



Institute  
and Faculty  
of Actuaries

# Finding a Safe Haven

Rebecca Jonson

Craig Cleaver



19 November 2015

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- Background to Marine and General ("M&G")
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  - Reinsurance example (actuary's and lawyer's perspective)
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## Who are we?

- Rebecca Jonson

Consultant: Deloitte 1999 – 2013.

Capital and Actuarial officer: Marine and General Mutual 2014 – 2015.

Current: in discussions to support firms with transaction / restructuring projects on a contract basis.

Contact: Rebecca.Jonson@gmail.com

- Craig Cleaver

Partner: Slaughter and May since 2000

Contact: craig.cleaver@slaughterandmay.com

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## Questions

Feel free to ask questions as we go through!

## Comments

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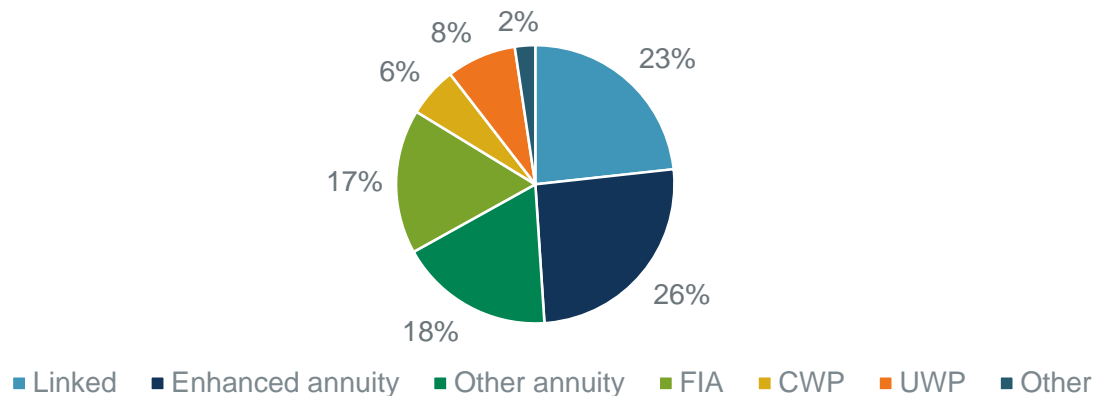
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## Background - the business mix at end 2012

Net of reinsurance reserves at 31/12/12



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## Background - history

A victim of its own success?

Established in **1852** (company number 6), a traditional mutual, that suffered from declining with-profits sales.

- Mixture of business
- With-profits members

From **2008**, as MGM Advantage focused on retirement income products.

- Enhanced annuities, supported by equity release
- “**F**lexible **I**ncome **A**nnuity” (“FIA”) a with-profits annuity / drawdown hybrid

In **2012**, work commenced to capitalise on the success of the retirement proposition for members and to find a party to fund future sales.

This culminated with the transfer of the business to Scottish Friendly in **2015**.

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## Background - the problem to be solved

Insufficient capital to continue retirement product sales



Requirement to stop selling new business



Requirement to distribute capital

Capital required by long-tailed business

With-profits “owners” of capital running off fast

Long tailed (FIA) with profits business with limited loss absorbency

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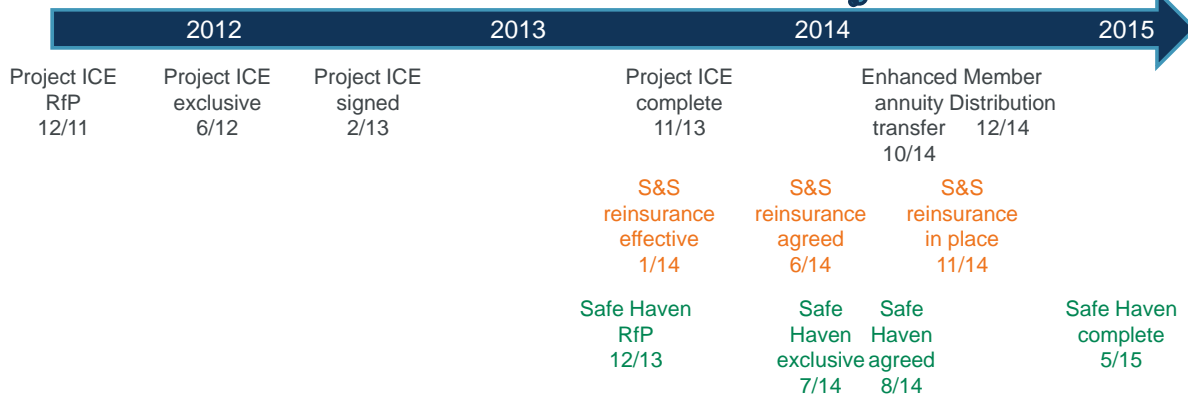
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## Key transaction milestones

The aim:  
Facilitating orderly  
run-off



ICE – the project to sell the company infrastructure, enhanced annuities and new business franchise (TDR)

S&S reinsurance – the reinsurance of the remaining (“standard and select”) annuity portfolio

Safe Haven – the project to transfer the remaining mutual to a third party (Scottish friendly)

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## Reinsurance example: an actuary's perspective

- Step 1 – analyse the offer in terms of the impact on the balance sheet, this was the easy bit.
- Step 2 – get the deal over the line and account for it, far more difficult!
- Two particularly tricky challenges:

Backdating of effective date	Logistics of asset transfer
Bond cash-flows between effective date and implementation date and associated tax accounting.	Co-ordinating multiple parties in multiple locations (different time-zones / holidays).
Equity release cash-flows between effective date and implementation date.	Agreeing the final asset values.

- There were also challenges developing and understanding the legal documentation for the equity release transfer.

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## Reinsurance example: a lawyer's perspective

- Reinsurance Agreement in conventional form
- Equity release assets
  - Asset Purchase Agreement
  - Mortgage Sale Agreement
  - Assignment of Title Insurance
  - Novation Agreement
  - Assignment of Rights

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## Safe Haven example: an actuary's perspective

- The obvious driver of the deal was expenses, but that is only one element of the key driver “looking after the policyholders”.
- Some thoughts on work done to protect the policyholders:
  - Timetable balancing act: Speed to lower expenses v time to get things right!
  - Expenses: Capitalising non-profit value & exceptional expenses / capital.
  - Duration considerations: annuities, pension fund and FIA
  - Principles: FFM and run off plan, balance between sufficient and constraining
  - Monitoring Committee (it's not just about with-profits!)

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## Safe Haven example: a lawyer's perspective

- Enhancing deal certainty
  - Implementation Agreement: transaction steps
  - Draft Scheme
- Dealing with the mutual company
- Protection of policyholders
  - Separate MGM Sub Fund
  - Charges
  - Managing MGM Sub Fund
  - Monitoring Committee
  - Cessation of Sub Fund
- Court Process: anticipating objections

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## Getting the deal done: an actuary's perspective

### DO

- Be proactive!
  - Do as much as possible as early as possible e.g. assessment criteria, and scheme.
  - Think about worries of counterparty / expert / regulator, what are the solutions?
  - Where appropriate explain rationale.
  - Seek review e.g. KPMG opined on process.
- Be realistic but challenge yourself.
  - Time for regulator or expert review or court submission doesn't have to be down time... (e.g. pension plan, run-off development etc.)
- Communicate, work together & trust!
  - Team, regulators, expert, counterparty...
- Keep and monitor flexible plans.

### DON'T

- Don't miss deadlines with regulators.
- Don't forget the operational practicalities.
  - How does the data / asset get transferred / uploaded.
  - Who turns off the lights?
- Don't assume things will happen.
  - e.g. enhanced annuity transfer.
- Don't forget the oddities (80:20 rule)
  - e.g. trustee members and assigned policies
- Don't forget the goodwill!<sup>1</sup>

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<sup>1</sup> I don't mean the actuarial version...

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## Getting the deal done: a lawyer's perspective

- Keep regulator informed early of proposals
- Understand what is and isn't important for the client in negotiations
- Unusual legal issues
- Create deal certainty
- Plan ahead for questions at general meetings
- Anticipate objections to proposals

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## Questions

## Comments

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## Appendix 1 - transaction key features

Transaction	Key Feature	Key impact on M&G profile
Project "ICE"	Goodwill, company infrastructure & new business franchise sold. Service contract set up with purchaser. Enhanced annuities reinsured pursuant to transfer. Equity release assets transferred.	New business value capitalised for members. Expense levels and risks reduced. Long tailed risks reduced – capital released. Equity release risks reduced – SII capital risks reduced.
Enhanced annuity transfer	Transfer of economic risk of enhanced annuity business.	Peak 1 capital released, member distribution facilitated.
S&S reinsurance	Reinsurance of remaining annuity portfolio. Transfer of remaining equity release assets.	Annuity insurance and investment risks reduced (expense risks retained) – capital released and safe haven facilitated. Equity release risks transferred – SII capital risks reduced.
Member distribution	ICE goodwill payment distributed.	Members exiting in the short term (and recent past) receive a distribution from value of the fund.
Project "Safe Haven"	Unit linked and term business sold. Remaining business in ring-fenced fund. Monitoring committee set up (temporary). Expense agreement set up. Future run-off principles and governance set up (including probable conversion to non-profit).	Future expense saving capitalised for members. With-profit member interests protected. Policyholder interests protected without excessive cost. Expense levels and risks reduced – capital released. Fair run off / distribution of capital facilitated.

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