The Actuarial Profession
making financial sense of the future

Transferring Business Overseas
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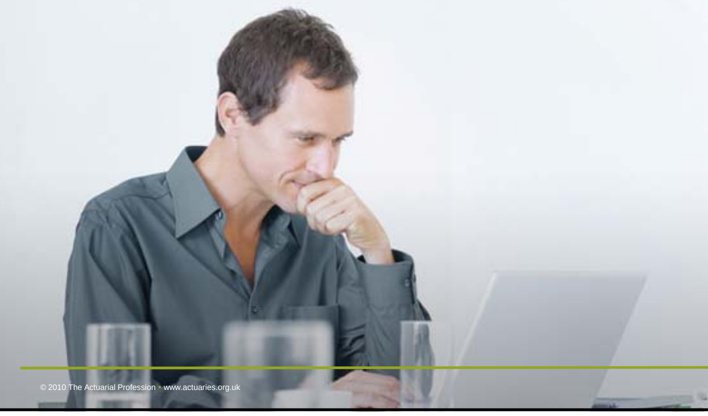

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Agenda

1) Introduction
2) What have insurers / groups done?
3) What are the drivers?
4) Advantages versus disadvantages
   - Capital benefits: Solvency II
4) Operational benefits
5) Conclusion

Some trends

There is a lot of activity in the market:

- Groups redomiciling top holding company
- Groups creating sub-holding structures and EU bases
- Groups rationalising into fewer companies with more branches
- Groups transferring business between insurers in the group
- Writing particular products in certain countries (variable annuities)
- Pent-up demand following economic downturn

Re-Domestications & Restructuring: Sample of Activity

Insurer	Activity	Transferring from	Transferring to
Swiss Re	Subs to branches	Various	Luxembourg
Aviva	Moving certain business	Ireland	UK
Zurich FS	Moving certain business	Various EU (GI)	Ireland
Brit (GI)	Holding company	UK	Netherlands
Amlin (GI)	Moving certain business	UK	Switzerland
XL (GI)	Insurance / Holding co.	Cayman	Ireland

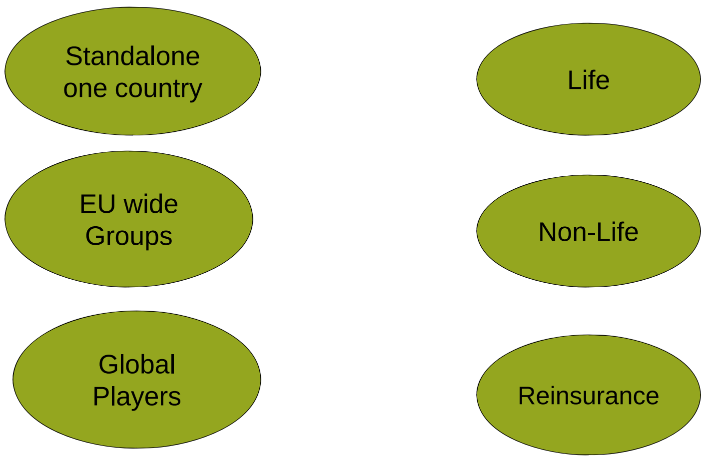
Possible Group Structures

Growth of Hub & Spoke
- Fungibility (in particular SII)
- Dividend Traps
- Expense
- Alignment with Risk Management

Group Reinsurance Vehicle
- Hub & Spoke not always possible
- Temporary solution via reinsurance
- Permanent solution to address local need for domicile
- 3rd country business – in/out

Tax and Legal
- Society European
- Controlled Foreign Companies (CFC)

Drivers vary by type of company



Monoline / Standalone / One Country / Traditional Life & Non-Life Companies

- These companies likely to be worse off under Solvency II
- Less diversification benefit, up to 30% more capital
- Limited scope for operational efficiencies, outsourcing?
- Limited scope for capital / regulatory benefits

May be targets for bigger players - consolidation?

EU Wide Life & Non-Life Groups

- Major European insurance groups have grown in an ad-hoc way through acquisition and expansion and have subsidiaries across the continent
- Such structures are often not fit for purpose in a Solvency II world and rationalisation is required to meet objectives of better capital management
- Companies are being eliminated and insurance operations put into single (or as few as possible) EU carriers, operating through branches (Freedom of Establishment – FoE) or directly (Freedom of Services – FoS)
- Operational efficiencies and a better tax answer are harder to achieve and do not automatically come from a Hub & Spoke restructure e.g. Zurich's move to Ireland

Market Developments – practical observations

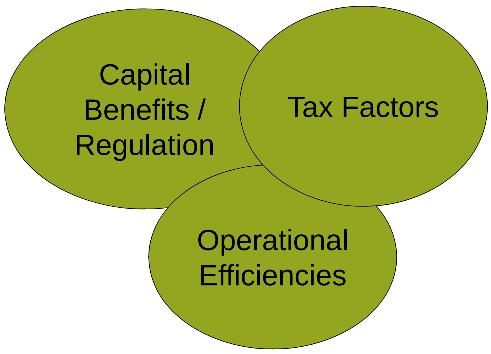
- Greater flexibility of reinsurers
  - Portfolios can be moved, less legacy issues
- Reinsurance still being used
  - Accelerate SII
  - Consolidate purchasing of reinsurance
- New business activity consolidated off single BS
  - Life: legacy in-force
  - Non-life: faster run-off
- Crowded M&A market for insurance assets
- Some European insurers looking at selling US assets
  - EU entities less interested in US assets

Global reinsurance - major trends

- Bermudian and other offshore reinsurers have set up EU subsidiaries (Ireland / Switzerland) to write EU risk business
- Usually all non-US business through branches and subsidiaries, so Ireland / Switzerland becomes alternative reinsurance hub alongside Bermuda and also becomes an intermediate Holding Company (see Partner Re / AXIS / Alterra / Everest / Arch / Allied World)
- Bermudian and other offshore groups decide to move their ultimate holding company from Bermuda, which can have knock on implications for how the reinsurance business is structured.
  - Location chosen needs to be one which allows local business to continue to be written, facilitates reinsurance from the e.g. United States, is capital efficient, is well regulated, facilitates flow of profit up the group and meets listing requirements. (see XL, ACE, Willis)
- External pressure – regulatory change (Solvency II / equivalence), tax pressure from US, political uncertainty

Overall Factors in Choosing a Location

Main drivers for insurance and reinsurance groups are:



Country comparison

	Long Established & Good Reputation	EU Passport	Experience of regulating Global players & Solvency II	Flexibility / use English	Low cost / not Prescriptive	Tax rate (corp. profits)
Bermuda	✓	X	✓	✓	✓	0%
Switzerland	✓	X	✓	?	✓	13-25%
United Kingdom	✓	✓	✓	✓	x	26%
Ireland	✓	✓	✓	✓	✓	12.5%
Netherlands	✓	✓	✓	✓	x	25%
Malta	✓	✓	x	✓	✓	35%
Luxembourg	✓	✓	?	?	✓	30%
Germany / France	✓	✓	✓	X	x	30% / 34%
Other EU	?	✓	x	x	x	Varies

Solvency II Equivalence

On 26 Oct 2011 EIOPA released final advice on equivalence:

Country	Reinsurance	Group Supervision	Solvency
Switzerland	✓	✓	✓
Bermuda	✓	✓ (based on proposals)	✓ (Class 3A, 3B, 4 only)
Japan	✓	X	X

Formal decision on equivalence: Commission in mid 2012

Capital Benefits: Solvency II

1) Solvency II
- IMAP output is informative, whether an increase / decrease in overall solvency ratios
- Economic volatility of SII balance sheets could increase the cost of capital
- Further catalyst for reappraisal of traditional insurance models?

2) Aim to centralise capital
- "Hub & Spoke" structures whereby business written in many subsidiaries are transferred to one company
- May (or may not) bring operational efficiencies

3) Use of internal reinsurance has always been a tool of capital management and increasingly complex arrangements are likely
- Capture 'group' diversification benefits in one entity
- Tax transfers pricing rules clearly impact
- European insurers operational efficiency will be under more pressure

4) European groups reconsider their position in markets with non-equivalent regulation e.g. in the US

Impact of diversification: SII - QIS5

Table 28: Diversification effects

	10th	25th	50th	75th	90th	Weighted average
	Percentile					
Ratio of group SCR to sum of solo SCRs	65%	79%	90%	96%	100%	80%
Diversification	35%	21%	10%	4%	0%	20%

Source – EIOPS QIS5 report for SII

From Regulation to Regulator selection?

- With maximum harmonisation the scope for arbitrage within Europe wanes, but does it go away?
- To what extent can local regulators still influence implementation
- What do insurers look for in a regulator in seeking a location for a head office?
- Multinational groups: not always clear who will be the lead regulator
- Need to keep many regulators happy!

Regulation (cont.)

1) Scope for regulatory arbitrage more limited with harmonisation of regulation within the EU and major locations such as Bermuda and Switzerland seeking equivalence with Solvency II
   - The experience of dealing with different regulators still varies greatly however

2) Smaller and less experienced regulators may offer a lower burden of regulation but they may lack of experience of interpreting the Directives and of supervising large groups
3) More sophisticated and experienced regulatory will be more credible and competent and will be a better fit with global players
4) In some jurisdictions this comes at a higher cost and with more intrusive enforcement
5) On balance, even the biggest players now need to be seen to have complied with a strong regulatory regime

Operational Efficiencies

- Aim to operate efficiently from particular locations
- Availability of skills base, in Head Office and operational base at a reasonable cost
- Attract key executives and underwriting talent
- Economic strength of the economy is a factor e.g. Switzerland
- Access to markets in Europe can be facilitated by a base in the EU using FoE, FoS and the reinsurance Directive
- Exemption from US Federal Excise Tax under Double Taxation Agreements is a major advantage for Double Tax Treaty countries
- Language can be an influential factor
- Currency: operating in the Euro zone but with flexibility to use US$ functional currency can be an advantage
- Company law: UK/Ireland/US are common law jurisdiction with similar legal principles. European law different historic roots.
- OECD compliant and not seen as a tax haven

Legal Factors

- Novation of contracts (e.g. reinsurance)
- Transfer of Undertakings (Protection of Employment) (“TUPE”)
- Pension scheme rights
- Insurance licences
- Transfer of assets
- Employment contracts / Employee impact

Taxation factors

- It will normally be very important to have a target structure which is no less efficient than the old. Further group restructuring is a significant opportunity to identify areas of potential increased efficiency.
- Moving to a different structure, with perhaps fewer legal entities can provide for a better approach in respect of VAT
- A lower overall tax rate can however be difficult to achieve and does not automatically arise from a Hub & Spoke restructure - the local taxation applied to a branch will often not be different than that for a corporate entity
- Business can be reinsured to a lower tax jurisdiction but transfer pricing and controlled foreign company legislation will be important considerations.
- Often as important as the final structure will be determining a transition route which is effective and appropriate from a tax perspective
- Tax issues will frequently be complex and detailed consideration required. For a multinational group this will normally require addressing tax in a number of jurisdictions

Taxation & accounting issues on transactions

Major restructuring can raise a wide range of tax and other issues including:

Transfers: A transfer of insurance or reinsurance business can be subject to tax. There will however often be reliefs or exemptions available, particularly for transfers between companies in the same group and country. There are however a range of circumstances where a charge could arise, as illustrated by the ECJ Swiss Re judgement

Reinsurance: This intermediate restructuring step can sometimes be helpful from a tax perspective, if it fits with risk and capital strategies, and is subject to significant transfer pricing issues

Other Taxes: The impact of business transfers and restructuring from a Capital Gains, VAT and Stamp Duty perspective needs careful consideration based on the individual circumstances and country concerned

Holding Structures: The introduction of a new holding company structure needs to be appropriate from a tax perspective going forward but also be low cost in implementation

Accounting issues: For example "dividend traps" created by transferring companies, which could hinder the extraction of distributable profits from subsidiaries

Taxation for Intermediate/Ultimate Holding Co.

Indicative Guide only	Controlled Foreign Company Legislation	Capital Taxes & Duties	Withholding Tax on Dividends out	Tax on Dividends from Subsidiaries	Tax on Gains from sale of Subsidiaries	Complexity/ Cost of Compliance
Bermuda	No	No	No	No	No	Not complex/low cost
United Kingdom	Complex CFC rules but changes expected	0.5% stamp duty on share transfers needs to be considered	No	Often now exempt, although there are important exceptions	The substantial shareholding exemption can apply to the sale of shares	Generally reasonably complex
Ireland	No	1% stamp duty on share transfers needs to be considered	Not applicable in most situations	Taxed at 12.5%	Exempted by "Holding Company Relief" but may not apply to tax havens	Pooling of DTR credits is complex
Switzerland	No	1% capital duty on share issues needs to be considered	W/h tax can apply. Treaty exemptions may apply	Participation Exemption	Participation Exemption	Not always transparent

Taxation for Insurance/Reinsurance Operating Co.

Indicative Guide only	Tax Rate	Federal Excise Tax exemption/Double Tax Agreements/Onshore	Taxation of Branches	VAT Costs	Transfer Pricing	Complexity/Cost of Compliance
Bermuda	0%	No FET exemption	0%	0%	Not Applicable	Not Complex/low cost
United Kingdom	26% (25% from 1 April 2012)	FET exemption and not tax haven	Currently taxed, so low tax branch risks paying UK tax, although a limited exemption by application introduced	EU VAT rules apply. VAT can be a cost on imported group services	Strict TP rules limit ability to manage tax base through reinsurance	Complex
Ireland	12.5%	FET exemption and not tax haven	Taxed at 12.5% but can often be managed by pooling excess DTR credits	EU VAT rules apply (in general)	New TP rules untested.	Pooling of DTR credits is complex
Switzerland	12.6%-24% depending on Canton. Rulings may reduce this.	FET exemption is lost if tax reduced by more than 40% through use of foreign branch	Participation exemption, no tax	Similar VAT rules apply	TP rules	Not always transparent

Case study – key points

Large number of parties involved
- Local regulator
- Overseas regulator
- Actuaries / Lawyers / Project Managers

Getting agreement not easy
- Getting regulator agreement key
- UK PRU rules not longer apply: can try and replicate overseas
- UK COBs rules still apply to overseas branches

Complications
- Limited high court time available
- Smaller blocks of business can take significant time
- Resourcing when BAU staff very busy

Conclusions

- The problems and therefore the answers are different for different types of companies with different geographic footprints
- How and where groups carry on their insurance and reinsurance business is changing
- Regulatory / Capital and the need for operational efficiency are driving large insurance groups to rationalise and they are also seeking a good fiscal answer

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Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenters.

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