

# IRLA ACADEMY INTERNATIONAL SEMINAR

PLEASE TAKE YOUR SEATS

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# INTRODUCTION AND AGENDA

Paul Corver  
IRLA Chairman

# Who we are

- IRLA membership brings a wide range of advantages which you can see on [www.irla-international.com](http://www.irla-international.com)  
...they are updated frequently
- Today we talk about just two of these benefits: access to training and the Young Professionals Group

# IRLA Academy

Cost effective training programmes, including technical half day master classes, topical breakfast briefings, introductory “Link & Learn” sessions; all specifically designed for the needs of our market sector.

Fully accredited by the Chartered Insurance Institute (CII) for Continuing Professional Development and recognised by other relevant Associations to form part of their studies.

# IRLA Academy

The IRLA Academy programme has the support of our regulators the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). It also works closely with the Employers' Liability Tracing Office (ELTO), the Department for Work & Pensions and the Financial Services Compensation Scheme.

Consistent involvement from leading industry speakers and presenters from the UK and overseas markets.

# IRLA Academy

Commercially-relevant and topical content. We also offer bespoke / in-house courses.

Members can access current video (from certain training events) and historic slidedecks using their unique member logon  
via: [www.irla-international.com](http://www.irla-international.com)

# IRLA YPG

A platform for networking, sharing, learning and development

- Making an active contribution to the legacy sector
- Offering peer to peer interaction
- Personal development opportunities
- Developing relationships internally and externally
- Building life skills
- 11.5 hours per year of CPD accredited training included free
- Mentoring Scheme open to all
- YPG of the Year Award



ANY QUESTIONS?

# SOLVENCY II, WHERE ARE WE?

Gideon Benari  
Solvency II Wire

- Brexit
- Solvency II 2018 review
- Disclosures

# Brexit

- Carrying on business after Brexit
- Relocation
- Economic impact
- Uncertainty

# Solvency II

- BAU
- Review of SCR calculation in the standard formula
- Disclosures

# 2018 review of the method of calculating the SCR in the standard formula

- **Simplified calculations**
- Reducing reliance to external credit ratings in the standard formula
- Treatment of guarantees, exposures guaranteed by a third party and exposures to regional governments and local authorities (RGLA)
- Volume measure for premium risk
- Assessment of the appropriateness of standard parameters for non-life premium and reserve risks and for medical expense risk
- Natural **catastrophe risks**
- Man-made **catastrophe risk**
- Calibration of mortality and longevity risk
- Health catastrophe risk
- USP and GSP on underwriting risks
- Simplifying counterparty default risk module
- Currency risk at group level
- **Look-through approach:** simplifications and investment related vehicles
- Interest rate risk sub-module
- Loss Absorbing Capacity of Deferred Taxes (LAC DT)
- **Risk margin**
- Comparison of own funds in insurance and banking sectors

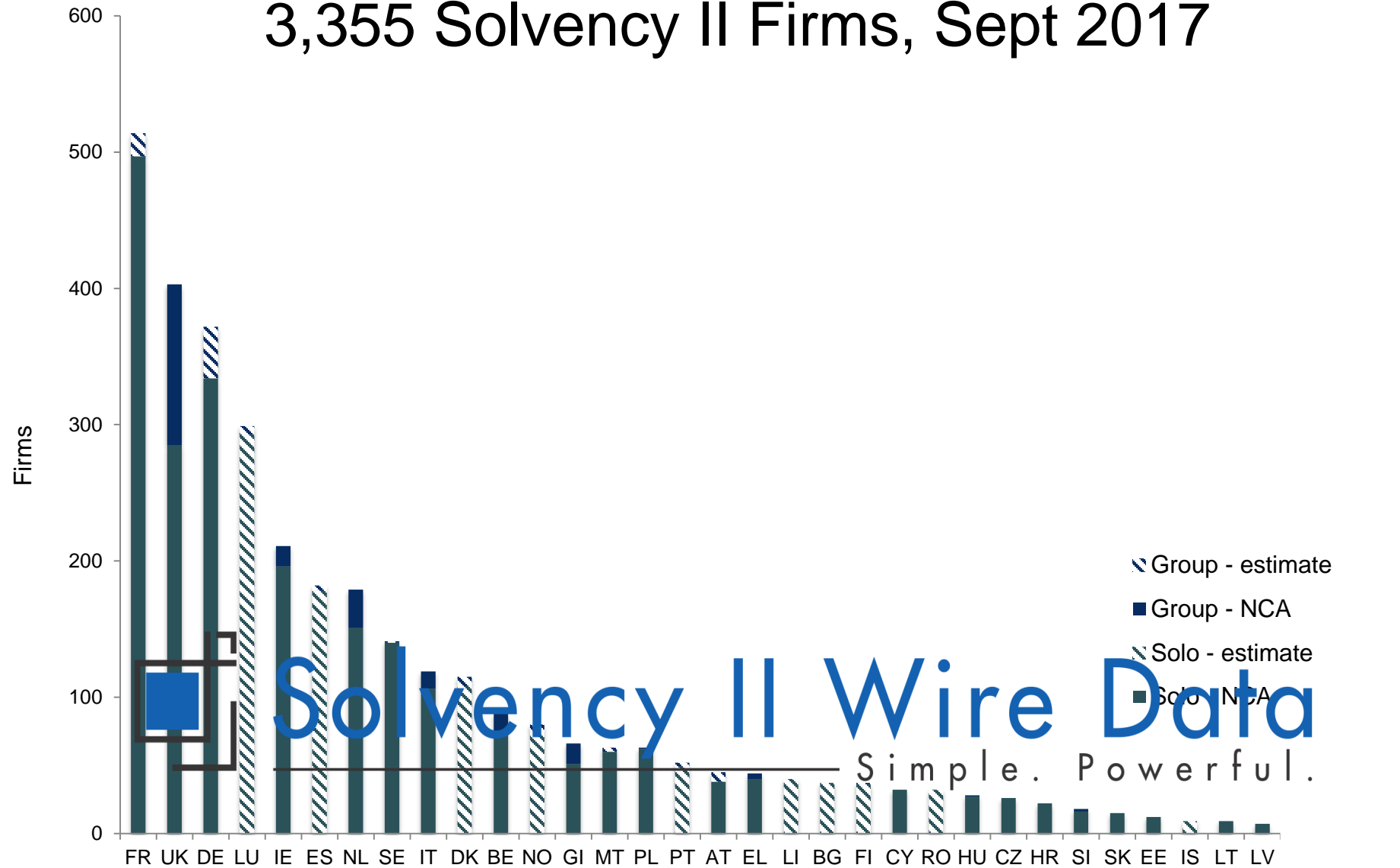
# Disclosures

- Levels of disclosure
- Impact and comparison

# Data analysis

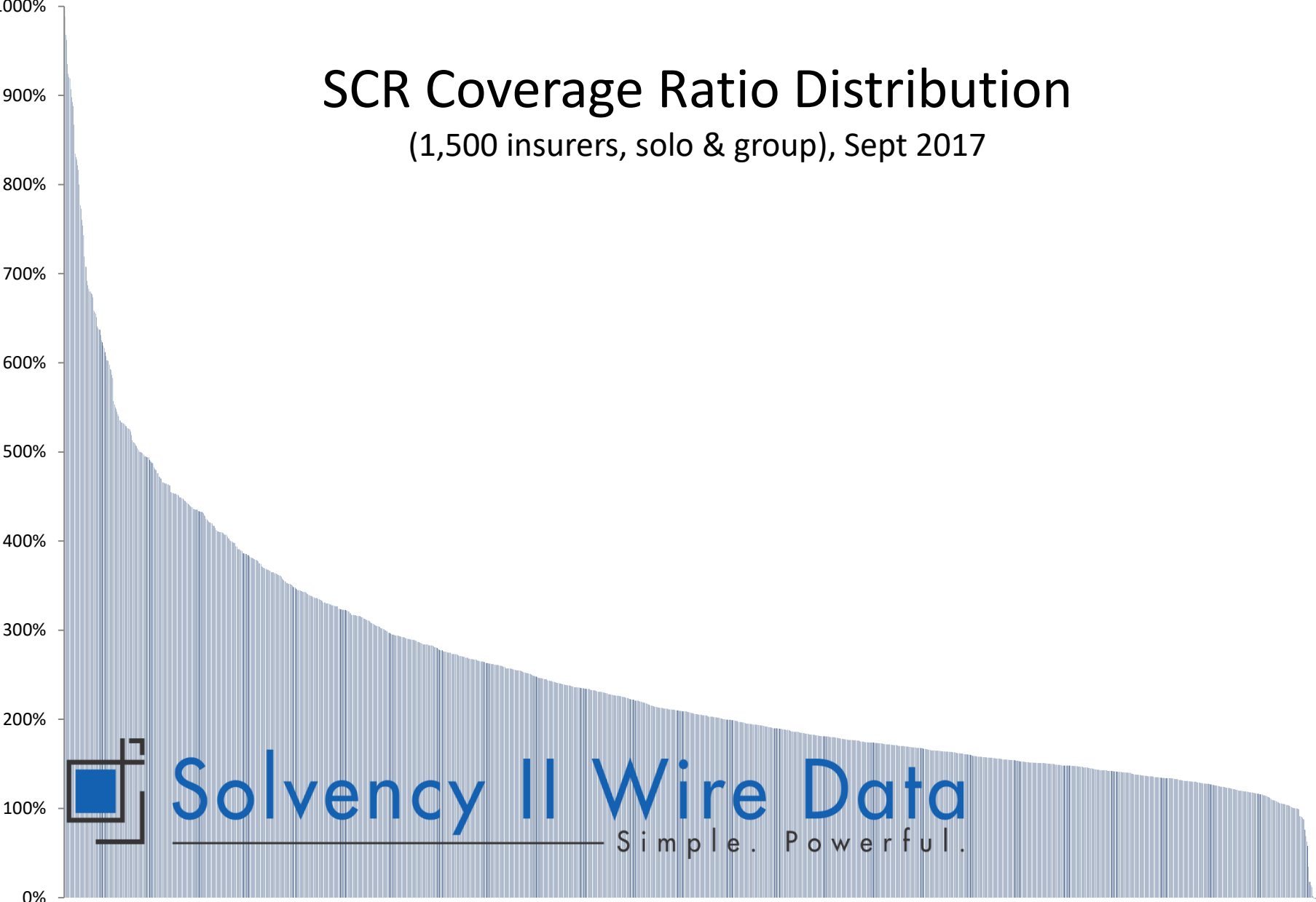


# 3,355 Solvency II Firms, Sept 2017



# SCR Coverage Ratio Distribution

(1,500 insurers, solo & group), Sept 2017



Solvency II Wire Data  
Simple. Powerful.

Chart excludes outliers above 1000% SCR coverage ratios

Solvency II Wire Data  
Simple. Powerful.

# SCR Coverage Ratio Distribution by Country

(1,500 insurers, solo & group), Sept 2017

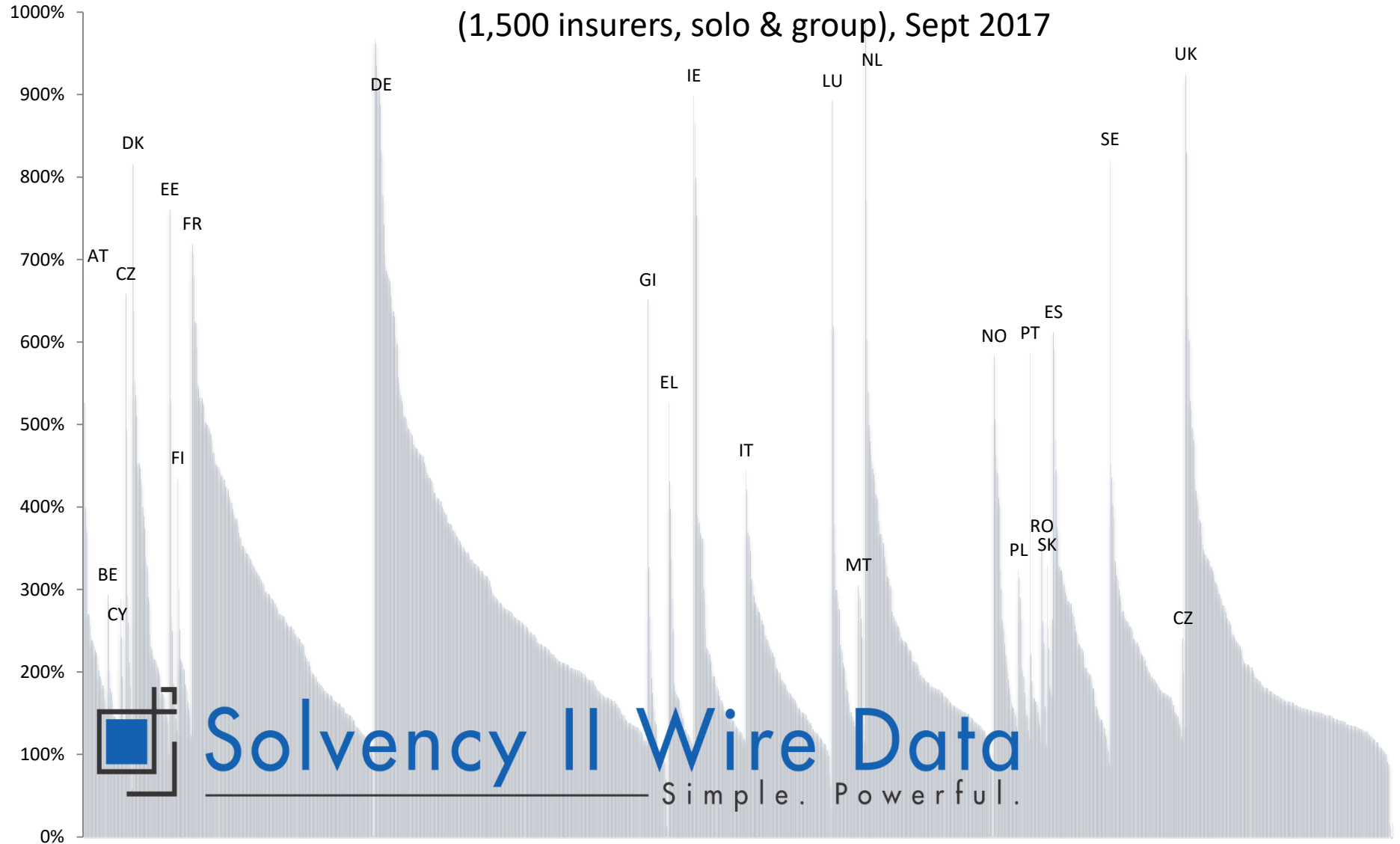


Chart excludes outliers above 1000% SCR coverage ratios

# Runoff targets

SCR Ratio <120%



90 Firms

## Capital model

85 standard formula  
3 partial internal model  
2 internal model

## Firms by country

20 United Kingdom  
12 Italy  
11 Gibraltar  
10 France  
37 Other

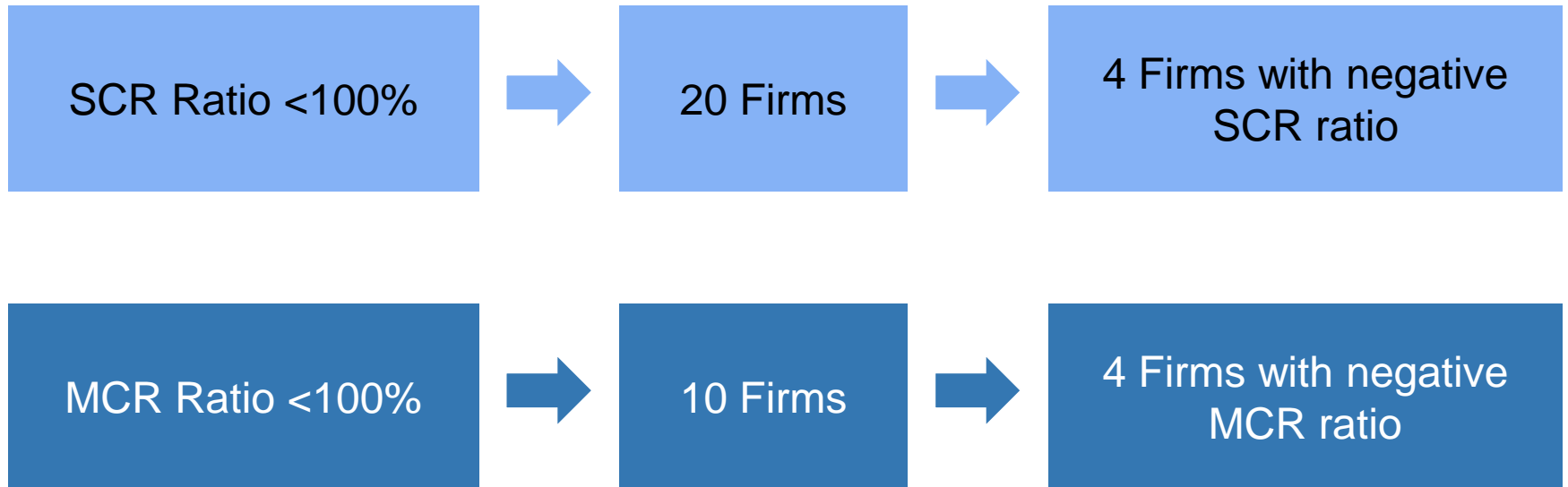
## LTG

41 using transitionals  
26 Volatility Adjustment  
12 Transitional on technical provisions / interest rate  
3 Matching Adjustment

## LoB

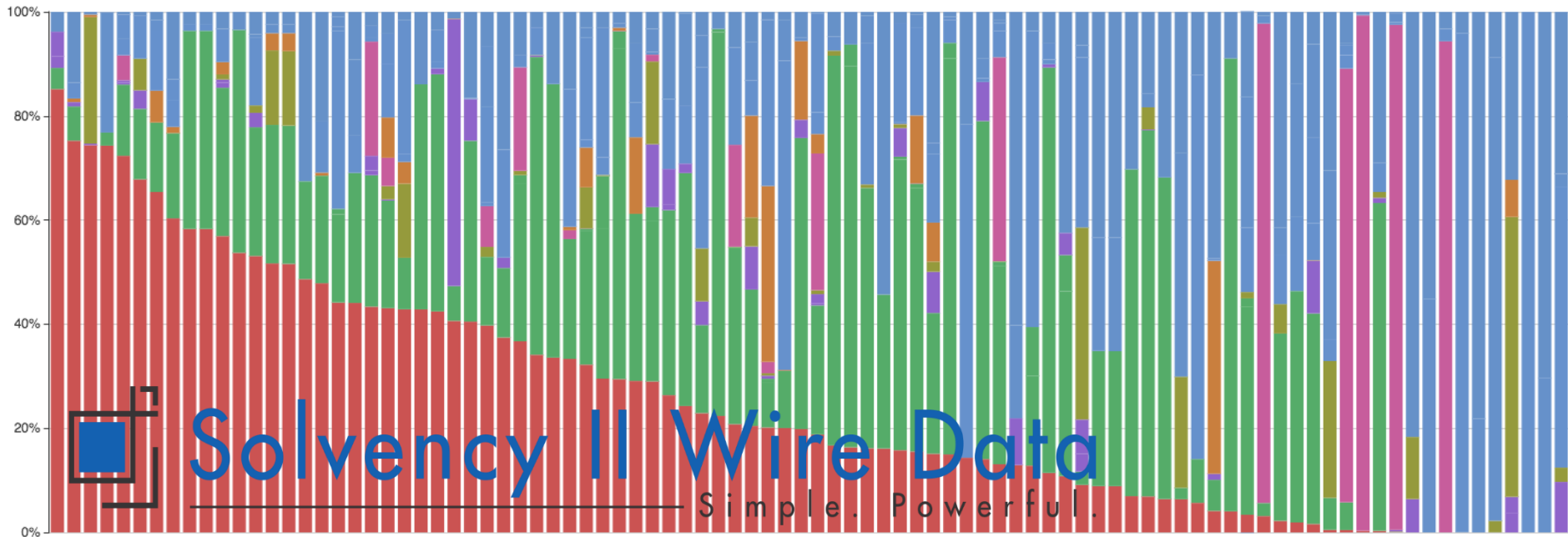
62 non-life  
22 life  
6 composite

# Runoff targets



# Asset allocation sorted by government bonds

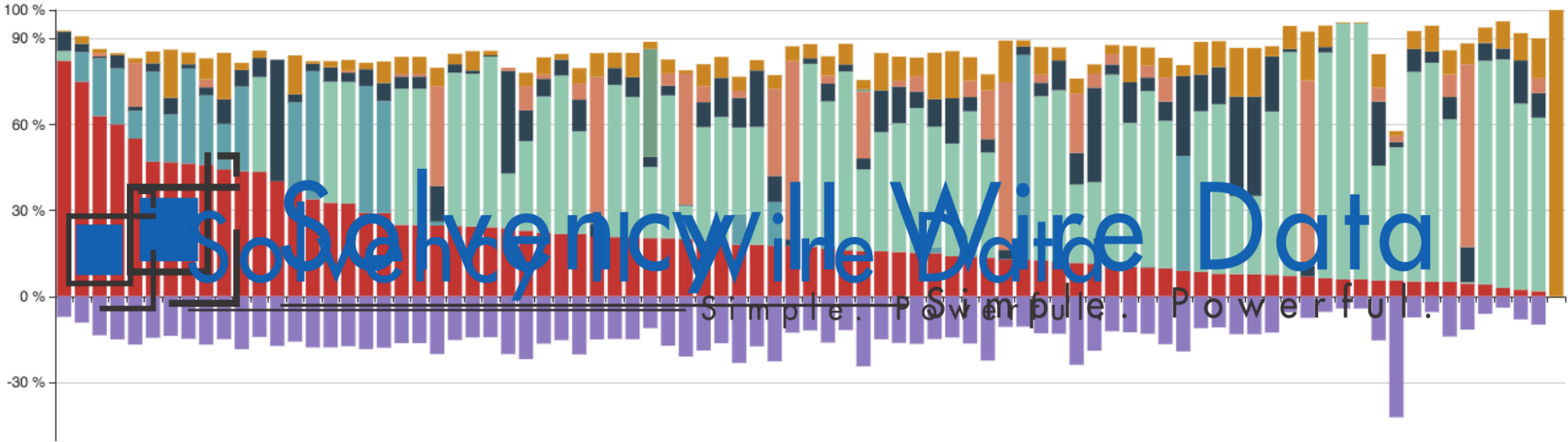
90 firms with SCR ratio < 120%



- Corporate bonds
- Assets held for index-linked and unit-linked contracts
- Derivatives, structured notes, other investments
- Equities
- Government bonds
- Property

# SCR components

90 firms with SCR ratio < 120%





- Counterparty default risk
- Market risk
- Diversification
- Life underwriting risk
- Health underwriting risk
- Non life underwriting risk
- Intangible asset risk
- Operational risk



# Tier capital

90 firms with SCR ratio < 120%



Solvency II Wire Data

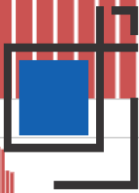
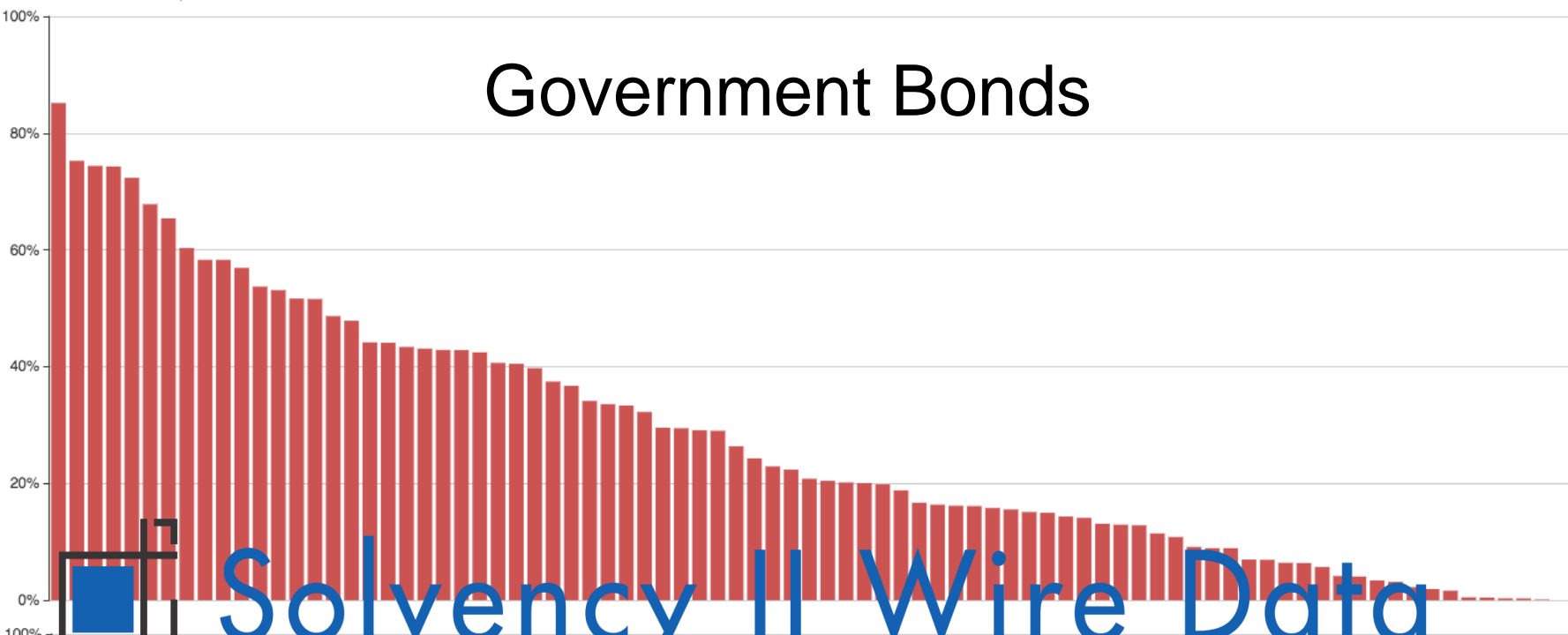
 Tier 1 unrestricted  
 Tier 1 restricted

 Tier 2  
 Tier 3



# Government Bonds

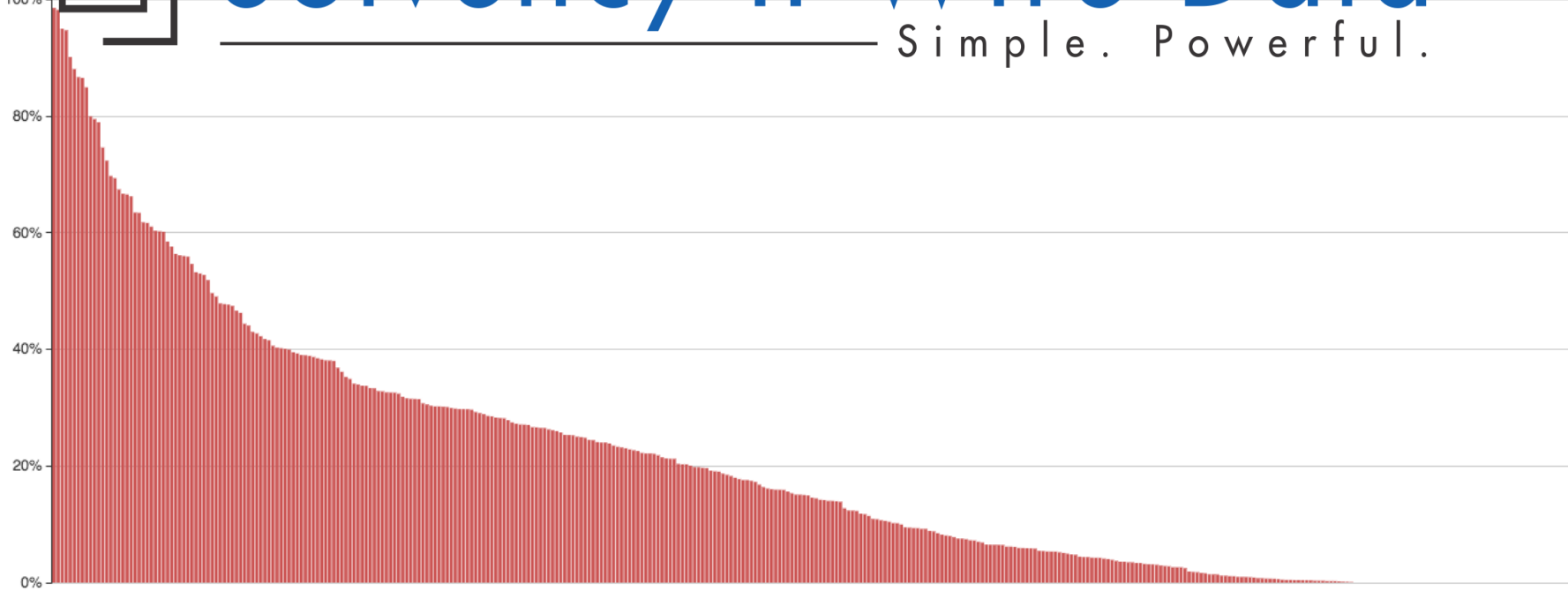
90 firms SCR ratio < 120%



# Solvency II Wire Data

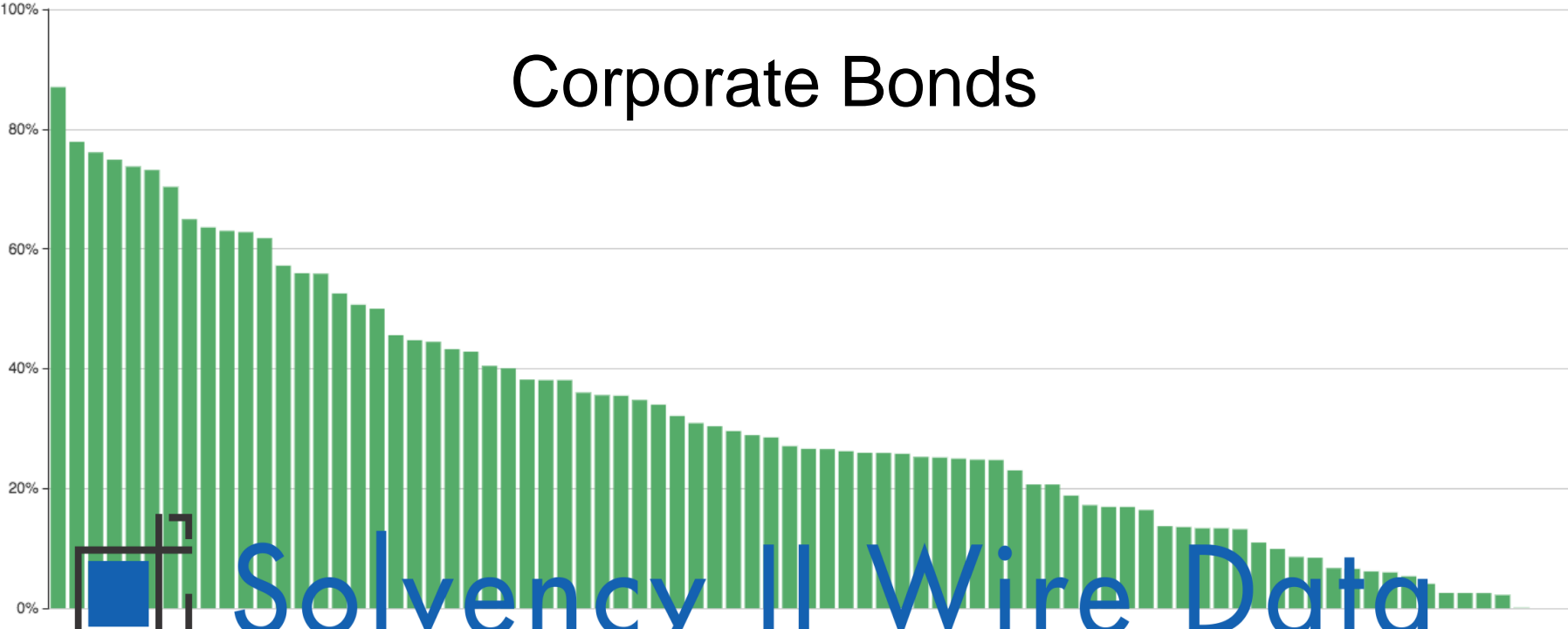
Simple. Powerful.

400 firms SCR ratio > 300%

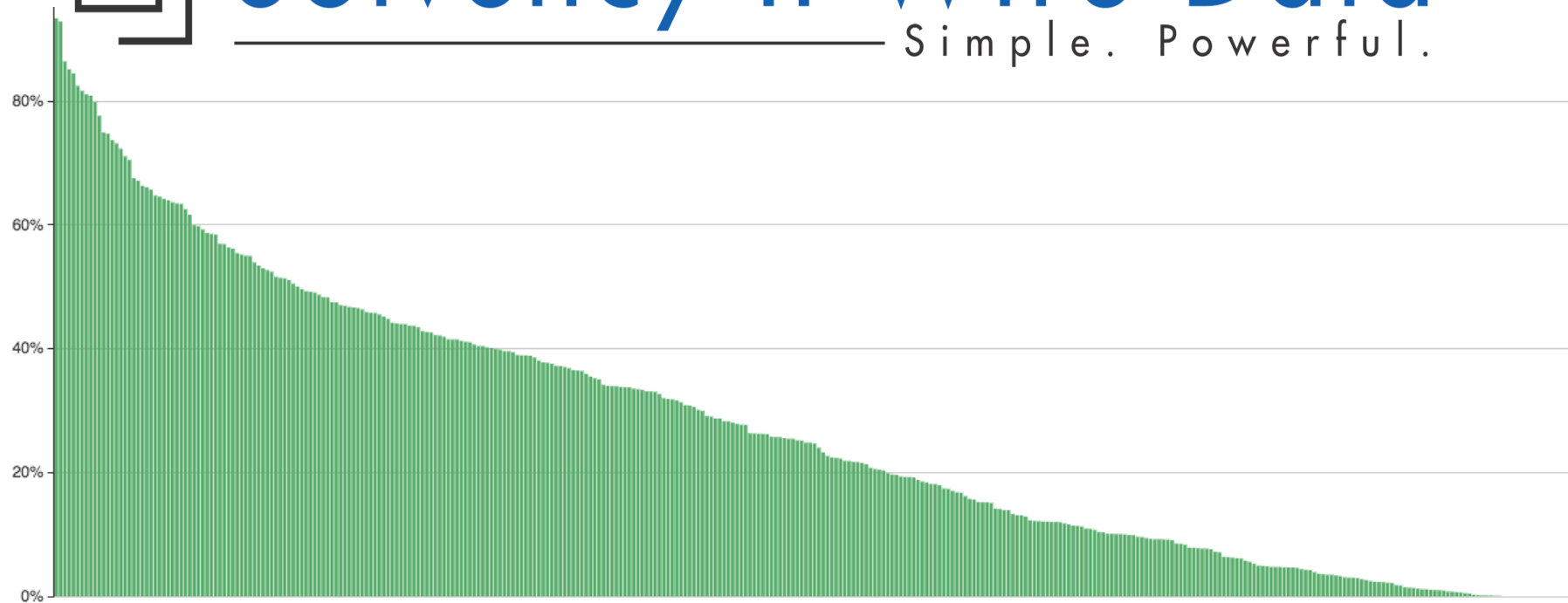


# Corporate Bonds

90 firms SCR ratio < 120%



400 firms SCR ratio > 300%

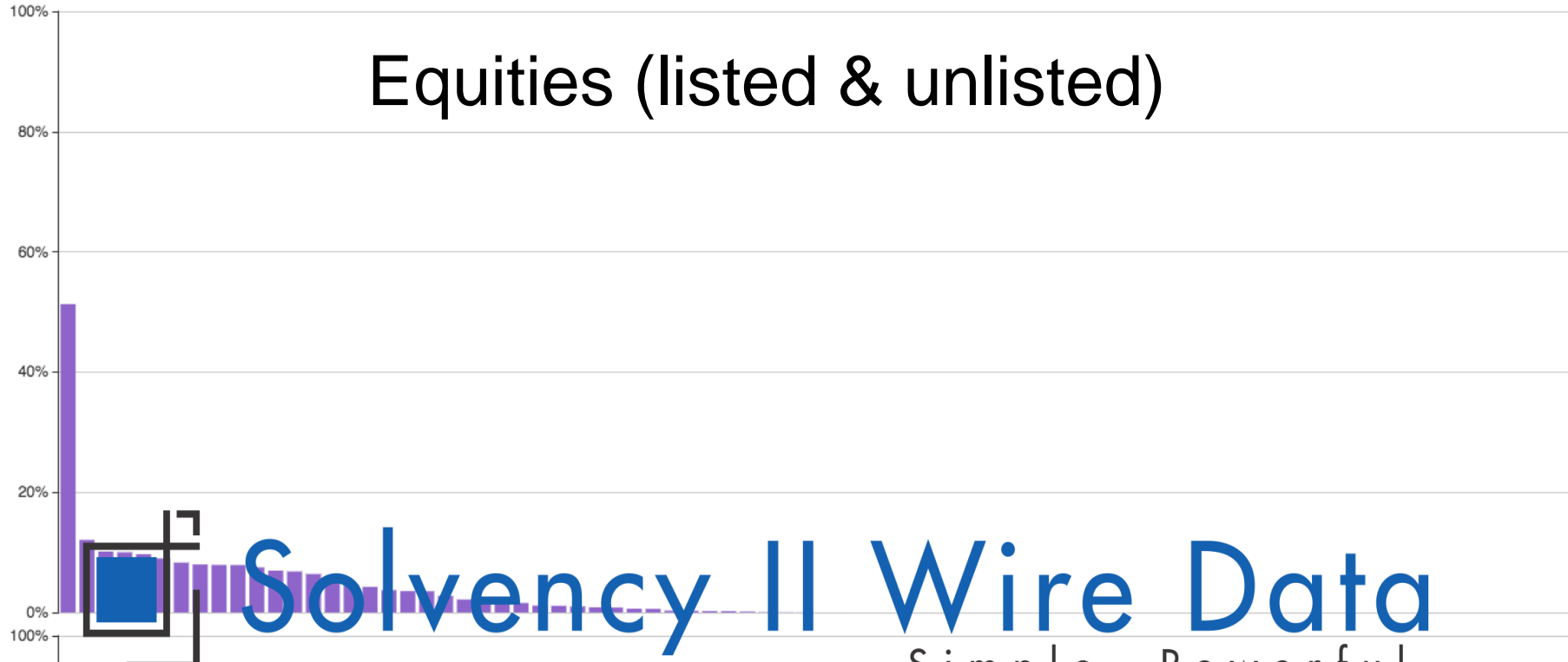


Solvency II Wire Data

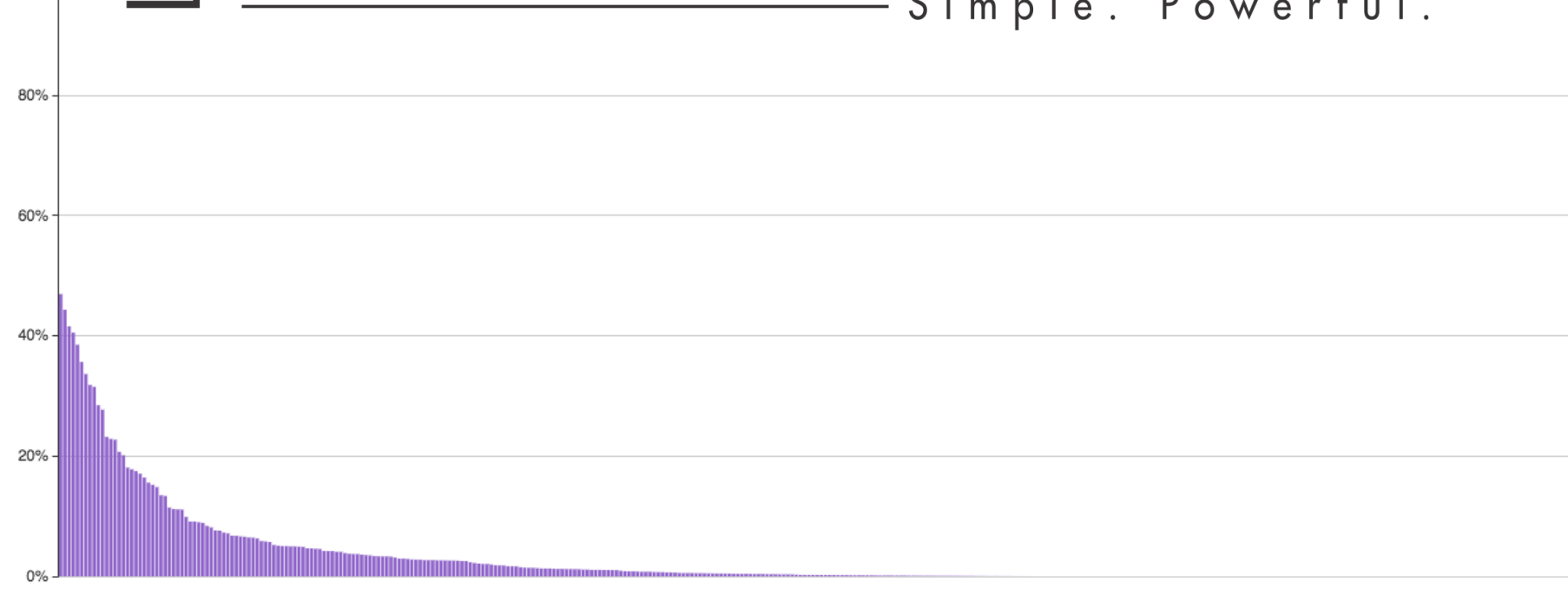
Simple. Powerful.

# Equities (listed & unlisted)

90 firms SCR ratio < 120%



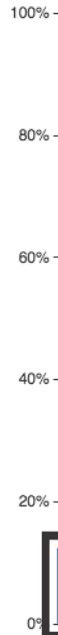
400 firms SCR ratio > 300%



Solvenzy II Wire Data  
Simple. Powerful.

# Derivatives

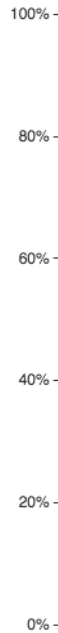
90 firms SCR ratio < 120%



# Solvency II Wire Data

Simple. Powerful.

400 firms SCR ratio > 300%



ANY QUESTIONS?

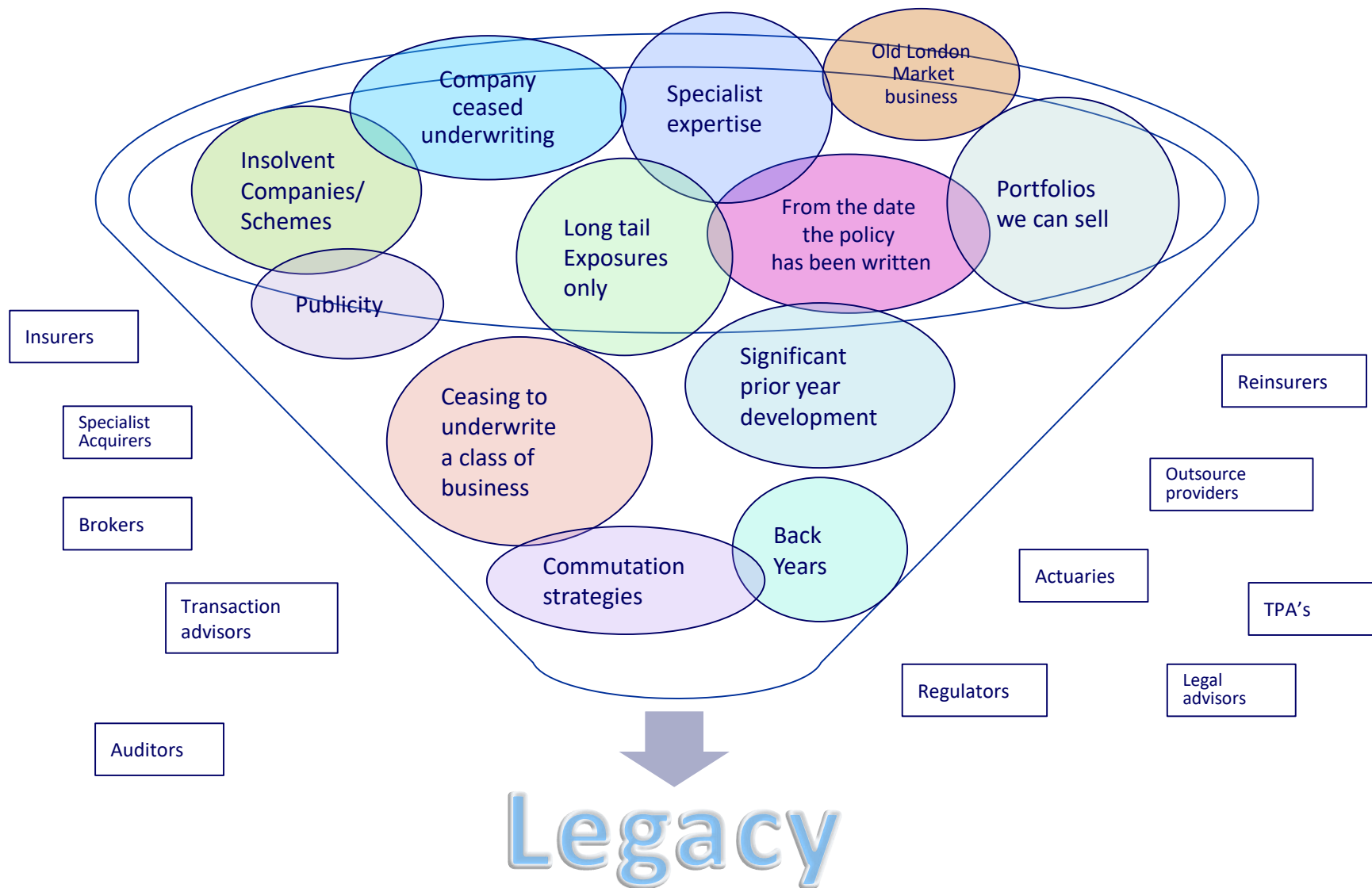
# WHAT IS LEGACY?

Simon Barnes  
Zurich Legacy Solutions

- How do we define Legacy?
- Contrast between Live and Legacy management
- Changing Landscape
- Considerations for Finality
- Transaction Window
- Key Points

# How do we define?

Wide range of views on what constitutes run-off

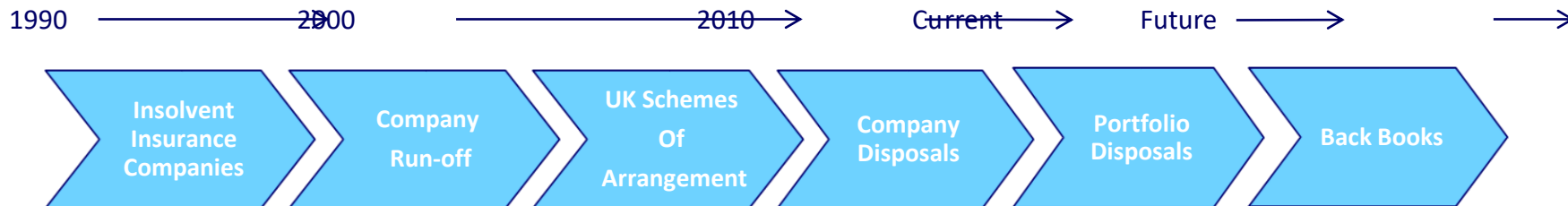




# Contrast between Live and Legacy management

Live Portfolio Management	Legacy Portfolio Management
Manage the portfolio as part of the wider business	Manage the portfolio specifically
Underwriters assess the risks on future business	Legacy teams seek to assess future risk on past business
Claims interpret liability based on policy wording	Claims interpret liability based on policy wording
Performance measurement focuses on efficiency and maintenance of agreed standards	Performance measurement focuses on speed of settlement and results against forecasts
Communication tends to be one-way ie. Claims provides information to support Actuarial/Underwriting	Two way communication with Actuarial providing greater feedback on actual vs expected
Loss ratio and Expense ratio key are main KPI's	Focusing on the Balance Sheet becomes more important – Capital reduction main KPI
Projects to identify improvements are prioritised based on the impact of the business as a whole.	Projects to identify improvements are prioritised based on the value to the portfolio

# Changing Landscape

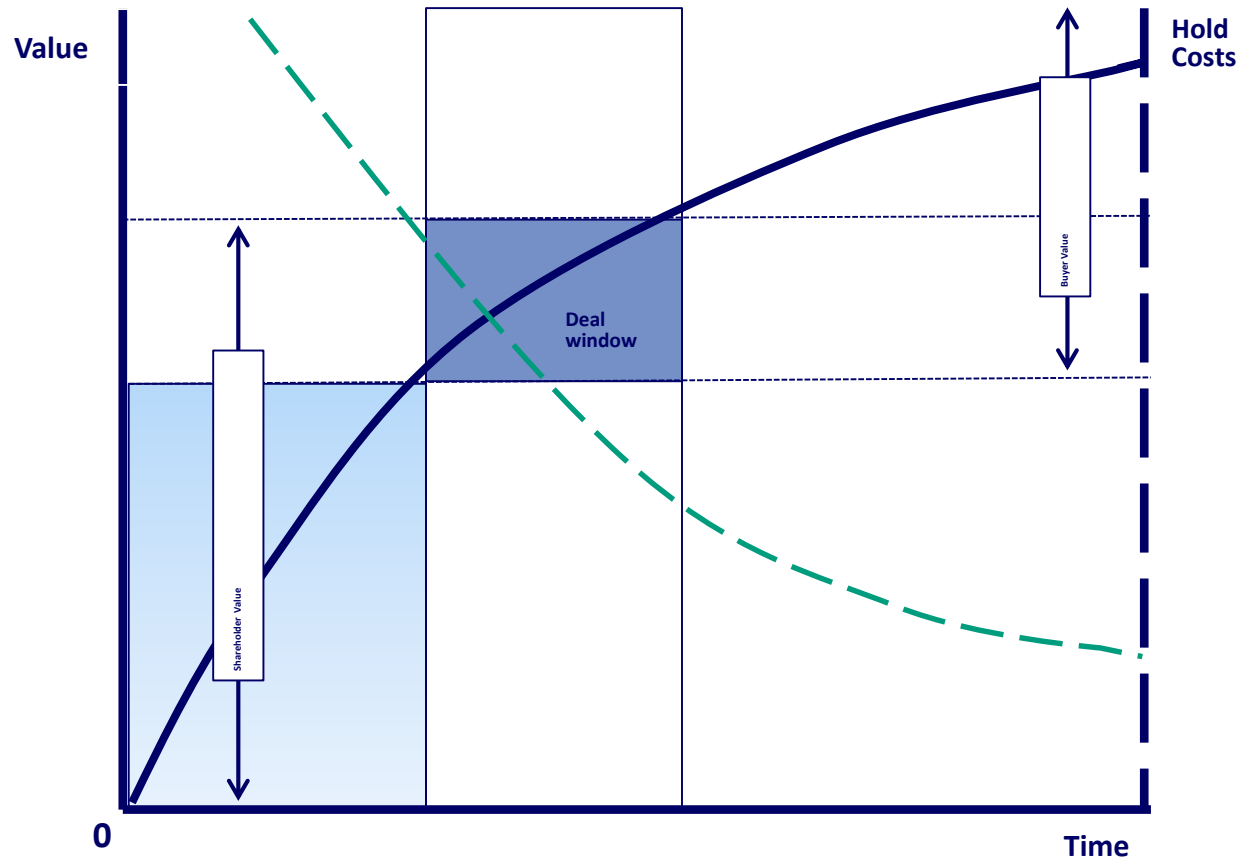


- Runoff has changed over the years.
- Initially focusing on insolvencies and companies in distress it changed to being a tool to allow live businesses to focus on the future direction of their business
- It has now evolved further as a way of efficiently recycling capital not only in business that it has ceased to write but also the potential for disposal of older stable years of portfolios which a live business continue to write.

# Considerations for Finality

- Transaction value
- Capital recycling
- Portfolio definition
- Policyholders considerations
- Claimant considerations
- Buyer behaviour
- Regulatory considerations
- Market Perception
- Security

# Transaction Window



Key:  Hold costs  
 Value

Note: Chart assumes portfolio is initially reserved in line with market expectations.

# Key Points

- Legacy is now imbedded into the life cycle of Insurance
- It offers an alternative lens through which business can be monitored and managed
- It's not just for businesses in financial distress, but an efficient way of actively managing your business and capital
- Disposal of a portfolio is not a universal solution but offers a practical alternative to long term management

ANY QUESTIONS?

# REFRESHMENT BREAK

We will resume at 11:05

# RUN-OFF AND ITS MANAGEMENT AS AN ASSET (HANNOVER RE'S PERSPECTIVE)

Charlotte Echarti  
Hannover Re



# Run-off and its Management as an Asset

## Hannover Re's Run Off Solutions Division



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Board of Directors  
(Dr. Michael Pickel)

Run Off Solutions  
(ROS)

Claims Audits &  
Commutations  
(CAC)

Credit Control &  
Commutations  
(CCC)

Collections & Treaty  
Closures  
(CTC)

# Run-off and its Management as an Asset

## Development in Run-off

- ▶ In the beginning there were the „problematic cases“:
  - UK: distressed portfolios (asbestos, pollution, liquidity problems)
  - UK & Scandinavia: consequences of the market consolidation / mergers: i.a. Skandia, Trygg Hansa.
- ▶ Then: development of run-off as part of an (pro-active) life cycle management:
  - Zurich: disposal resp. run-off of non-strategic portfolios (LoBs/countries) / focus on segments/countries with growth potential.
  - Basler: life portfolios in Germany
- ▶ Nowadays run-off is seen as (positively seen pro-) active, strategic investment-instrument resp. instrument in the toolbox of risk management.
- ▶ Besides profitability, risk and cost management, run-off is initiated by many drivers (e.g.):
  - undesired heritages from M&A activities and/or strategic refocussing
  - optimisation of the capital allocation (SST/Solvency II)
  - increasing regulatory requirements (=> rise in regulation related costs)
  - changes in the tax and/or political environment

# Run-off and its Management as an Asset

## Instruments, Tasks and Assessment Criteria

### ▶ Run-off instruments

- portfolio share deal
- portfolio transfer
- retrospektive reinsurance (ADC)
- commutation
- in-/solvent formal proceedings

### ▶ Assessment criteria:

- economical finality
- juridical finality
- risk- and capital reduction
- reputational risk
- counterparty credit risk
- costs involved

### ▶ ...is that all?



# Run-off and its Management as an Asset

Run-off in its Entirely as an Strategic Asset to Hannover Re

## Claims Audits & Commutations

### Profitability

- ▶ commutation of in- and outward business in order to generate values and capacities for new business
- ▶ pre-commutation audits
- ▶ withdrawal of redundant securities
- ▶ (coordination of) portfolio sales (and acquisitions)

## Credit Control & Commutations

### Risk management

- ▶ management of Hannover Re's position in formal proceedings
- ▶ steering of payment patterns in case of solvency problems
- ▶ sale of receivables
- ▶ write-off resp. value adjustment of accounts
- ▶ accounting audits
- ▶ currency risk management

## Collections & Treaty Closures

### Admin- & cost reduction

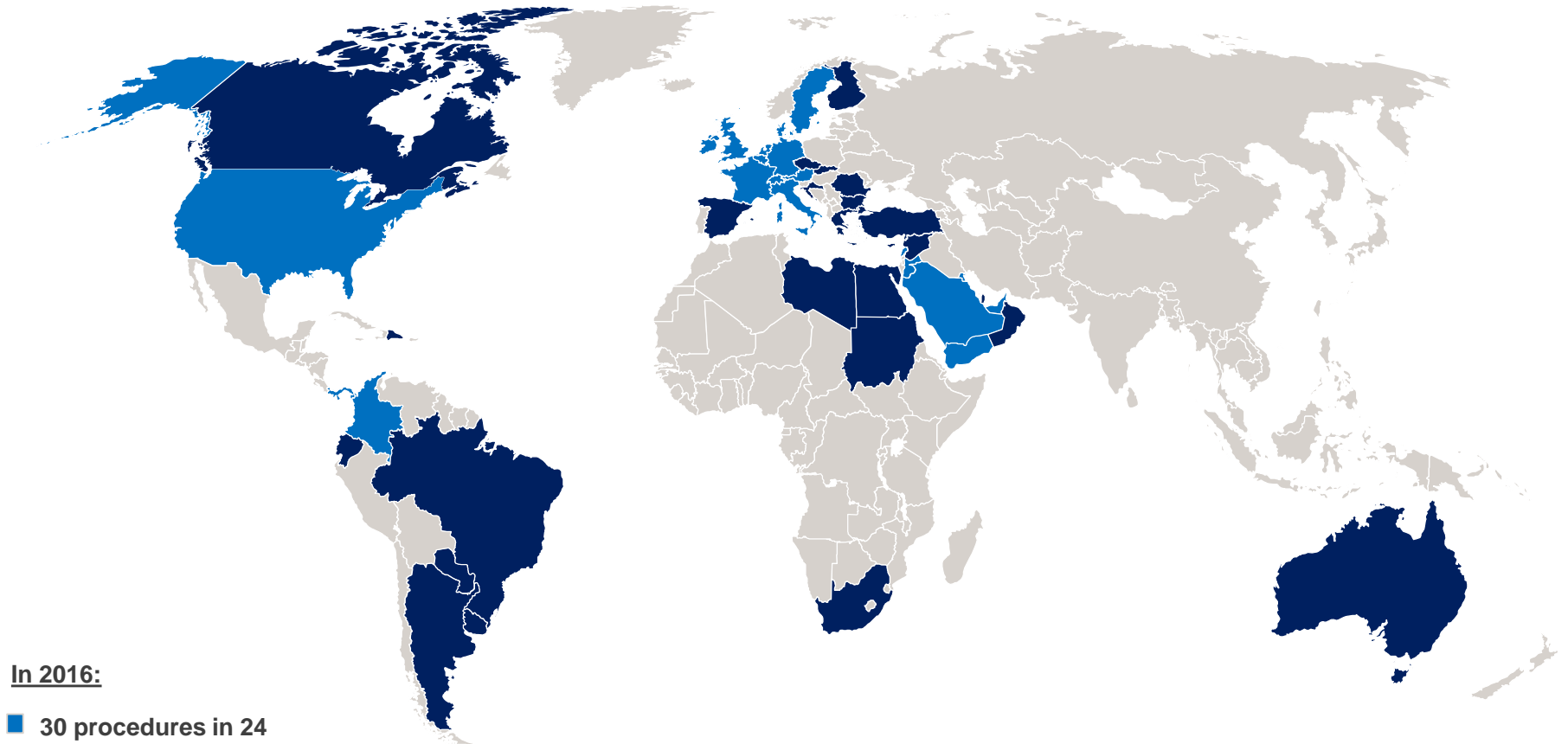
- ▶ support in collection of accounts receivable i.a. involving collection agencies or the through the arrangement of payment plans
- ▶ micro commutation (lump sum)
- ▶ identification and dissolution of redundant claims reserves
- ▶ administrative savings through contract closures
- ▶ transfer of business driven by cost considerations

**Actuarial division, formerly part of the Run Off Solutions, now part of Group Risk Management**

**Support of the run-off activities mainly through actuarial projection, pricing, exposure control**

# Run-off and its Management as an Asset

Commutations & Reserve Reductions - 175 Procedures in 48 Countries in 2016



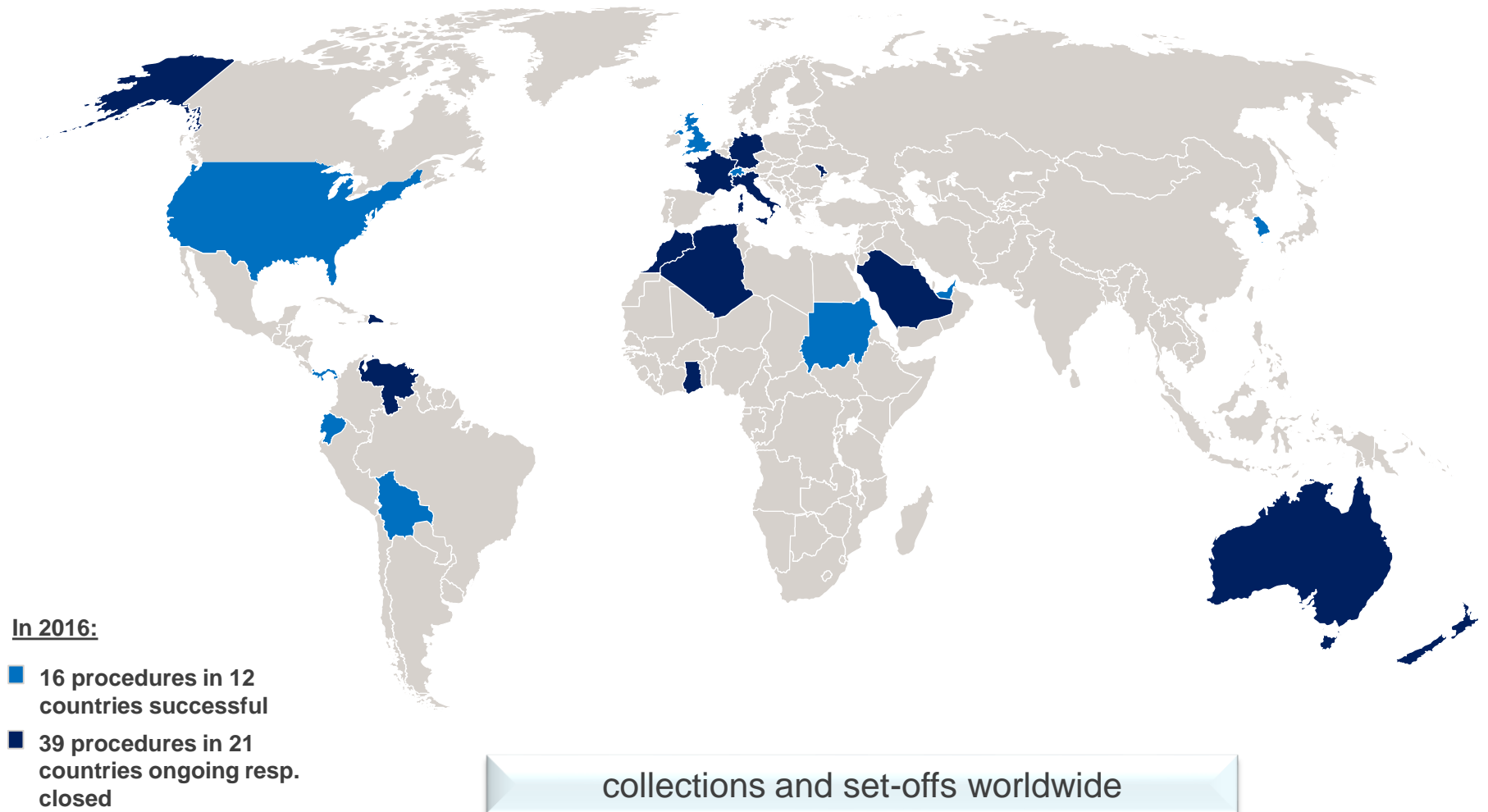
**In 2016:**

- 30 procedures in 24 countries successful
- 145 procedures in 48 countries ongoing resp. closed

commutations and reserve reductions worldwide

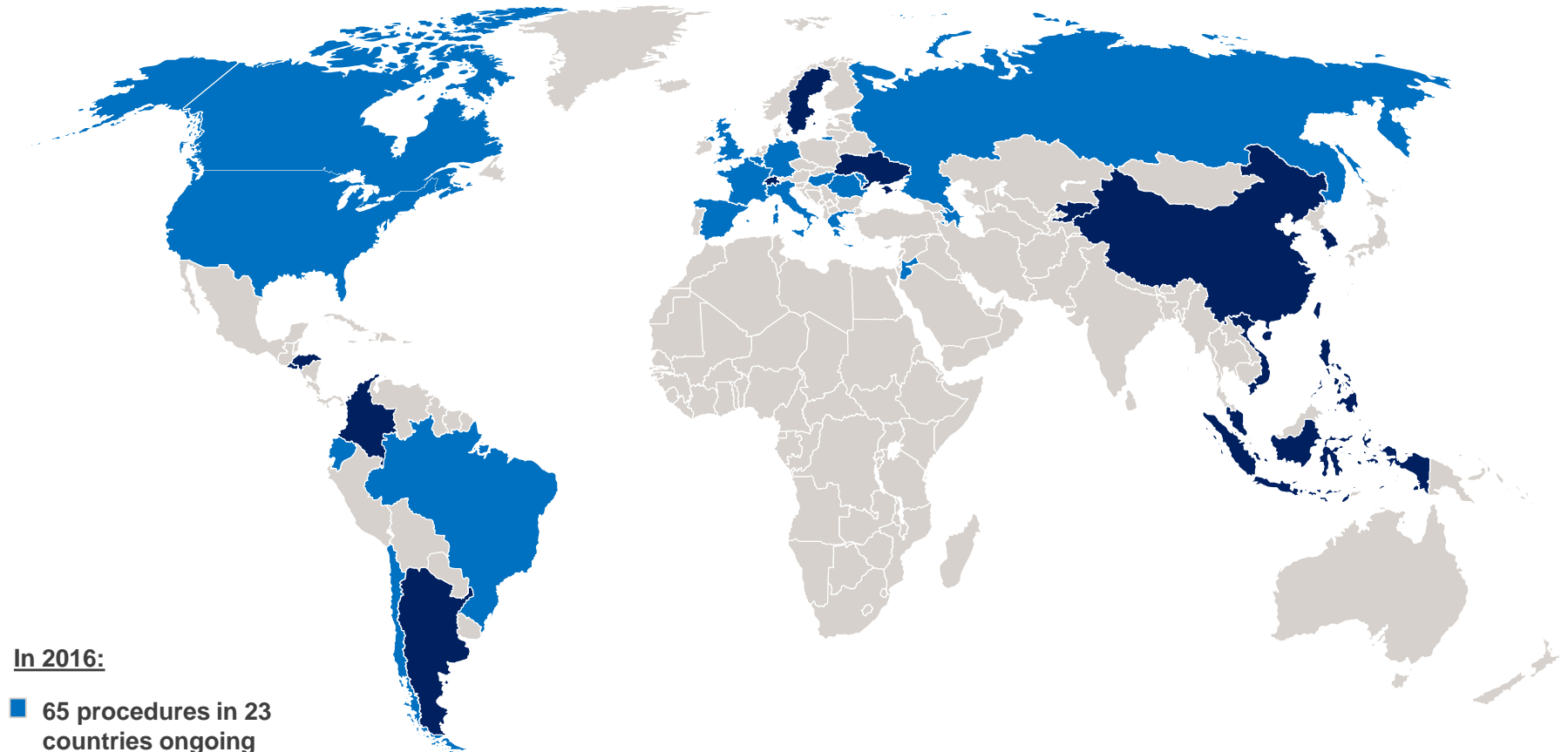
# Run-off and its Management as an Asset

Collections and Set-Offs - 55 Procedures in 24 Countries in 2016



# Run-off and its Management as an Asset

(In-/solvent) Formal Proceedings - 160 Procedures in 40 Countries in 2016



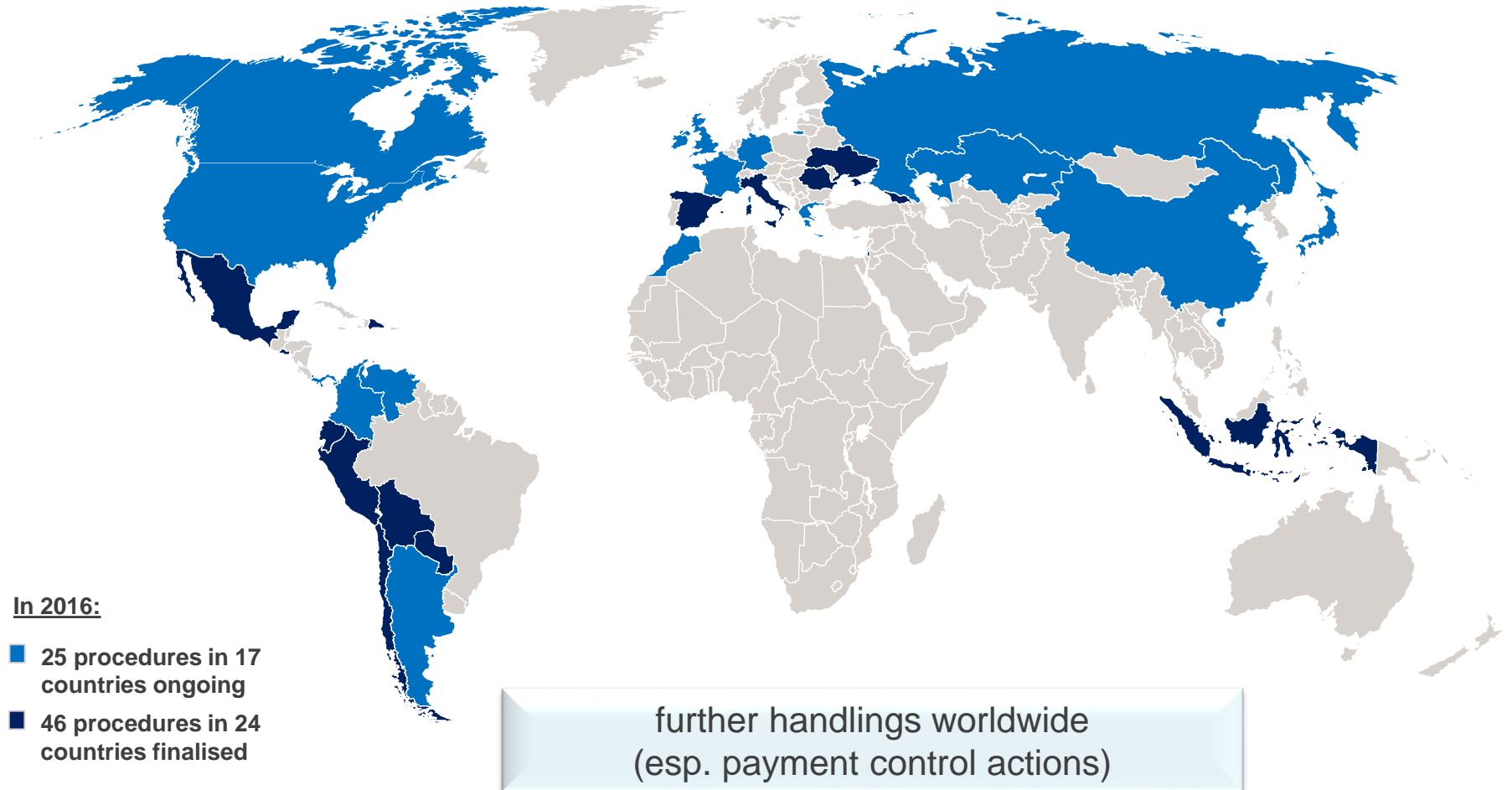
## In 2016:

- 65 procedures in 23 countries ongoing
- 95 procedures in 28 countries finalised

in- and solvent formal proceedings worldwide

# Run-off and its Management as an Asset

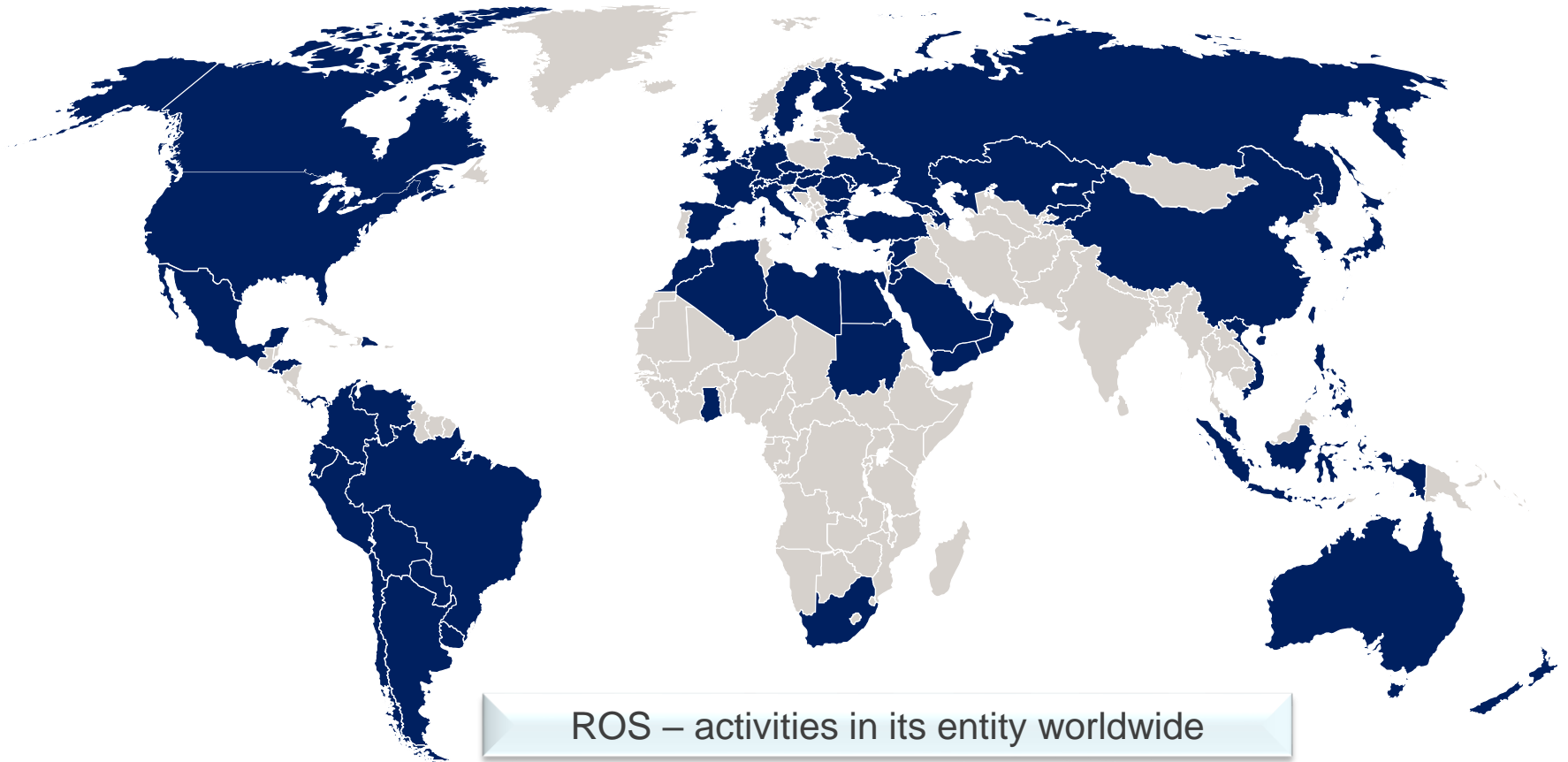
Further Handlings - 71 Procedures in 34 Countries in 2016





# Run-off and its Management as an Asset

ROS-Activities in its Entity: 461 Procedures in 83 Countries in 2016



...nearly as the activities in underwriting...



somewhat  
different

# Run-off and its Management as an Asset

## The Art of Walking Backward into the Future

**Thank you for your attention!**  
**Charlotte Echarti**



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- ▶ accounting audits
- ▶ currency risk management

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ANY QUESTIONS?

# EMEA LEGAL FINALITY MARKET

Carlo Coletta

Swiss Re

## Legal Finality: an efficiency tool for the EMEA insurance industry

- Legal Finality solutions refer to the acquisition of (re)insurance run-off portfolios, i.e. closed books of business, via portfolio transfer to an insurance carrier
- From a **reinsurer's perspective**, the concept goes a step further than traditional retrospective reinsurance, where only “economic finality” is being provided to all or part of the subject portfolio: in Legal Finality all liabilities in a portfolio from the original (re)insurer are “legally absorbed” by the acquiring carrier
- The **main benefit of Legal Finality versus reinsurance** is that a client is able to permanently transfer liabilities off their balance sheet as the absorbing insurer steps into the legal shoes of the transferring insurer and becomes the debtor of the policyholder or the claimant. Benefits for the transferring insurer include capital release and operational efficiency.
- Legal Finality offers **one option to ensure an orderly run-off**, the other option being a pro-active approach aimed at creating value through an efficient handling of claims and liabilities
- It seems increasingly clear that the third option of a **passive run-off approach** is becoming ever less attractive to insurers, as it may destroy value



# Several quantitative and qualitative benefits for transferors of closed books of business

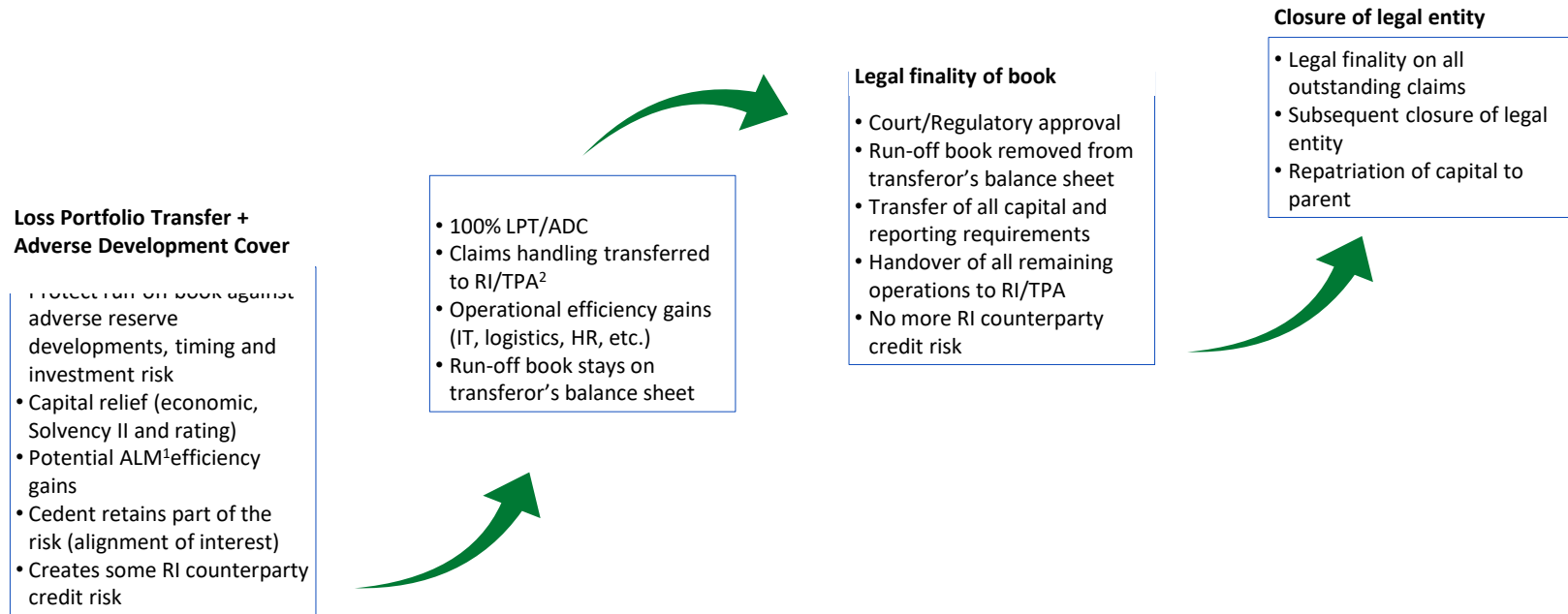
## Benefits of legal finality transfers

- + Relieves **the insurer from all obligations** vis-à-vis the policyholder and regulator whilst protecting the policyholders' interests
- + **Capital efficiency improves** as capital "trapped" by run-off portfolios can immediately be deployed to more profitable business areas and the risk of adverse reserve developments is eliminated
- + Specific portfolios, markets or lines of business can be **strategically exited**
- + Senior management can eliminate distractions and **focus on the core business**
- + Insurers can save **future run-off costs** for discontinued business related to IT systems and maintenance, claims administration, asset-liability-management, regulatory and reporting requirements



# A reinsurer's perspective: Legal Finality builds on reinsurance and adds financial and operational benefits

## The building blocks of different forms of finality

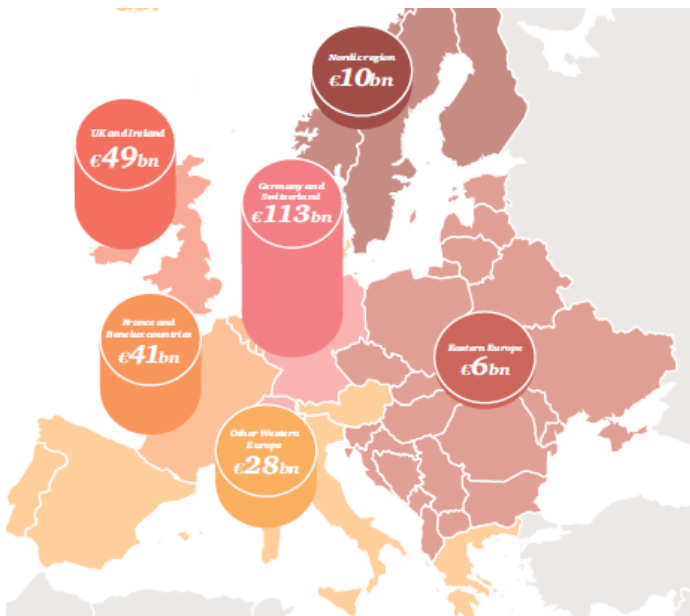


1 Asset Liability Matching  
2 Third Party Administrator

## Swiss Re in the EMEA P&C Legal Finality space

- We see **Legal Finality as an increasingly important answer to specific clients' needs**, completing our range of P&C reinsurance products and solutions in the EMEA region
- **Swiss Re is not a newcomer** to the Legal Finality business space. A few recent examples, in Europe and elsewhere, can provide some more insight:
  - Part VII portfolio acquisition of the **ZSL Ltd (Zurich Financial Services) portfolio in 2012**: gross claims reserves ca. USD 1 bn from commercial insurance policies, mostly US casualty and London market business (1989-2005)
  - Acquisition of a portfolio from an **Italian insurer in bankruptcy (Novit) in 2014**: gross reserves ca. € 160 mio, in large part Motor business
  - Division 3A acquisition of the **Axis Specialty Australia branch (ASA) portfolio in 2017**
- **An increased focus on P&C Legal Finality** is now being gradually applied to the EMEA region, as we see growing opportunities especially in Europe
- From this year, we have established a Swiss Re, Luxembourg-domiciled, **dedicated P&C carrier** for Legal Finality transactions, setting up branches where we deem meaningful
- We intend to contribute significantly to the growth of this business space, serving our clients and the relevant markets in EMEA with our full range of economic and finality products

## The state of the EMEA Legal Finality market



### Estimated size of the Non-Life European Legacy insurance market

*(PwC: Unlocking value in run-off, 10th edition 2016)*

- The size of total legacy portfolios in Europe is estimated at ca. USD 250 billion (PwC Survey, 2016)
- How much of this huge volume is actually creating potential for the Legal Finality market is not easy to determine, due to a combination of several factors and by diversified approaches at local market level
- What is clear, however, is that the attention for a more efficient management of run-off business is increasing significantly in continental Europe and in other areas in EMEA
- Some local markets may be showing attention for Legal Finality more rapidly than others in continental Europe
- Brexit may also increase the pie, as several (re)insurers seek to dispose of UK portfolios

## Key factors for a changing LF landscape in Europe

- The implementation of the new Solvency II regulatory framework has increased the attention for effective **capital management** tools
  - the high capital absorption of some lines of business is coming on top of the technical performance and attracts attention towards capital relief solutions bringing either economic or legal finality
  - such awareness has been increased also among smaller insurers, whose focus has been traditionally technical rather than financial
  - contingent pressure on the solvency ratio is a key factor, but effective capital management is increasingly important too
- We see also an enhanced **focus on underwriting profit**, determined by contingent economic conditions of low interest rates
  - underperforming portfolios may have to be discontinued, while proactive management of discontinued portfolios comes with a cost, including skilled resources and infrastructure
- Underwriting results and changing market conditions for certain lines of business (like Motor) may foster **business diversification** in some countries while investment in **new technology** is becoming key: capital relief solutions can support the heavy investments needed in new business areas and strategic infrastructure
- **Operational concerns** from discontinued business are also driving the attention for LF solutions
  - issues may be stemming from HR factors, such as lack of skilled resources due to internal restructuring, retirements, redeployment of personnel to other business areas, etc., or
  - cost of dedicated infrastructure, such as legacy IT systems (especially in case portfolios inherited through M&As)

## Challenges and caveats

The growing awareness of the benefits of Legal Finality is balanced, especially in continental Europe, by several factors, some cultural and some connected to the internal dynamics of the insurers

- The **novelty of the tool** in most of the European markets
  - the approach by Regulators may be cautious yet in some jurisdictions
  - the awareness of the potential benefits by (re)insurers may still be limited
- **Reputational concerns**
  - how a ceded portfolio is going to be handled and the brand consequently affected
  - how the market will perceive the sale/dismissal of a part of the company
- The **drastic impact on operations** bears also various potential implications
  - HR/occupational challenges
  - differences of opinion in the c-suite, internal balances, etc.

## Legal Finality opportunities in EMEA: some examples

### Who

- Large multinational carriers revisiting their strategic footprint or optimizing their operations
- Small/medium sized carriers with capital and/or operational constraints
- M&A affected operations
- Brexit affected units (although still uncertain how/when)

### What

- Underperforming or problematic long-tail lines of business, particularly certain GTPL lines (e.g. Med Mal), Motor, APH

### Where

- Markets with a combination of capital management and operational needs, such as Italy or Germany
- Eastern European maturing insurance markets
- Dynamic markets with a LF tradition (UK) or showing attention for alternative solutions (e.g. Israel)

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ANY QUESTIONS?

# M&A TRENDS & OUTLOOK

Paul Corver

R&Q

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## AGENDA







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- Review of the year to date
- Review of the past decade
- Wider market trends
- Pricing drivers
- Sources of capital
- Future drivers of transaction activity

# EUROPEAN LEGACY DEALS ANNOUNCED IN 2017 – REVIEW OF THE YEAR TO DATE



STRATEGY | INNOVATION | EXPERTISE

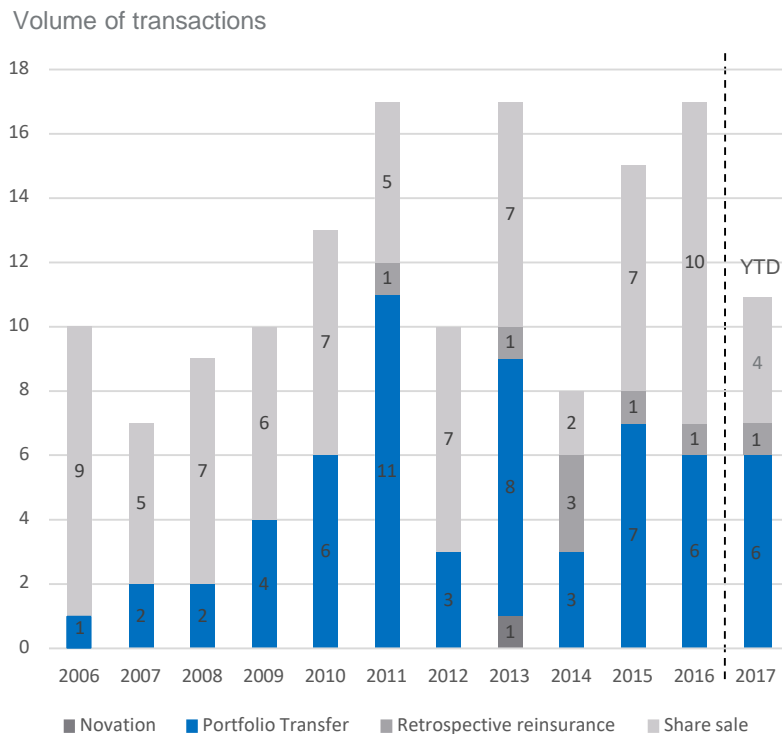
Buyer	Announced	Target	Seller
<b>Compre</b> 	September	RW Gibbon (Underwriting Agencies) Limited and RW Gibbon & Son Limited*	AXA Insurance Ltd (Formerly Winterthur Swiss Insurance Company)
	June	Equinox CA Europe (French engineering and construction defect)	SNC-Lavalin
	January	Wüstenrot & Württembergische (Ridgwell Fox & Partners pool of RI business)	Wüstenrot & Württembergische AG
	January	RW Gibbon (Underwriting Agencies) Limited and RW Gibbon & Son Limited*	Swiss Re International SE
	January	AG Insurance (UK run-off insurance and reinsurance business)	AG Insurance SA
<b>R&amp;Q</b> 	June	AZICO*	Astra Zeneca
	January	Clariant Insurance*	Clariant AG
<b>Catalina</b> 	May	Hartford Financial Products International Limited, Hart Re, London & Edinburgh*	The Hartford Financial Services Group Inc.
<b>Riverstone</b> 	May	Axa Insurance (Employers' and public liability legacy business) *	AXA Insurance UK
<b>Darag</b> 	April	Ikano Forsikring AB	Ikano Group
<b>Enstar</b> 	February	RSA UK (Employers' liability legacy business)	RSA Insurance

## Key observations

- ▶ Of the 26 deals announced in 2016 and 2017 to date:
  - Compre completed 9 deals, of which 4 related to acquisition of Ridgwell Fox & Partners (RFP) pool and RW Gibbon pool legacy reinsurance business from various parties
  - R&Q completed 8 deals, of which 3 related to acquisition of captives, others related to run-off portfolio transfers
  - Axa LM, Catalina, Armour Re, Enstar, Darag also complete one or more transactions during the period.
- ▶ Some further deals expected to be announced before the end of the year
- ▶ UK Employers' Liability (UKEL) deals have dominated the run-off deals in recent times since the Aviva/Swiss Re
- ▶ Continuation of some key legacy themes in 2016 and 2017 to date:
  - The majority of the deals were in the UK – 14 in total
  - There is a strong European deal volume emerging: 3 transactions were in Germany
  - Other transaction jurisdictions include Sweden, Ireland, Belgium, Italy, Guernsey, Liechtenstein and Norway

\* Transaction closed/completed.

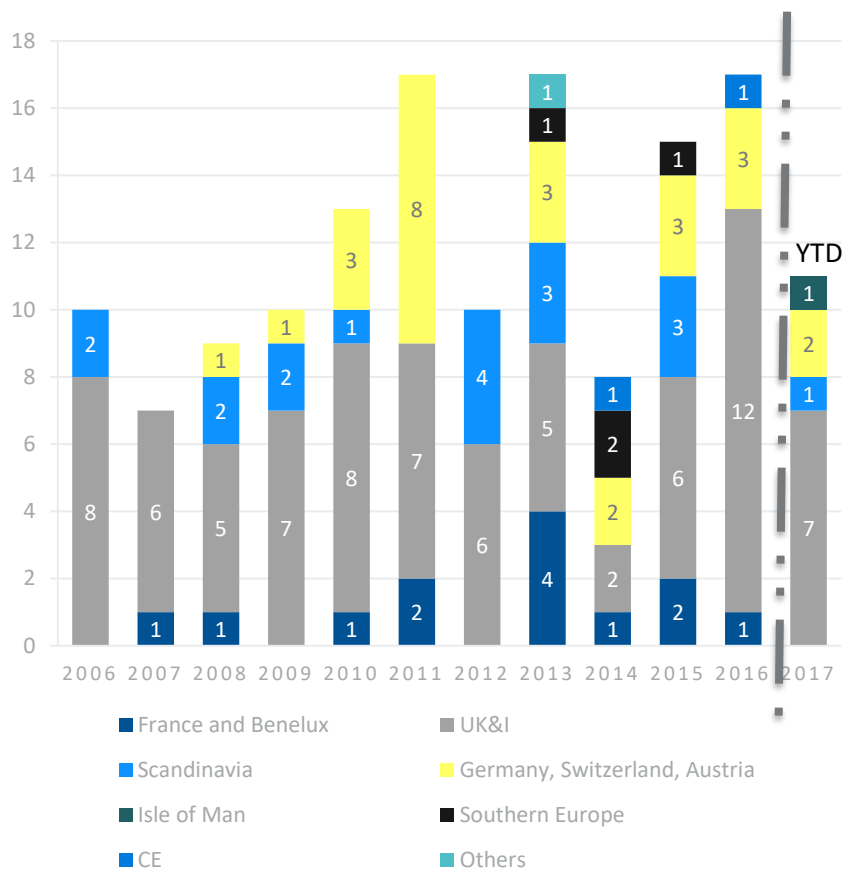
# EUROPEAN M&A ACTIVITY IN THE LAST DECADE – BY LEGAL FORM



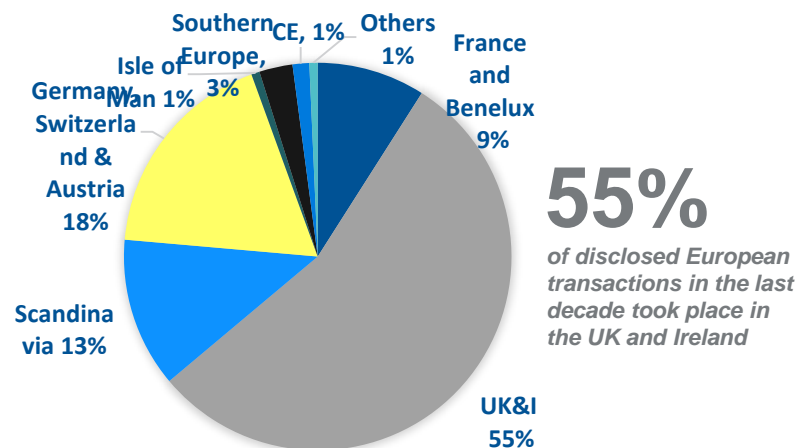
- ▶ An active transaction market in UK / Europe across a broad range of deal sizes
- ▶ Combination of auctions and off-market processes
- ▶ Emergence of more external business transfers:
  - Tried and tested precedents
  - Significant further scope given scale of run-off in UK/ European portfolios
  - Use of whole account reinsurance to accelerate economic/ operational finality as a bridge to portfolio transfer
- ▶ Reducing population of legacy entities remaining and fewer readily available legal entities left – thus predicting rise of portfolio transfers
- ▶ Transfer of books into a single entity as part of vendor restructuring could be a source of further company disposals

# EUROPEAN ACTIVITY IN THE LAST DECADE – BY JURISDICTION

STRATEGY | INNOVATION | EXPERTISE



- ▶ Cultural barriers remain, but being broken in key countries
- ▶ The number of subsidiaries for disposal, particularly in the UK, is reducing.
- ▶ Emergence of regional consolidators in Europe (AXA, DARAG, Compre, R&Q, Armour)
- ▶ More blue-chip exits required in Continental Europe to further endorse seller engagement with the legacy buyer market



Sources: Darag, industry surveys, EY analysis

## CURRENT / RUMOURED TRANSACTIONS

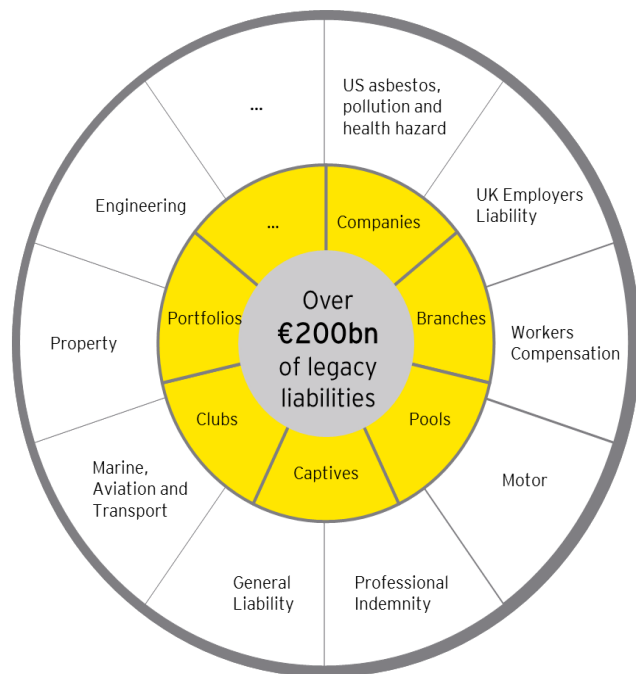
- Lloyd's syndicates seeking run-off management or reinsurance to close (RITC)
  - Pro Sight
  - Novae
  - Sportscover

- Large insurance companies seeking finality on certain portfolios of business
  - Zurich – Dublin branch, German Medical Malpractice
  - Generali – London legacy book

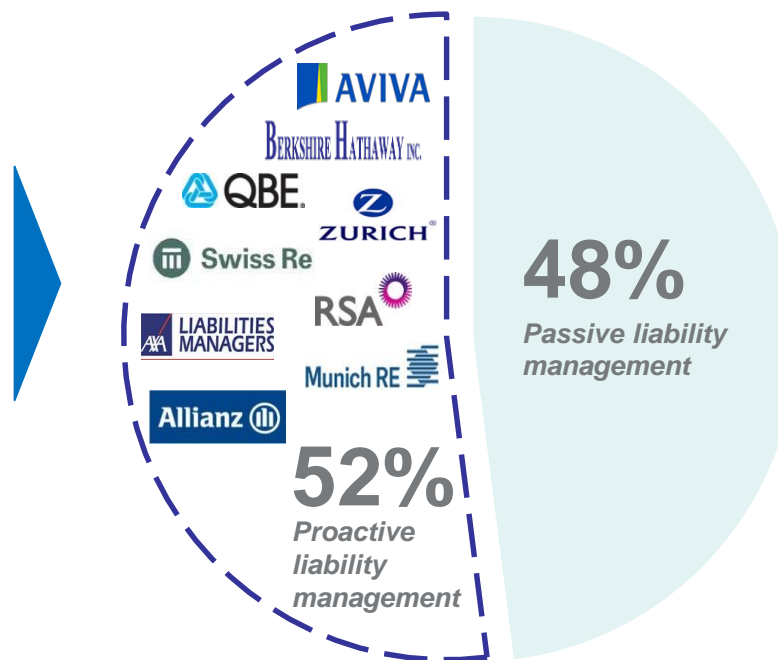
- Other announced opportunities
  - Schwarzmeer und Ostsee Versicherungsaktiengesellschaft (Sovag)

## THE LEGACY M&A MARKET

A wide pool of liabilities potentially eligible for sale...



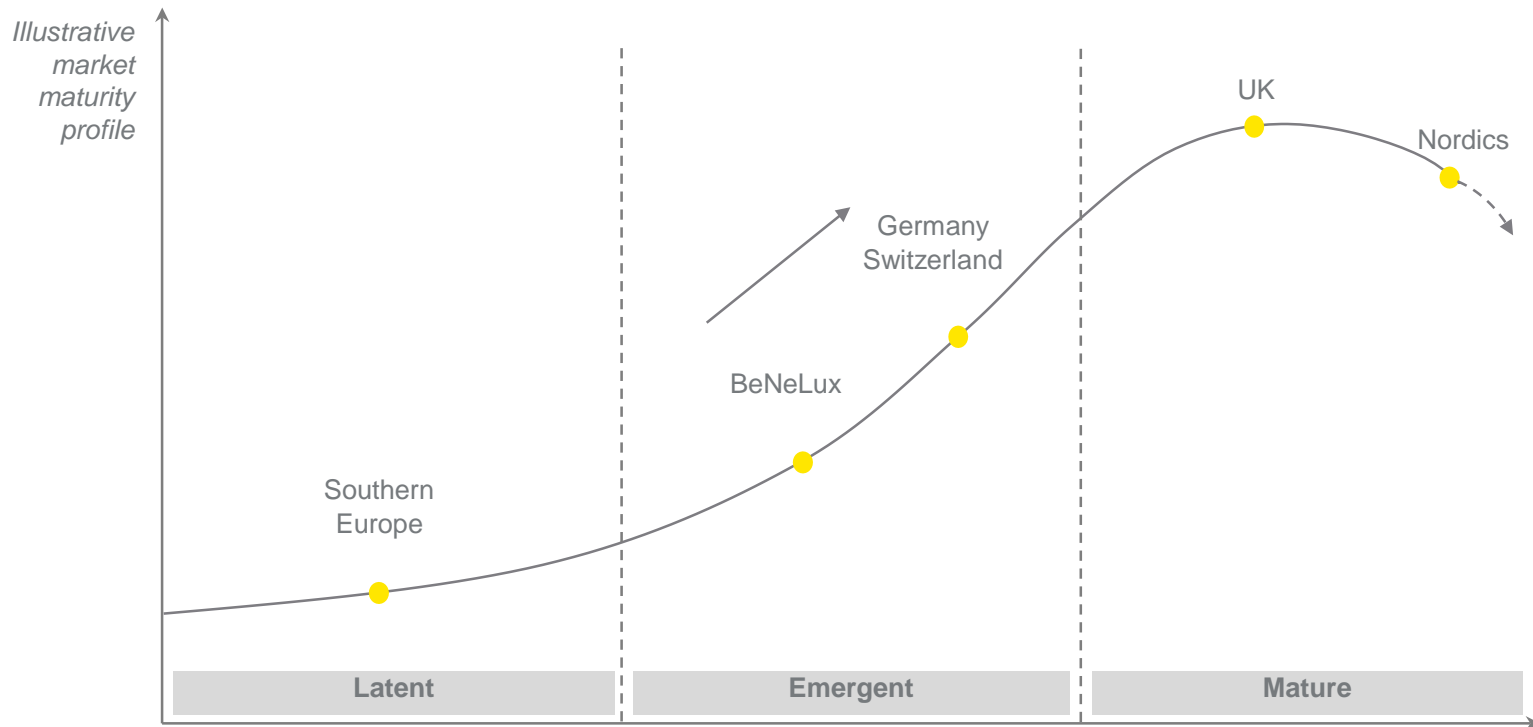
... falling under the scope of more proactive



Sources: Darag, industry surveys, EY analysis



## The long-term opportunity in Europe remains promising



Source: EY

*Drivers of pricing*

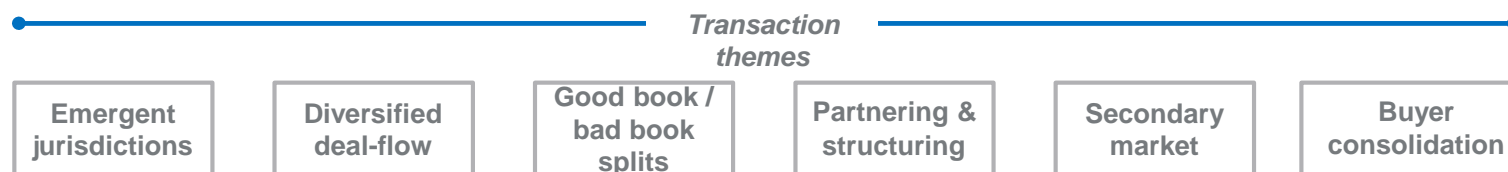
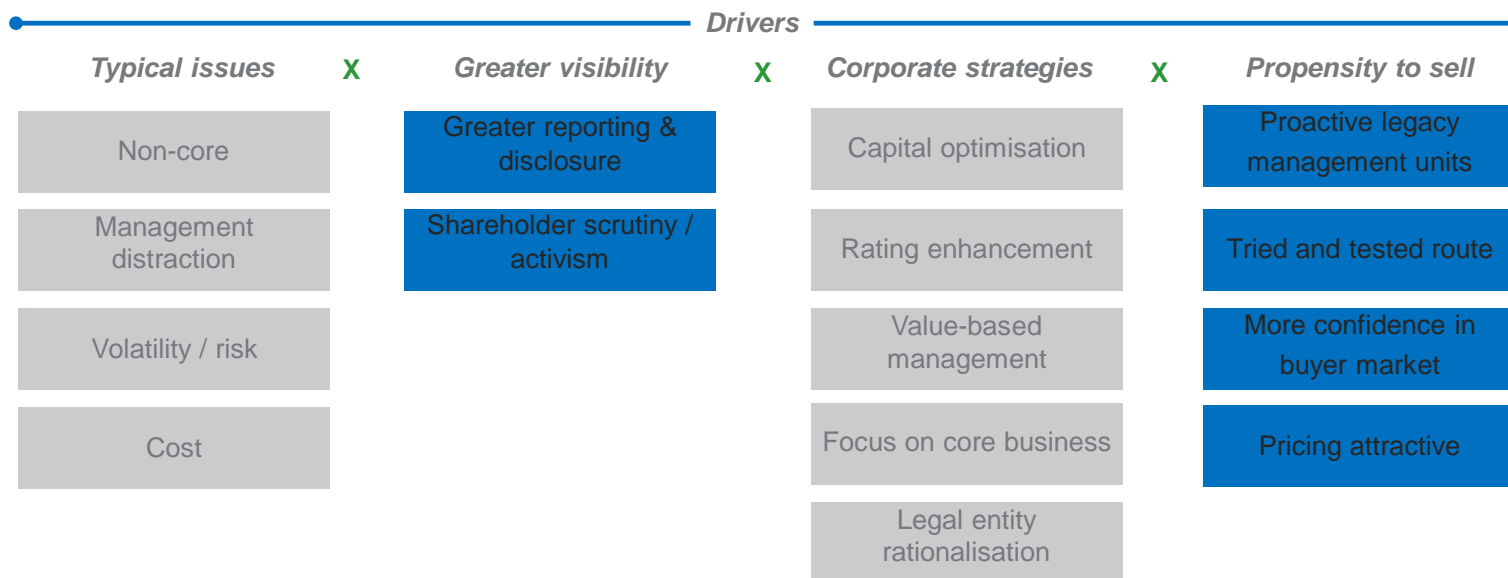
Standalone features	Strategic value ("in the eye of the beholder")	Cost of capital / financial engineering
<ul style="list-style-type: none"> <li>▶ Capital and reserving adequacy</li> <li>▶ Strength of reinsurance</li> <li>▶ Investment portfolio credit quality, returns, liquidity</li> <li>▶ Non-insurance attributes/ risks</li> <li>▶ Quality of data</li> </ul>	<ul style="list-style-type: none"> <li>▶ Existing knowledge of business / relationships</li> <li>▶ Plays to existing expertise / diversifies expertise / market entry platform...</li> <li>▶ Scale synergies in terms of capital, asset management, operations</li> <li>▶ Run-off strategy – to expiry, commutations, schemes, reinsurance...</li> </ul>	<ul style="list-style-type: none"> <li>▶ Equity – PE / Hedge funds / Institutional: Public / Private</li> <li>▶ Debt – leverage, but on what terms?</li> <li>▶ Reinsurance – as leverage, for tax arbitrage</li> <li>▶ Tax – use of losses, profit optimisation</li> <li>▶ Capital – can optimise via internal transfer</li> </ul>

*Buyer-specific differentiators*

The run-off market has access to a broad range of capital sources, and continues to attract further capital via direct equity ownership, financial leverage and funds/side vehicles



# FUTURE DRIVERS OF TRANSACTION ACTIVITY



- Continued effect of Solvency II

- Brexit

- Continental European opportunities from large multinational insurers cleaning up back books

- Partnering of existing legacy specialists with alternative capital providers

ANY QUESTIONS?

# LUNCH BREAK

We will resume at 13:30

# PANEL DISCUSSION WITH THE MORNING'S SPEAKERS



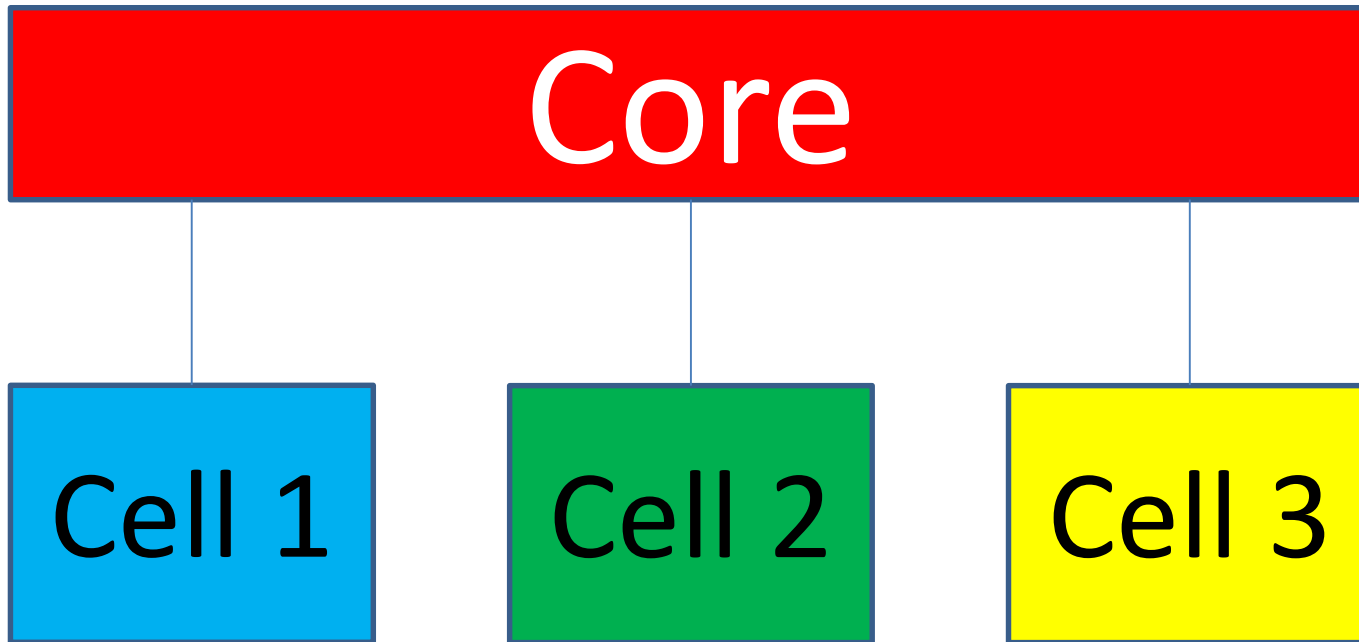
ANY QUESTIONS?

# PROTECTED CELL COMPANIES AND THEIR ROLE IN DISCONTINUED BUSINESS

Prof. Dr Helmut Heiss

MBH Law

# Protected Cell Companies (PCC): Structure



# Protected Cell Companies: Malta

- Companies Act (Cell Companies Carrying on Business of Insurance) Regulations 2010/2015
  - Art. 2 (1) (Definitions): “‘cell company’ is a company ... creating within itself one or more cells for the purposes of **segregating and protecting the cellular assets ...**”
  - Art. 5 (1): “... undertaking authorised in terms of article 7 of the **Insurance Business Act** to carry on business of insurance ...”
- PCC is no «mass product» (puts a limit to «rent a captive»)
- 2010: 4 PCC/10 Cells → 2017: 13 PCC/33 Cells



# Protected Cell Companies: Areas of Business

- captives
- reinsurance & ART
- InsurTech
- investment life insurance
- run off business (i.p. by way of portfolio transfer)



Universität  
Zürich<sup>UZH</sup>

*Helmut Heiss*



# Protected Cell Companies & «European Passport»

- PCC in EU/EEA Country, such as
  - Gibraltar
  - Malta
  - Liechtenstein[however, not (yet) available for insurance business]
- EU «accepts» PCC structures (see also EIOPA Guidelines on ring-fenced funds; Final Report on Public Consultation No. 14/036 on Guidelines on ring-fenced funds referring to PCC legislation)
- transparency requirement
- not applicable to Switzerland



# Protected Cell Companies & «Run Off»

- many (legal) «run off» strategies, i.p.
  - e.g. reinsurance
  - e.g. transfer of portfolio
  - choice depends on business decision and regulatory environment
- reinsurance
  - PCC (cell) acting as a reinsurer
  - EU passport or Solvency II equivalence
  - Switzerland: admissible according to Art. 2 (2) (a) VAG



# Protected Cell Companies & «Run Off»

- Portfolio transfer (direct & reinsurance)
  - transfer of «foreign» portfolios within the EU/EEA
    - Art. 39 Directive 2009/138/EC (Solvency II)
    - «[u]nder the conditions laid down by national law»
    - further requirements for direct insurance portfolios (Art. 39 (2) Directive 2009/138/EC (Solvency II))





# Protected Cell Companies & «Run Off»

- transfers of «domestic» portfolios governed by national law
  - Austria: s. 28 ff. VAG
  - Germany: ss. 13, 63, 73, 166 VAG
  - Liechtenstein: Art. 124 ff VAG
  
- ↔ purely «contractual» transfer (with consent of policyholder)



# PCC & run off: Swiss perspective

- Swiss run off portfolios cannot be managed by PCCs in Malta, Gibraltar and third countries which are not established in Switzerland (Art. 2 (1) (b) VAG)
  - ↔ **exceptions:** reinsurance (Art. 2 (2) (a) VAG); insurance of maritime, aviation and international transport risks (Art. 1 (2) (a) AVO)
- Liechtenstein insurers? [reminder: no «insurance PCC» yet]
  - enjoy freedom to provide services in Switzerland (bilateral treaty 1996)
  - however, a portfolio transfer of a Swiss portfolio is not approved by FINMA applying Art. 62, 19 (2) VAG



# PCC & run off: Swiss perspective

- «foreign» run off portfolios (see Art. 73 AVO) are transferred according to foreign law
- ↔ asset deal or purely «contractual» transfer (requiring consent of policyholder)



# Observations

- big «run off» market in Europe
- transfer of «domestic» portfolios still depends on domestic law
- not possible for «Swiss» portfolios but (potentially) for «foreign» portfolios of Swiss insurers
- future development in Liechtenstein?



ANY QUESTIONS?

# LOOKING BACK TO MOVE AHEAD: DIVERSIFICATION OF RISKS VS HARMONIZATION OF THE REGULATORY FRAMEWORK

Nikolaos Pavlopoulos

DARAG



*“Munich Re reported close to selling some run-off ERGO units”*



## > Eiopa's Micro-supervisory perspective

### Positive developments:

- Smooth implementation of SII
- Adequate capitalisation of the insurance companies (average Solvency Ratio: 230 %)\*

Leads to a much stronger European Insurance Industry

\*Groups = 84; Solo life=455; Solo non-Life = 1.067





## > Eiopa's Macro-economic perspective

1. Macro risks	<b>High</b>	→
2. Credit risks	<b>Medium</b>	→
3. Market risks	<b>Medium</b>	→
4. Liquidity and funding risks	<b>Medium</b>	→
5. Profitability and solvency	<b>Medium</b>	→
6. Interlinkages and imbalance risks	<b>Medium</b>	→
7. Insurance (underwriting) risks	<b>Low</b>	→

### Positive developments:

- Volatility has decreased
- Global inflation rates near 2% medium-term inflation rate

### Main concerns:

- Continuing low level of yield
- Credit Risk re-pricing\*

Source: EIOPA Risk Dashboard – May 2017 release based on 2016 Q4 exposures and end - March 2017 market indicators



## ➤ Cornerstones of strengths of the Insurance Industry

- **Companies align better their capital to the risks they run**

- This results to a better pricing of the risks

- Enhanced the role of the Boards

- Ensure a better level playing field

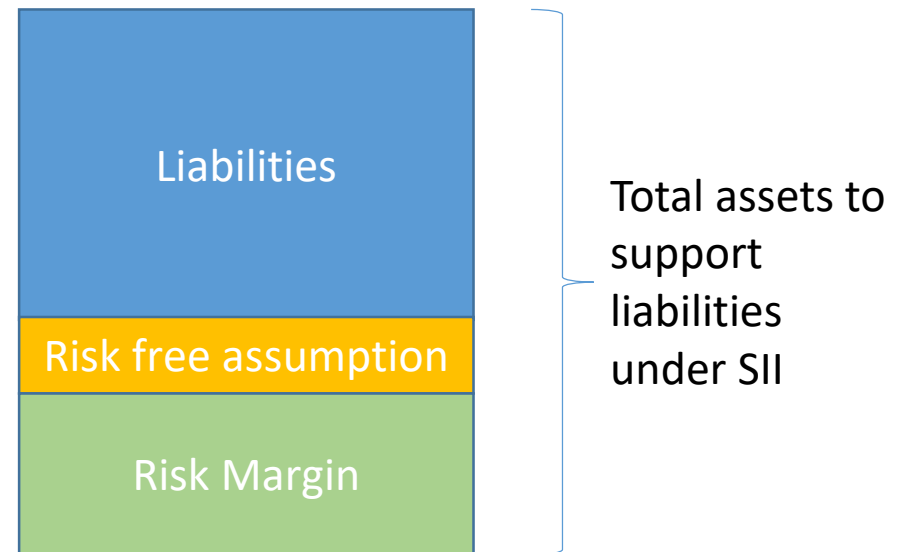
**(G. Bernadino, 6.9.2017)**



## ➤ Insurance Industries critical view

“Companies align better their capital to the risks they run”

- a. Value of covering assets at risk free rate vs assets earnings
- b. Risk Margin
- c. SCR vs MCR



Extra assets, but not needed to pay claims!

> Source: Insurance Europe, Annual Report 2016



- **Cornerstones of strengths of the Insurance Industry**
  - Companies align better their capital to the risks they run
  - **This results to a better pricing of the risks**
  - Enhanced the role of the Boards
  - Ensure a better level playing field

**(G. Bernadino, 6.9.2017)**



- **Cornerstones of strengths of the Insurance Industry**
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**(G. Bernadino, 6.9.2017)**



- **Cornerstones of strengths of the Insurance Industry**
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  - Enhanced the role of the Boards
  - **Ensure a better level playing field**

**(G. Bernadino, 6.9.2017)**



## ➤ Effects on clients & economy

# Volatility of Solvency Capital



## **Clients**

Higher premiums / lower benefits



## **Economy**

Limitation in long term investment products /



## > Challenges

### **Brexit:**

Eiopa has published in July an Opinion setting guidance and principles in the area of authorisations and approvals.

(<https://eiopa.europa.eu/Publications/Opinions>)

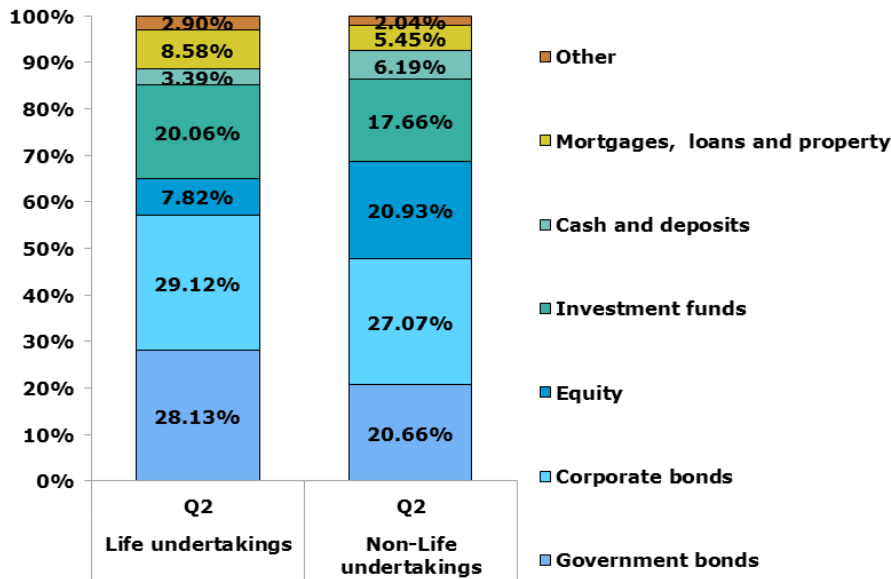
Key word: **Corporate Substance**

**Conclusion:** strengthening supervision of relocated entities will result in a closer look of the cross border activities (?)





## > Challenges



## Investments

57% of insurers investments =  
Bonds (govies - corporate)

21% = Equities

2% = Real Estate and mortgages

Separate asset class for investments in infrastructure projects  
with lower risk calibration

Current: treatment of unrated debt and unlisted equities



## > Challenges

- > Global Capital Standards

- > Cyber Risks

- > Fintech

- > Recovery and Resolution

ANY QUESTIONS?

# WHAT CLAIMS ARE TROUBLING EUROPE RIGHT NOW?

Andreas Czok  
Compre Group

# What is Compre?

A European insurance & reinsurance legacy specialist focused on the acquisition and management of discontinued non-life portfolios, with operations across Europe

Experts in delivering finality and have done so through a variety of structures, including portfolio acquisitions, company acquisitions and reinsurance solutions

Significant experience in all classes of direct and reinsurance business, including property, liability, marine and motor

Compre has acquired from major financial institutions including: Allianz, Axa, HSBC, QBE and Swiss Re

Privately owned with shareholders actively involved in management of the business

Partnership with AA rated reinsurer to support balance sheet strength

# Summary

European Motor claims may involve annuities, such as PPOs in the UK and French motor annuities, which have significant associated risks and tie up capital for a long period of time.

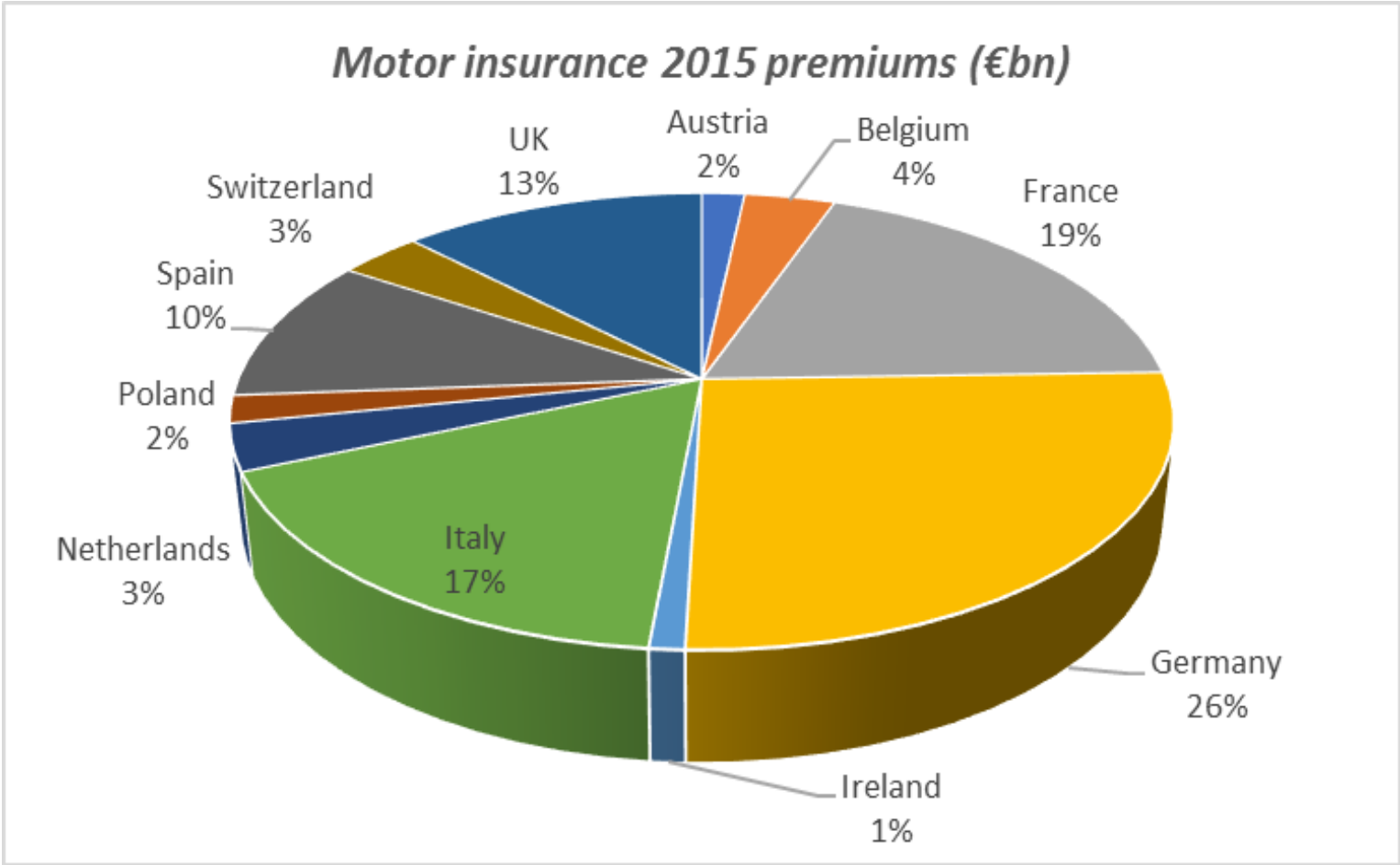
Asbestos claims have been the troublesome in the US and Europe for many years. Recently, other claim types have been gaining recognition in the industry.

Medical malpractice claims can also be challenging. Recent and upcoming changes in legislation in certain countries set out to create a more favourable environment for all parties involved.

Extreme weather events, such as hurricanes, earthquakes and forest fires have resulted in major losses across the market this year, with the risk to Europe growing.

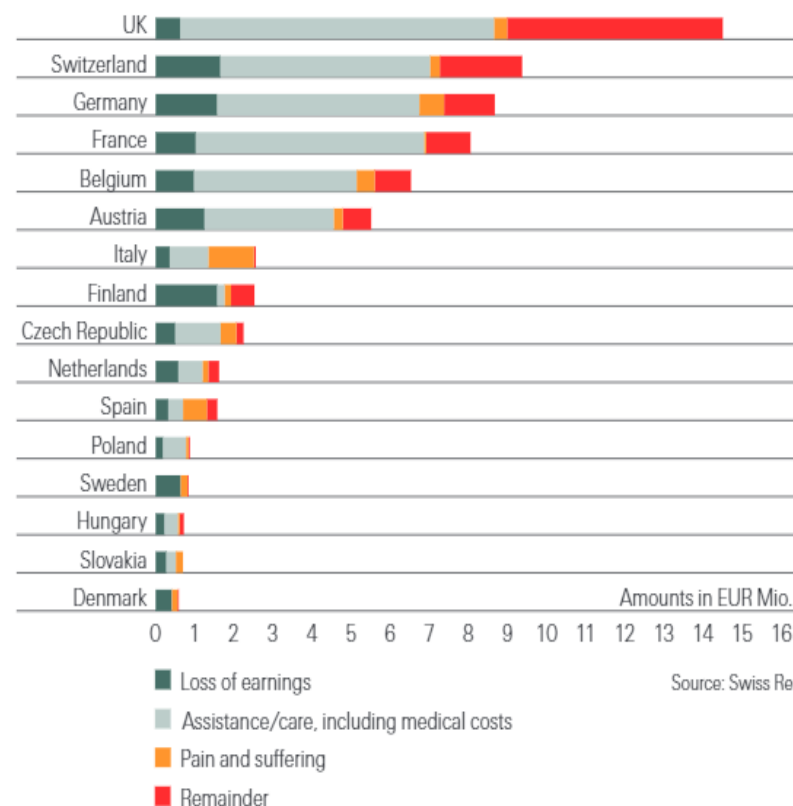
Recent claim trends in the US, such as talc, concussion and mesh implants could also be affecting Europe in the near future.

# European Motor



# European Motor

- The UK, France, Italy and Germany represent approximately 60% share of the European Motor Insurance market.
- The motor market is fundamentally changing due to technological advancements, e.g. telematics, and insurers are responding to this change.
- The method of compensation and the underlying processes vary significantly across Europe.
- Differences in legislation create a need for experts in each jurisdiction and a partner with a cross EU approach.
- There are substantial risks associated with annuities, such as PPOs in the UK and French motor annuities. These include mortality, wage inflation and volume of annuities.





# European Motor Books

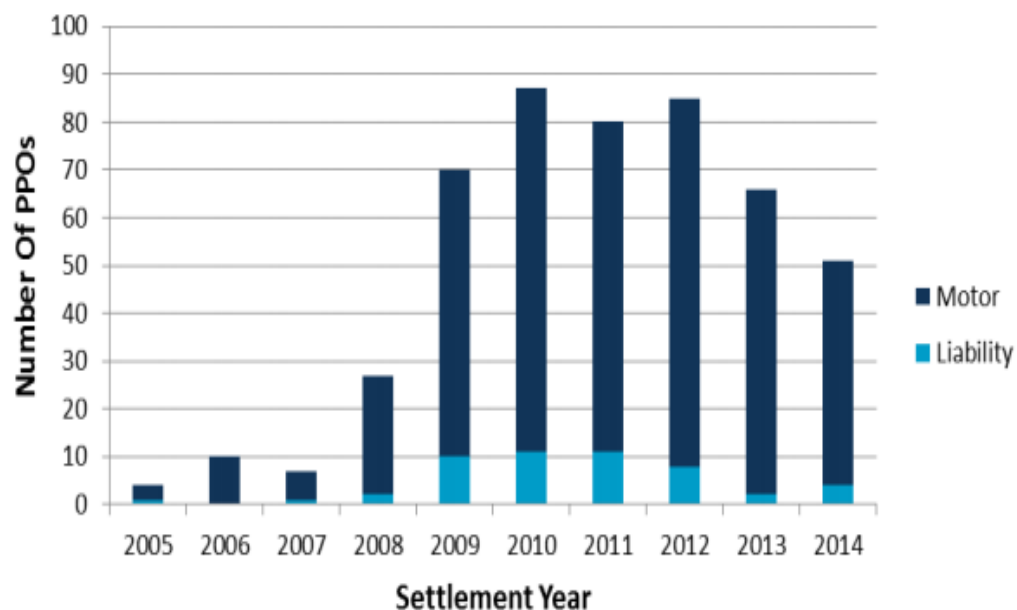
- Statute of limitations (notification period)
  - France: 10 years from the accident
  - Germany: 3 years
  - Italy: 2 years
  - UK: 3 years (or 3 years from date of knowledge)
- Annuity versus lump sum characteristics
  - France: greater annuity percentage of structured settlements
  - Germany: payments may be lump sums, annuity or pay as go through the claimant's life
  - Italy: only one significant annuity award awarded by the court of Milano in January 2015
  - UK: more lump sums but moving towards annuities (PPOs) – 30% of losses in excess of £1m. Ogden impact unknown.
- For the typical period to injury stability (consolidation period) ranges from 6 years in the UK to 20 years in France.
- For France and Italy there are Heads of Damage Guidelines (tables) to provide the basis of the calculated awards. In the UK and Germany values are negotiated and based on case law precedents.
- In Germany and France annuity awards can be re-opened. This can only be done in the UK if the compensation settlement included a variation award.

# European Motor Books - Annuities

PPOWP  
2015 Survey

## Frequency of PPO settlements

Number Of PPOs By Settlement Year



# Asbestos – US vs Europe

## USA

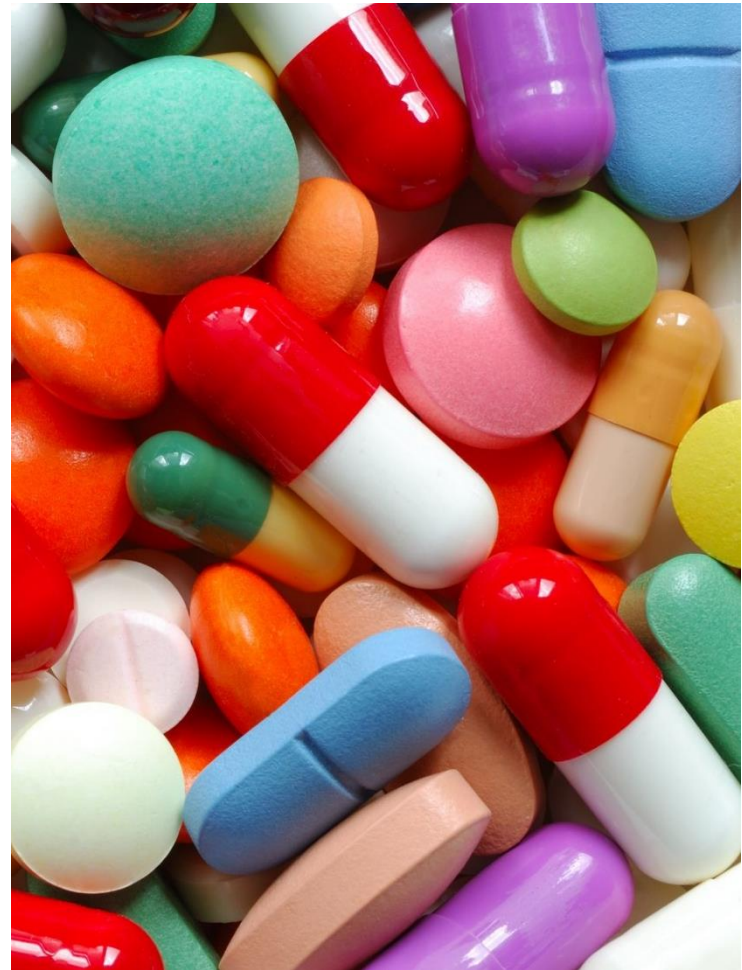
- Many European (re)insurers have exposure to US asbestos claims.
- A.M. Best estimate an 18% increase in TPL asbestos claims in the US from USD\$ 85bn to USD\$ 100bn in their latest report.
- Very difficult to quantify the industry's ultimate loss exposure – many uncertainties and high level of litigation.
- Complex legal environment – each state has different laws.
- Legislative developments – Furthering Asbestos Claims Transparency Act of 2017 (“FACT” Act).

## Europe

- **France** is one of the most complex EU jurisdictions for asbestos exposure and litigation. Claimants have many courses of action open to them regardless of whether they have an asbestos-related disease or not.
- **Italy** - on 05/07/17 the Court ruled in favour of the enforceability in Italy of foreign decisions, granting the payment of punitive damages.
- **The Netherlands** has one of the highest rates of asbestos victims per capita in the world, though no mining activities took place.
- **Switzerland** – number of cases of asbestos-related diseases is on the rise. Hundreds of deaths expected over the next few years.

# Medical Malpractice

- Growth and aging of population and rise in expectation of health levels have changed patients' demands on health services and resulted in an increase in med mal claims.
- Currently no EU-harmonised legislation.
- Compensation may be awarded for material and immaterial damages – medical expenses, loss of income and compensation for pain and suffering respectively.
- Overall, a minority of cases end up in Court (e.g. only 8% litigated in Germany).
- **UK** – the government seeks to introduce fixed costs for clinical negligence claims.
- **Italy** – “Law Gelli” came into force on 01/04/17.
- **Germany** – recent increase in claims; however, the social security safety net has a mitigating effect on damage awards.



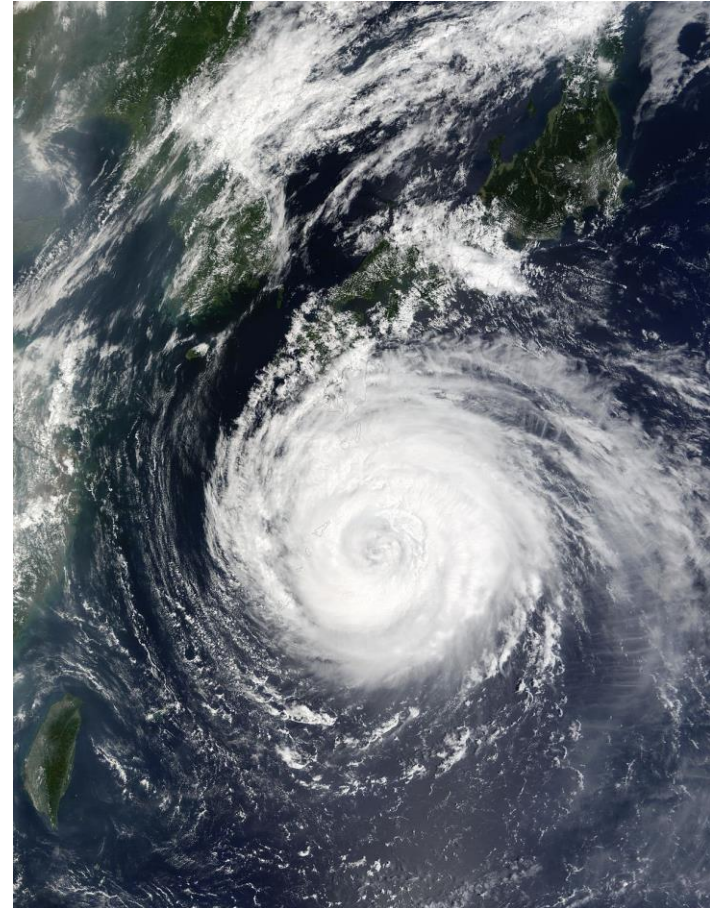
# Decennial/Building Guarantee Risks

- Decennial liability insurance is mandatory in certain jurisdictions, most notably France.
- Building Warranty or Latent Defects insurance is also available in the UK, and typically lasts 10-12 years from the Building Regulation Completion Certificate. However, it is not compulsory.
- Claims generally follow a “U-shape” curve, with high points in years 2-3 followed by years 9-10.
- Many claims end up in complex Court processes – need for experts to manage and adjust claims.
- Recent activity in the run-off market with respect to this line of business, e.g. Compre’s purchase of captive with exposure to French decennial risks.



# Extreme Weather

- Continuous catastrophe claims have had a major impact on the insurance industry.
- The insurance market is still calculating the loss estimates for Hurricane Maria, earthquake in Mexico and Asian typhoons.
- The number of forest fires in the EU has trebled so far this year.
- Paris experienced heavy flooding in July. Floods have also been reported in Greece, Iceland and Italy among others in September alone.
- Lloyd's has started paying out the first of the USD \$4.5bn (£3.6bn) claims for Tropical Storm Harvey and Hurricane Irma.
- Reinsurance rates are likely to rise at year-end renewals.



# Emerging Risks for legacy market

- Recent US trends could eventually hit Europe.
- Speculation as to what the “next asbestos” might be, e.g. nanotechnology, mobile phones.
- **Talc** (product liability) – there is a claimed link between genital talc use and ovarian cancer. A number of recent cases against Johnson & Johnson, with plaintiffs awarded millions by the jury.
- **Mesh implants** (product liability) – J&J have also been implicated in pelvic mesh cases in the US. In addition, over 800 women are suing the NHS and implant manufacturers in the UK.
- **Concussion** (personal accident) – following recent US NFL litigation, there are concerns that many more claims will be filed.



ANY QUESTIONS?



# REFRESHMENT BREAK

We will resume at 15:50

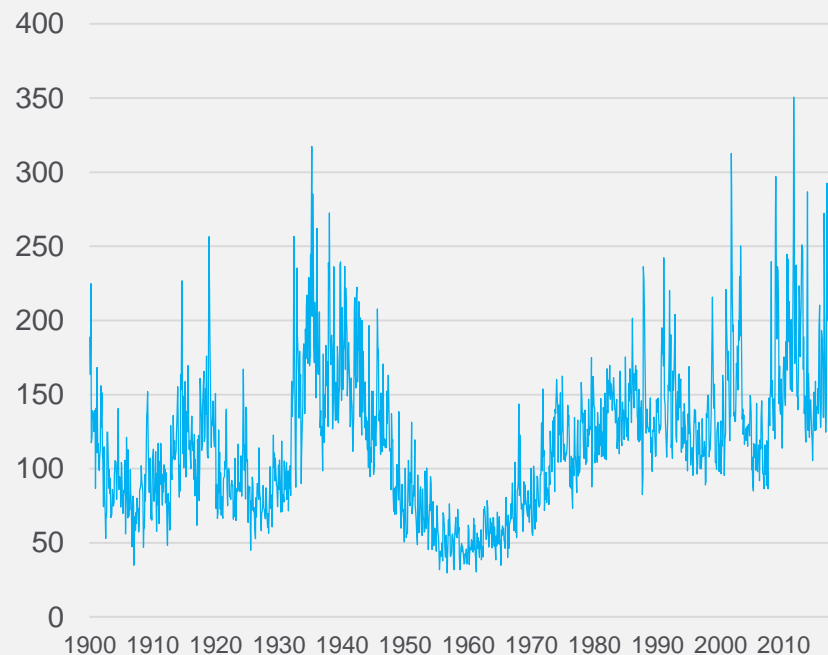
# HOW IS THE EUROPEAN ECONOMY CHANGING?

Dr Oliver Büsse

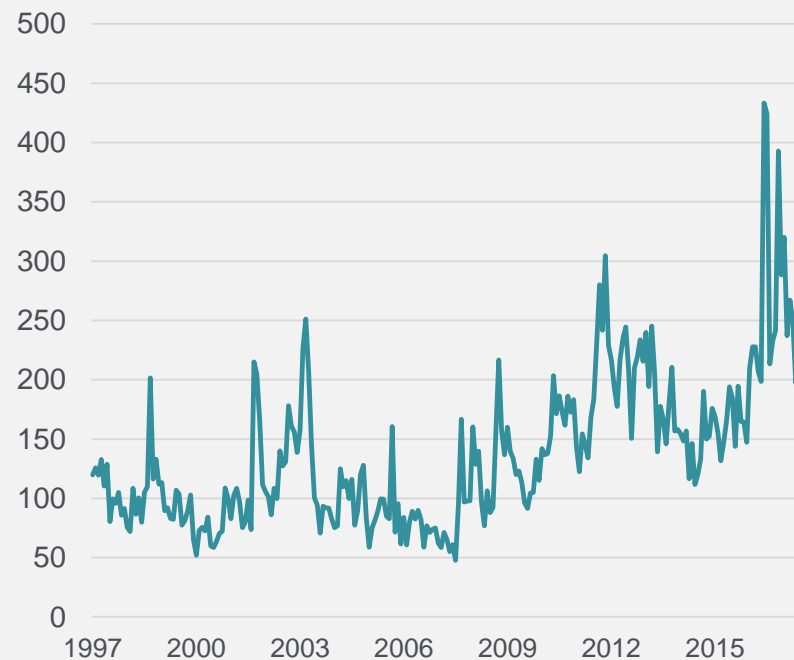
Munich Re

# News-based measures of political and policy uncertainty at elevated levels in advanced economies ...

## USA: Economic policy uncertainty (index)



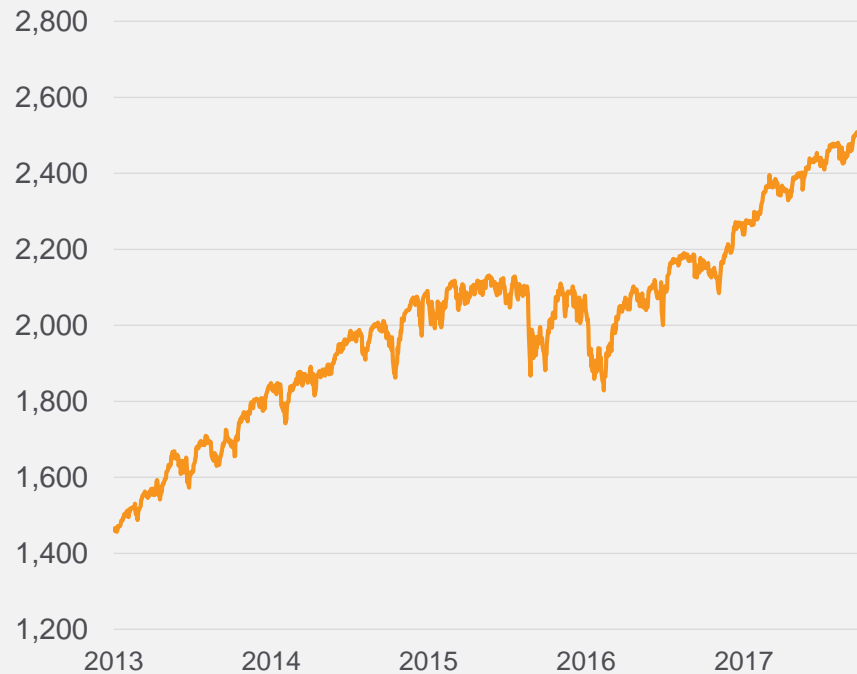
## Europe: Economic policy uncertainty (index)



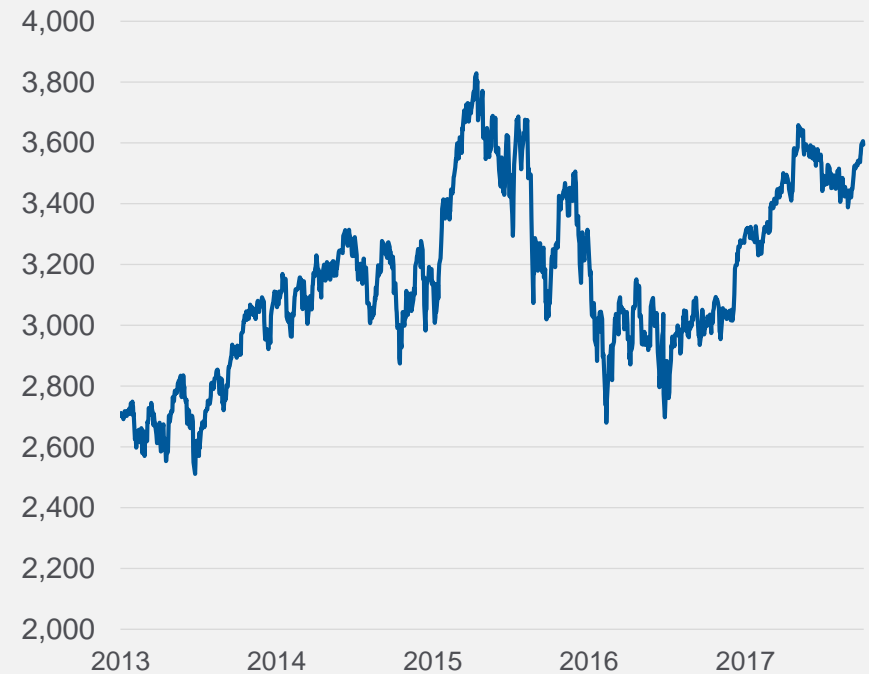
Source: [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com), Munich Re Economic Research

... although financial markets seem to be optimistic regarding the overall outlook ...

### S&P 500



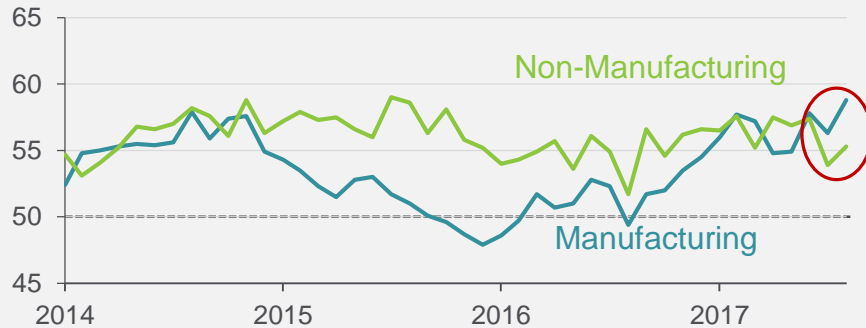
### EURO STOXX 50



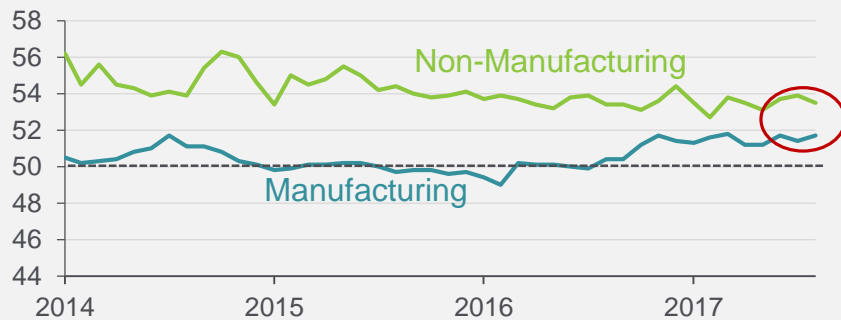
Source: Bloomberg (as of 4 Oct 2017), Munich Re Economic Research

... supported by leading indicators which signal a continuing upturn in economic activity – strongest improvement within eurozone

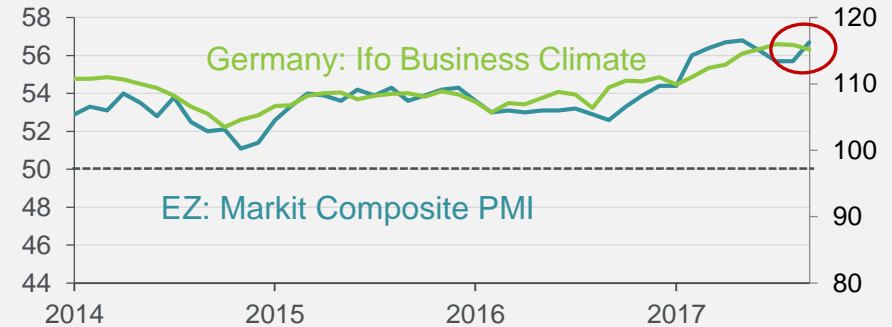
USA: ISM



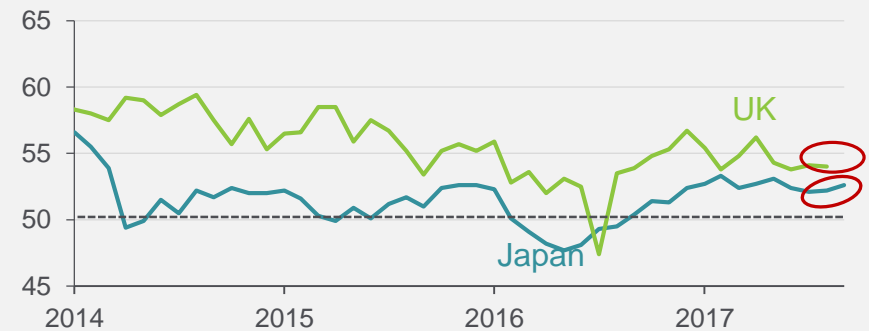
China: PMI



Eurozone: PMI / Germany: Ifo Business Climate



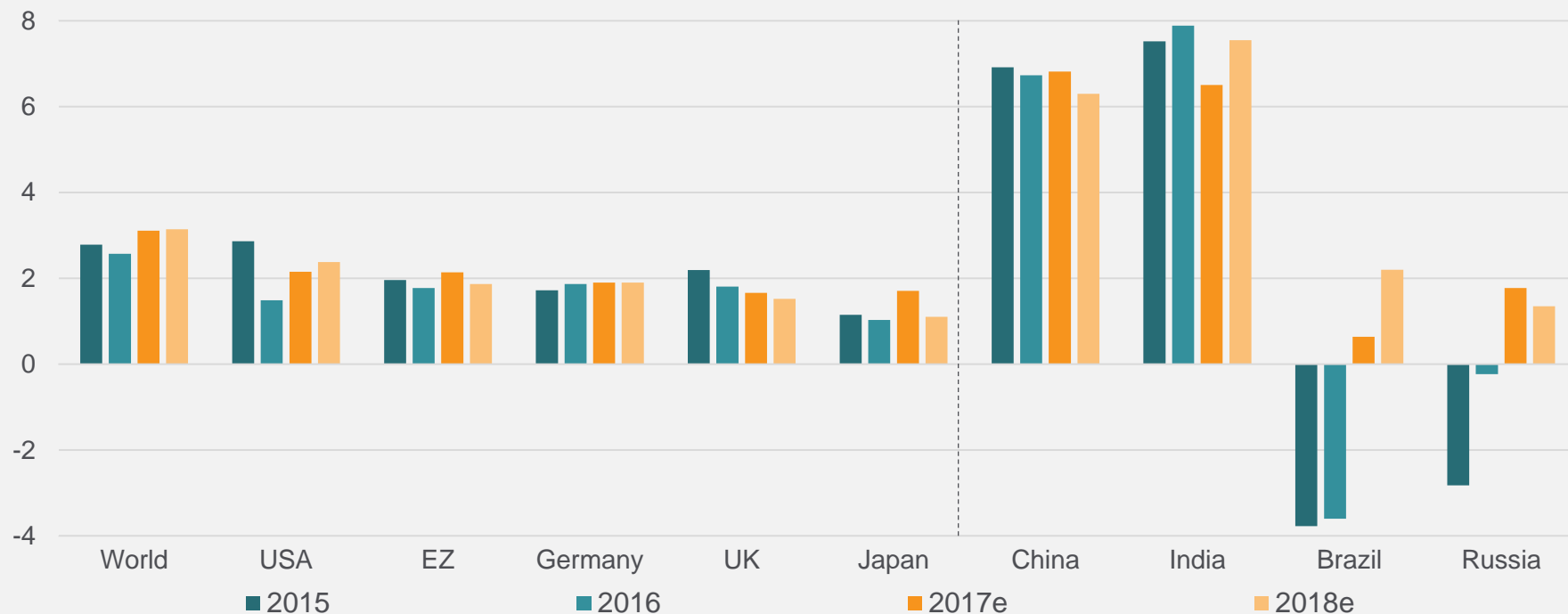
Japan & UK: PMI (Markit Composite PMI)



Source: Bloomberg (as of 25 Sep 2017), Munich Re Economic Research

## Economic growth: More broad-based across advanced economies and emerging markets – trade and investment dynamics supportive

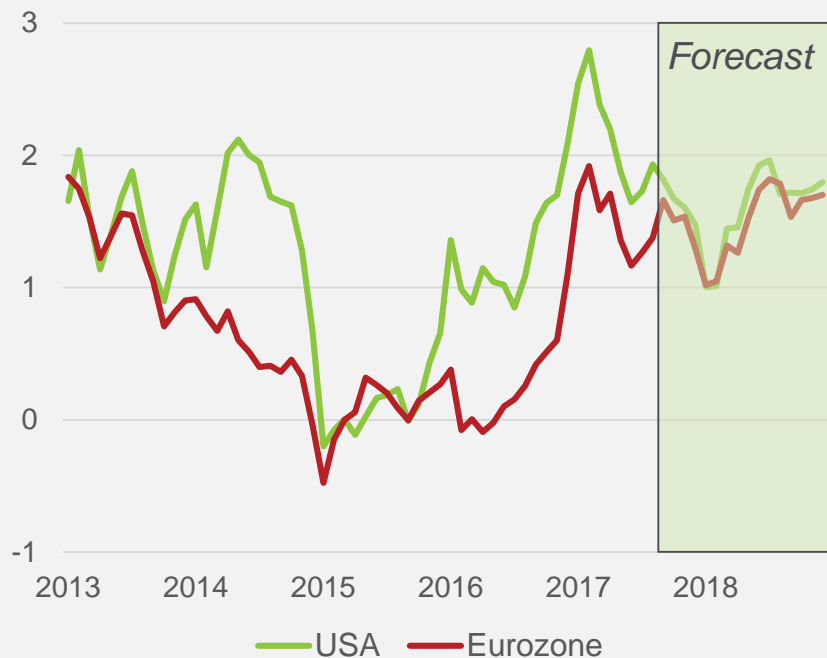
Annual real GDP growth 2015–2018e (in %)



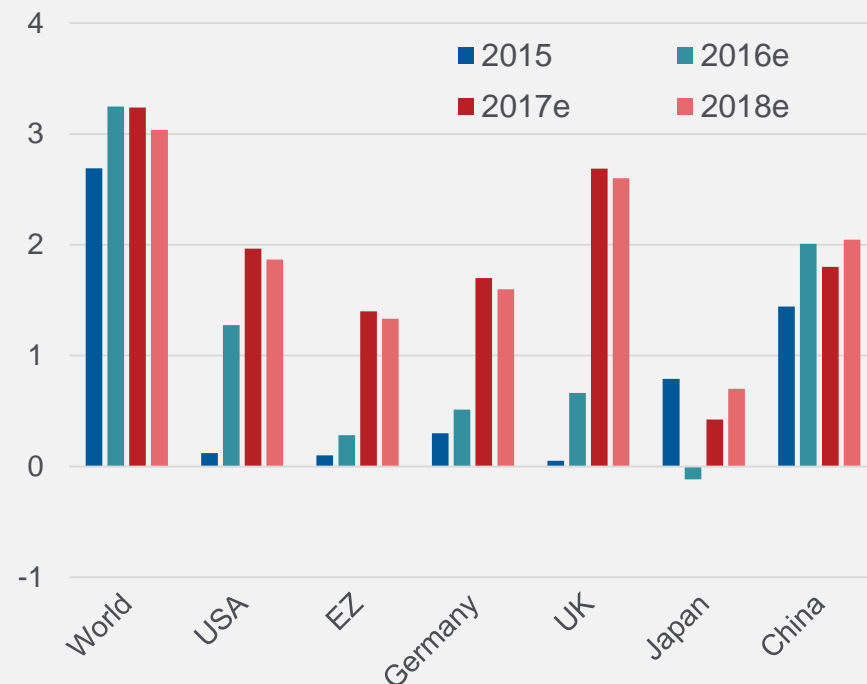
Source: Munich Re Economic Research

Inflation: Normalising in major economies on a calendar year level, but remaining rather low given the state of the business cycle

CPI Inflation, monthly data (y-o-y, in %)



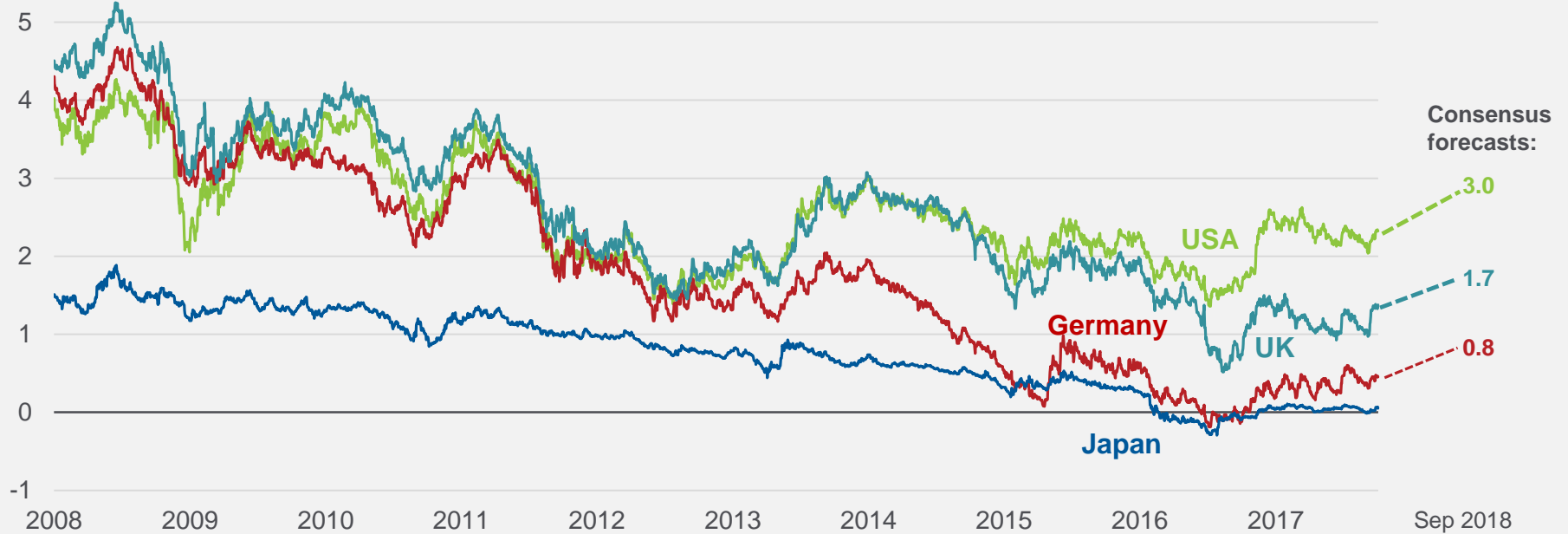
CPI inflation, annual averages (in %)



Source: IHS Markit, Munich Re Economic Research

Interest rates: Baseline outlook expects bond yields *not* to pick up very strongly over 2018 – (monetary) policy-driven uncertainties to remain

10yr government bond yields (in %)

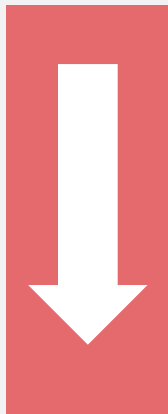


Source: Bloomberg (as of 4 Oct 2017), Consensus (as of 11 Sep 2017), Munich Re Economic Research



## Positive global economic outlook faces several short-to-mid-term downside risks ... as well as some upside potential

### Downside risks, especially:



- Heightened uncertainty and protectionist policies under Trump presidency
- Fast bond yield rise hurts global growth or results in emerging market crisis
- China: tighter policies stifle growth or financial crisis with hard landing
- EU/EZ fragmentation (e.g. elections in IT, Brexit negotiations, separatism)
- Eurozone banking and sovereign debt crisis
- Geopolitical risks (e.g. Korea, Middle East, South China Sea, Cyberwar )
- ...

Europe not a key global risk factor right now

### Upside potential, e.g.:

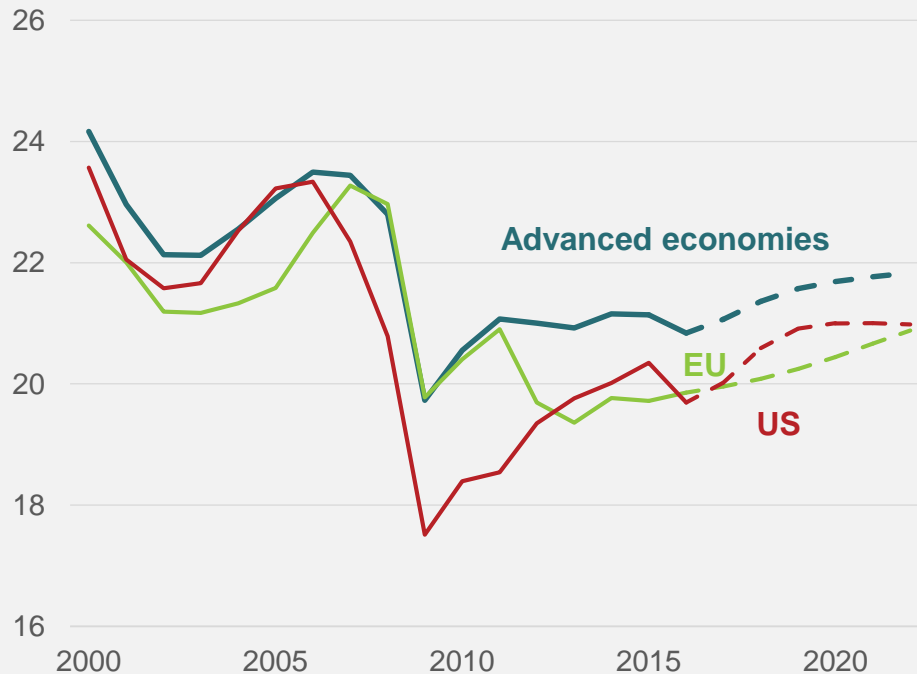


- Stronger improvement in trade and/or investment dynamics
- Higher US growth (e.g. due to business-friendly tax policy)
- More expansionary fiscal policy in other large economies
- ...

Source: Munich Re Economic Research

# Investment still recovering from post-financial crisis lows – long-term growth prospects also dependent on digitalisation impulses

## Investment in % of GDP

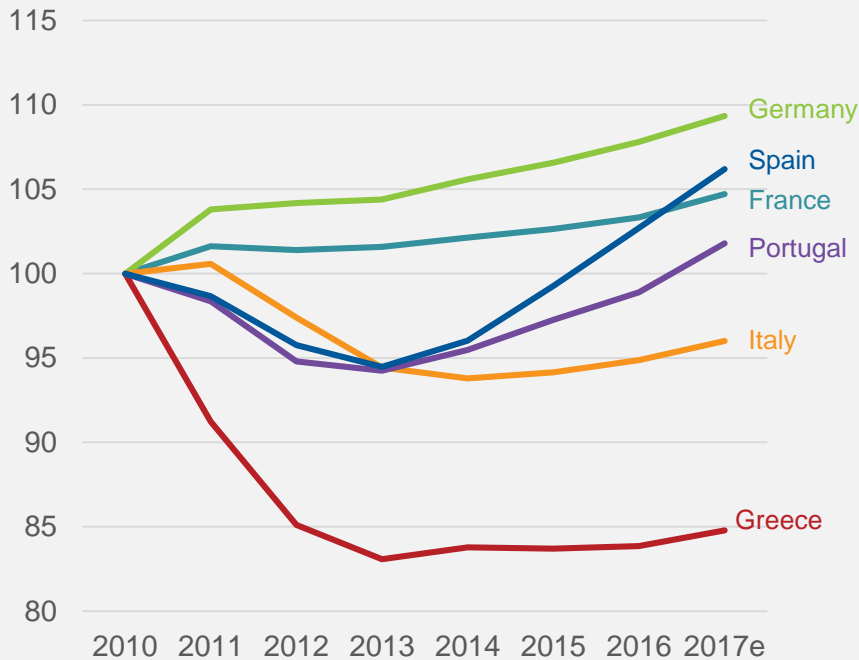


Optimistic scenario:  
Digitalisation and the „next industrial revolution“ / Industry4.0 will lead to a boost in productivity growth

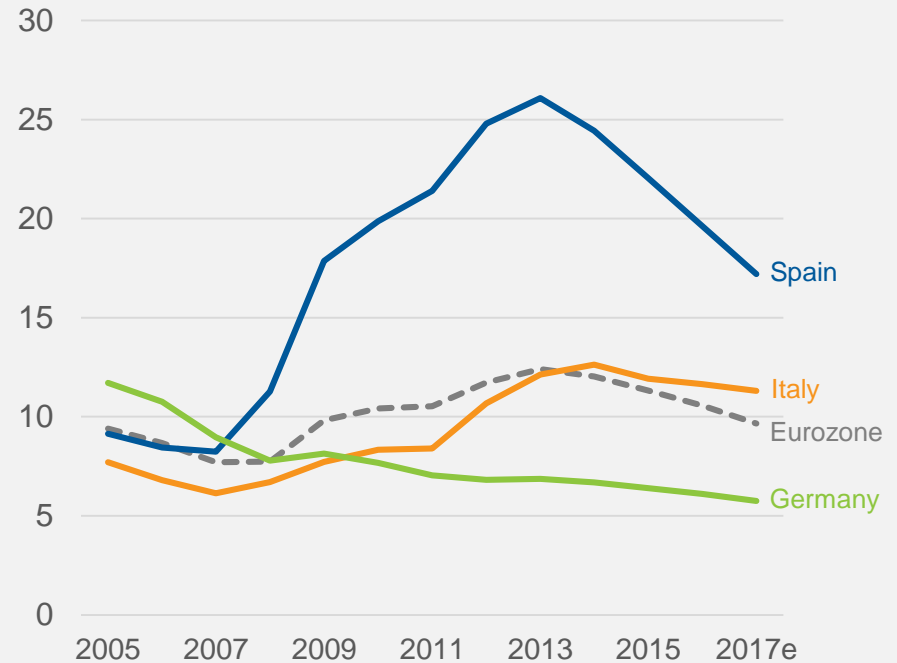
Source: IMF (WEO April 2017), Munich Re Economic Research

# Future of the Eurozone: Reducing income and social disparities one corner stone of long-term stability

Per-capita income (Index, 2010=100)



Unemployment rate (in %)



Source: IHS Markit, Munich Re Economic Research

# European Union facing massive internal and external political challenges – Brexit just one of many examples

Internal challenges, e.g.	External challenges, e.g.
 <p>Brexit</p>	 <p>Future of US partnership?</p>
 <p>Eastern European countries drifting away from EU core values</p>	 <p>Russia as „counterdraft to the West“?</p>
 <p>Populist anti-EU movements</p>	 <p>Increasingly difficult partnership with Turkey</p>
 <p>Future set-up of EU?</p>	 <p>Future geo-political role of EU?</p>

Source: Munich Re Economic Research

- 1** Baseline global and European economic outlook overall positive with GDP growth more broad based – Inflation and interest rates in advanced economies to remain rather low
- 2** Policy / political risks have gained prominence for key risk scenarios and are located in industrialised countries (esp. the US) to an unprecedented degree
- 3** Despite a recent reduction of risks emanating from Europe, mid-to-long term economic and political challenges remain plentiful

ANY QUESTIONS?

# PANEL DISCUSSION WITH THE AFTERNOON'S SPEAKERS

ANY QUESTIONS?



# WRAP UP AND OPEN DISCUSSION

.....BUS TO ZURICH AIRPORT