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

Session overview

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

Recent market activity

- AIG
- Swiss Re
- XL Re
- Partner Re
- Zurich
- Allianz
- Paris Re
- Chubb
- Axa
- Max Re
- Hiscox
- Montparnasse
- Hardy

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

Why?

Effective access to markets
Fiscal
Operational efficiency
Efficient use of capital
Regulatory
Business
Market
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.

Internal and external drivers

Legacy issues

Market conditions

Greater competition

Capital efficiency

Rising regulatory capital

Globalisation and growth

Capital instruments

Capital efficiency

Internal and external drivers

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.

Current trends

Consolidation and Streamlining

- Simplification
- Underwriting platforms
- Discontinued lines

Re-domestication

- Re-domesticating insurance platforms
- Repatriating underwriting results

Group holding and capital structure

- Holding and finance structure
- Capital instruments
- Reinsurance and alternative forms of capital

Consolidation and Streamlining

Simplification

- Entity reduction
- Reduce regulatory, tax and market complexity
- Single capital base
- Operational improvements

Market access platforms

- Strategic approach – best location for capital
- Consolidating / merging platforms to create pan EU carrier
- Branch vs subsidiary vs Lloyd’s vs contact office
- EU access for foreign insurers
- Interface with intermediaries – regulation, tax, cultural practices
- Life, non-life, retail, wholesale

Discontinued lines

- Consolidating for claim cost / cash management efficiencies
- Scheme of arrangement or sale

Re-domestication

Re-domesticating Insurance business

- Regulatory, capital and tax savings
- New business opportunities
- In conjunction with consolidation and streamlining
- Re-domestication of holding company facilitates controlled foreign company tax issues

Re-domesticating underwriting results

- Use of internal reinsurance
- Combine with re-domesticating holding company
Domicile selection

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

Group holding and capital structure

- Tax efficient holding company financia structures
- Foreign insurers – EU holding company?
- Eliminate group solvency “problem” companies from EU holding chain
- Vertical and flat structures
- Tax efficient structures

Capital profile

- Group and solo capital
- Capital release to replace with more effective profile
- Tax efficient instruments
- Qualifying solvency capital
- Contingent capital

Reinsurance and alternative forms of capital

- Special purpose vehicles
- Contingent reinsurance arrangements
- Internal reinsurance pooling

Practical approach

<table>
<thead>
<tr>
<th>Aims, constraints and stakeholder management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic analysis</td>
</tr>
<tr>
<td>Detailed feasibility and cost benefit analysis</td>
</tr>
<tr>
<td>Programme design and implementation planning</td>
</tr>
<tr>
<td>Implementation</td>
</tr>
</tbody>
</table>

Programme management, workstreams, step plan and issues log

Implementation Critical Success Factors

- Regulatory approvals and tax clearances
- Stakeholder relations and communications
- Cost management
- Interdependencies
- Well-defined and tested strategy and step plan
- Logistics and infrastructure
- Staff retention and employment law
- Financial and tax efficiency during transition

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 financial 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?

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?
Future activity … an iterative process?

Solvency II for groups

Regulatory driven trends

Tax overview

Fiscal driven trends

Market driven trends
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

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

Session overview

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

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

Impact on and role of actuaries

Noel Garvey
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

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

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

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