

## GIRO Convention

23-26 September 2008  
Hilton Sorrento Palace

Trends in strategic restructuring and re-domestication in European insurers including the impact on, and role of, actuaries

Jane Portas and Noel Garvey

## Agenda

- Trends in strategic restructuring and re-domestication in European insurers – Jane Portas
- The impact on, and role of, actuaries – Noel Garvey

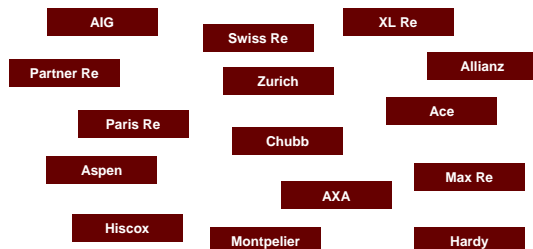
## Trends in restructuring and re-domestication in European insurers

Jane Portas

## Session overview

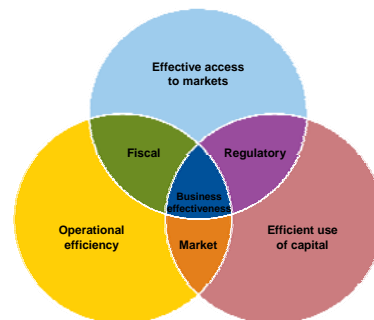
- Market activity
- Aims, challenges and drivers
- Current trends
- Practicalities and implementation
- Future trends
- Impact on the Actuarial profession

## Recent market activity

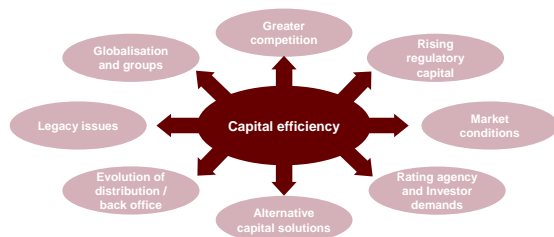


Insurers and reinsurers who have undergone, or are undergoing, some form of restructuring activity that is in the public domain

## Why?



## Key challenges



There is now a much greater focus on capital management and an increasing demand for efficiency – this combined with some “proven” routes and a greater acceptance for separation of capital, skills and distribution means that the market has a greater appetite for capital solutions



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## Internal and external drivers



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## Regulatory and Tax benchmarking



The overall capital is assessed by reference to a range of factors and may be subject to restrictions / loadings. Each case is assessed on its merits. Ongoing / start up policy may vary



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## Current trends

<b>Consolidation and Streamlining</b>	<ul style="list-style-type: none"> <li>Simplification</li> <li>Underwriting platforms</li> <li>Discontinued lines</li> </ul>
<b>Re-domestication</b>	<ul style="list-style-type: none"> <li>Re-domesticating insurance platforms</li> <li>Repatriating underwriting results</li> </ul>
<b>Group holding and capital structure</b>	<ul style="list-style-type: none"> <li>Holding and finance structure</li> <li>Capital instruments</li> <li>Reinsurance and alternative forms of capital</li> </ul>



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## Consolidation and streamlining

<b>Simplification</b>	<ul style="list-style-type: none"> <li>Entity reduction</li> <li>Reduce regulatory, tax and market complexity</li> <li>Single capital base</li> <li>Operational improvements</li> </ul>
<b>Market access platforms</b>	<ul style="list-style-type: none"> <li>Strategic approach – best location for capital</li> <li>Consolidating / merging platforms to create pan EU carrier</li> <li>Branch vs subsidiary vs Lloyd's vs contact office</li> <li>EU access for foreign insurers</li> <li>Interface with intermediaries – regulation, tax, cultural practices</li> <li>Life, non-life, retail, wholesale</li> </ul>
<b>Discontinued lines</b>	<ul style="list-style-type: none"> <li>Consolidating for claims cost / cash management efficiencies</li> <li>Scheme of arrangement or sale</li> </ul>



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## Re-domestication

<b>Re-domesticating insurance business</b>	<ul style="list-style-type: none"> <li>Regulatory, capital and tax savings</li> <li>New business opportunities</li> <li>In conjunction with consolidation and streamlining</li> <li>Re-domestication of holding company facilitates controlled foreign company tax issues</li> </ul>
<b>Re-domesticating underwriting results</b>	<ul style="list-style-type: none"> <li>Use of internal reinsurance</li> <li>Combine with re-domesticating holding company</li> </ul>



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## Domicile selection



Selecting a domicile requires careful consideration of all the relevant factors balanced against the commercial circumstances, drivers and constraints



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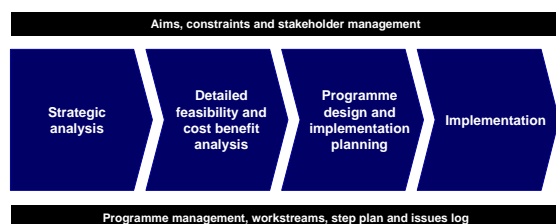
## Group holding and capital structure

<b>Group holding / finance structure</b>	<ul style="list-style-type: none"> <li>Tax efficient holding company / financing structures</li> <li>Foreign insurers – EU holding company?</li> <li>Eliminate group solvency “problem” companies from EU holding chain</li> <li>Vertical and flat structures</li> <li>Tax efficient structures</li> </ul>
<b>Capital profile</b>	<ul style="list-style-type: none"> <li>Group and solo capital</li> <li>Capital release to replace with more effective profile</li> <li>Tax efficient instruments</li> <li>Qualifying solvency capital</li> <li>Contingent capital</li> </ul>
<b>Reinsurance and alternative forms of capital</b>	<ul style="list-style-type: none"> <li>Special purpose vehicles</li> <li>Contingent reinsurance arrangements</li> <li>Internal reinsurance pooling</li> </ul>



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## Practical approach



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## Implementation Critical Success Factors



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## Strategic realities

- What will be the market impact – accepted by policyholders, brokers, reinsurers, investors?
- How will capital be impacted and how much will be needed in the new company?
- What will the regulator require in authorising the new insurer?
- Who will be the executive for the new company – will they have to relocate?
- How will and can the transfers be effected – regulatory approvals, legal impediments, tax efficient, accounting methodologies?
- What will be the costs involved in the transition?
- What savings will there be – tax, regulatory capital, operational?
- Is the entire proposal feasible? Is there a better strategic solution or transition step plan?



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## Managing the transition

- Timing – phased or simultaneous?
- What will be the new business model? How will this impact underwriting approach, distribution arrangements and outwards reinsurance?
- How will capital be modelled and managed in the new structure?
- What will the governance, risk and compliance framework look like?
- How will the finance function be affected – management information, reporting?
- What about staff – employment law and pensions?
- How will this be communicated?
- How should this change be managed?
- How does this impact other change programmes?



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# Future activity ... an iterative process?



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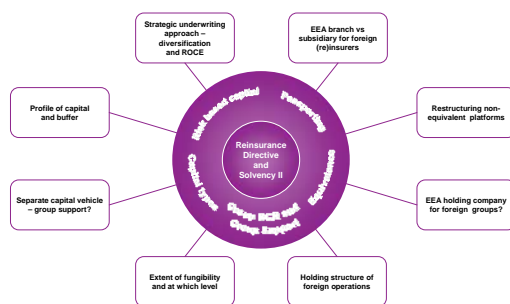
# Solvency II for groups



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# Regulatory driven trends



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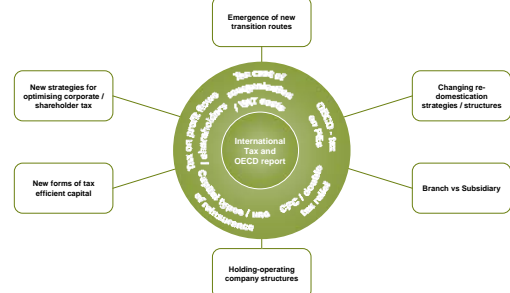
# Tax overview



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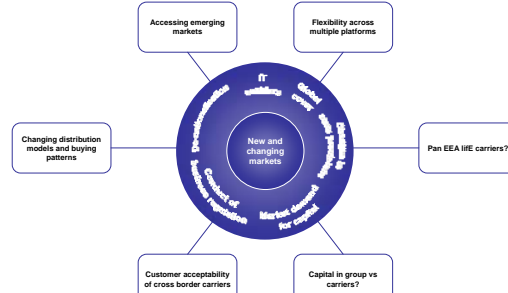
# Fiscal driven trends



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# Market driven trends



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## Insurer of the future – structural trends?

- Market consolidation
- Flexibility across multiple platforms – general and life
- European hub – EEA holding company
- Emergence of new group holding company strategies
- Separation of underwriting, distribution, skills and capital
- Re-domestication strategies will change
- New forms of capital
- Fungibility planning – optimise group structure and platforms
- Greater use of SPVs
- Diversification planning – business line selection
- Emergence of new transition routes

## Impact on and role of actuaries

Noel Garvey

## Session overview

- Role of actuaries in implementing restructuring and re-domestication
- How will Actuaries' roles change in the new structure?

## Role of Actuaries in implementing restructuring and re-domestication

- Strategic feasibility
  - Capital modelling e.g. to assess relative capital savings
  - Solvency calculations for regulatory capital
  - Transfer pricing analysis
- Implementation
  - Financial solvency projections for new company application for authorisation
  - Reserves valuations e.g. to support authorisation and transfers

## How will actuaries' roles change in the new structure



But what will the future look like?

## Current structure

### How are Actuarial functions typically structured?

- Country specific
- Function – pricing, reserving, capital
- Line of business

## Group and local infrastructure – how might this change?

- Centres of excellence across the group:
  - Pricing, capital, reserving
  - Virtual or physical
  - Head office vs local office
- Enhanced cross border and business integration



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## Group Actuarial

- Opportunities for greater business integration and a widening of the actuarial role as the market and environment evolves
- Risk and Capital management:
  - RBC models and ERM
  - Capital fungibility
  - Diversifications and correlations across lines and territories
  - Data management and regulatory reporting
- Pricing
  - Transfer pricing
  - Rating methodology for new business model



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## Closing messages

Jane Portas

## Closing messages

- Broad evidence of restructuring and re-domestication being used for capital efficiency
- Streamlining group structures can make a significant contribution
- Major opportunities exist for restructuring and re-domestication in some groups, but the approach can take many forms – including FOE and FOS
- EU hubs likely to play an important role, especially for non-EEA groups
- Geographical, cultural and product differences impact fundamentally on the appropriate solution for different insurers
- Tax and regulatory arbitrage are only elements in an analysis which must consider a range of financial, operational and people issues
- Tax and regulatory certainty and reputation may be just as important as minimisation
- Solvency II and future tax developments will create further and new structuring opportunities
- Implementation is a significant challenge



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## Closing messages

- Actuaries play a vital role in informing strategic decision making and feasibility
- Implementing structural change raises many issues and challenges that require actuarial input
- Operational changes that accompany extensive cross border restructuring exercises potentially impact the structure and role of the actuarial function
- The structural and operational changes arising as a result of Solvency II will significantly impact the scope and role of actuaries leading to considerable opportunity and wider business integration and involvement



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