Brexit
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Uncertainty and Brexit

The UK was due to exit the EU on 31st March 2019 following a two year time period since Article 50 was triggered.

At this time, it was uncertain whether Financial Passporting (FOE and FOS) would continue post-Brexit and whether transitional provisions would be agreed.

“The right to provide business services on a cross-border basis within the European Economic Area (EEA). For insurance contracts, this means that the contract can be underwritten in an EEA member state that is different from the member state where the risk is located.”

A number of multinational insurers based in the UK faced the following uncertainty:

Current Position
- UK legal structure for all Europe operations with EU branches
- Freedom to establish and operate branches across whole of EEA (FOE)
- Freedom of services enabling business to be transacted across single market (FOS)
- A single capital pool
- Single prudential regulator
- Free movement of labour and talent access

Brexit Impact
- If the exit agreement does not preserve the ability to operate as a UK carrier with licenced EEA branches with loss of EU mergers directive, consequences are ability to transact business, reduced diversification benefit and VAT risk
- EU mergers directive allows companies to restructure across Europe in a tax neutral manner. Unless retained as part of the exit negotiations this Directive will expire 2 years after article 50 is notified

Timing Issues
- The UK will have 2 years from submission of Article 50 to exit EU
- Restructure would take 18-24 months
- Two year Brexit negotiation period
- Detailed terms of deal between UK and EU not be known until late in the process

They were left with a decision on how to proceed:

- Do Nothing
- Defer Decision (Wait)
- Restructure Now

“Brexit means Brexit…There will be no attempt to remain inside the EU”
Theresa May
11 July 2016
Principles Governing AIG’s Approach

Customers
- AIG vision
- Retain the ability to trade in Europe
- Flexibility to allocate resource to meet customer needs

Talent
- Highly flexible resource model
- Agility to acquire new capabilities
- Retain corporate memory and management expertise

Sustainability
- Commitment to the EU
- Credibility within the EU
- Efficient regulation

Minimize Cost
- Minimize upfront restructuring cost and ongoing GOE
- Optimized tax
- Adhere to principles of simplify AIG

Optimize
- Find every avenue to turn Brexit into an opportunity
- Recover lost capital diversification benefit
- Secure Internal Model approvals and optimize capital structures

Advantages
- New UK Co
- New Europe Co
- EEA branches
- HQ function

Disadvantages
- Regulators ring-fenced by entity
- RI solution for diversification
- Achievable tax neutrally if prior to loss of EU merger / SE directives
- Potentially most VAT efficient (if Europe HQ stays in UK)

Structure Planning

Advantages
- No transactional costs or structure changes
- Minimise costs simpler transaction than 2 entities
- Merger/SE conversion tax neutral if prior to 2 year exit
- Preferred approach from contagion risk perspective
- Regulators ring-fenced by entity
- RI solution for diversification
- Achievable tax neutrally if prior to loss of EU merger / SE directives
- Potentially most VAT efficient (if Europe HQ stays in UK)

Disadvantages
- Separate regulation of UK branch plus capital
- Loss of diversification (same as “do nothing”)
- Dual regulation UK branch plus effectively whole entity
- PRA may expect subsidiary in UK, even if one entity solution attempted
- Later conversion may trigger material tax charge

Other Considerations
- Using single European entity route may be significantly quicker and cheaper than portfolio transfer and cross-border merger. NB Establishment requires agreement on employee involvement rights.
- Structure needs to minimise impact of corporate tax and indirect tax impacts and minimise incremental costs of substance requirements in jurisdiction
- Multiple (>2) Entities. Discounted because of cost and likely increased loss of diversification benefit
- Run-Off. Considered run-off of old book and transfer renewal rights and people to a new EEA entity. Discounted on basis of cost, tax cost and complexity
Two Entity Structure
Option to establish two new holding companies, one in Europe and one in the UK.

Strategic Decision
Those that decided to reduce the uncertainty and act immediately faced strategic considerations to restructure their operations.

- **Jurisdiction (GOE)**
  - The choice of jurisdiction for EEA Co must accommodate cost efficiency with reputational considerations
  - The choice may also provide for VAT efficiency
  - Ability to effect an appropriate level and type of group reinsurance (QS, AYSL) to manage the lost diversification effects
  - Help to manage set up and run rate costs

- **Capital Efficiency (Capital)**
  - Opportunity to effect a QS /AYSL reinsurance from new European company to Group Holding Co
  - Short-list of European jurisdictions open to such structures
  - Aim to recover lost capital diversification
  - Risk that reinsurance arrangement could partially invalidate tax neutrality of restructuring
  - May impact ability to implement tax neutral structure if a lower branch “tax footprint” post transaction

- **Management Structure (GOE)**
  - European jurisdiction will require a minimum presence of senior management – large ranges and subject to negotiation
  - Group structure will ensure risk of dual regulation is minimized at both solo and group level and therefore minimise regulatory cost
  - Other management structure options and considerations
Considerations During Relocations

**Political**
- Euroscepticism
- Capacity of Regulator
- Regulatory Sophistication
- Stability
- Foreign Trade Policy
- Staff Presence Requirements

**Economic**
- Stability
- Tax Regime
- Expense Model
- Currency & FX
- Interest Rates
- Inflation
- Business Profile
- Competitor Presence
- Capital
- Market Salaries

**Social**
- Access to Talent
- Business Language
- Employee Living Arrangements
- Repudiation Implications
- Employee Relocations

**Technological**
- Business Infrastructure
- Technological Infrastructure
- Transport Infrastructure
- Internal Processes

**Legal**
- Employment Laws
- Data Privacy
- Workers Rights
- Visas
- Restructuring Requirements

**Environmental**
- Office Footprint
- Business Travel
- Sustainability

Communications

Pro-active communications strategy allowing us to control the message and demonstrate decisiveness and continuity

**Clients / Brokers**
- Key message: this is about continuity and legal mechanics. No action required.
- Capitalize on demonstration of adaptability, strength and ability to act decisively.
- Key client / broker letters and talking points.

**Staff**
- Reassurance that no change to roles for vast majority of staff. Maintain focus on business plan.
- Communication to staff, intranet article, manager talking points and Q&A.

**Regulators / Government**
- Letters from leaders who met regulators / government in countries.
- PRA & FCA are briefed on planning and will be advised in advance.
- Meetings with branch regulators.
- Maintain close contact with government in the UK, Brussels and new holding company jurisdiction to inform the Brexit debate and garner intelligence.

**Media / Trade Press**
- By pro-actively making an announcement, we can control the story better than in the event of a leak.
- Press release prepared – key message of continuity, certainty, agility and decisive action.
- Not aiming to be high profile – announcing when Article 50 triggered is a logical reaction to events.
- Anticipate others will follow the first insurer to announce.
## Transfer Mechanism

(1) UK Part VII transfer of UK business to new UK Co and (2) simultaneous portfolio transfer and merger of remnant business to new European Company resulting in a two-entity end state.

| Customers | ✓ Clear message: No action required from customers. No consent required as policyholders transfer as matter of law. |
| Talent    | ✓ Retains the ability to operate a hub & spoke model, drawing on talent and centers of excellence from across Europe. |
| Sustainability | ✓ European Company can operate flexibly in the EEA through a branch structure. |
| Minimize Cost | ✓ Avoids material tax cost on transaction. |
| Optimize  | ✓ Does not erect barriers to future further restructuring; ongoing monitoring of EU political situation. |

- Mitigates material incremental ongoing GOE & VAT.
- Although transaction cost high due to policyholders communications, it is not materially different to other available options.
- Achieves separate regulation of UK & EEA entities, which is key to the optimisation opportunities.
- Retains flexibility to switch to European Company conversion route for limited period.
- Structure retains UK HQ talent, avoiding knowledge loss and duplicative expense.
- European Company can operate flexibly in the EEA through a branch structure.
- Clean capital result in UK and European Company upon execution assuming both entities on Internal Model; Company bifurcated and surplus capital transferred.

Facilitates reinsurance optimization opportunities to U.S. Pool, enabling recovery of lost capital diversification.