BENELUX RUN-OFF FORUM ‘19

CHOICES, CHOICES, CHOICES

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BRUSSELS I 21 NOVEMBER 2019

MONUMENT RE

AGENDA

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Let’s Start with a Survey

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Q. What do you think of when you hear the word ‘run-off’

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RUN-OFF MENU OF OPTIONS

Starter

Outsourcing (Operations, Fund Administration, Investment Management, others)

Alter Strategy (new products, stop new business, ‘switch campaign’)

Main Course

Reinsurance (Biometric, asset intensive, out-of-the money)

Portfolio Transfer

Sale

(of entity or Group)

Dessert

Mergers / Acquisitions

Insourcing

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RUN-OFF FOCUS OF THIS PRESENTATION

Starter

Outsourcing (Operations, Fund administration, Investment Management, others)

Alter Strategy (new products, stop new business, 'switch campaign'

Main Course

Reinsurance (Biometric, asset intensive, out-of-the money)

Portfolio Transfer

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OVERVIEW AND CONSIDERATIONS

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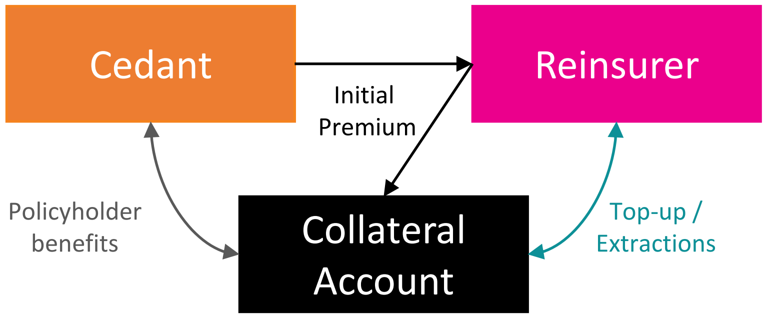
RUN-OFF OPTIONS REINSURANCE – OVERVIEW

- Biometric and/or asset intensive reinsurance is relatively new in Europe. It has been employed for UK annuities for a number of years.

- **Typically involves**
  - Payment of a reinsurance premium by the Cedant in return for full indemnification from the Reinsurer of the claims on a given portfolio
  - Security Collateral granted to provide protection in case of reinsurer default, according to pre-agreed amounts and investment guidelines
  - Payments to and from the Collateral Account to fund policyholder benefits and claims
  - Payments to and from the Collateral Account by the reinsurer in respect of surplus / deficit arising

- **Structure**



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RUN-OFF OPTIONS REINSURANCE – KEY CONSIDERATIONS

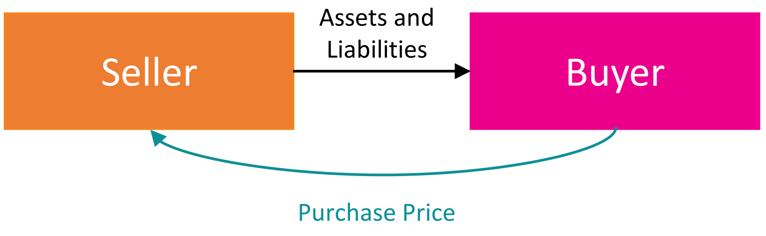
1. Are there any suitable portfolios that could be reinsured?
2. Profit share allocations
3. Pricing (of course); impact on key metrics GAAP, SII Coverage
4. Counterparty…
   - Risk of default (over the very long-term)
   - Culture (this is going to be a long-term partnership)
   - Risk Appetite / Cost of Capital (looking for a partner who takes a different view, but not so different that the arrangement does not work)
   - Monitoring of counterparty
5. Collateral
   - How calculated? How often? Regular monitoring?
   - What investments are permitted? Need to balance Cedant and Reinsurer's Risk Appetite to reach optimal solution
6. Others:
   - Explaining the policyholder story
   - Regulatory 'non-objection'

RUN-OFF OPTIONS PORTFOLIO TRANSFER| OVERVIEW

- A 'Portfolio Transfer' is a concept that is more common in Europe. This involves a transfer of the insurance policies from the Seller to the Buyer. This can also result in staff and systems transferring.

- **Typically involves**
  - Transfer of policies, assets backing those policies and associated liabilities and obligations to the Buyer
  - The Buyer pays a purchase price for the portfolio (can be 1 Euro)
  - After the transaction, the policyholders contract with the Buyer only. All dealings are with the Buyer
  - Regulatory Approval (led by the Seller's regulator)

- **Structure**



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RUN-OFF OPTIONS PORTFOLIO TRANSFER | KEY CONSIDERATIONS

1. Are there any suitable portfolios that could be sold?
2. Profit share allocations and methodology pre and post sale
3. Pricing (of course); impact on key metrics GAAP, SII Coverage
4. Counterparty…
   - Are they a good home for the policyholders
   - Culture (this is going to be a long-term partnership, for your policyholders)
   - Risk Appetite / Cost of Capital (looking for a partner who takes a different view, but not so different that the arrangement does not work)
5. Others:
   - Explaining the policyholder story
   - Impact on existing staff and systems (if any)
   - Is cross-border (within EU) viable? Many barriers / differences between countries currently

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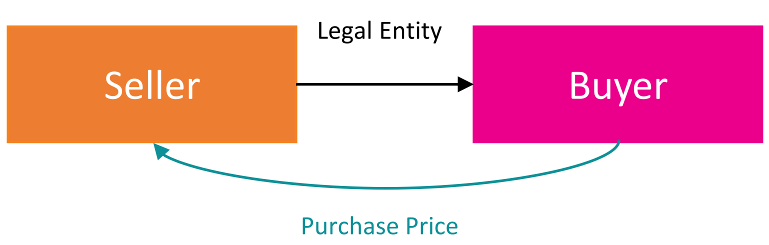
RUN-OFF OPTIONS OUTRIGHT SALE | OVERVIEW

- An ‘Outright Sale’ refers to the sale of an entity or Group of entities to a Buyer. This typically results in staff and systems transferring.

- **Typically involves**
  - Transfer of an entity, including its assets, liabilities and obligations to the Buyer
  - The Buyer pays a purchase price for the entity (can be as low as 1 Euro, hopefully a lot more!)
  - Policyholders continue to contract with the entity that is sold. From their perspective, it is ‘only’ a change in shareholder
  - Regulatory Approval (led by the target Entity’s regulator)

- **Structure**



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RUN-OFF OPTIONS OUTRIGHT SALE | KEY CONSIDERATIONS

1. Are there any suitable entities that could be sold?
2. Profit share allocations and methodology pre and post sale
3. Pricing (of course); impact on key metrics GAAP, SII Coverage of Seller
4. Counterparty…
   - Are they a good home for the policyholders
   - Culture (this is going to be a long-term partnership, for your policyholders and staff)
   - Risk Appetite / Cost of Capital (looking for a partner who takes a different view, but not so different that the arrangement does not work)
5. Others:
   - Explaining the policyholder story
   - Impact on existing staff and systems (if any)

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LEGAL CONSIDERATIONS

RUN-OFF OPTIONS REINSURANCE | LEGAL CONSIDERATIONS

❶ No legal relationship between the Policyholder and the Reinsurer

- Independent (non-life) insurance contract
- Policyholder cannot claim an indemnity payment from the reinsurer (except cut through provision)
- Reinsurer cannot claim a premium payment from the policyholder (except article 1166 Belgian Civil Code)
- Right to terminate?

❷ Legal relationship between the Cedant and the Reinsurer

- Broad freedom to negotiate contractual terms
- Not strictly regulated in Belgium (>< to an insurance policy)
- Public law provisions should be strictly observed

  - Covering assets - > no lien/first ranking pledge

  - GDPR-regulation
- Scope of reinsurance to be explicitly defined for SII purposes

❸ Regulatory process

- In principle, no formal approval procedure to be followed
- Strategic decision?

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RUN-OFF OPTIONS PORTFOLIO TRANSFER| LEGAL CONSIDERATIONS

❶ Legal relationship between the Transferor and the Transferee

- Transferring Business?
- Staff - CBA 32bis (50% criterium)
- TSA / Outsourcing – back
- Tax implications – Swiss Re Case

❷ Relationship with the policyholder

- Automatically opposable upon publication of NBB's approval
- Right to terminate?
- Notification letter?

❸ Regulatory process

- Formal approval procedure to be followed – protection for policyholders
- Time consuming: reinsurance agreement in awaiting closing?

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RUN-OFF OPTIONS OUTRIGHT SALE | LEGAL CONSIDERATIONS

❶ Legal relationship between the Seller and the Purchaser

- Sale of shares
- Comfort re: the business: R&W and indemnities
- Tax implications – Transfer restrictions outside the EEA

❷ Relationship with the policyholder

- Automatically opposable upon publication of NBB's approval
- Right to terminate?
- Notification letter?

❸ Regulatory process

- Formal approval procedure to be followed – protection for policyholders
- Time consuming: reinsurance agreement in awaiting closing?

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OVERVIEW AND CONSIDERATIONS

WRAPPING UP, LET'S RACE THEM… WHICH IS BETTER?

	Reinsurance	Portfolio Transfer	Outright Sale
FOR	• Attractive pricing - Good SII impact • Maintain customer relationship, no requirement for change • Can be tailored to the exact need • Can be executed swiftly • Minimal impact on staff	• 'Clean' break • Can have limited impact on staff • Good SII impact	• Clean' break • Can have limited impact on staff • Can often sell a bunch of portfolios as one package • Less impact for policyholders
AGAINST	• Counterparty default risk and monitoring • Agreeing investment guidelines can take time	• Likely to be less attractive pricing • Lose customer relationship, can be hard for policyholders to understand • Only certain portfolios may be viable	• Key strategic decision • Lose all future control • Impact on staff

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Let’s End with a Survey

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Q. Which option do you think will be the most common over the next 5 years?

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