

The Actuarial Profession
making financial sense of the future

PART VII TRANSFERS
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32nd ANNUAL GIRO CONVENTION
The Imperial Hotel, Blackpool

Contents

- What can they do for me?
- How does the process work?
- How do they compare with the alternatives?
- What are the risks?

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What is a Part VII transfer?

A Part VII transfer is a **court-sanctioned legal transfer** of some or all of the policies of one company* to another...

...governed by **Part VII** of the Financial Services and Markets Act 2000 (FSMA)...

...with supplementary guidance set out in **SUP 18 of the FSA handbook**

* also applies to Lloyd's members (via an Order that applies Part VII with certain amendments)

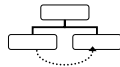
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Three examples

1. **Combine** similar business from two or more subsidiaries, putting all into a single pot
2. **Transfer** business between third parties
3. **Separate** out different books of business, putting them into separate companies

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Example 1

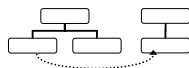


Combine similar business from two or more subsidiaries, putting all into a single pot

- The most common use
- Allows a corporate group to reduce the number of its regulated companies
- Release capital for use elsewhere
- Save ongoing management, regulatory and admin costs (eg fewer ICAs to prepare and fewer FSA returns to submit)

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Example 2

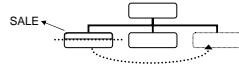


Transfer business between third parties

- To obtain business
- To exit business
- More flexible than sale ... not the whole company
- But ... additional risks and complications

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Example 3



Separate out different books of business, putting them into separate companies

- Separate old liabilities from new business, putting them into separate companies – useful as part of a plan to tackle old liabilities
- Separate out liabilities that cannot be schemed
- Separate out books of business to be sold from those to be retained

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How the legislation works

- The Court orders the transfer
- Transfer can cover liabilities, property, related rights etc – including outwards reinsurance
- Effective date

The main requirements

- Court approval
- Report by an Independent Expert
- Policyholder notification
- FSA and other regulators
- Parties permitted to object

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Countries covered by UK legislation

Transfer from ...

1. UK company
 2. EEA branch of UK co
 3. UK branch of EEA co (reinsurance business only; direct business covered by legislation in the other EEA state)
 4. UK branch of non-EEA co
- (See s105 for fuller details and exceptions)*

To ...

EEA

Overseas legislation enables transfers between other countries, depending on the country and type of business.

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Typical timeline and key tasks

- Initial planning
- Appointment of lawyers
- Discussions with FSA
- Appointment of expert

- Detailed planning, scheme design and decisions on policyholder notification
- Preparation of legal documents
- Independent expert's analysis and report
- FSA involvement

Period for publicity and objections (typically 8 weeks, longer if overseas regulators involved)

Preliminary court hearing

Final court hearing

Transfer becomes effective

Total time varies from < 6 months to 2 years plus

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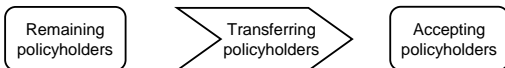
Where actuaries typically get involved

- Acting as **Independent Expert**
- Reserving or other **analysis**
- Scheme **design**

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The role of the Independent Expert

Any application to Court to sanction a Part VII transfer must be accompanied by a **Scheme Report** from an **Independent Expert** describing the transfer and its effect on policyholders and others ...



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Key points for the Independent Expert from SUP 18 guidance

- Nomination and approval process
 - Requirements: independence, relevant skills & knowledge, approval by FSA
- Early contact with FSA
- Guidance on contents of report
- Guidance on summary of report
- What the FSA will typically consider when assessing a proposed transfer

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What should the Independent Expert consider?

- **Security** of groups of policyholders (and others if applicable)
- Identify the **risks** (consider adverse scenarios and compare what the impact would be if the transfer did or didn't go ahead)
- Consider what **level of analysis** is required (varies from limited to extensive)

continued ...

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What should the Independent Expert consider? (continued)

- Relative **size** of liabilities
- Relative **solvency** margins
- Risk of **deterioration** of liabilities
- **Protection** – reinsurance, guarantees, etc
- Nature and amount of **assets** to be transferred
- Policyholder **service** levels

continued ...

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What should the Independent Expert consider? (continued)

- When can the independent expert **rely on the work of others** (eg reserve reviews)?
- Is a small **reduction in security** acceptable?
- **Future plans** of the companies involved – which post-transfer plans need to be considered by the independent expert?
- **Public report** vs commercial sensitivities

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Alternatives

Depends on the situation ...

- Simplifying structure
- Run-off liabilities
- Transfer to third party

Alternatives

Estimation approach to settling claims
RI recoveries may be difficult
Each policy negotiated separately
Ongoing admin costs

Commutation

Commutation deal by majority vote
Terminates the underlying contracts
Cannot apply to compulsory insurance (eg EL)
Up front costs

Scheme of arrangement

Claim settlement

Simple, shouldn't be overlooked
Building block for subsequent methods
Ongoing administrative costs

Options to accelerate run-off

Part VII transfer

Flexible, from single contract to entire portfolio
Avoids RI impairment
Doesn't terminate the underlying contracts

Sale

Applies to entire legal entity
Sometimes need to give warranty

Alternatives

Sometimes a Part VII is an **alternative** ...

... but sometimes it is a **supporting tool**

- Sales
- Schemes
- International restructuring

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Risks (and how to manage them)

- Timing
- Objections
- Approval
- Overseas regulators
- Policyholder notification
- Reinsurers
- Information required
- Commercial sensitivities

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Sources of further information

- FSMA Part VII (and related regulations)
- FSA Handbook SUP18
- EXD53
- Past transfers

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