



The Iskaboo Guide to

Part VII Transfers

ISKABOO
PUBLISHING

www.iskaboo.co.uk

The Iskaboo Guide to Part VII Transfers

Published by
Iskaboo Publishing
22c Lady Margaret Road
London NW5 2XS, UK
www.iskaboo.co.uk
ISBN 978-0-9575595-4-7

Published 2016

Editors

Barbara Hadley
barbara.hadley@iskaboo.com

Dewi James
djames@james-brennan.com

Contributors

Derek Austin and Tom Rennell

Design

Victoria Wren
victoria@wr3n.com

The original Part VII transfers – a practical guide was written by Nick Miles, Dewi James and Steve Goodlud and published in 2008. This new electronic version has been revised and updated by Dewi James and Barbara Hadley. Acknowledgments also to Mark Chudleigh, Robert S Gebhard and David Powell who contributed to the original publication.

Copyright ©Iskaboo Publishing Ltd 2016. All rights reserved. No part of this publication may be reproduced, stored in any retrieval system or transmitted in any form - electronic, mechanical, photocopying or otherwise - without the prior permission of the publisher. Every care has been taken to ensure that the information in this publication is accurate, but the publisher cannot accept and hereby disclaims any liability to party for loss or damage caused by any errors and omissions.

ISKABOO
PUBLISHING



CONTENTS

Executive summary	4
Introduction	7
Chapter 1 What is an Insurance Business Transfer Scheme?	9
Chapter 2 Uses of insurance business transfers	12
Chapter 3 Background legislation – what business may be transferred?	21
Chapter 4 Recognition	37
Chapter 5 What does the court order cover?	53
Chapter 6 The Independent Expert	59
Chapter 7 The FCA, PRA and other EEA regulators	73
Chapter 8 Notification	78
Chapter 9 Practical considerations and implementation issues	83
Chapter 10 Decision of the court	93
Appendix I <i>List of Part VII transfers to end 2015</i>	102
Appendix II <i>Case study – Provident Insurance plc to MMA Insurance plc</i>	123
Appendix III <i>Case study – Hartford/Excess</i>	126
Appendix IV <i>Case study – Faraday</i>	127
Appendix V <i>Case study – Royal London (CIS)</i>	128
Appendix VI <i>FCA Guidance for Part VII transfers</i>	129

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

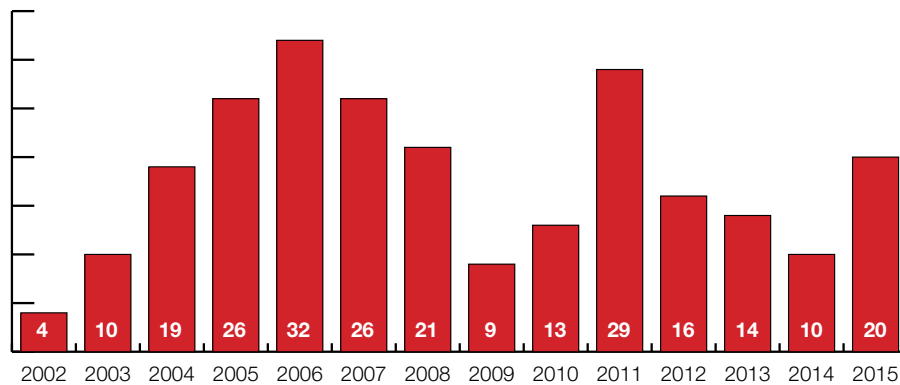


Figure 2
Total number of Part VII transfers accumulative

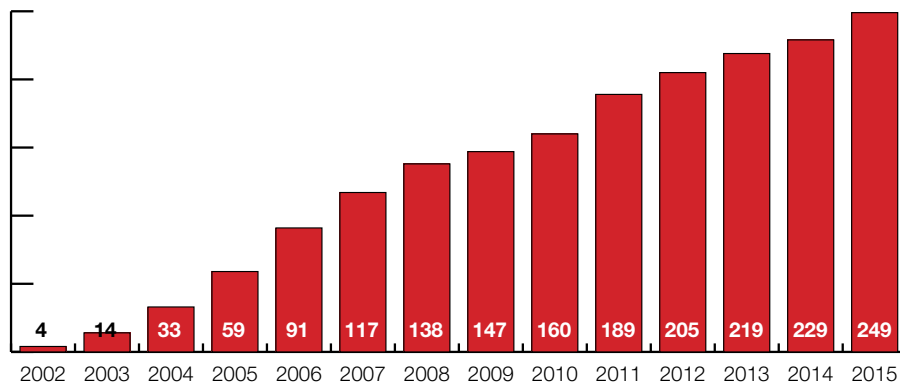
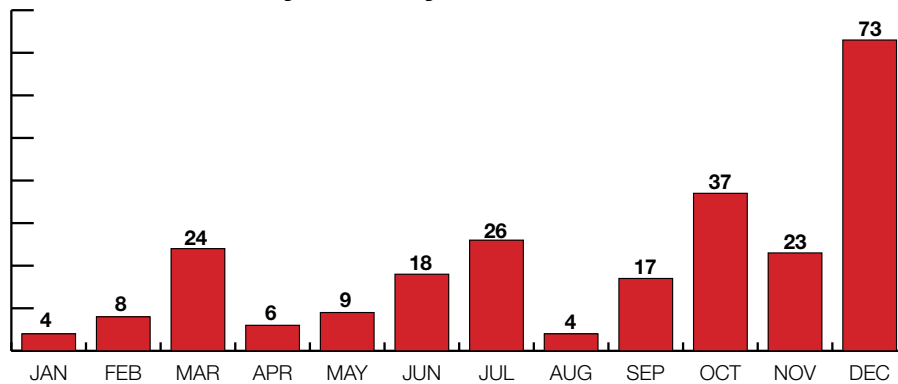


Figure 3
Average working days between application and sanction



Figure 4
Part VII transfers by time of year

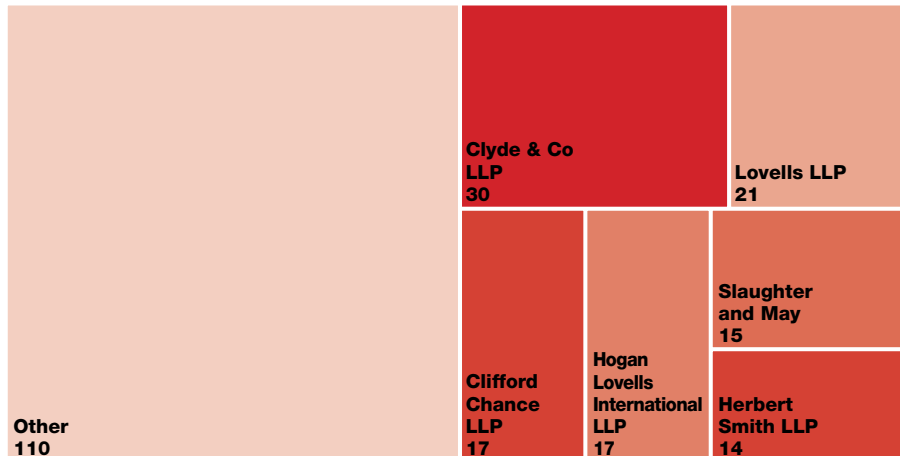


December 2015 (see Figures 1 and 2). Perhaps in line with this increase in popularity, the time between application for a Part VII transfer and court sanction has increased moderately over the past decade, with decisions taking an average of 14.6 weeks (see Figure 3). Interestingly, December has been 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 ALG, 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 firms¹ (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