



Society of Actuaries in Ireland

Section 13 Transfers: An Introduction

Simon Sheaf
Derek Smith

Disclaimer

The views expressed in this presentation are those of the presenters and not necessarily of the Society of Actuaries in Ireland

Agenda

- What are Section 13 transfers?
- The role of the Independent Actuary
- The role of the CBI
- The role of the Irish High Court
- The areas that the Independent Actuary needs to consider
- The impact of Brexit
- Q&A

What are Section 13 transfers?

- The legal transfer of a portfolio of insurance policies from one company to another
- Can be between different insurance groups or between two entities within the same group
- Happens under the provisions of
 - Section 13 of the Assurance Companies Act 1909
 - Section 36 of the Insurance Act 1989
 - Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015

Key features

- Can transfer assets as well as liabilities
- Does not require policyholder approval
- Approved and sanctioned by the High Court
- Independent Actuary
- There are policyholder notification requirements
- Affected parties are permitted to object

Reasons for undertaking Section 13 transfers

-
- Capital optimisation
 - Operational optimisation
 - Restructuring
 - Demutualisation
 - Shutting down an insurer
 - Exiting non-core books of business
 - Brexit

Appointment of the Independent Actuary

- Mandatory on transfers of life business
- Not for non-life, but one is usually appointed
- Appointed by the two parties
- CBI is given opportunity to object
- However, obligation is to the Court rather than the transferor or transferee

Role of the Independent Actuary

- Must opine on whether any group of policyholders will be materially adversely affected
 - Policyholders remaining in the transferor
 - Policyholders transferring to the transferee
 - Policyholders pre-existing in the transferee
- Two reports are always produced
 - Main report – for the Initial Court Hearing
 - Supplementary report – for the Second Court Hearing
- A third report may also be produced
 - Summary report

Role of the CBI

- CBI consent is required before a transfer can proceed
- Prior to giving its consent, the CBI will require
 - The Independent Actuary's reports
 - Consultation with regulators in other relevant EEA countries
 - Confirmation of compliance with advertising requirements and documentation requirements in each relevant EEA country

Role of the High Court

Initial Court Hearing

- Court considers documentation provided
 - Including Independent Actuary report
- Court gives directions re advertising and notifications

Second Court Hearing

- Court considers documentation provided
 - Including Independent Actuary reports
- Court considers whether its directions re advertising and notifications have been followed
- Court considers any objections received
- Court decides whether to approve transfer

Typical timeline

9 months – 2 years



Initial Court Hearing

Second Court Hearing

Effective date

- Appointment of Independent Actuary
- Appointment of lawyers
- Initial discussions and planning

- Detailed analysis
- Scheme design and production of legal documents
- Main report
- Summary report, if required

- Communication strategy
- Period for objections (at least 8 weeks)
- Update analysis
- Supplementary report

What will the Independent Actuary consider? Financial

- Capital requirements and solvency position
- Reserves
- Liquidity position
- Protections – guarantees, reinsurance
- Investment strategy
- Implication of the transfer on ongoing expenses
- Implications under insolvency
- Compensation schemes
- Pension arrangements
- Tax implications

What will the Independent Actuary consider? Other

- Claims handling
- Policy servicing
- Impact of changes in regulatory jurisdiction
- Complaints
- Governance and management framework
- Policyholder notifications
- Reinsurer notifications

Communication requirements

- Advertising requirements for all Section 13 transfers
- For transfers of life business, requirement to notify policyholders and reinsurers directly
- No equivalent requirement for non-life transfers
 - Although this is still done voluntarily in many cases
- Can apply for waivers
- Interested parties can object to the Court
- Independent Actuary will comment on communication strategy

The impact of Brexit

The problem

- Irish insurers writing business in the UK on a Freedom of Services basis
- Irish insurers with UK branches set up on Freedom of Establishment basis

The solution

- Irish insurers transferring UK business into pre-existing UK entity
- Irish insurers establishing UK entity and transferring business into it

The result

- An increase in the number of Section 13 Transfers

Q & A



Contact details



Simon Sheaf FIA FSAI

Head of General Insurance Actuarial and Risk

E: simon.h.sheaf@uk.gt.com

T: +44 (0)20 7728 3280



Derek Smith FIA

Associate Director – Life Insurance Actuarial

E: derek.w.smith@uk.gt.com

T: +44 (0) 131 6598503