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Insurance Exit Strategies

Portfolio Transfers

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Reinsurance portfolio transfer: § 121 f VAG

- EU Reinsurance Directive incorporated in 2 June 2007
- Transfer to other direct or reinsurance company incorporated in EEA* state
- BaFin approval
- Recipient must hold sufficient own funds (Evidenced by a confirmation of authority of EEA state where recipient of the portfolio is incorporated)
- No novation but universal succession
- Agreement on portfolio transfer subject to written form

*EEA – European Economic Area



Reinsurance portfolio transfer: § 121 f VAG

- Simplification for cross-border portfolio transfers within the EEA
- Consolidation, Restructuring of international insurance/reinsurance groups
- Alternative to complex demerger-, merger-, and spin-off procedures
- Run-off situations (especially into UK?)
- Solvency II
- Rating agencies
- Already reform of § 121 f VAG?



Mixed insurers

- Professional reinsurers (§ 119 VAG)
- Mixed insurers write/wrote insurance and reinsurance business
- Even if transferred portfolio is only reinsurance business
- Exceptions?

§ 14 VAG



Insurance Portfolio Transfer: § 14 VAG

- Written contract transferring part or total portfolio
- Approval of authorities controlling transferring/receiving company
- BaFin approval is substituting cedants approval
 - Recipient holds sufficient own funds in line with solvency margin
 - Transfer by authority controlling recipient is confirmed
 - Authorities of all EEA states where risks are situated agree
- Discretionary decision (major difference to § 121 f VAG)
- No novation but universal succession



Part VII transfer

- FSMA (2000)
- In force since 1 December 2001
- Insurance and Reinsurance (2002)
- Transfer of assets and liabilities
- Involvement of the FSA
- Independent expert report
- Policyholder notification and advertising
- Court order
- Transferee incorporated in EEA* state

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Recent developments

- Regulation 2008
 - Transfer of reinsurance protections
 - Policyholder notification
 - Overriding contractual provisions
- EU Directive
 - No court decision in case of pure reinsurance business transfer
 - Publication in all relevant EEA jurisdictions



Reinsurance portfolio transfers

- General observation: pre-stage for SSoA
- Frequently used for completely different reasons
- Even if used for SSoA purposes
 - Depends on specific situation
 - “Continental” alternatives
 - Costs, speed, reputation, capital commitment, finality, etc.
 - Heavy marketing from UK

Influence on cedants?



Misleading information II

Market size

- Portfolios of 14 professional German reinsurers in run-off
- 3 significant portfolios merged into other reinsurers
- 7 direct insurers ceased writing active reinsurance
- Non-life run-off volume in Europe about 204bln EUR**
- German speaking countries: about 75,2bln EUR***
- UK: about 56,7bln EUR in 2007***

Consequences?

* Source: John Sanders, run-off business 12/2005

** Source: Unlocking Value in Run-Off, PWC 2007

*** Source: Run-off-Study 2007, KPMG Germany



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**Thank you
for your
attention !!**

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