Can an insurance business transfer keep you a step ahead?*

*connectedthinking

PricewaterhouseCoopers

Our experience

PricewaterhouseCoopers is one of the market leaders in insurance business transfers and has been involved in more Part VII transfers than any other firm, as adviser or independent expert. We bring a dedicated team of over 200 specialists, including actuarial, advisory, regulatory, legal and tax professionals that can advise on all aspects of the transfer process.

An example of how we deliver exceptional service to our clients was demonstrated in a recent assignment for a major international insurer in what was one of the largest Part VII transfers effected to date. We delivered a multi-disciplinary team to advise on the transfer of three portfolios of business into a single entity and worked seamlessly with our client to ensure that they achieved their desired capital and operational efficiencies within a very tight timescale, on budget and with the minimum of disruption. We were commended on our work by the Independent Expert.

We continue to work with our clients involving some of the most complex and challenging insurance business transfers that the market will ever see.

Contact details

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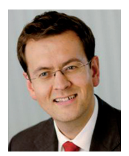

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Can you make your capital work harder?

Can streamlining your corporate structure help you achieve cost savings?

Can your financial and regulatory reporting burden be minimised?

Can you better pursue strategies by separating your legacy and current business?

Insurance business transfers have become increasingly popular in the insurance market in recent years in addressing these and other challenges, delivering tangible and sustainable benefits for insurers and reinsurers.

An insurance business transfer is the process by which insurance policies can be moved from one legal entity to another. They have most commonly been used in the UK, with many companies taking advantage of Part VII of the Financial Services and Markets Act 2000 to move business either within a group or to an external party. Activity has been seen in all parts of the insurance landscape, including current / discontinued, direct insurance / reinsurance and life / non-life business.

However, it is not only in the UK where there is business transfer activity. Legislation is available across the EEA which allows transfers to take place either within or between member states and furthermore, UK legislation allows transfers to the UK from non-EEA territories. With current passporting opportunities enabling business to be written across the EEA from a central location and forthcoming developments such as Solvency II (which will increase the pressure on capital and reporting requirements), the need to explore all options to keep ahead of the competition is increasingly important.

In particular, groups with more than one subsidiary should give particular consideration to whether a reorganisation, for example, to a branch structure, may provide an advantage from a capital and regulatory perspective.

Why consider an insurance business transfer?

An insurance business transfer to an entity either within or outside of a group can re-shape a business to be best prepared for the future. Whilst the specific motivations for each transfer will differ, there are a number of common themes which apply for both the transferring and receiving parties. The predominant objectives and drivers for an insurance business transfer are illustrated in the diagram opposite.

Real and tangible benefits can be gained from a business transfer and the decision to proceed with a transfer can be a catalyst and form the cornerstone for achieving operational and financial improvements for both the transferring and receiving parties. Such advantages can be gained in both transfers internal to a group and also transfers to external third parties.

If these advantages resonate with your corporate aims, consideration should be given to effecting an insurance business transfer.

Transferring Party

- Group restructuring
- Reduced risk
- Improved solvency
- Operational efficiency
- Removal of non-core lines
- Release of capital

Shared

- Capital efficiency
- Lighten regulatory / reporting burden
- Corporate simplification
- Separating old and new business
- “Entry” or “Exit” from the market

Receiving Party

- Regulatory and operational efficiency
- Tax advantages
- Market presence / increased share
- Creation of centre of excellence
- Profit from efficient management / exit
- Consolidation of legacy business

Stakeholder Management		
	Strategy	• Options review and impact assessment • Understanding of process / requirements
	Design	• Determination of capital structure • Modelling of assets / liabilities
	Project management	• Route map / detailed project planning • Resources / progress monitoring / reporting
	Tax	• Impact on group / policyholder • Group structuring and tax optimisation
	Regulatory	• Capital requirements / extraction • Consultation with home and overseas Regulators
	Policyholder contact	• Identification / notification / possible waivers • Promotion
	Independent expert	• Selection and briefing • Preparation of explanatory support material
	Legal	• Drafting transfer documentation • Preparation and support for Court hearings
	Ongoing administration	• Migration / rationalisation post transfer • Accounting treatment

Key elements of the transfer process

The transfer process in different territories is governed by local legislation and operates slightly differently in each. For example, an Independent Expert’s report and a Court process is required in the UK but not in other territories. The basic elements of designing a transfer, notifying relevant parties and regulatory consultation, however, remain comparable throughout the EEA. It is particularly important that any transfer is carefully thought out with due consideration given to implementation and the position post-transfer so that potential pit-falls can be avoided.

Based on the UK process, the key elements of a business transfer are shown in the diagram opposite. The size and complexity of business transfers has increased over the past few years and a very robust and structured process is required to deliver a business transfer on time and in budget. It is therefore important to consider in the planning process all key areas, for example tax and regulatory matters, to ensure that the overall approach and structure of the transaction maximises the potential benefits and meets corporate objectives. With many interrelated workstreams, careful project management becomes central to the success of the transfer, not only in terms of meeting important deadlines, but also in ensuring that all workstreams operate seamlessly to deliver the required result.

More attention is being given to insurance business transfers so careful stakeholder management is vital throughout the entire transfer process. Transfers affect many different stakeholder groups, for example Regulators and reinsurers in addition to policyholders, so a variety of skills are needed to implement a successful transfer.

In our experience, the advance planning of an insurance business transfer and the early resolution of any potential issues makes all the difference in achieving an efficient and effective transfer. Through our work on a wide range of business transfer projects, including some of the largest and most complex to be proposed, we understand the concerns of the stakeholder groups and can advise on approaches to address and remedy their issues and concerns.

Can an insurance business transfer deliver finality?

Transferor companies are able to achieve an exit from either part or the whole of their business through an insurance business transfer. True finality for all parties including policyholders can however only be achieved through a scheme of arrangement (‘Scheme’), a mechanism under the UK Companies Act.

A Scheme is a well established Court driven process which provides for the settlement of all current and future liabilities and, once effective, concludes the business that is subject to the Scheme. Increasing numbers of companies, including many overseas carriers, are recognising a Scheme as an effective exit mechanism.

The process by which a Scheme can be accessed either in conjunction with or without an insurance business transfer is set out in the diagram opposite.

For overseas entities, a Scheme can be proposed to policyholders if “sufficient connection” to the UK can be demonstrated (e.g. the presence of UK policyholders, debtors or UK brokered business). Where sufficient connection cannot be demonstrated, a Scheme is possible for overseas entities by first transferring the business into the UK from the original territory using either the Third Non-Life Directive or the Reinsurance Directive, as appropriate.

An insurance business transfer can therefore be a key part of the strategy for achieving complete finality, which might not have otherwise been available, when used in conjunction with a Scheme.