The Actuarial Profession
making financial sense of the future

Structuring the Transfer : The Company's Objectives

Mike Kipling

Why Transfer?

Really only three reasons for a transfer

- Disposal/acquisition of part of a business
  - between two independent organisations
- Improving efficiency of group structures
  - within the same group
- As a mechanism to achieve a change
  - e.g. demutualisation

The Actuarial Profession
making financial sense of the future

2006 Transfers

35 transfers in 2006 (by date of petition)

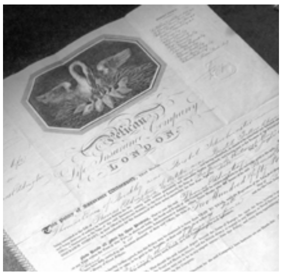
- 15 life/health, 19 non-life, 1 both
- 17 business transfers, 17 restructures, 1 demutualisation
- One restructure involved 17 parties (all part of the Royal & SunAlliance Group)
- Several involved the transfer offshore of UK business or the transfer of business in other countries
- 3 were annuity book transfers.

The Actuarial Profession
making financial sense of the future

Nothing new under the sun

- Currently a busy period for business transfers
- ……but so , for example, were the 1900s

Merger of Pelican and Phoenix (1903)



The Actuarial Profession
making financial sense of the future

Insurance Company Acquisitions 1900-1914

Acquiring Office	**Number Acquired**
Royal	11
Commercial Union	10
Alliance	9
Yorkshire	9
London & Lancashire	8
General Accident	6
Phoenix	5
Northern	5
Royal Exchange	4

The Actuarial Profession
making financial sense of the future

It was 40 years ago today…

- **Alliance, London and Beacon life businesses formed Sun Alliance & London Assurance in 1967**

The Actuarial Profession
making financial sense of the future

Business Transfers – Why?

De-risking

- Annuity transfers : Resolution (x2), Royal London, Equitable (x2).
- Transfers often from closed with-profits funds
  - recognising need to derisk to reduce uncertainty in w/p book in run-off
- May also arbitrage different views of future mortality improvements
  - or reflect more sophisticated socio-economic analysis of longevity
  - or allow for investment skills/risk appetite.

The Actuarial Profession
making financial sense of the future

Annuity Transfers

Often preceded by a reinsurance transaction

- Cements deal without long PartVII process
- But leaves governance responsibility and reinsurer default risk with original writer
  - Typically fully collateralised
- Would typically continue indefinitely if PartVII fails
- Allows time for administration transfer and fuller due diligence
  - So often adjustment premium payable later

FSA have required IE to consider reinsurance

The Actuarial Profession
making financial sense of the future

Business Transfers – Why?

Exit from Business Lines

- general insurance book acquired as part of a life acquisition
  - e.g. Phoenix Assurance (composite) creditor business to Groupama – after Phoenix acquired` by Resolution from RSA
- to ensure continued service to customers if business unit sold
  - 'tail' shed by seller, renewal 'rights' to buyer
  - e.g. management buyout of RSA's 'First Assist' led to PartVII from RSA to Standard Life Healthcare.

The Actuarial Profession
making financial sense of the future

Business Transfers – Why?

Exit from Business Lines – other examples

- General business of Bradford Insurance to RSA
  - Bradford also composite
  - Acquired by Resolution from RSA
  - Life business transferred out
  - FSA refused deauthorise for non-life even though RSA had contracted to meet all claims
  - PartVII removes possibility of legal challenge if RSA defaults on any future claims.
- Life business of Lloyd's syndicate 982 to Sterling Life

The Actuarial Profession
making financial sense of the future

Restructure – Why?

- **Combining Life Insurers**
  - Usually following a merger/acquisition
    - or to simplify a redundant structure
  - Simplification of financial reporting
  - Removal of internal reinsurances
  - More efficient use of capital
  - Tax benefits
    - Must not be main purpose
    - Utilisation of excess-E
    - Better ongoing balance of I and E, profits taxation or BLAGAB ratio.

The Actuarial Profession
making financial sense of the future

Capital Benefits

- **Main benefit usually pillar 2**
  - Unless any pillar 1 reinsurance constraints are alleviated
  - Or minimum requirements for small companies
- **Increased diversification is likely**
  - Making ICA capital less than sum of parts.
- **Removes fungibility constraints**
  - And simplifies corporate structure

The Actuarial Profession
making financial sense of the future

With-profits funds

- Historic practice was to combine into one long-term fund
  - e.g. Alliance and London
  - And pay a one-off reversionary bonus to offset any imbalance
- But little advantage gained in practice as separate asset shares had to be monitored
- Now practice is to use separate sub-funds (unless very small)
  - Reduces risk of policyholder opposition

The Actuarial Profession
making financial sense of the future

Restructures – recent examples

- Aviva “10 into 4” (2004)
- Zurich “5 into 1” (2004)
- Resolution “4 into 1” (2005)
- Pearl “4 into 1” (2006)
- Resolution “6 into 1” (2006)

The Actuarial Profession
making financial sense of the future

Non-life restructures

- Transfer out of certain 'difficult' policies before a solvent scheme arrangement
- Transfer of coinsurance pool shares into one fund before solvent scheme
- Separating closed and ongoing business before a sale of closed business (e.g. Aioi/Enstar)
- Transfer of business in various territories to one pan-European operation (e.g. ACE Europe)
- Finality for Lloyd's names (e.g. Equitas/Berkshire Hathaway)
- Simplification (e.g. Zurich "5 into 1" (2006))

Of particular importance is the ability of the UK Court to transfer outwards reinsurance

The Actuarial Profession
making financial sense of the future

Other Reasons

- **Orphan Estate attributions**
  - Axa (2001)
  - Norwich Union (2008?)
- **Demutualisations**
  - Standard Life (2006)
  - Scottish Mutual (1992)

- Often practice is to transfer into a newly-created life insurer.

The Actuarial Profession
making financial sense of the future

Other Reasons

- Why use a PartVII?
  - Formal legal approval of change
  - Formal process for policyholder objections to be heard
  - Formal approval of Independent Expert and 'non-objection' of FSA
  - Often combined with a business restructure
    - AXA allowed policyholders to reject attribution cash payout and go into 'Old w/p fund' with share of estate

The Actuarial Profession
making financial sense of the future

Supplementary Objectives of Life Part VIIs

- Combining unit-linked funds
- Moving non-profit business out of a with-profits fund
- Future ability to move n/p business
  - E.g. so that annuities arise from a vesting w/p fund do not accumulate in that fund as it runs off.
- Long-term run-off of w/p funds
  - Conversion to n/p when below a certain size.
- Restoring shareholders' profits to 90:10
- Enshrining support practices between w/p funds
- Desegregation of Industrial Business

The Actuarial Profession
making financial sense of the future

Other 'Objectives' of Part VII

- Treating Customers Fairly
- Avoidance of adverse publicity
- Avoidance of legal delay, especially p/h appearances
- Avoidance of criticism of regulator
- Control Costs

The Actuarial Profession
making financial sense of the future

It was 40 years ago today…

- **Alliance, London and Beacon life businesses formed Sun Alliance & London Assurance in 1967**
- **How long was the expert's report?**
- **Answer :** ***come to the presentation to find out!***

The Actuarial Profession
making financial sense of the future

The Actuarial Profession
making financial sense of the future

Structuring the Transfer : The Company's Objectives

Mike Kipling