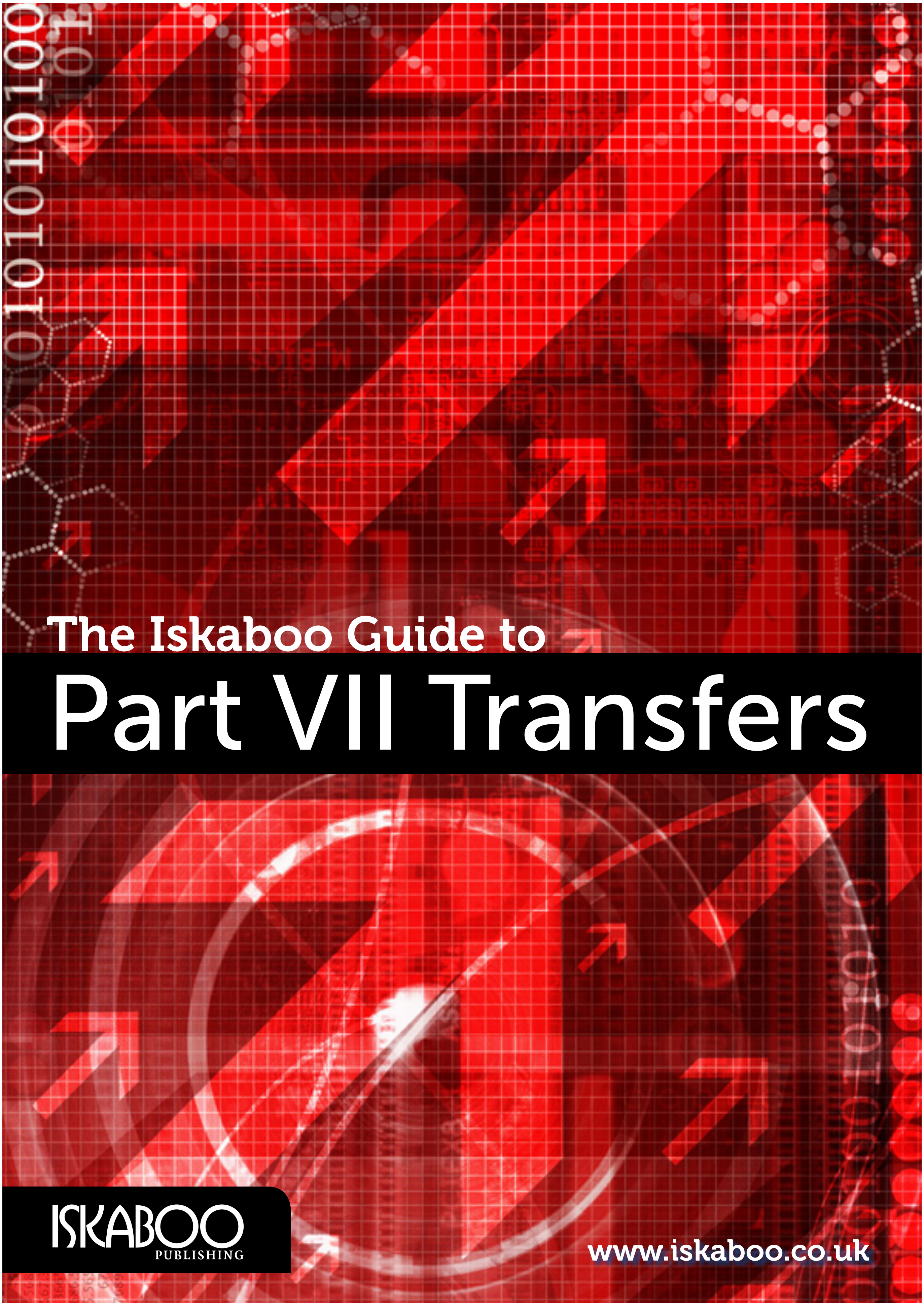

The Iskaboo Guide to

Part VII Transfers

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EXECUTIVE SUMMARY

Since it came into effect in 2001 the UK's insurance business transfer mechanism, commonly known as a Part VII transfer, has grown in popularity, receiving a further boost from the implementation of the European Solvency II regulations at the beginning of 2016. This has acted as a key driver for companies looking to restructure their operations and utilise capital more effectively.

Among their many uses, Part VII transfers are now the most popular legal mechanism when it comes to exiting from loss making or non-core business portfolios within Europe, or effecting a Europe-wide internal restructure. This is because, given the correct level of preparation, Part VII transfers can generally be straightforward and cost effective to implement.

Since 2004 there has been an average of 18 Part VII sanctions a year, with over 250 transfers of life and non-life portfolios effected by the end of

Figure 1
Part VII transfers by year

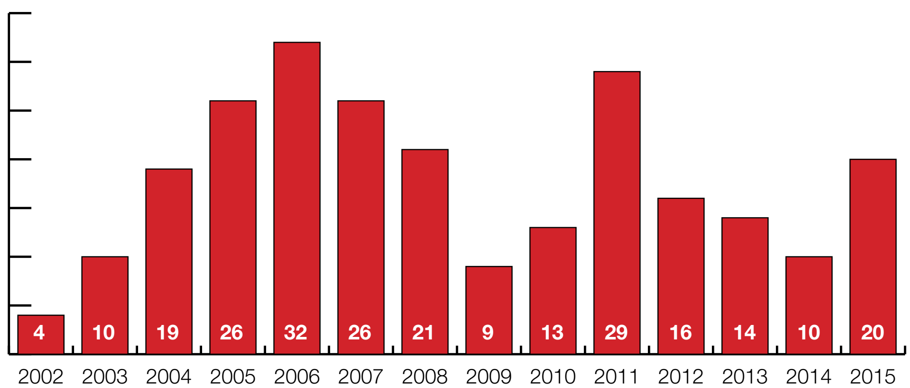


Figure 2
Total number of Part VII transfers accumulative

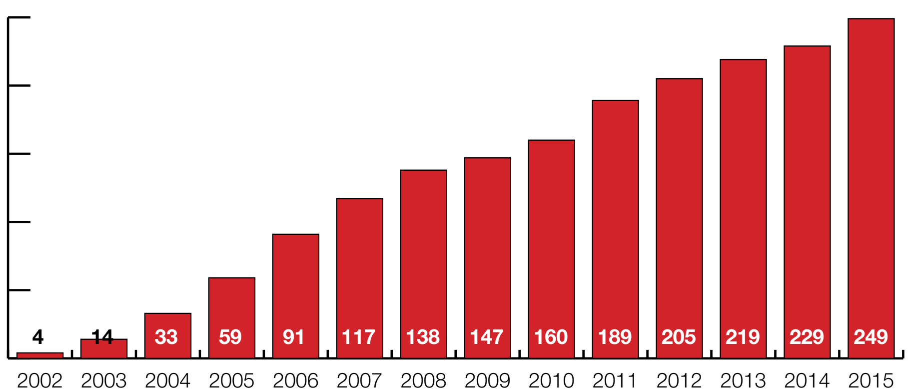


Figure 3
Average working days between application and sanction

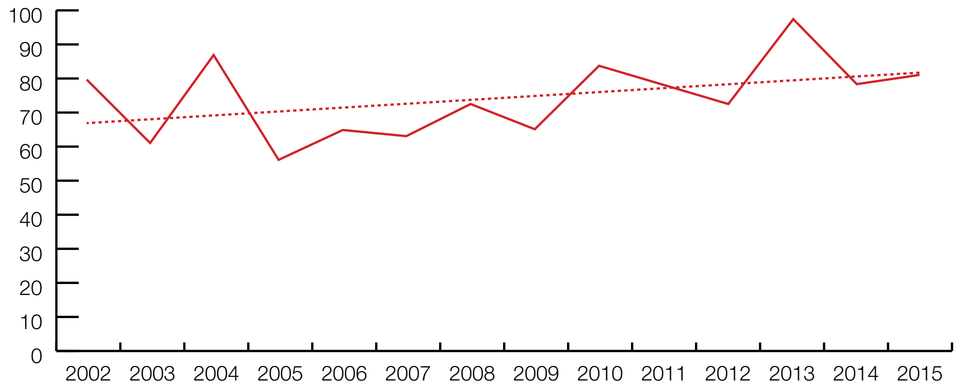
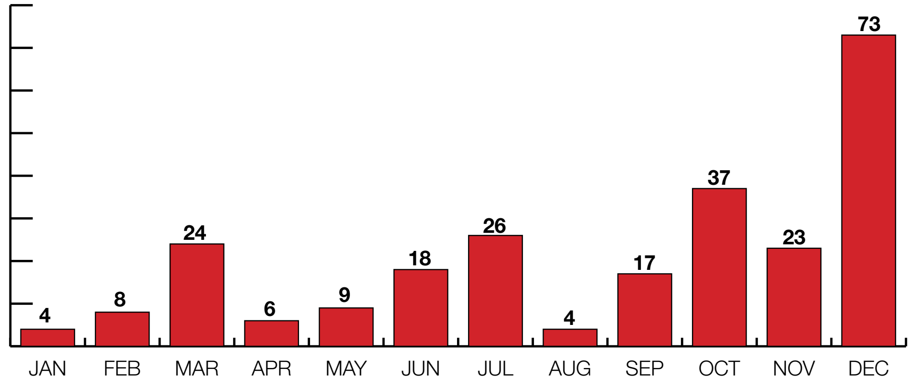


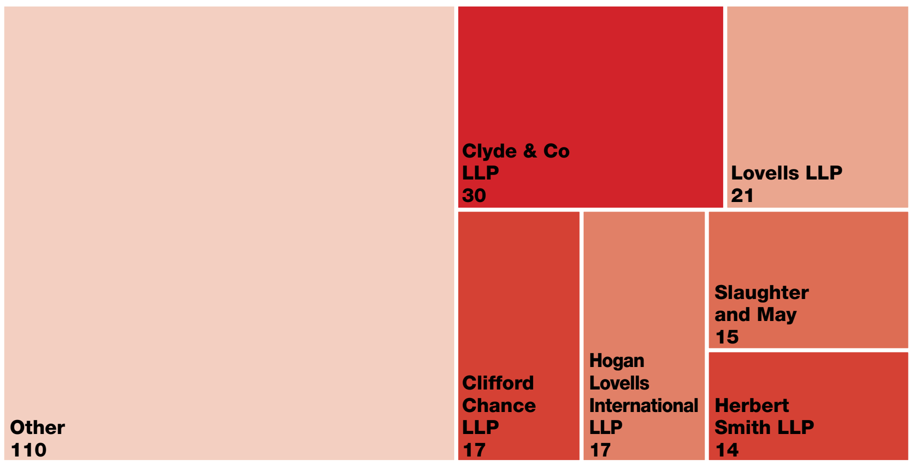
Figure 4
Part VII transfers by time of year



December 2015 (see Figures 1 and 2). Perhaps in line with this increase in popularity, the time between application for a Part VII transfer and court sanction has increased moderately over the past decade, with decisions taking an average of 14.6 weeks (see Figure 3). Interestingly, December has been overwhelmingly the most popular month for Part VIIs to be sanctioned (see Figure 4).

Many of these transfers have been in order to reorganise business within large insurance groups – for example AIG, Aviva and Zurich have made extensive use of Part VIIs to reorganise their European organisational structure. Some companies have also used Part VIIs to consolidate their legacy business as well – for example RSA legacy business into British Engine in 2006, Travelers' consolidation of Unionamerica and St Paul legacy business in 2007 and Hartford Group's UK legacy business consolidation into Hartford

Figure 5
Part VII transfers by law firm



Financial Products in 2015. Those three consolidations through Part VIIs together amounted to around £2.4 billion.

But the process is equally applicable to transfers between third parties, often in order to dispose of legacy business – for example Zurich Specialities to Swiss Re in 2012 and Eagle Star to Riverstone in 2013, transfers which together represented $1.2 billion worth of insurance liabilities.

Due to increased regulator scrutiny, especially where overseas regulators are involved, the time it takes to obtain approval is becoming longer. This, together with increasingly complex compliance issues, a greater emphasis on notification and a growing range of policyholder objections, can make today's Part VIIs more challenging to implement smoothly. Understandably, specialist legal knowledge is crucial – which may be why over 50 per cent of Part VIIs to date have been led by just six law firms[1] (see Figure 5). Similarly, the Independent Expert plays a vital role in the process, and those appointed to date have mostly been actuaries with extensive expertise in this area.

Looking forward, it is clear that Part VIIs will continue to be popular given their many advantages and benefits, but that greater time and effort on behalf of the transferors, transferees and their advisors will be needed for a successful outcome.

Footnotes:

1 Five if those by Hogan Lovells International LLP and its predecessor firm Lovells LLP are combined