

Transactions, Transfers and Restructurings Webinar

26 AUGUST 2020



Chairman's Welcome

Paul Fulcher

26 AUGUST 2020



Agenda



10:30 – 10:35

Chairman's Welcome

Paul Fulcher

10.35 – 11.10

Update on Part VII transfers and schemes of arrangement

Oliver Gillespie and Robert Bugg

Questions

11.15 – 11.45

Update on M&A activity in Europe

Philip Simpson and Stuart Reynolds

Questions

11.50 – 12.10

The with-profits end game

Nick Dumbreck and Amy Nicholson

Questions and wrap up

Update on Part VII transfers and schemes of arrangement



Agenda



1

Introduction and recent transfers

2

Prudential/Rothesay Scheme

3

L&G/ReAssure Scheme

4

Schemes of arrangement

Introduction

Part VII transfer

- A transfer of contracts of insurance and associated assets and liabilities from one insurance company to another
- Effected via a Court Scheme under Part VII of the Financial Services & Markets Act 2000
- Lengthy process requiring two court hearings and significant engagement with the PRA and FCA
- Requires a Scheme Report from an Independent Expert on the likely effects of the Scheme on policyholders and other stakeholders
- Lead regulator = PRA

Part 26 scheme of arrangement

- A compromise or arrangement between a company and its creditors/members (including insurance policyholders)
- Used to carry out restructurings, product simplifications etc.
- Effected via a Court Scheme under Part 26 of the Companies Act 2006
- Requires a vote of affected individuals and two court hearings
- Independent Expert not required by regulation / statute, but an IE is typically appointed for schemes involving long-term insurance business
- Lead regulator = FCA

Recent / ongoing transfers/schemes involving life business



- Part VII transfer of L&G's mature savings business
- **Status:** Sanctioned 20 August 2020



- Part VII transfer of Irish annuity portfolio
- **Status:** Sanctioned 31 July 2020

7



- Part 26 scheme and Part VII transfer of business of Equitable into Utmost
- **Status:** Sanctioned 4 December 2019



- Part VII transfer of Retirement Advantage insurance business into Canada Life Limited
- **Status:** Sanctioned 18 December 2019

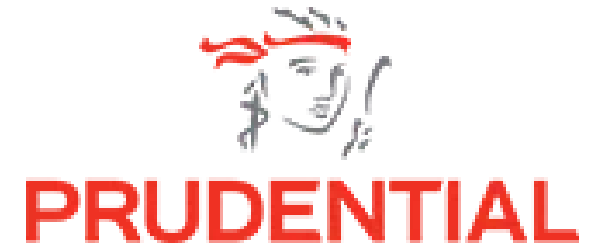


- Part VII transfer of life, pensions and protection business
- **Status:** Sanctioned 22 October 2019



- *Part VII transfer of £11bn of annuities*
- *Status: Declined 16 August 2019*

Internal “Brexit” transfers of life business



Prudential / Rothesay scheme - background

2018

- Prudential announced the sale (via reinsurance) of c.£12bn of non-profit annuity liabilities to Rothesay Life
- It was agreed to pursue a Part VII transfer in order to terminate the reinsurance agreement and simplify the management of the business
- Subject to some exclusions, Prudential and Rothesay pursued a Part VII transfer of the reinsured business

2019 – H1

- Directions Hearing took place on 31 January
- The companies informed transferring policyholders and received over 1,000 objections to the transfer (i.e. approximately 0.4% of total communications yielded an objection)

2019 – H2

- Sanction Hearing took place between 10 June and 20 June
- On 16 August 2019 Mr. Justice Snowden handed down his judgment, declining to sanction the transfer
- On 27 September 2019, the companies lodged an appeal against the judgment

Prudential / Rothesay scheme - judgment

The judgment covered the following key areas



The wider discretion of the Court



The nature of annuity policies



Financial support available to Prudential vs. Rothesay



Age and reputation of Prudential vs. Rothesay



The existence of the reinsurance arrangement



Implications of non-sanction



Future transfers



Permission to appeal

Prudential / Rothesay scheme – appeal process

Prudential and Rothesay were granted leave to appeal by Mr. Justice Snowden

The appeal was lodged on 27 September 2019. The grounds for appeal centre around:

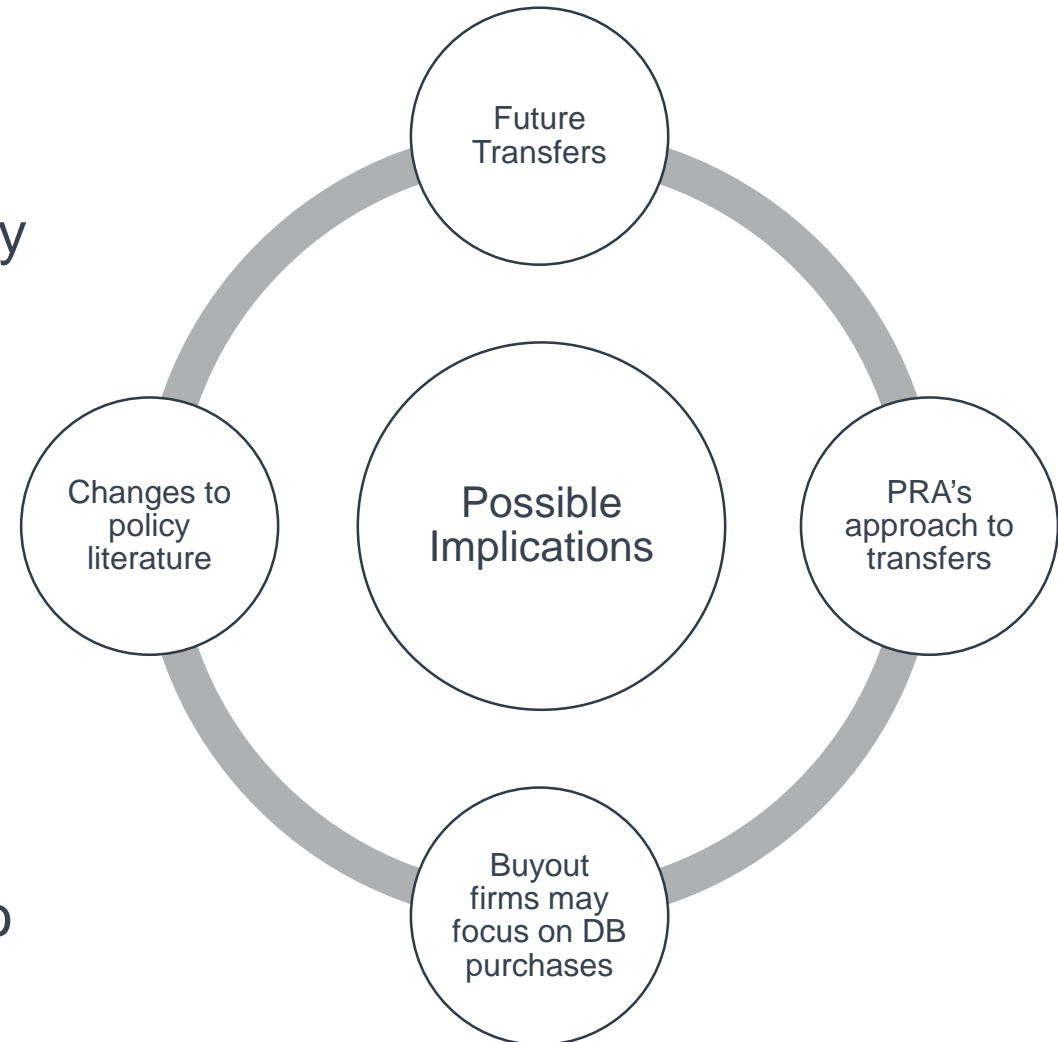
- Any errors in the interpretation of the law, precedent etc. by the judge, or
- Serious procedural or other irregularities

A “Directions” Hearing took place on 18 June 2020.

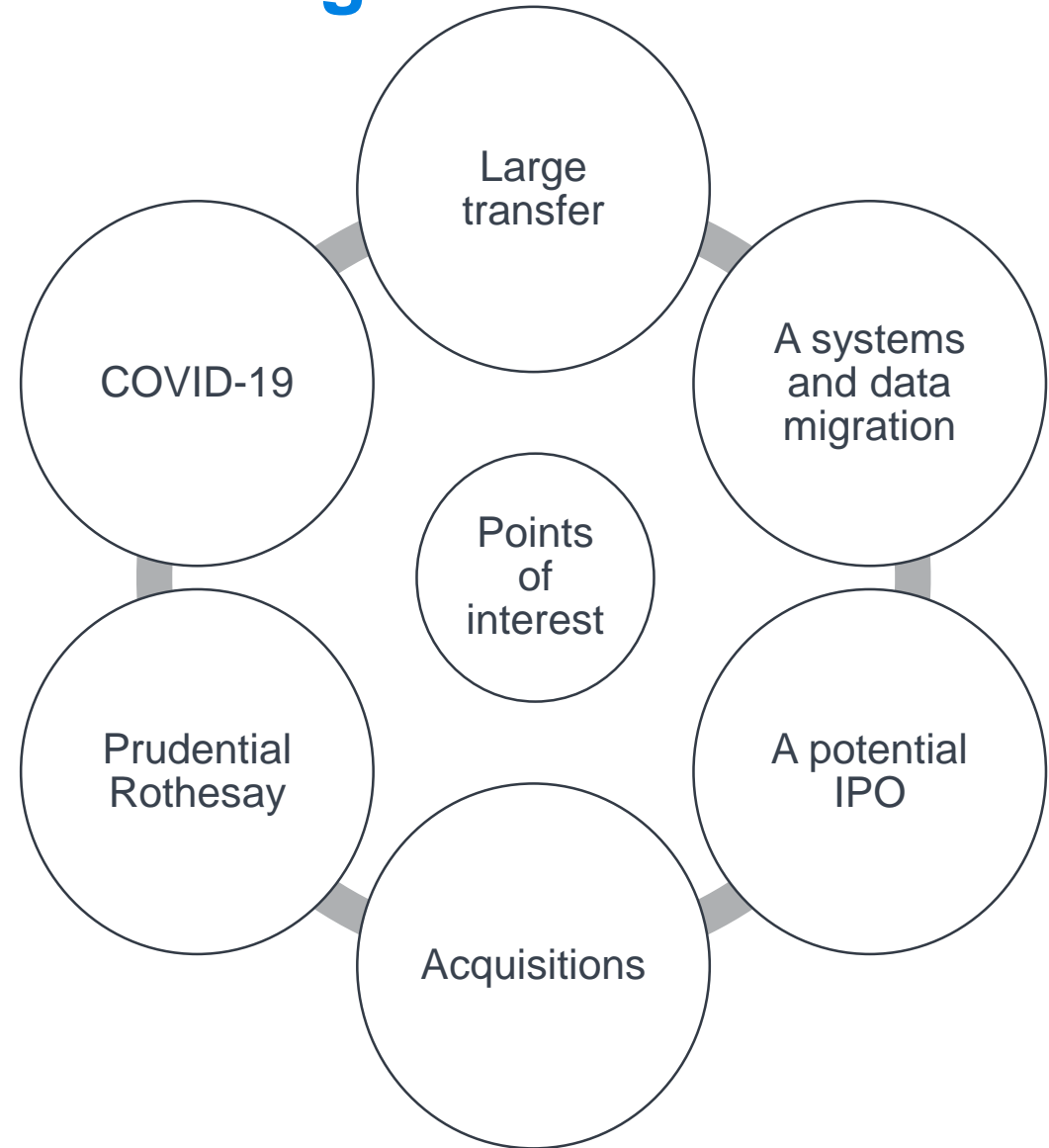
If the appeal is successful, the Appeal Court will not go on to consider sanction. The question of sanction will be remitted to the High Court.

Prudential / Rothesay scheme - implications

- Future transfers
 - Annuity transfers may become difficult
 - Large and longstanding companies may benefit
 - Companies within a wider group may benefit
 - Fewer 'purely commercial' annuity transfers
- Depends on the outcome of any appeal
- More objections
- Reinsurance and company sales likely to be unaffected



The transfer of the L&G mature savings business to ReAssure



The L&G ReAssure transfer

- Approximately 900K to 1 million policyholders and £30 billion of assets transferring
- ReAssure 'currently' has approximately 2 million policyholders and £40 billion of AUM
- Large number of policyholders with whom to communicate
- Knowledge and data transferal required meant a large IT project

The L&G ReAssure transfer

3 August
2018

- Swiss Re Group announced that it was considering an IPO of ReAssure in 2019.

14 June
2019

- Swiss Re Group confirmed its intention to proceed with the IPO

3 July
2019

- Reports finalised and submitted to Court

11 July
2019

- Swiss Re Group announced that it had suspended the IPO process.
- Directions Hearing

The L&G ReAssure transfer



5 August
2019

- ReAssure announced that it intended to purchase the heritage life and pensions book of Old Mutual Wealth from Quilter Plc.
- This was approved by the PRA on 19 December 2019.

6 December
2019

- Phoenix Group Holdings plc announced that they intended to purchase ReAssure.
- This was approved by the PRA on 22 July 2020

The L&G ReAssure transfer

The Prudential Rothesay verdict was announced on 16 August 2019 and the judgment covered:



The nature of annuity policies



Financial support available to Prudential vs. Rothesay



Age and reputation of Prudential vs. Rothesay



The existence of the reinsurance arrangement



Implications of non-sanction

The L&G ReAssure transfer

10, 11, 12
March 2020

- Sanction Hearing at the Rolls Building.
- No judgment given by Mr Justice Zacaroli.

w/c 16
March 2020

- Most offices starting to close and encourage staff to work remotely.

23 March
2020

- The British PM issues his lockdown measures regarding restrictions on all but 'essential' workers.

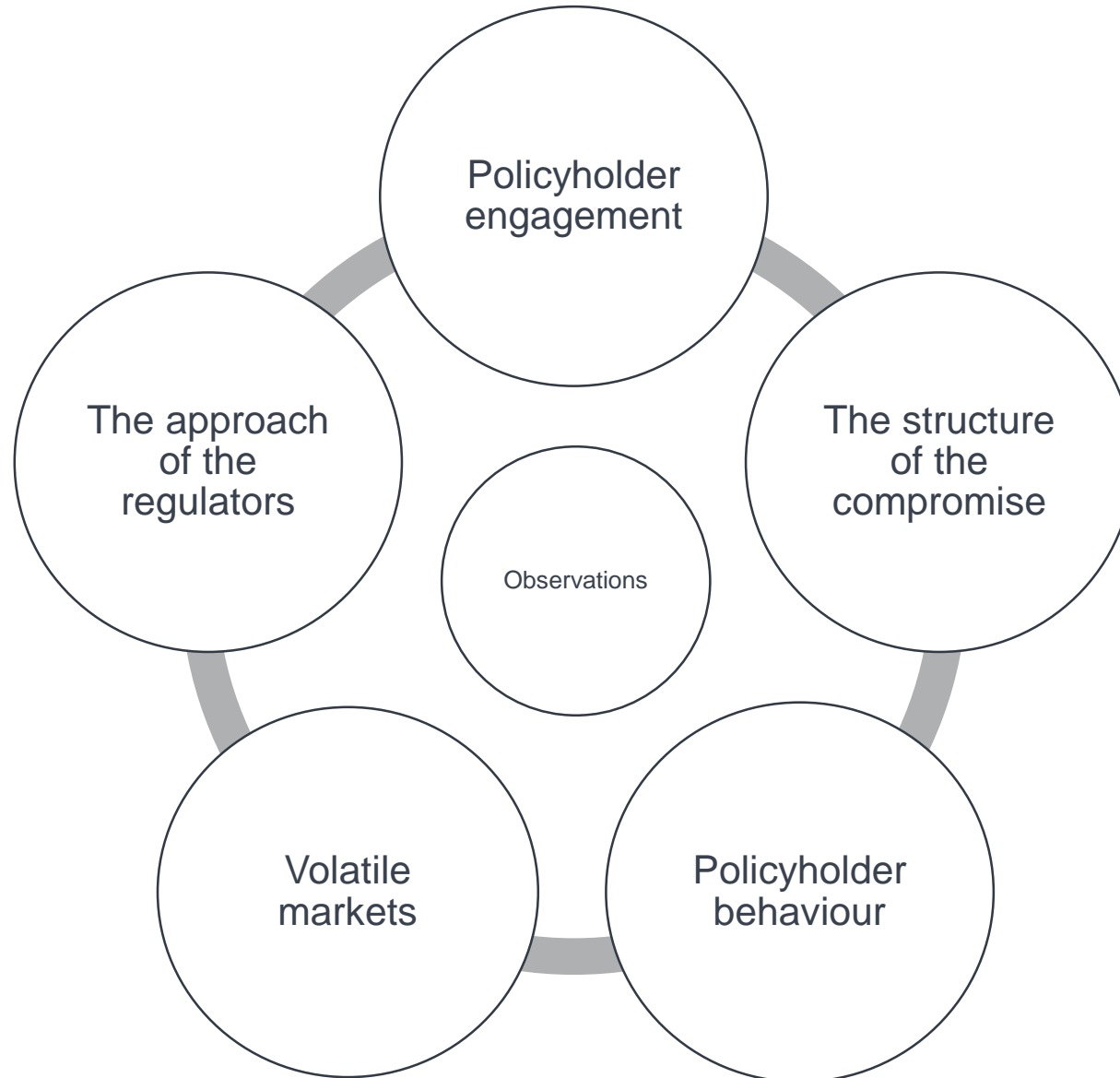
24 March
2020

- LGAS and ReAssure request an adjournment.

The L&G ReAssure transfer



Schemes of arrangement – recent observations



Schemes of arrangement – recent observations

- Key areas of focus include:
 - Motivations for the scheme
 - Is it a reattribution?
 - Winners and losers
 - The criteria by which the IE will judge the scheme
 - The policyholder vote
 - The policyholder communications
 - The fairness of compulsion
- In my experience the proposals often seem to change and sometimes quite materially in the course of the assignment.



Any Questions?

Update on M&A activity in Europe

Stuart Reynolds
Philip Simpson



Agenda



1

Recent M&A activity in European Life Insurance market

2

M&A activity in the UK Mutual Sector

Agenda



1

Recent M&A activity in European Life Insurance market

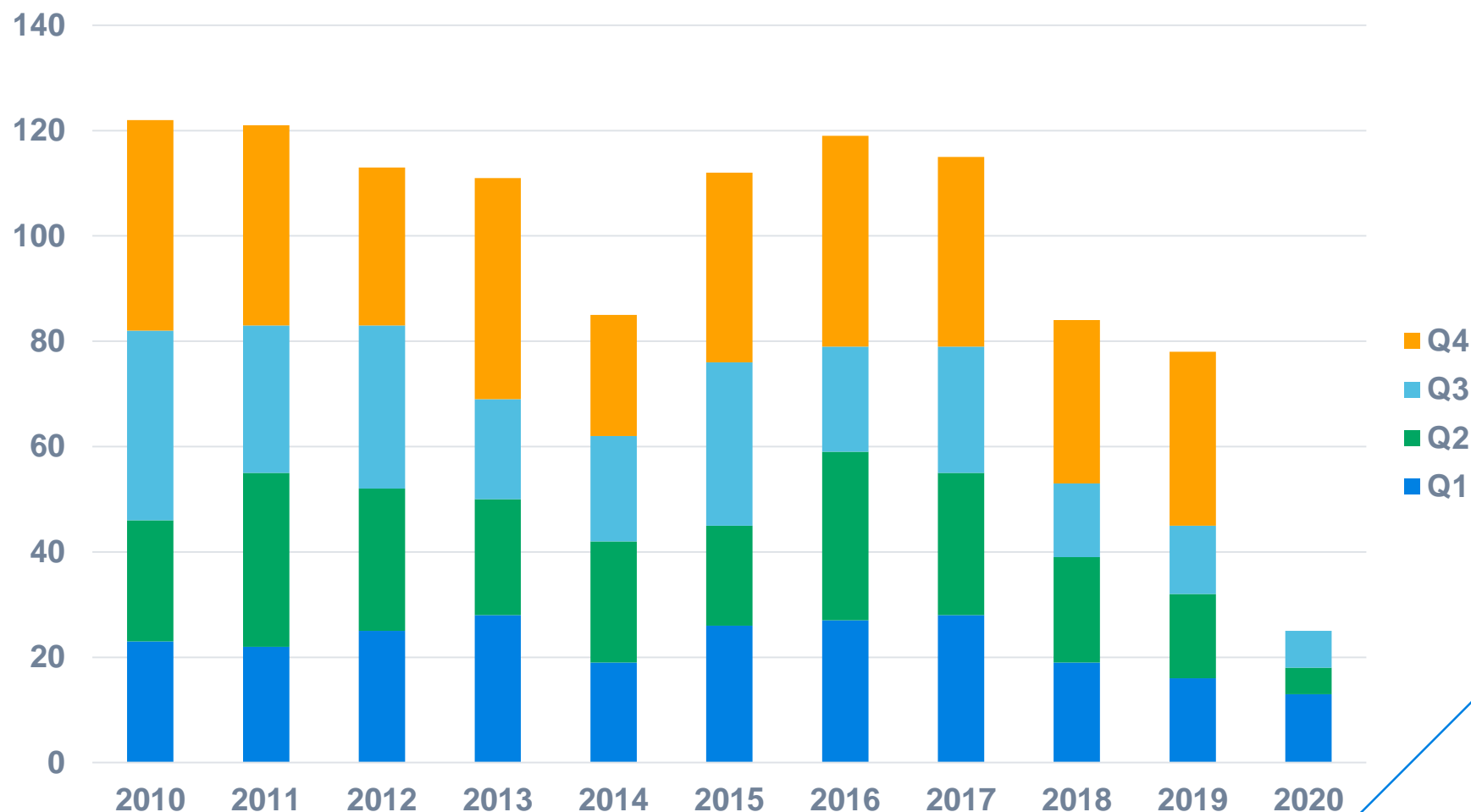
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M&A activity in the UK Mutual Sector

European M&A Activity – Life Insurance Market

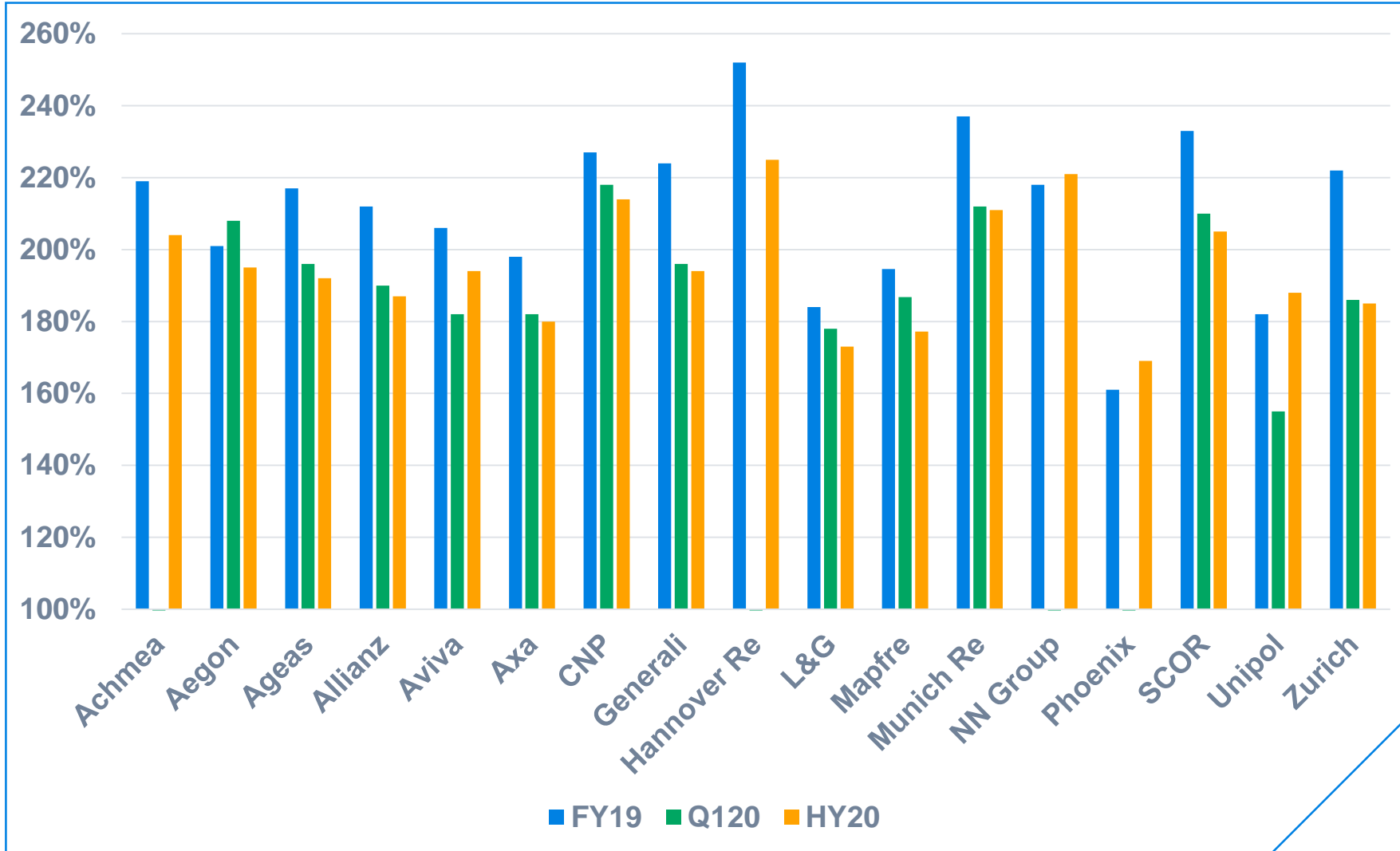


Number of Transactions (Announced)



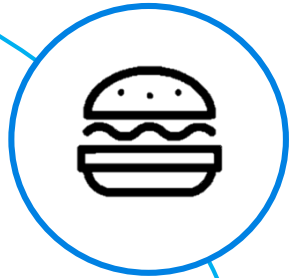
- Number of announced deals **stable** Q1 2019 (16) to Q1 2020 (13)
- **Reduction** in number of announced deals Q2 2019 (16) to Q2 2020 (5)
- **Reduction** in number of announced deals Q3 2019 (13) to Q3 2020* (7)

Headline Solvency – European Insurance Groups



- For Q1 2020, reductions in range **6ppts to 36ppts**
- For H1 2020, most firms seeing a further **0ppts to 5ppts** reduction compared to Q1 2020
- A few firms have shown **improved** ratios (overall or Q1 2020 to H1 2020)

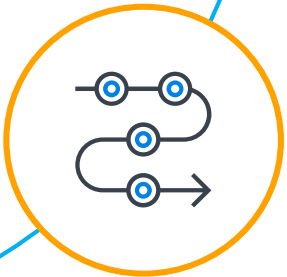
M&A Activity Looking Forward



Appetite



Valuation



Process

M&A Activity Looking Forward



Appetite

- Firm's management had to consider
 - Can our business still operate?
 - Are we still solvent?
- Adapt to the “New Normal”
 - Path to recovery – GDP, interest rates, inflation.
 - Review strategy?
- Other players
 - PE firms
 - Regulators

M&A Activity Looking Forward



Valuation

- Impact to solvency = Impact to Own Funds
- Future of Solvency II
 - SII 2020 Review
 - Brexit
- Suspension of dividend payments
- Level of uncertainty

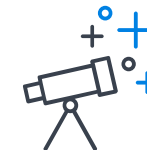
M&A Activity Looking Forward



Process

- Focus of due diligence process
 - Move to more scenario modelling
- Legal considerations
- Other potential constraints
 - Regulators
 - Financing

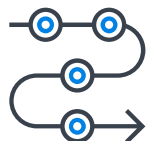
M&A Activity Looking Forward – Summary Points



- Initial level of caution
- Deals that were delayed likely to be pushed back to end 2020/start 2021
- New deals may emerge from strategic reviews



- Gap between buyer and seller expectations may be wide
- Uncertain economic outlook key factor
- Potential changes to SII framework may also be a consideration



- May impact focus of process but not length of process
- Scenario modelling may gain importance
- Legal considerations to mitigate the impact of any future waves of virus

Agenda



1

Recent M&A activity in European Life Insurance market

2

M&A activity in the UK Mutual Sector

Agenda

1. Recent and Potential Transactions
2. Forces acting on Mutuals
3. Some Key metrics for Mutuals
4. Future Options
5. Questions & discussion

1. Recent and Potential Mutual Transactions

- Equitable Life acquired by Utmost Life and Pensions
- Police Mutual to transfer to Royal London
- Kingston Unity to transfer to the Oddfellows
- Liverpool Victoria conversation and reportedly for sale

Life insurer LV puts itself up for sale

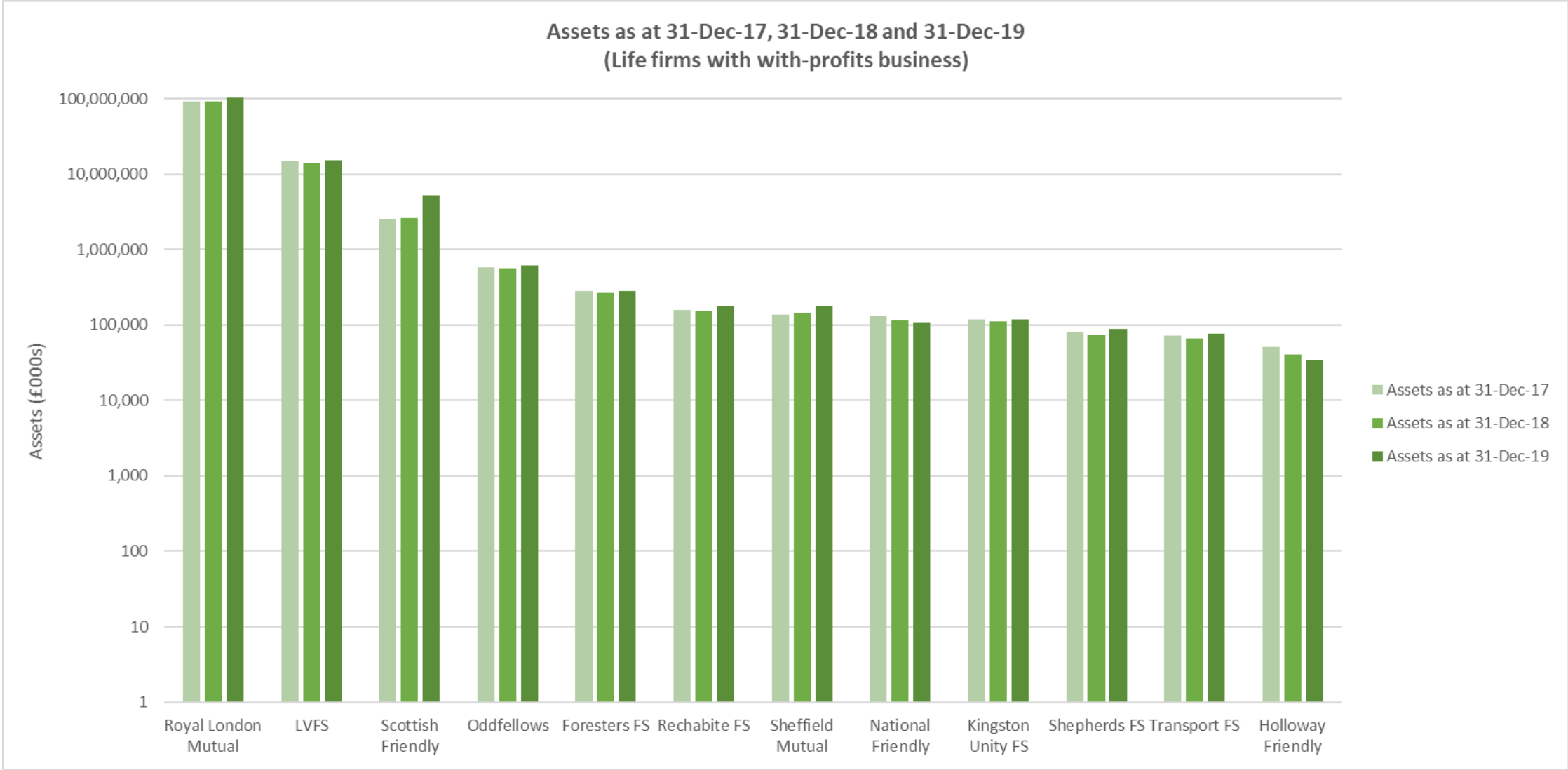
One of the UK's largest remaining mutuals says it is looking at strategic options

2. Forces Acting on Mutuals

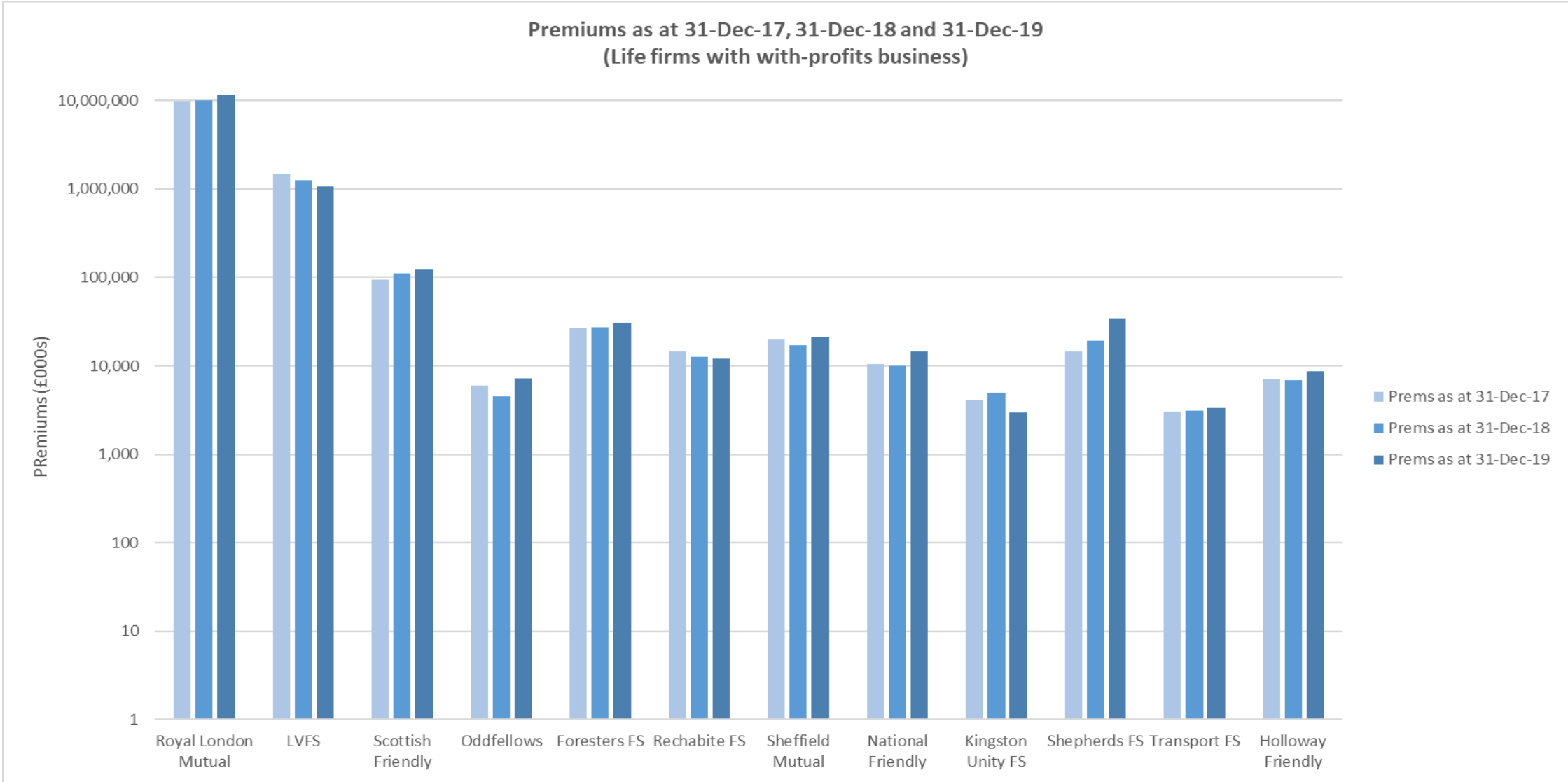
- Decline of core WP business – Most effectively closed
- Child Trust Funds maturing
- Declining membership with few new members, increasing expenses per member
- Low levels of organic growth
- Low interest rate environment
- Capital requirements in particular market volatility
- Complexity of regulations

3. Key Metrics for Mutuals

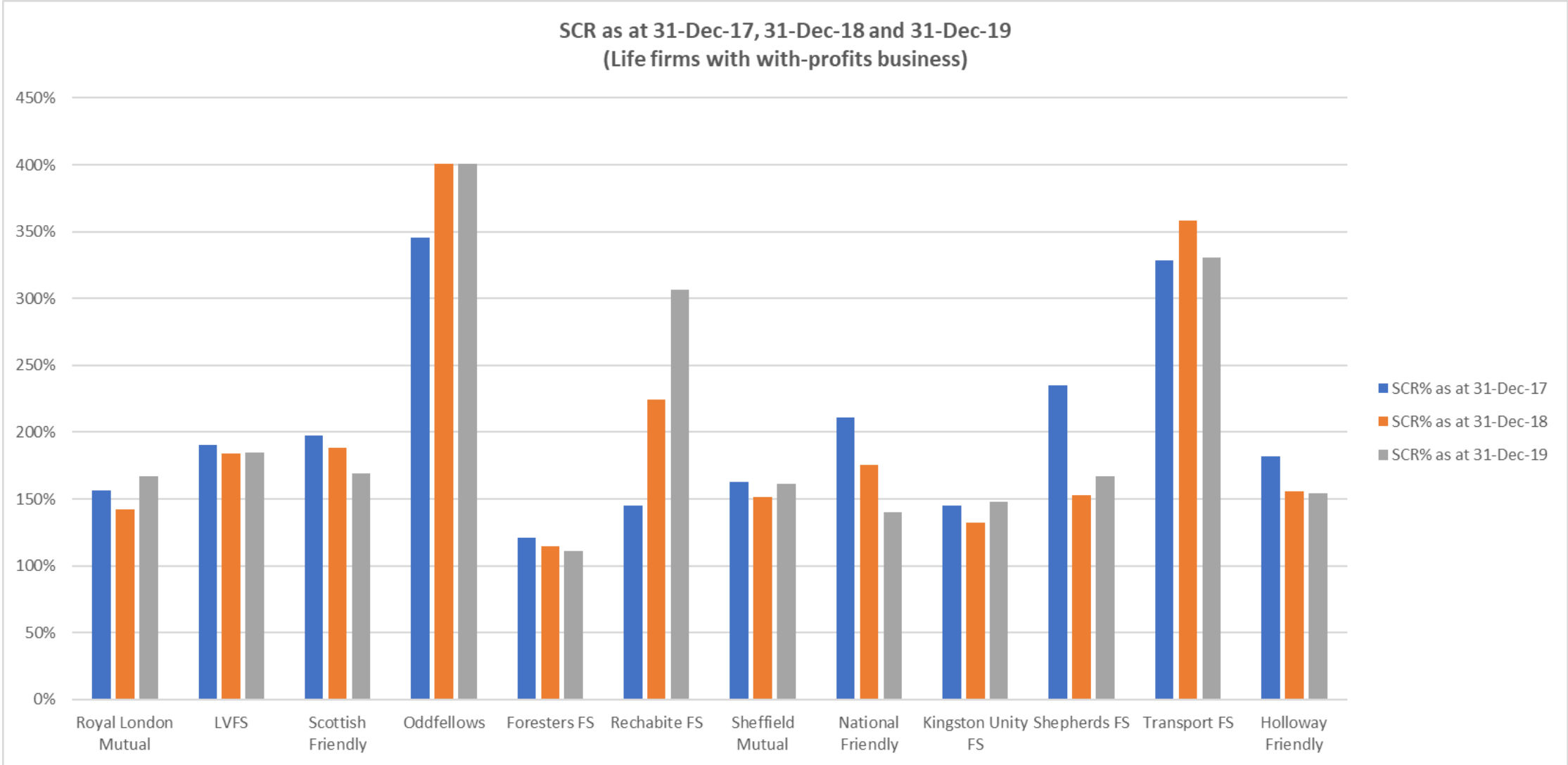
Comparison of Assets Under Management for Selected Mutuals



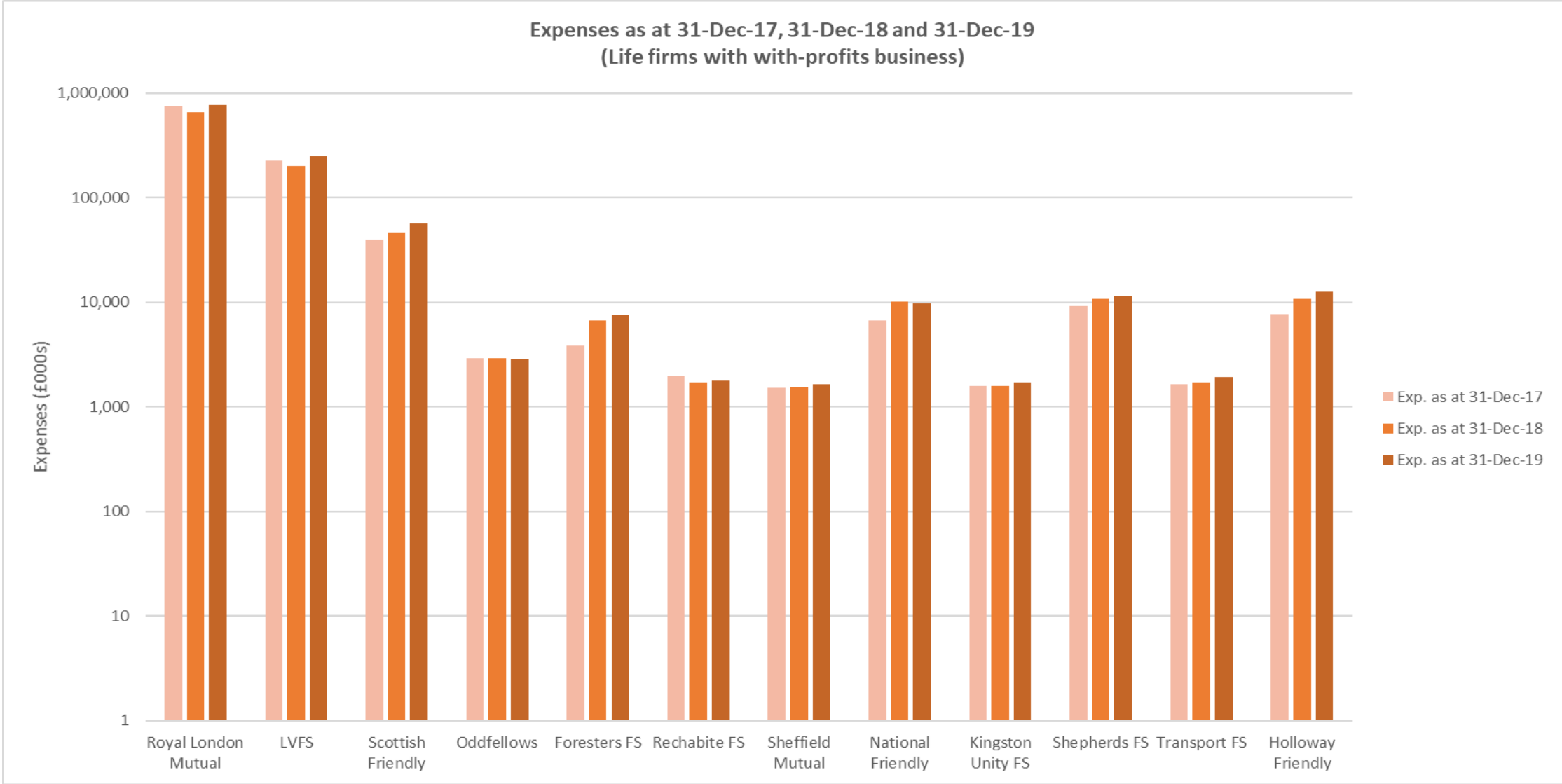
Comparison of Premiums for Selected Mutuals



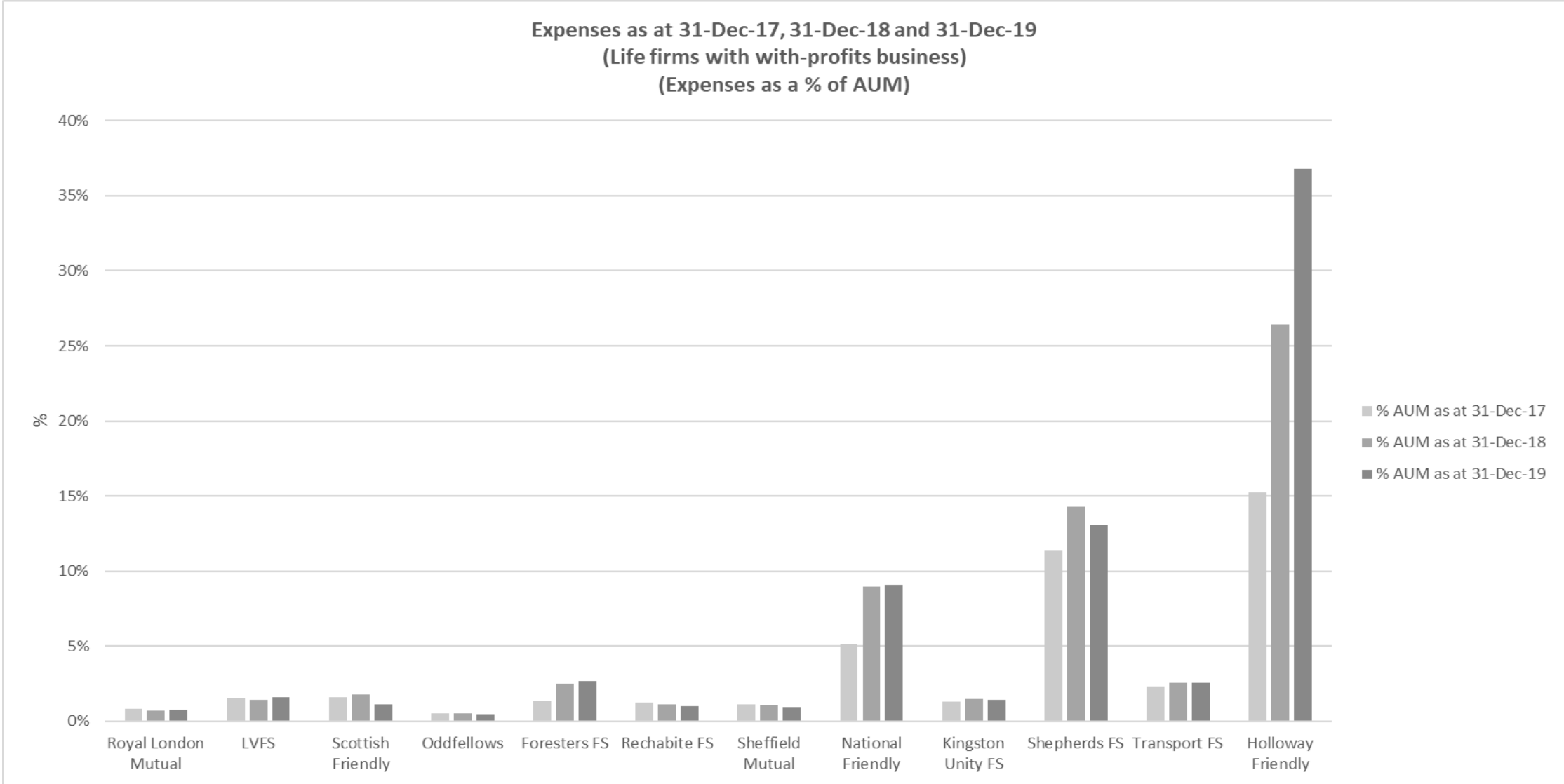
Solvency Capital Requirement for Selected Mutuals



Comparison of Expenses for Selected Mutuals



Comparison of Expenses as a Percentage of Assets Under Management



4. Future Options

- Organic growth with new products and members
- Move into run off
- Acquire a block of business or smaller firm
- Merge with another mutual
- Effectively be acquired by another larger mutual
- Acquisition by a non-mutual



Any Questions?

The With-Profits End Game

Amy Nicholson
Nick Dumbreck



Agenda

1

With-profits run-off

2

Options available

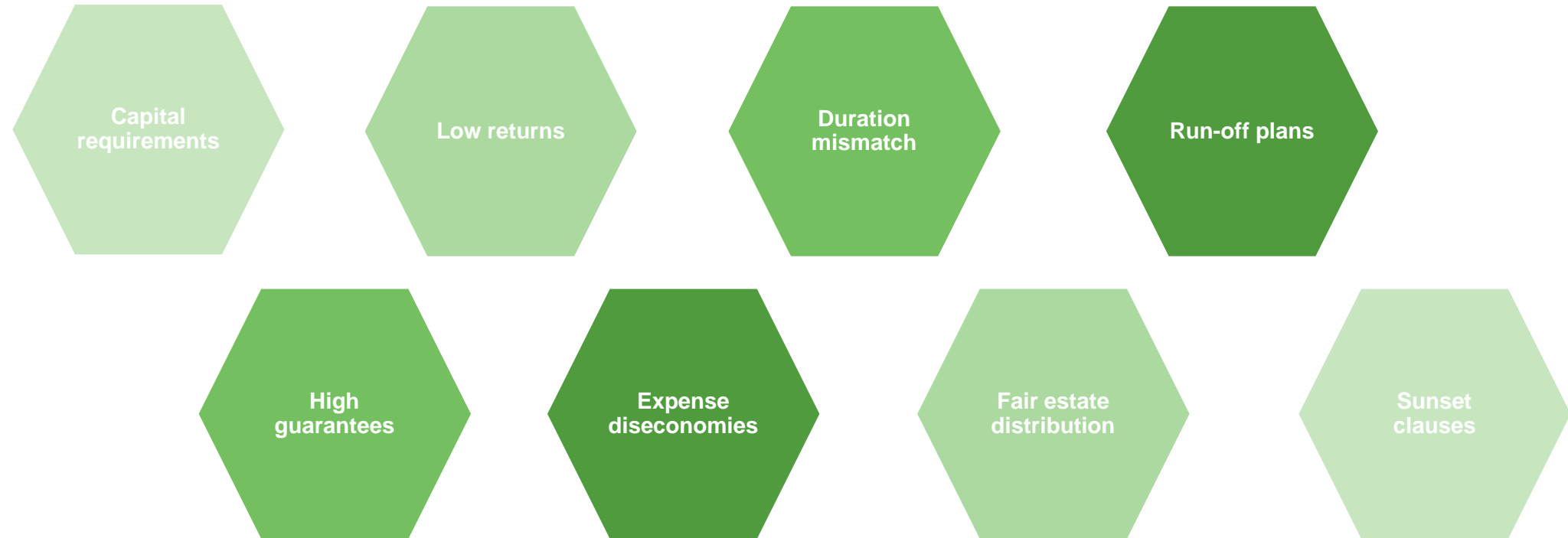
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Further considerations

With-profits run off

With-profits run off

Key issues

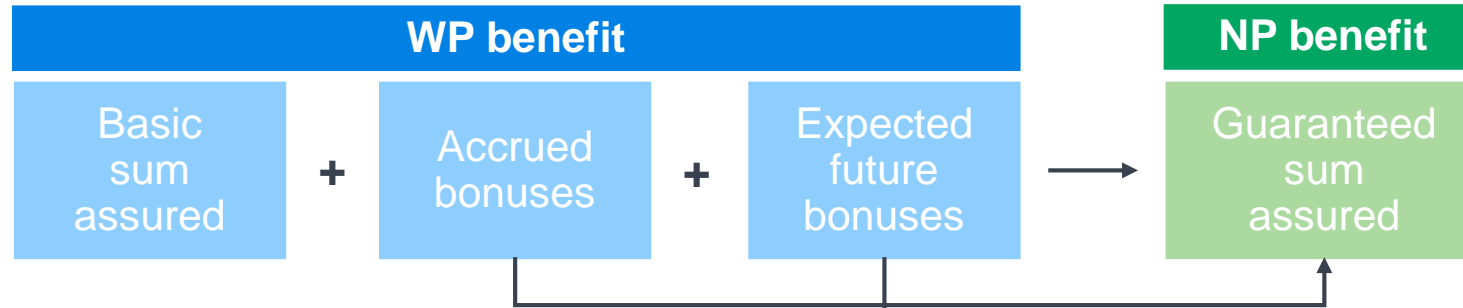


What are the options?

Conversion		Remain as WP			
Non-profit	Unit-linked	Merge	Convert to UWP	Sell	New business

Non-profit conversion

Non-profit conversion



Guaranteed sum assured should reflect accrued bonuses and a fair estimate of future bonuses

Key considerations



Capital requirements



Estate distribution



Investment strategy

Non-profit conversion: *the trade-off between policyholders and shareholders*

Simple example

With-profits endowment policy:

- Outstanding term: 10 years
- Asset share: £10,000
- Share of estate: £2,000

Shareholder required capital: 130% of SCR
Expenses: £40 per policy pa

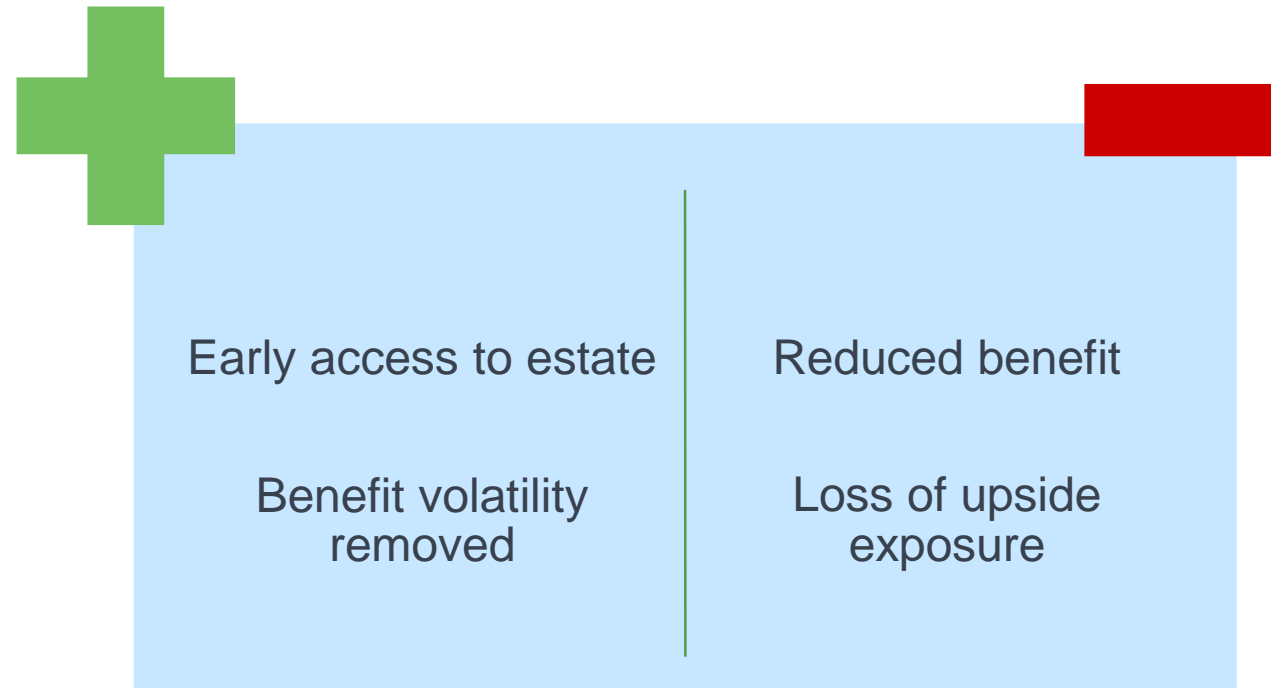
Use with-profits policy proceeds to purchase a non-profit single premium 10 year endowment.

Question: can a sum assured be offered that is attractive to policyholders and provides an acceptable return to shareholders?

NP sum assured	Policyholder return (%pa)	Expected shareholder return (%pa)
£12,000	0	-2
£11,838	-0.14	3
£11,766	-0.20	6



Non-profit conversion: *overall policyholder impact*



Unit-linked conversion

Unit-linked conversion



Key considerations



Systems and administration



Lapse impact



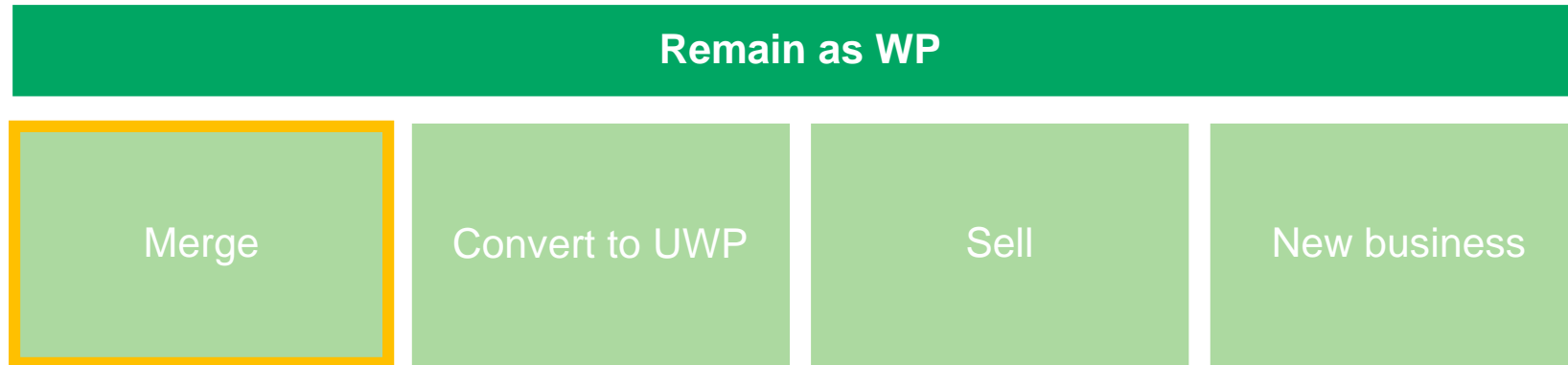
Unit fund options



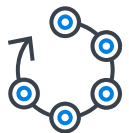
Investment strategy

Remaining as with-profits

Remaining as with-profits



Key considerations



Availability of funds

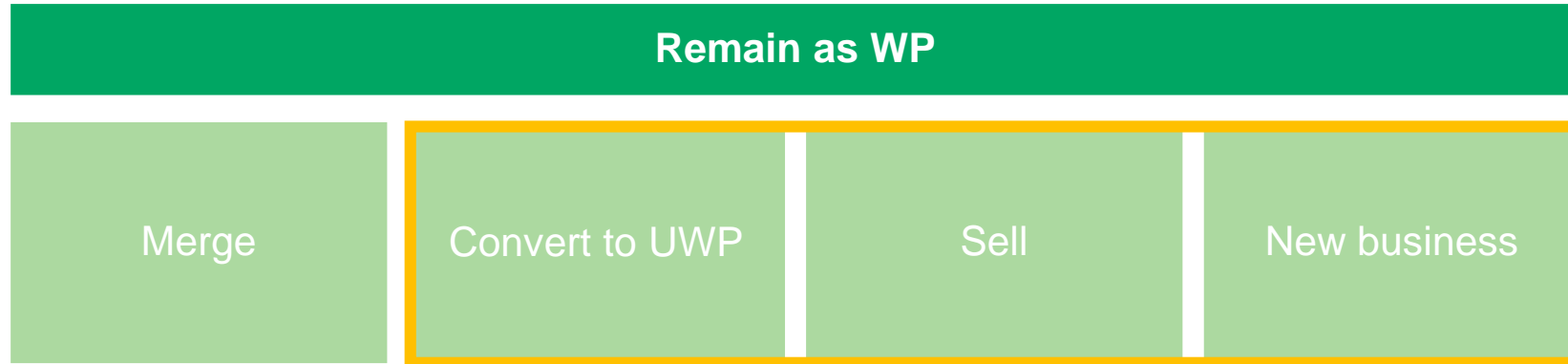


Estate distribution



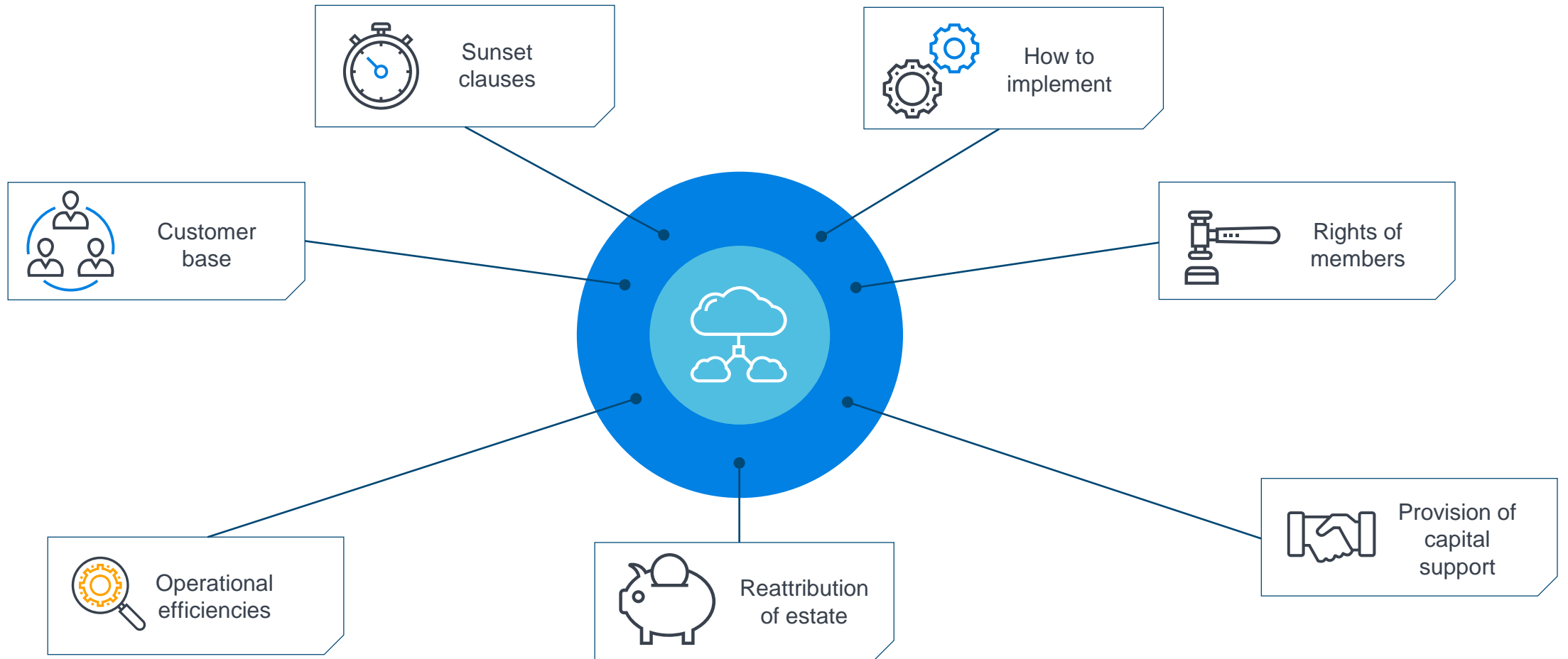
Investment strategy

Remaining as with-profits



Further considerations

Further considerations





Any Questions?



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