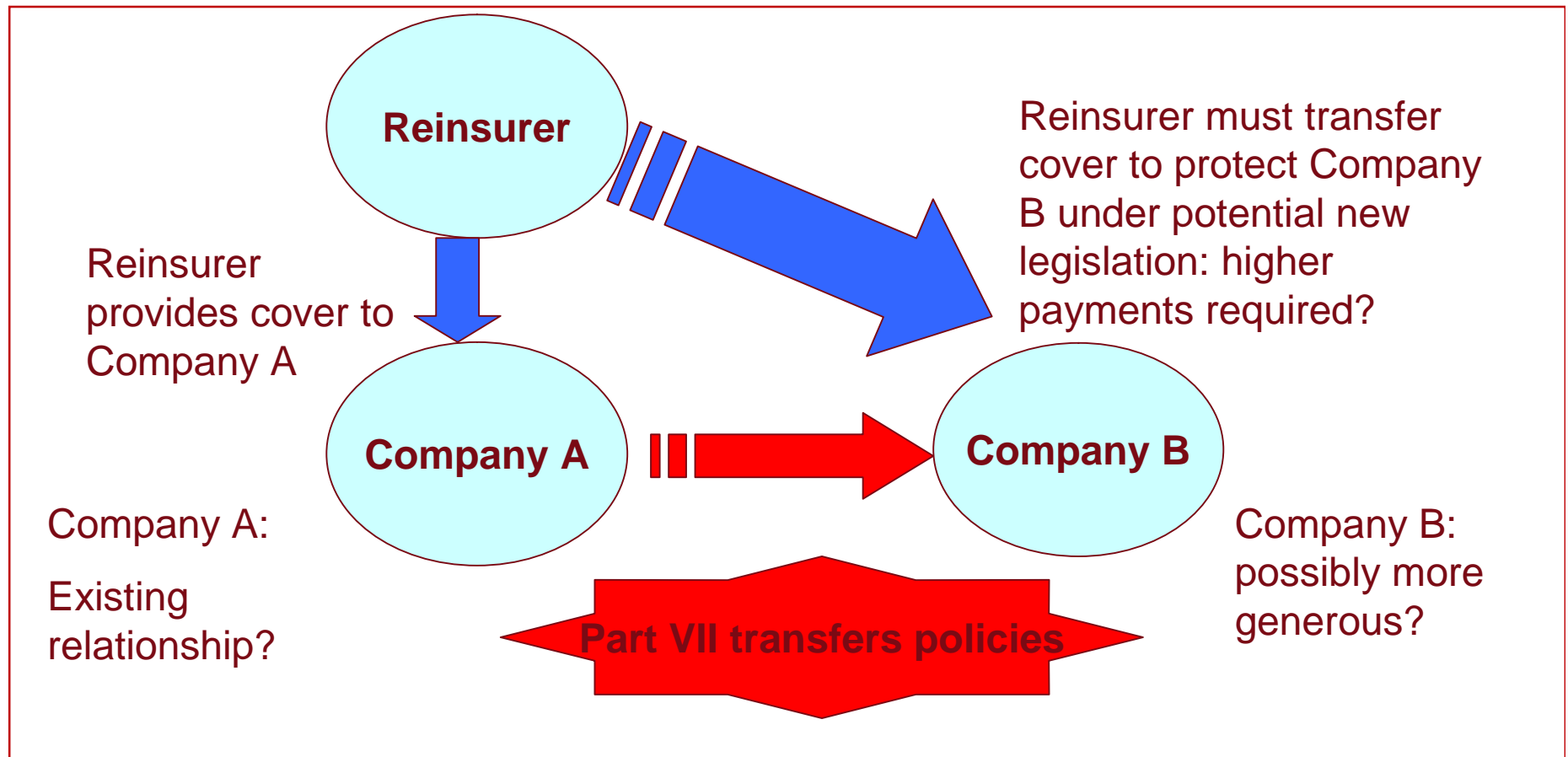
## Treasury proposals to amend Part VII legislation

### Proposed amendments & clarifications:

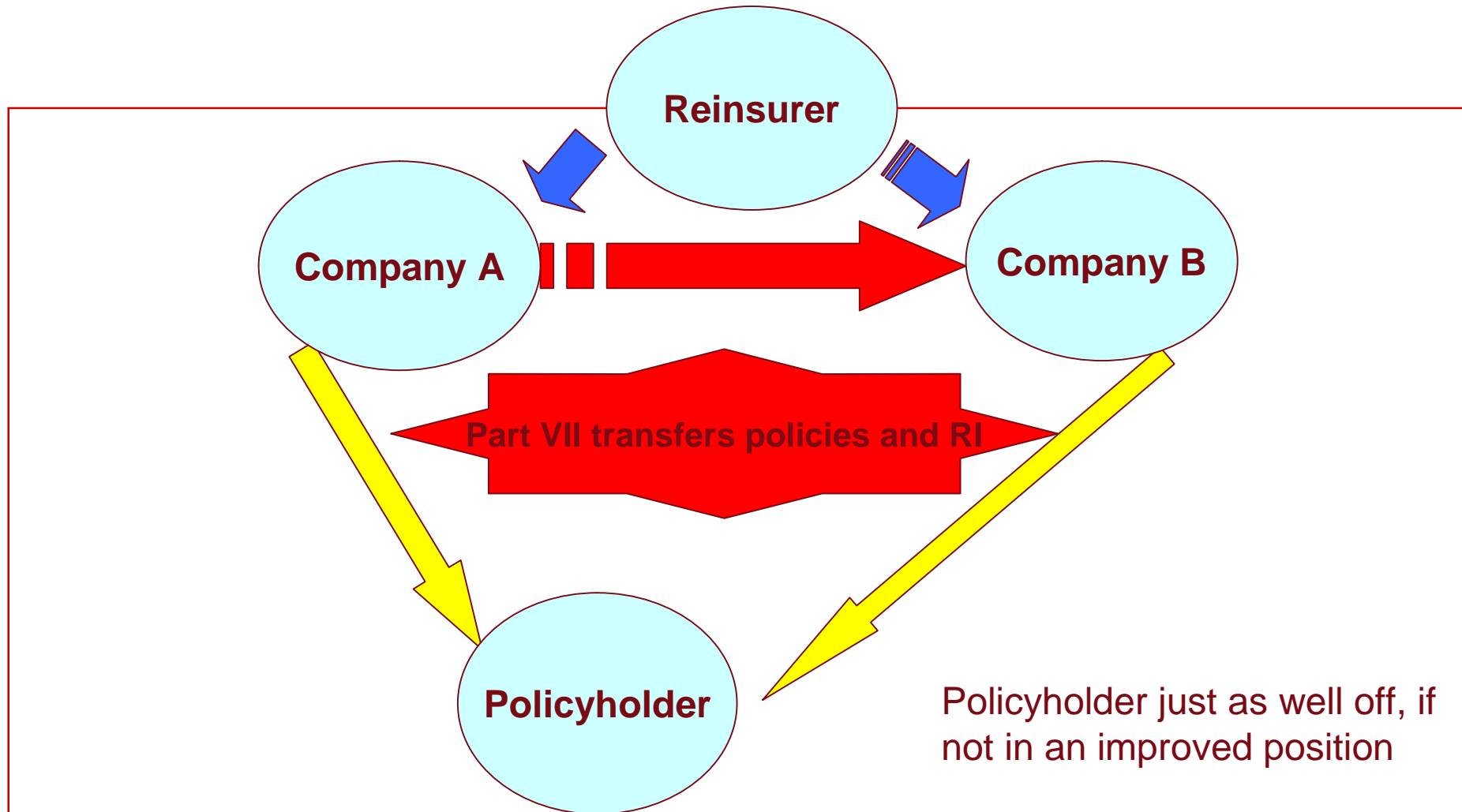
- Extend FSMA's current definition of "former underwriting members" of Lloyd's
- Put beyond doubt the Court's power to transfer reinsurance protections
- Put beyond doubt the Court's power to override reinsurance clauses purporting to annul or modify a contract on transfer (or on steps towards a transfer)
- Require notification of reinsurers

How might a transfer affect you if ...  
... you are a reinsurer of the transferor?

.... But reinsurers can raise objections and the court may not approve the transfer.



How might a transfer affect you if ...  
... you are a policyholder/cedant of the transferor or transferee?





## Lloyd's issues

- Lloyd's involvement: Need to obtain Lloyd's approval for the person appointed to represent Names
- Security issues:
  - Chain of security very different in nature to that outside Lloyd's – more difficult to compare and to explain to policyholders
  - Is reduced security a problem?
- Examples:
  - Syndicate 982 to Sterling

## Court issues

- Nature of objections
- Response to non-trivial objections
- Implication of FSA not appearing in court
- Challenges to amount of detail in IE report
- Judges going into more detail?

## Corporate simplification – the benefits

- Release of capital from redundant subsidiaries
- Fewer accounts/FSA returns to prepare
- Fewer ICAs to prepare/agree
- Simplification of Management Information
- Tax benefits?
- Economies of scale?

## European Transfers – The Future

- Direct business – All EU countries have transfer mechanisms (Third non-life insurance directive)
- Reinsurance business – Few EU countries had equivalent transfer mechanisms  
... but the Reinsurance Directive is changing all that!
- Swiss Re, ZFS, XL Capital, Munich Re(?) – substantial savings due to simplification of legal structure