Key risks faced by insurers

• Access to single market – passporting rights
  – Permission continue writing business

• Rights to servicing existing customers
  – Renewals
  – Unpaid premiums on unexpired contracts
  – Run-off of insurance liabilities

• General uncertainty impacting investment, insurance and reinsurance markets
Some key considerations

- Which EEA country?
- What is the optimal legal entity structure?
- Regulatory permissions and approvals
- Tax implications – VAT, insurance premium tax, corporation tax
- Impact on customers and operations
- Implementation costs and running costs
- Implementation timetable
## Restructuring options

<table>
<thead>
<tr>
<th>UK entity with EEA business</th>
<th>EEA entity with UK business</th>
<th>Nuclear Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Authorise new EEA entity</td>
<td>• Authorise new UK entity</td>
<td>• Sell affected portfolio(s)</td>
</tr>
<tr>
<td>• Authorise European Branches</td>
<td>• New UK branch – third country branch?</td>
<td>• Takeover or merger</td>
</tr>
<tr>
<td>• Convert to Societas Europaea</td>
<td>• Portfolio transfer of back book</td>
<td>• De-authorise?</td>
</tr>
<tr>
<td>• Portfolio transfer (Part VII) of back book</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

25 September 2017
Brexit Planning Framework

Customers
- Retain ability to trade in Europe
- Future flexibility to allocate resources to meet customer needs

Talent
- Implement flexible resourcing model
- Ability to acquire new capabilities
- Retain “corporate memory” and management expertise through transition

Sustainability
- Commitment to the EU
- Platform for efficient regulation
- Establish a growth engine in the EU.

Minimise costs
- Minimise upfront restructure costs and ongoing expenses
- Optimise tax structure

Optimise
- Optimise capital structure
- Review any lost diversification benefits
- Turn Brexit structure into a future growth opportunity.

Entity Determination
Transfer Options
Parameters

Brexit Restructure Planning
Corporate Structure Selection
Renewal right transfers
Portfolio Transfer (Part VII) and Merger
Societas Europaea
Intragroup reinsurance

Key Assessment criteria
- Legal and regulatory feasibility
- Transaction costs
- Tax costs
- VAT Costs
- Capital Impacts
- Reinsurance opportunities
- Incremental run rate
- Employment law
- Management presence

Customers
- Retain ability to trade in Europe
- Future flexibility to allocate resources to meet customer needs

Talent
- Implement flexible resourcing model
- Ability to acquire new capabilities
- Retain “corporate memory” and management expertise through transition

Sustainability
- Commitment to the EU
- Platform for efficient regulation
- Establish a growth engine in the EU.

Minimise costs
- Minimise upfront restructure costs and ongoing expenses
- Optimise tax structure

Optimise
- Optimise capital structure
- Review any lost diversification benefits
- Turn Brexit structure into a future growth opportunity.

Entity Determination
Transfer Options
Parameters

Brexit Restructure Planning
Corporate Structure Selection
Renewal right transfers
Portfolio Transfer (Part VII) and Merger
Societas Europaea
Intragroup reinsurance

Key Assessment criteria
- Legal and regulatory feasibility
- Transaction costs
- Tax costs
- VAT Costs
- Capital Impacts
- Reinsurance opportunities
- Incremental run rate
- Employment law
- Management presence
## Planning Steps

<table>
<thead>
<tr>
<th>Planning Step</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Board engagement**          | - Understand emotional biases within decision makers and team  
                               | - Embed objectivity and independence within governance & decision making                                                                   |
| **Exposure and impact analysis** | - Impact on current mix of business  
                                 | - Impact on scope of services, counterparties and operations                                                                                 |
| **Jurisdiction analysis**     | - Comparison of regulatory, tax and capital implications  
                               | - Also compare employment law, costs and availability of local expertise                                                                        |
| **Cost and benefit analysis** | - Estimate one-off implementation costs and on-going running costs across various options                                                  |
| **Implementation feasibility**| - Timetable for regulatory approvals and portfolio transfers  
                              | - Operational complexities                                                                                                                    |
| **Contingency plan**          | - Key decision timeline working backwards from UK exit date  
                              | - Checkpoints and plans if negotiation outcomes are different to expected                                                                       |
Decision criteria

- **Existing Operations** – footprint and revenue analysis, scalability of existing operations
- **Structural Considerations** – management presence, minimum positions and governance requirements, headquarters vs subsidiary, outsourcing ability
- **Legal and Regulatory Environment** – regulator stance, passporting, data protection, digital acceptance, secrecy laws
- **Financial Factors** – capital structure, distribution arrangements/requirements, reinsurance, transaction cost to set up, ongoing operating costs
- **Tax Factors** – direct and indirect corporate tax regime, capital structure, subsidiary investments, tax registrations
- **People** – availability of talent, employment law, employee tax regime, impact on UK business, e.g. EU nationals in UK and vice versa. Employee rights will also be a major factor here and these issues will be considered further.
- **Country Indicators** – real estate, reputation, ease of doing business, business language, cost of living, commitment to EU, credit agency ratings, local economic and political factors

25 September 2017
Countdown to March 2019…

• Brexit milestones
  – October – December 2017: divorce principles agreed
  – October 2018: UK Govt’s deadline to agree deal
  – 1 April 2019: UK departure from the EU should be complete

• All options still on the negotiating table…
  – Soft vs Hard Brexit
  – Article 50 deadline extension
  – Transitional arrangements
  – Cliff edge Brexit
Regulatory resource availability

• Regulatory approvals
  – Varies by territory
  – Typically between 6 to 18 months under normal conditions
  – High number of applications expected in a number of jurisdictions

• Part VII and other portfolio transfers
  – Depending on negotiations, may no longer be viable mechanism of transfer post Brexit
  – Typically 12 to 18 months under normal conditions

• High number of new applications and transfers already started and many more in the pipeline

25 September 2017
The views expressed in this [publication/presentation] are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this [publication/presentation] and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this [publication/presentation].

The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this [publication/presentation] be reproduced without the written permission of the IFoA [or authors, in the case of non-IFo research].