



Institute
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The implications of BrExit

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Presentation to the Chief Actuaries' and Senior Life Actuaries' Workshop

5 October 2016

Overview

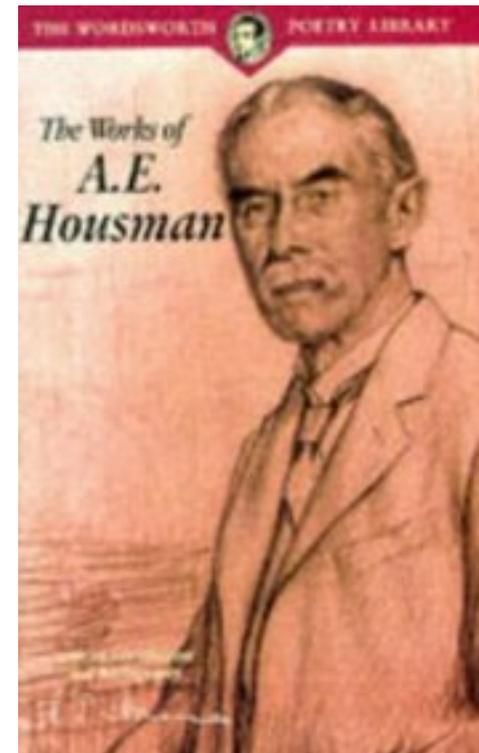
- Treasury Committee enquiry into Solvency II
- Possible models for the UK relationship with the EU
- Some key issues arising under Solvency II
- Passporting
- Equivalence
- Group supervision
- Reinsurance

BrExit poetry ?

A.E. Housman, *A Shropshire Lad*, 1896

INTO my heart an air that kills
From yon far country blows:
What are those blue remembered hills,
What spires, what farms are those?

That is the land of lost content,
I see it shining plain,
The happy highways where I went
And cannot come again



Treasury Committee - Objectives

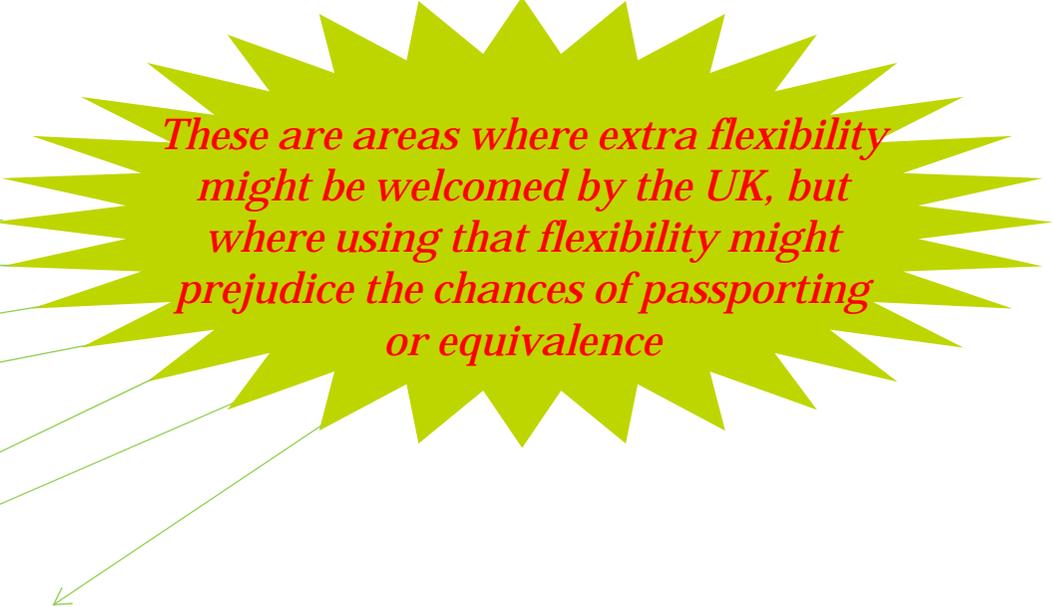
- Consider the options for the UK insurance industry that are created by the decision to leave the EU
- Assess any impact of Solvency II on the competitiveness of the UK insurance industry
- Examine the impact of Solvency II on the role of insurance in meeting the needs of UK customers and the wider UK business economy
- Assess any learning for both regulators and industry from the introduction of this major piece of insurance harmonising legislation

Possible models

Regime	Passporting	Influence over EU legislation	Comment
EEA (Norway Model)	Yes	Consultation rights – no veto	Retains access to EEA Market Requires free movement of persons Potentially quickest to implement
Co-operation Agreements (Swiss Model)	Depends on what is negotiated	No	Passporting conditional on free movement of persons?
Comprehensive Free Trade Agreement	Depends on what is negotiated	No	Time consuming to negotiate Passporting conditional on free movement of persons?
Reliance on WTO rules	No	No	

Key areas of interest

- Passporting
- Equivalence
- Group supervision
- Risk margin
- Matching Adjustment
- Internal model approvals
- Standard formula
- Flexibility for capital add-ons
- Authorisation of insurers
- Authorisation of branches of third country insurers, including of EU insurers



These are areas where extra flexibility might be welcomed by the UK, but where using that flexibility might prejudice the chances of passporting or equivalence

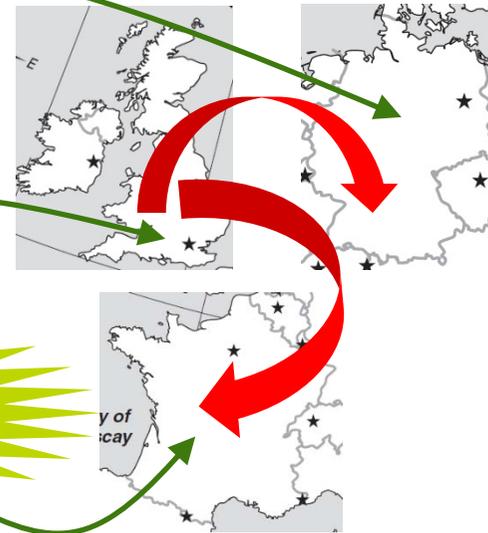
Passporting

Authorisation and prudential regulation only in UK

UK still in the EEA



UK out of EEA



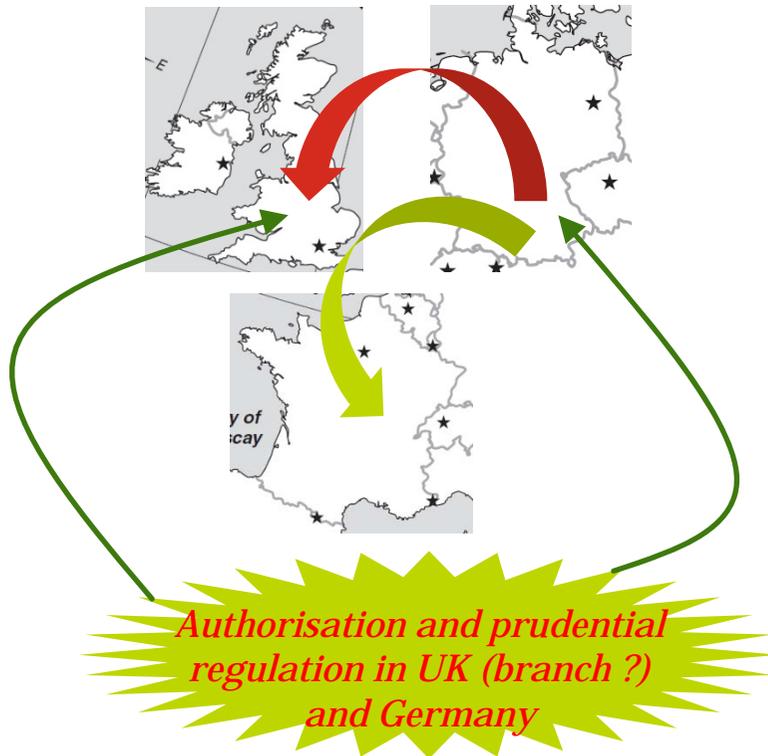
Authorisation and prudential regulation in UK, France (branch) and Germany (branch)

UK insurer passports into France and Germany though local branches German branch; authorisation and prudential regulation all by the UK regulator

Each branch requires authorisation by the local regulator as a branch of a third country insurer if it is to do business in those countries

Restructuring to facilitate passporting

Possible restructuring



Establish German insurer which passports into Germany under Solvency II, and establishes a UK branch under UK rules governing establishment branches of third country insurers

What about existing business ?

- Reinsurance
- Transfer of business to German insurer under Part VII
- Convert insurer to Societas Europaea (SE) and transfer registered office

Equivalence decisions

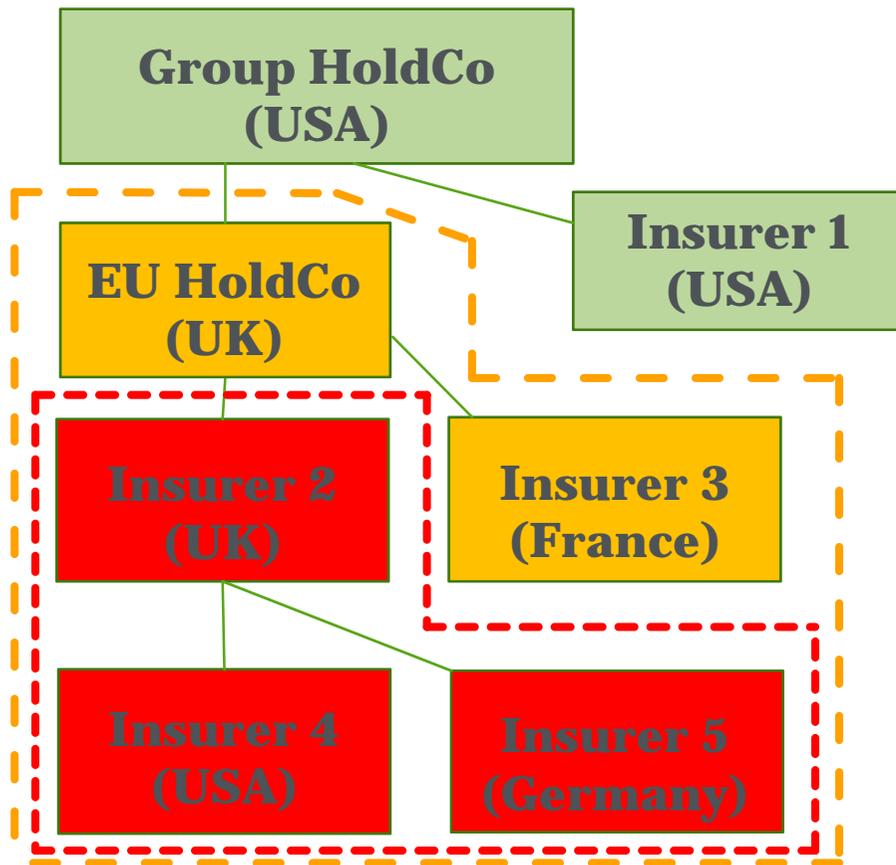
Looking "down" the group, but only where aggregation and deduction method is used

Looking "up" the group

Jurisdiction	Art 172 (Reinsurance)	Art 227 (Solvency calculation)	Art 260 (Group supervision)
Switzerland	Yes	Yes	Yes
Bermuda *	Yes	Yes	Yes
Japan	Temporary (5 years)	Provisional (10 years)	
USA		Provisional (10 years)	
Australia		Provisional (10 years)	
Brazil		Provisional (10 years)	
Canada		Provisional (10 years)	
Mexico		Provisional (10 years)	

* Apart from captives and SPVs

Group supervision – While the UK is in the EU



- Group calculation based on the consolidated position at level of:

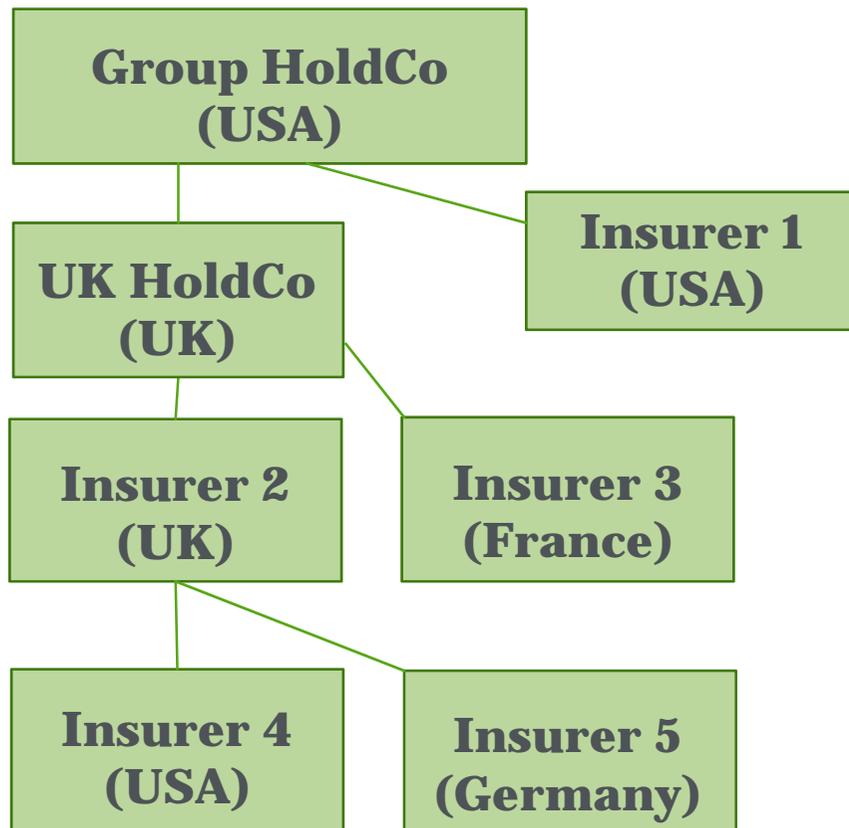
1. Insurer that is the parent of another insurer (inside or outside the EU)

2. An "insurance holding company" or mixed financial holding company which has its head office in the EU

3. An "insurance holding company" or mixed financial holding company which has its head office outside the EU (**Article 260 waiver** may be required)

- Where the insurer is a subsidiary of a "mixed activity insurance holding company", intra-group transactions are supervised, but a group-level capital assessment is **not** applied

Group supervision – UK out of the EU and EEA



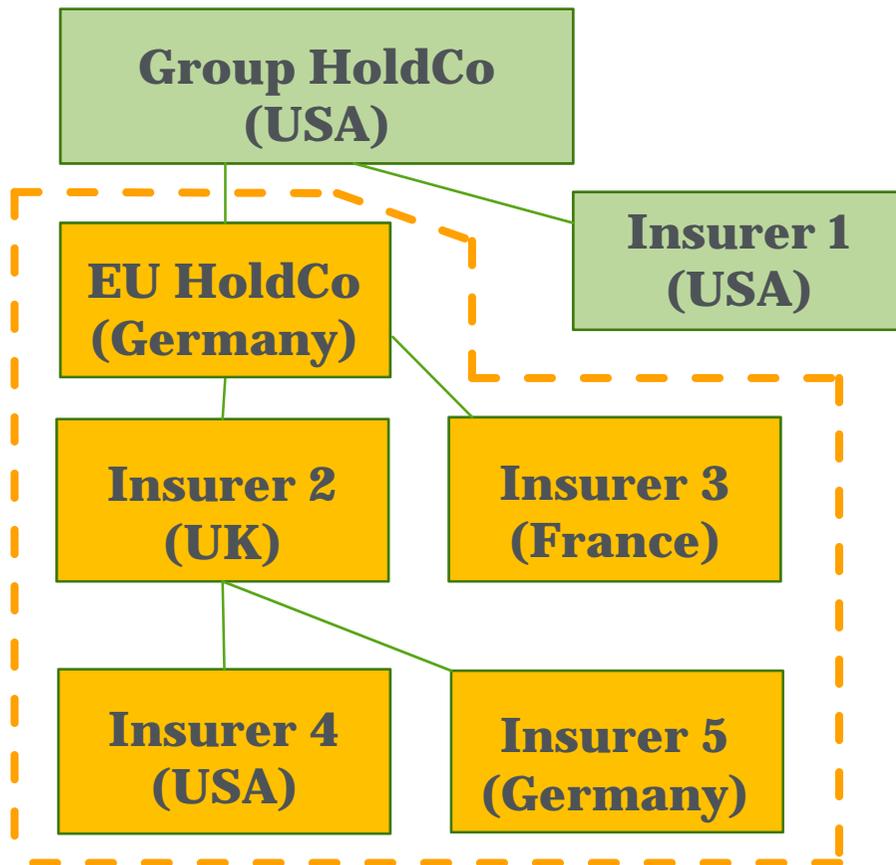
No longer any Solvency II participating insurer, so no Level 1 group supervision

No longer any common EEA holding company for French and German insurers, so no Level 2 group supervision

Therefore group supervision applies only at the level of the Group HoldCo, which is in the USA, which is not Article 260 equivalent

- Article 260 waiver is much more difficult as there is no EEA HoldCo to insulate the Solvency II insurers from the non-EEA part of the group
- The UK regulator is no longer able to approve a group internal model, so the French and German insurers require a new internal model

Group supervision – Restructured group



Still no Solvency II participating insurer, so no Level 1 group supervision

There is now a common EEA holding company for French and German insurers, so Level 2 group supervision applies at EU HoldCo level

Level 3 supervision applies at the level of the Group HoldCo, which is in the USA, which is not Article 260 equivalent

- Article 260 waiver is now possible as there is an EEA HoldCo which can insulate the Solvency II insurers from the non-EEA part of the group
- The German regulator can now approve a group internal model
- How is the UK insurer included ? Article 227 equivalence ? Consolidation under Solvency II¹²?

Reinsurance equivalence

- Requirements for reinsurance

- Legally effective and enforceable

- Effective risk transfer

- Eligible reinsurer:

- (re)insurance undertaking authorised in the EEA meeting its SCR

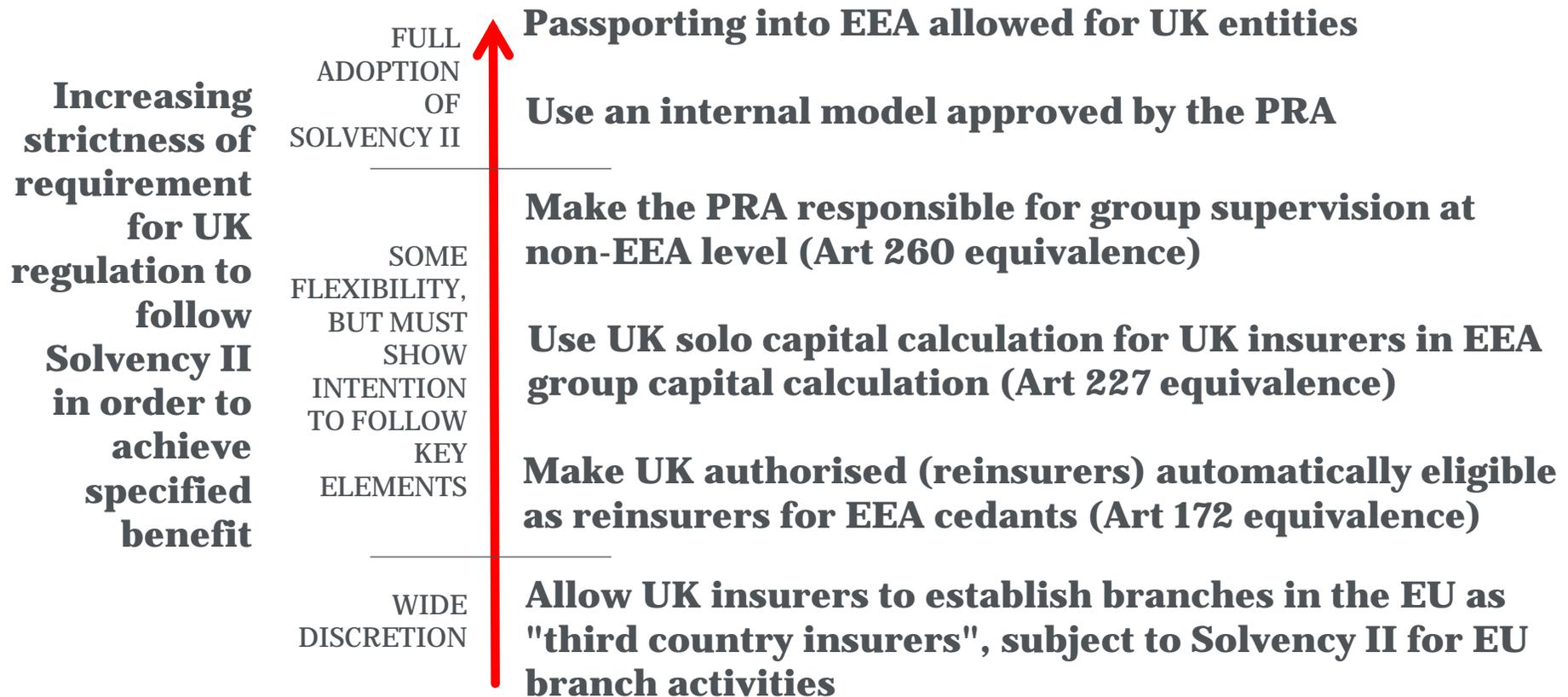
- (re)insurance undertaking authorised in **EEA-equivalent regime meeting its SCR**

- (re)insurance undertaking authorised in non-EEA-equivalent regime rated at least BBB

- SPV authorised under Solvency II or in EEA-equivalent regime or authorised prior to 31 December 2015 under the EU Reinsurance Directive

If the reinsurer is not eligible then an alternative is to rely on collateral

BrExit – What might change





Questions



Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

Contact for questions



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