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## Part VII Transfers Responding to Brexit

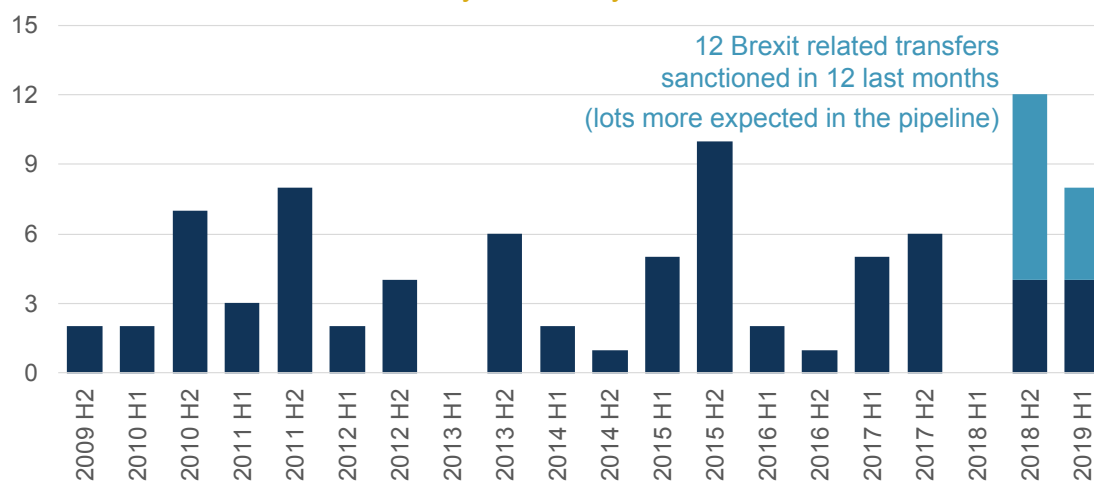
Tom Durkin, LCP  
19 June 2019



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### An increase in Part VII transfers

Number of non-life Part VIIs – 10 year history



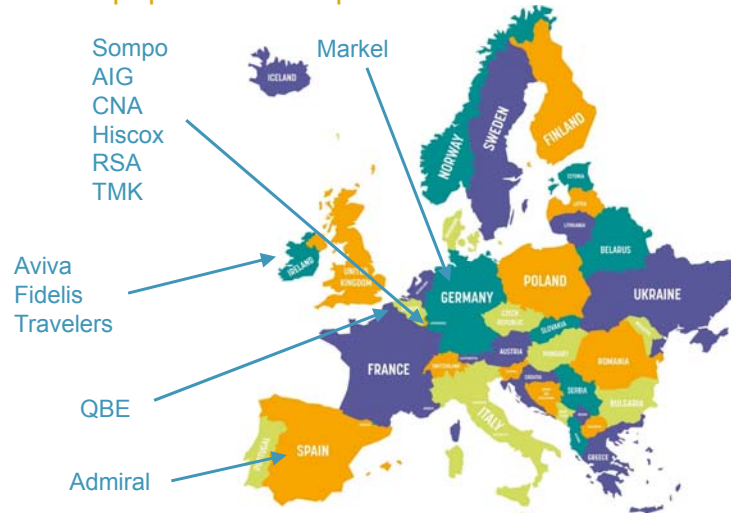
Source: LCP analysis of [www.thegazette.co.uk](http://www.thegazette.co.uk)

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## Where are firms transferring to?

Luxembourg is most popular for completed transfers



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## The role of the Independent Expert (IE)

Are policyholders\* materially adversely affected?

### Financial

|                      |                      |                   |                               |
|----------------------|----------------------|-------------------|-------------------------------|
| Reserves             | Capital requirements | Solvency position | Implications under insolvency |
| Compensation schemes | Liquidity            | Guarantees        | Reinsurance                   |
| Ongoing expenses     | Pensions             | Tax               | Investment strategy           |

### Non-financial

|                         |                                |  |
|-------------------------|--------------------------------|--|
| Customer service        | Policyholder comms and waivers | Change in regulatory jurisdiction        |
| Claims handling         | Complaints handling            | Policyholder and reinsurer notifications |
| Any objections received | Governance structure           | Target operating model                   |

\* and other stakeholders

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## The role of the Independent Expert (IE)

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## Access to compensation and ombudsman schemes

Key considerations

- Transferring policyholders may lose access to:
    - Financial Services Compensation Scheme (FSCS); and
    - Financial Ombudsman Service
  - Not always straightforward to identify which policyholders are covered
  - Different (or no) arrangements in destination countries
- IEs typically concluding policyholders not materially adversely affected
  - Eg, the unlikely insolvency (and therefore loss of access to compensation schemes) is balanced against the certainty of being able to service policies
  - Will this change if likelihood of a Hard Brexit reduces?

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## Policyholder communications

### Waivers from notifying certain policyholders

#### Key questions for IE:

- What is reasonable and proportionate to ensure policyholders have an opportunity to raise any objections?
- Is the firm's rationale for the proposed waivers sound?
- Does the communication meet FCA's expectations for clear communication?

#### Rationale based on Aviva Judgement:

|  |   |
|--|---|
| Impossibility of contacting policyholders                        | Practicality of contacting policyholders                |
| Utility of contacting policyholders                              | Availability of other information channels              |
| Proportionality and the impact of collateral commercial concerns | Likely impact of the Proposed Transfer on policyholders |

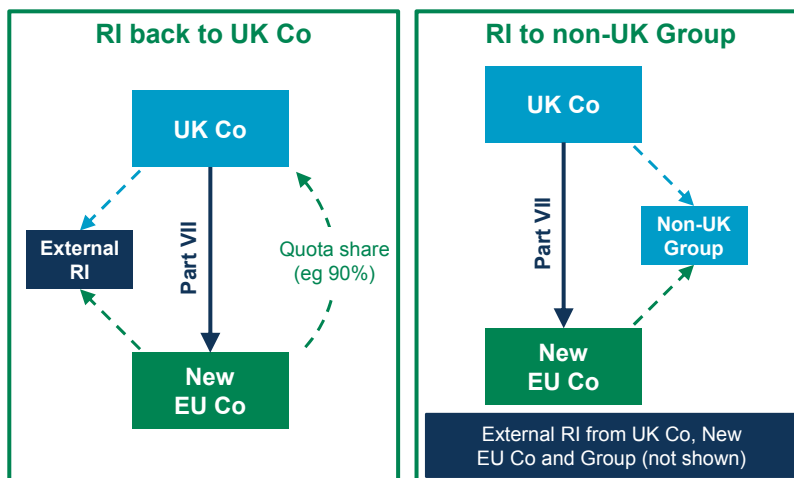
Judgement of Norris J in the Directions Hearing in Re Aviva International Insurance Limited [2011] EWCH 1901 (Ch.)

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## Intra-group reinsurance

### Typically seeing an increase in intra-group reinsurance post-transfer



#### Key considerations

- Impact on firm's overall operating model
- Policyholder priority on wind-up
- Guarantees, collateral and other enhanced security
- Ensuring arrangements are in place by time of transfer

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## Aiming for smooth interaction with the regulators

### Things to do and things to avoid

#### Things to do

|  |   |
|--|---|
| Early engagement with your supervisor                | Clear business rationale for transfer and contingency plans |
| Support IE opinions with clear and logical rationale | Define materiality  |
| Ensure IE is independent and has capacity            | Checklist against PRA supervisory statement                 |

#### Things to avoid

|  |  |
|--|--|
| Complacency – regulators assess transfers case by case | Too many placeholders in the plans         |
| Missing information about the proposed transfer        | Delays to the timetable                    |
| Inconsistencies across transfer documents              | (but don't rush at the expense of quality) |

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## Questions

## Comments

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