

# Milliman September Breakfast Briefing

**Kevin Manning**  
**Michael Culligan**  
**Mike Claffey**  
**Aisling Barrett**  
**13 September 2022**



# Agenda

1

**Welcome &  
Introduction  
Kevin Manning**

2

**M&A Update  
Michael Culligan**

3

**CRO Update  
Mike Claffey**

4

**Solvency II  
2020 Update  
Aisling Barrett**

5

**Q&A, Wrap up  
& Close  
Kevin Manning**

6

**Optional:  
S2CAT Demo  
Mike Claffey &  
Joanne Tan**







# M&A Update

**Michael Culligan**

13 September 2022

# Europe



## Europe (ex. UK)

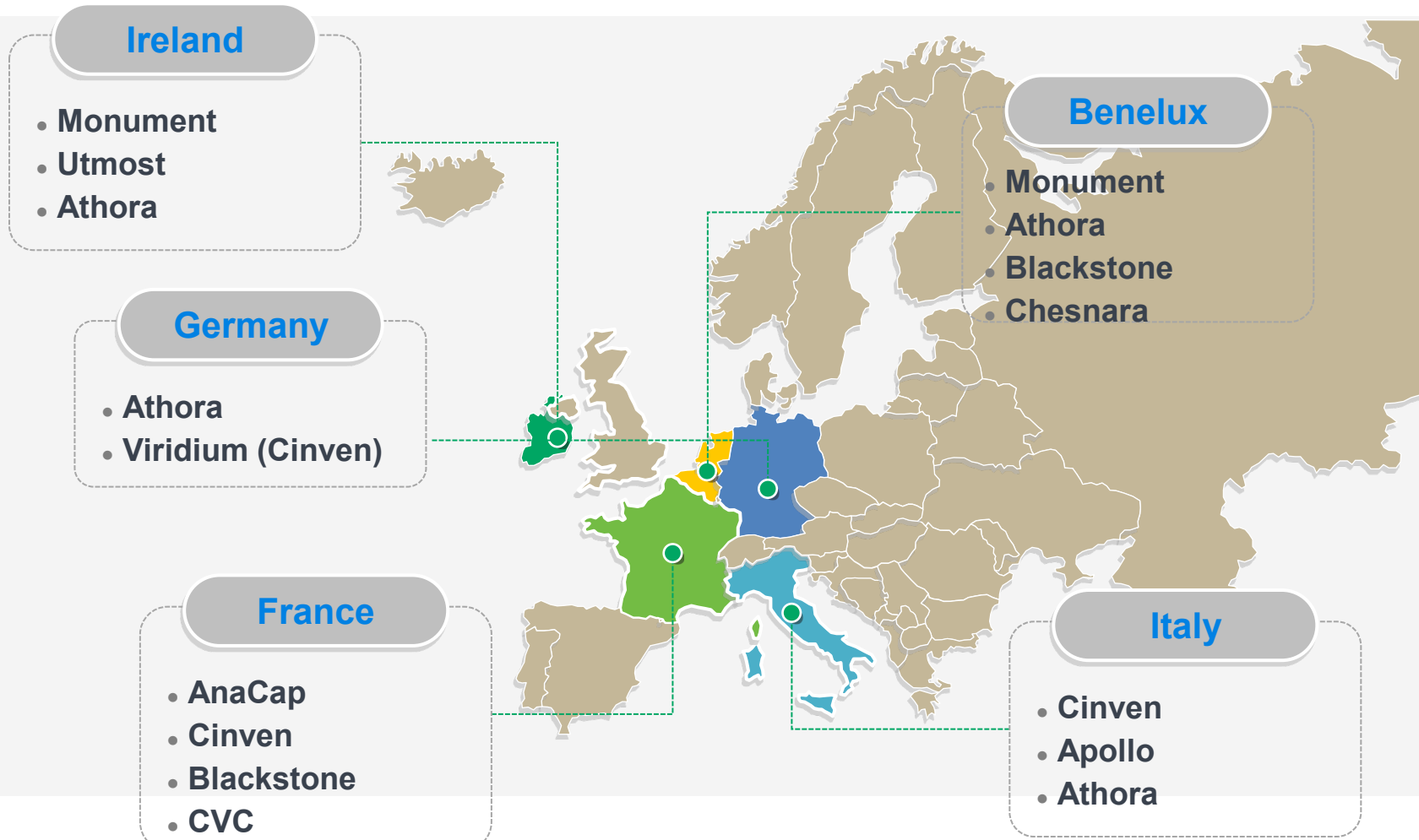
Top 10 publicly announced deals in 2021

Country	Target	Buyer	Seller	Value (£m)
Poland	Aviva Poland business	Allianz SE	Aviva	2,118
France	CNP Assurances SA	La Banque Postale	Groupe BPCE	2,061
France	Aviva France SA	Aéma Groupe	Aviva	1,815
Italy	Società Cattolica di Assicurazione	Assicurazioni Generali	N/A	793
Poland & Greece	Local MetLife operations	NN Group NV	MetLife	499
Isle of Man	Quilter International	Utmost Group	Quilter	483
Italy	Aviva life business	CNP Assurances SA	Aviva	462
Greece	Ethniki Hellenic General Insurance	CVC Capital Partners	Natl. Bank of Greece	433
Spain	Bankia Mapfre Vida	CaixaBank	Mapfre	272
Ireland	Ark Life Assurance	Irish Life Group	Phoenix Group	194

# Focus on PE & consolidators

# Europe

## Emergence of Private Equity & Consolidators





# Europe

Focus on consolidators

Name	Founded	Backers	Focus (to date)	Bermudian parent?	Assets (€ bn)
<b>Utmost</b>	2013	Oaktree Capital	<ul style="list-style-type: none"> <li>UK, Ireland</li> <li>Acquisitions</li> </ul>	No	75
<b>Athora</b>	2014	<small>Source: Central Bank of Ireland</small> Spun off from Athene. Institutional investors (pension funds, SWFs, Athene & Apollo, ...)	<ul style="list-style-type: none"> <li>Netherlands, Germany, Italy</li> <li>Acquisitions and reinsurance</li> </ul>	Yes	79
<b>Monument</b>	2016	Hannover Re Enstar Empire Life	<ul style="list-style-type: none"> <li>Closed portfolios</li> <li>Benelux, Ireland</li> <li>Acquisitions and reinsurance</li> </ul>	Yes	?

Source: Company websites and publicly available information. Assets as at 31 Dec 2021.

# Consolidator case study

Monument Re

2016-2018

- **Barclays**  
(Ireland)
- **Enstar**  
(Ireland)
- **Ethias**  
(Belgium)
- **ABN AMRO**  
(Belgium)
- **Aspecta**  
(Luxembourg)

2019

- **MetLife**  
(Ireland)
- **Robein**  
(Netherlands)
- **Enstar**  
(Belgium)
- **Nordben**  
(Guernsey)
- **Curalia**  
(Belgium)

2020

- **Rothsay**  
(UK/Ireland)
- **Zurich**  
(Ireland)
- **SocGen**  
(Ireland)
- **GreyCastle**  
(Bermuda)
- **Cattolica**  
(Ireland)

2021

- **LCL International**  
(Isle of Man)
- **Integrale**  
(Belgium)
- **Athora**  
(Ireland)
- **AXA**  
(Belgium)

2022

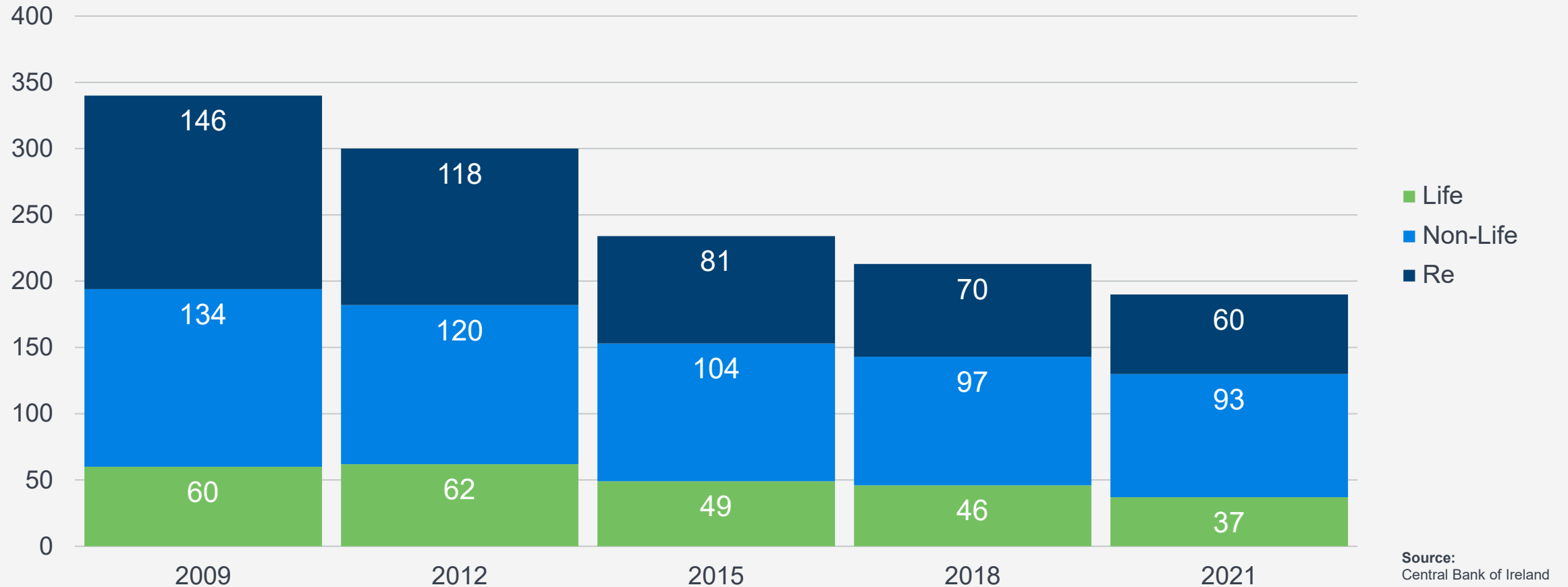
- **AME Life**  
(Luxembourg)
- **Chesnara**  
(UK)
- **Aviva**  
(Ireland)
- **Zurich**  
(Isle of Man)

# Ireland



# Ireland has already seen significant consolidation

Number of Irish insurance entities has fallen by 45% since 2009



# Ireland

## Selected announced transactions 2020-2022

Announced	Target	Buyer	Seller	Value (£m)
July 2021	Ark Life Assurance	Irish Life Group	Phoenix Group	194
March 2021	Variable annuity portfolio	Monument	Athora	Undisclosed
November 2020	Unit-linked portfolio	Monument	Zurich	Undisclosed

# Ireland

## Outlook

**Irish life insurers typically less exposed to low interest rate pressures**

**However, rising interest rates may make some deals more attractive**

**May be some further mopping up of small non-core businesses and/or portfolios**

**Some deals that previously fell through may resurface**



# UK

# UK

## Selected announced transactions 2020-2022

Announced	Target	Buyer	Seller	Value (£m)
February 2022	IFGL	Cinven	Vitruvian	Undisclosed
September 2021	Sanlam Life & Pensions UK	Chesnara	Sanlam	39
April 2021	Quilter International	Utmot	Quilter	483
February 2021	Hodge Life	RGA	Hodge Group	Undisclosed
December 2020	Liverpool Victoria (LV)	Bain	Liverpool Victoria (LV)	530*
September 2020	Rothsay	Investor group	Blackstone	2,100
August 2020	LCL International Life	Monument	Charles Taylor plc	Undisclosed
December 2019	ReAssure	Phoenix	Swiss Re	3,250

\* Did not complete

**We expect the market to cool somewhat (following a number of ‘mega deals’ in recent years)**

**However there are some non-core portfolios that may come to market, and a number of subscale players that may require a sale or merger (e.g. friendly societies and mutuals)**

**Pension buy-out specialists (e.g. PIC and Rothesay) likely to require additional capital to fund further growth**

**Strong PE interest on the buy-side likely to continue**

**Higher interest rates may incentivise sellers, but may inhibit buyers.**



# Summary

# Summary

## Outlook for Ireland and the UK

- Likely to see continued strong levels of M&A activity in the UK, but perhaps less so in Ireland
- Continued strong interest from private equity and consolidators
  - However, PE / consolidators now sellers as well as buyers
  - Exit strategies?
- Interest rates a key factor
  - Higher rates may incentivise sellers, but inhibit buyers
  - Relative attractiveness of different business lines
- Other drivers (regulatory etc.)

# How Milliman can help

# How Milliman can help

We have your M&A needs covered

## Why choose Milliman to support you on M&A?

We have been involved in more than three-quarters of the major M&A transactions in the industry over the past decade, representing more than €100 billion. You benefit from our unique depth of knowledge on pricing, market views of potential transactions, advanced modelling, and post-deal capabilities.



### Buy-side services

We carry out a comprehensive actuarial valuation and due diligence of the potential target. We help identify synergies or deal-breakers, and assess key risk and value drivers.



### Sell-side services

A detailed appraisal valuation report and buyer due diligence are essential for a successful M&A transaction. We identify the key actuarial considerations and assumptions to ensure the best sale price.



### Industry insights

We have knowledge of strategic growth markets and understand the main players in M&A activity. We offer industry insights into current and emerging M&A trends and drivers across the Irish, European and global markets.



### Cross-border expertise

We understand the challenges and opportunities when engaging in cross-border transactions. We have knowledge of various regulatory regimes and can offer insights into local market considerations.



### Post-deal integration

The work doesn't end when the contract is signed. We help you harmonise competing product offerings and meld financial systems, asset liability management strategies, and investment portfolios.



### Advanced modelling

Our sophisticated financial models deliver accurate projections and valuations of company assets—and beyond. We've developed modelling approaches for all situations.

# Thought leadership

Some recent Milliman M&A publications



## REPORT

Life and Health Insurance M&A in 2021 and beyond

[Read the report →](#)



## ARTICLE

Shining new light on European insurance M&A

[Download PDF ↓](#)



A low-angle, upward-looking photograph of several tall skyscrapers with glass facades, creating a sense of height and scale. The buildings are arranged in a way that they seem to converge towards the top of the frame. The sky is a pale, hazy blue.

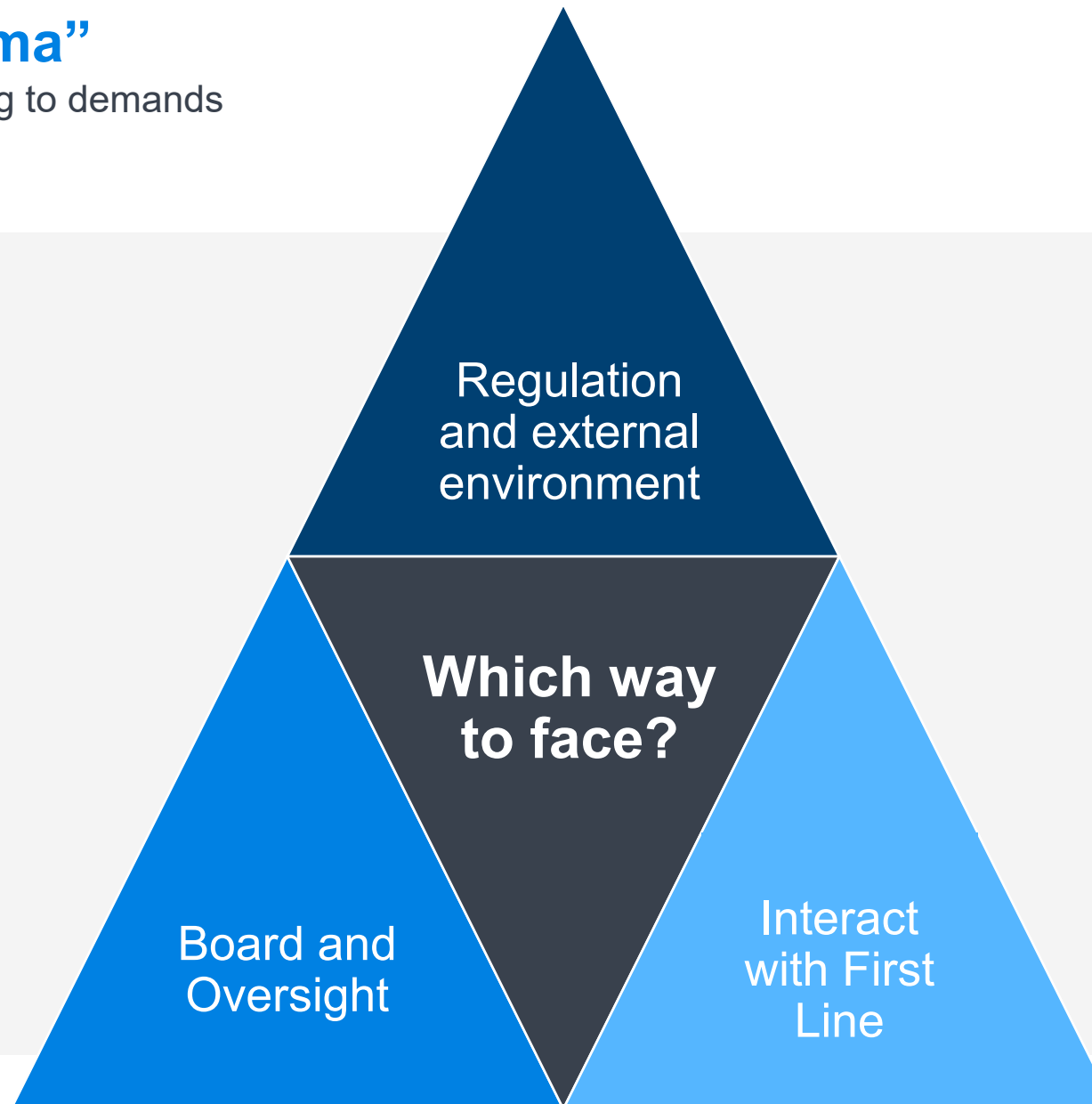
# CRO Update

**Mike Claffey**  
13 September 2022



# The CRO “trilemma”

Balancing priorities, reacting to demands



# CRO Agenda

More issues, more regulation, expanding “risk management system”

**Where to  
address climate  
risk**

**People risk –  
remote working,  
great  
resignation**

**SEAR**

**Emerging risks,  
“new” cyber  
risk, Brexit, war**

**Operational  
resilience**

**Differential  
pricing**

**Economic  
Environment**

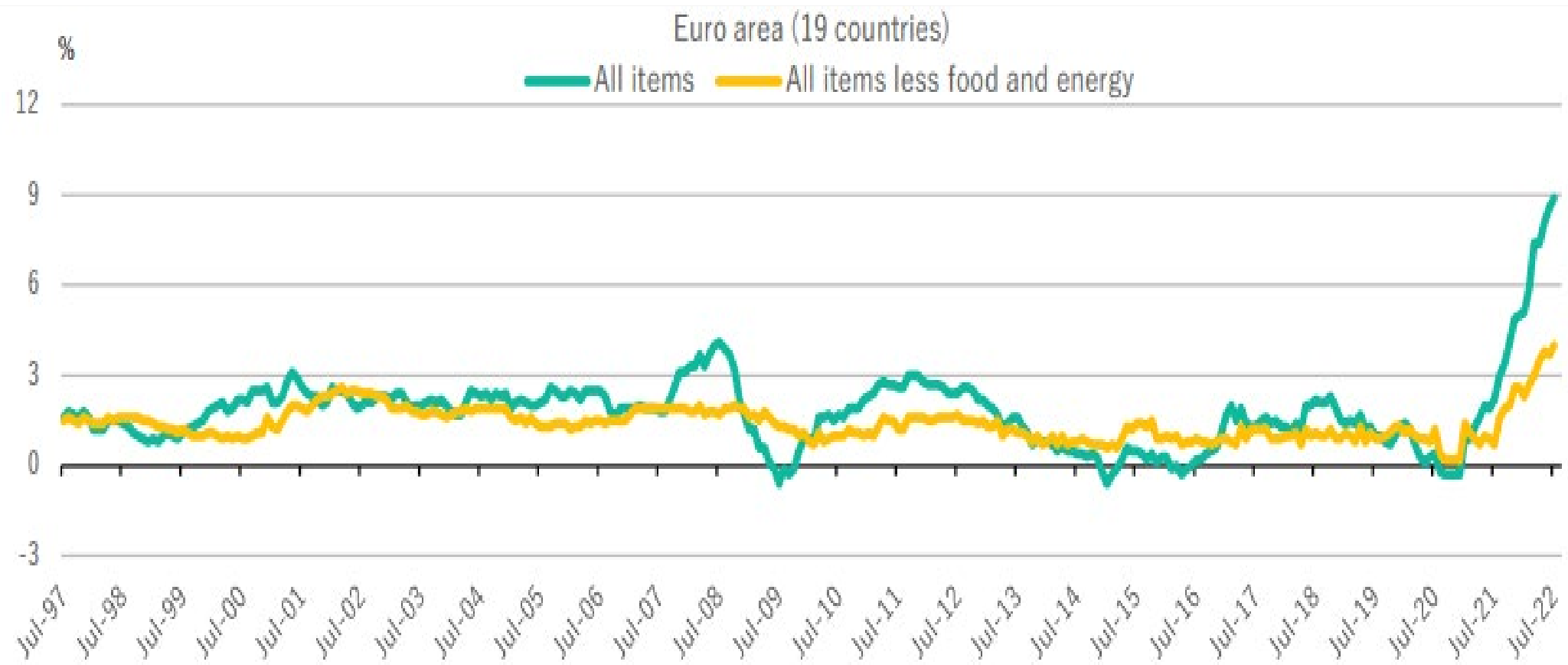
**ORSA is getting  
HUGE!**

**Recovery plans  
(revised)**

**EIOPA 2020  
review**

# Economic considerations for CROs

# Inflation



Source: <https://www.oecd.org/sdd/prices-ppp/consumer-prices-oecd-09-2022.pdf>

# Inflation, interest rates and stock markets

## CRO checklist

1. Higher expenses (short term vs long term, but also fluctuating present value of future expenses)
2. What about ability to index product fees and charges?
3. Affordability issues for policyholders (vs “value for money”)
4. Potential for increased claims volumes, and increased cost of claims (especially claim inflation)
5. Discount rates are heading upward (and different relative rates across currencies)
6. Returns on policyholder / shareholder funds (where you matched, are you now?). Implications for hedging and ALM
7. Implications for product design and pricing (and new business appetite)
8. Effect of Solvency II “stability” mechanisms – VA (hits discount rate), Symmetric adjustment (SCR equity risk), UFR (the unhedgable bit of the market yield curve)
9. Possible impacts on reserving assumptions e.g. lapses/switches and sales volumes
10. Recession risk – how could it impact your business
11. Lower economic activity leading to lower new business volumes, and increased moral hazard, and lower overall insurance (and reinsurance) capacity.
12. Lower insurer confidence to “invest” in digital, pressure to reduce expenses, need to invest in “sustainability

# CBI Activity

# CBI consultations, studies & publications (recent highlights)

- CP on Guidance for (Re)insurance Undertakings on Intragroup Transactions and Exposure (see later slide)
- CP on Guidance for (Re)insurance Undertakings on Climate Change Risk (see later slide)
- Cross Industry Guidance on Operational Resilience
- Learnings from the 2021 thematic review of Own Risk and Solvency Assessments (CBI publication)
- Publication of Second Annual Report of the National Claims Information Database (EL & PL Insurance)
- Publication of Insurance Arrangements Regulations 2022 (“price walking”)
- Final Guidance on the Use of Service Companies for Staffing Purposes in the Insurance Sector
- Individual Accountability Framework Bill (SEAR)





## CBI Newsletter focus over late 2021-2022 (to pick up themes)

- Crisis in Ukraine (including sanctions, cyber, “change”)
- Sustainable Insurance – Supervisory expectations on future changes
- Digitalisation in the Insurance Industry
- Review of Use of Exempt Ancillary Insurance Intermediaries in the Insurance Sector
- Requirement to maintain up-to-date customer records
- Recent enforcement cases (they continue to happen, are large, and happen over long periods)



# CBI - Intragroup Transactions (IGTs)

## Overview of Consultation Paper (CP)

- Open for responses until 22 September 2022.
- Highlights the need to consider IGTs impact on risk profile.
- CBI expects adequate governance and risk management procedures to be in place to manage the risks associated with IGTs.
- CP focuses on two main aspects:
  - I. Governance and risk management framework
  - II. Key exposures



## Governance & Risk Management Framework

- Document roles and responsibilities for identifying/managing the IGT risks.
- Internal audit function is expected to include regular audits of IGT risk management.
- IGT arrangements should be considered with respect to (re)insurer's risk management policy and risk appetite.

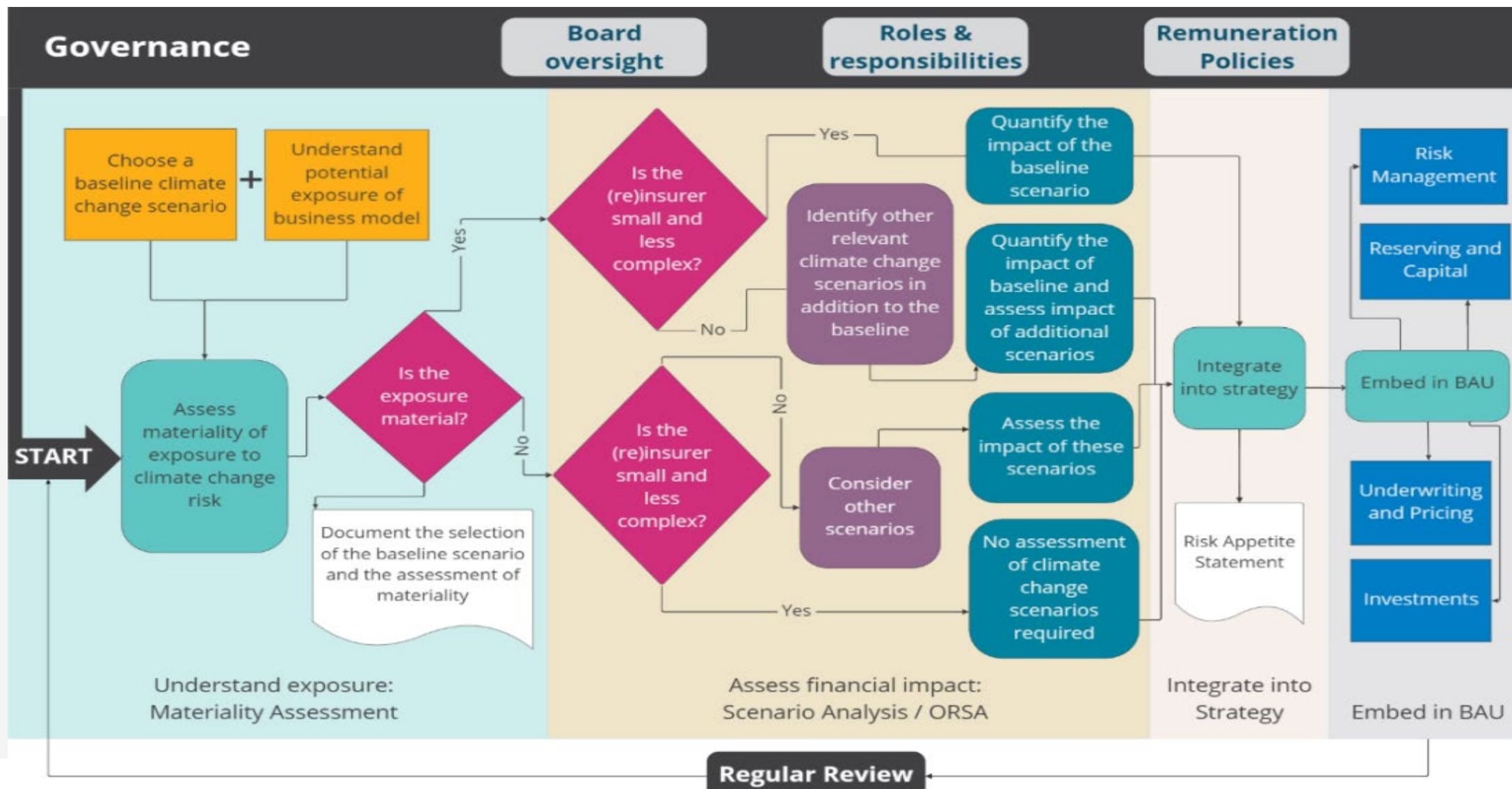


## Key Exposures

1. Intragroup assets
  2. Intragroup reinsurance
  3. Cash pooling/treasury function arrangements
- Prudent Person Principle (PPP) requirements should apply.
  - (Re)insurers should comply with the arm's length criteria and avoid or appropriately manage conflicts of interest.
  - Stress testing required if significant concentration risk (e.g. in the ORSA or pre-emptive recovery plan)
  - IGTs should be board approved and formally documented.



# CBI “infographic” on how to tackle climate change



# Overarching Principles for Managing Climate Change Risk

1



**Iterative  
approach**

2



**Climate  
change risk  
= key risk**

3



**Double  
materiality**

4



**ORSA will  
play a vital  
role**

5



**Time  
Horizons**

6



**Group  
Engagement**

**(Re)insurers are expected to have appropriate governance frameworks to manage climate change risk**

# Embedding Climate Change Risk into BAU Activities

<b>Risk Management</b>	(Re)insurers should address climate change risks through their existing risk management framework.
<b>Reserving and Capital</b>	Consider how current and future changes related to climate change should be reflected in models and assumptions underpinning reserving (HoAFs) and capital assessments.
<b>Underwriting and Pricing</b>	Consider the potential effects of pricing and underwriting decisions over the short, medium and long-term and the implications this may have on their future viability (HoAFs – don't forget to comment)
<b>Investments</b>	Assess the potential impact of climate change risk on market, credit and liquidity risk relating to their investments.

# EIOPA Activity

## European regulatory agenda



# EIOPA consultations & publications

## Consultations & Discussion papers

- Guidance on how to reflect climate change in ORSA (for everyone)
- Methodological principles of insurance stress testing climate risks
- Physical climate change risks (non-life)
- Revised Guidelines on Contract Boundaries
- Revised Guidelines on Valuation of Technical Provisions
- And a whole lot more in the EIOPA 2020 review – news due by end 2022 (“it’s political now”)



# EIOPA consultations & publications

Consultations & Discussion papers (continued)

- Supervision of run-off undertakings
- Differential Pricing Practices
- Pan-Europe Internal Model Comparative Studies
- Use of governance arrangements in third countries
- Amendments of Supervisory Reporting and Public Disclosure
- Joint Committee Report on risks and vulnerabilities in the EU financial system
- Amendments to Solvency II Delegated Acts to reflect sustainability risks and ESG considerations
- Application of an Insurance Recovery and Resolution Directive (split out from EIOPA 2020 review)
- Application of the Insurance Distribution Directive
- Sustainable Finance Disclosure Regulation
- Consultation on the supervisory statement on exclusions in insurance products related to risks arising from systemic events



# Conclusion

# The “modern” CRO

Second line is a “master of all”

**Economist**

**Climate  
Scientist**

**Lawyer**

**Futurist**

**Investigator**

**Journalist**

**Business  
expert**

**Underwriter,  
reinsurer,  
market trader**

**Scapegoat?**



# Solvency II 2020

Latest Update

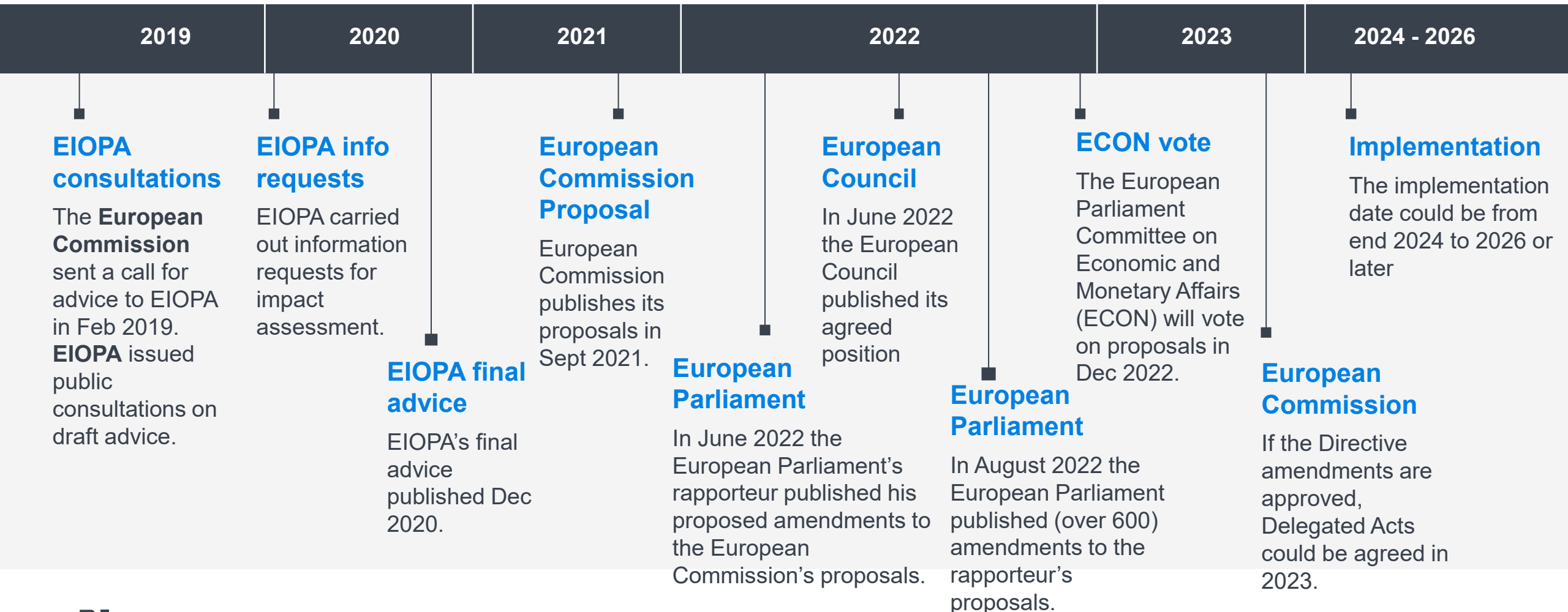
Aisling Barrett

13 September 2022



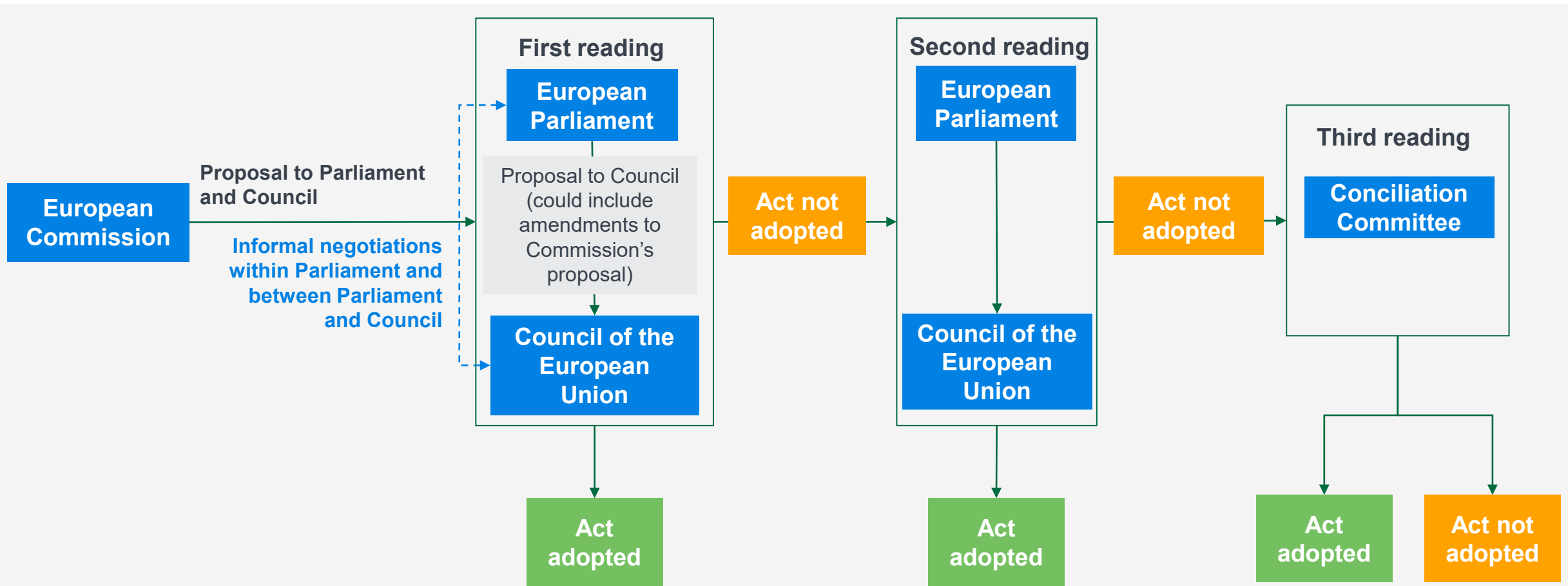
# Timeline

Hasn't this been going on for a while now?



# Legislative process

Who are all these people?



# Legislation

What are all the docs?

Level	Description	Purpose	Responsibility of
1	Directive	Sets out overall framework	Council and Parliament
2	Delegated Acts	Supplement the Directive (with further details)	Prepared and adopted by the European Commission (with advice from EIOPA); Council and Parliament scrutinize and have the right to object.
2.5	Technical Standards	Conditions of application of Delegated Acts	European Commission Drafted by EIOPA
3	Guidelines	EU-wide regulatory guidelines to ensure consistency	EIOPA

# Areas impacted

What are the possible changes?

## LTG measures

- Extrapolation
- Volatility adjustment
- Matching adjustment



## Technical Provisions

- Risk margin
- Expenses in BEL
- Contract boundaries
- EPIFP



## SCR

- Interest rate risk
- Correlations
- Symmetric adjustment
- Eligibility for LT equities



## Proportionality

- Thresholds
- Low risk profile undertakings
- Proportionality Measures



## Pillar 2

- Macroprudential considerations
- Liquidity risk
- Systemic Risk Management Plans



## Pillar 3

- SFCR
- QRTs



## Recovery & Resolution plans

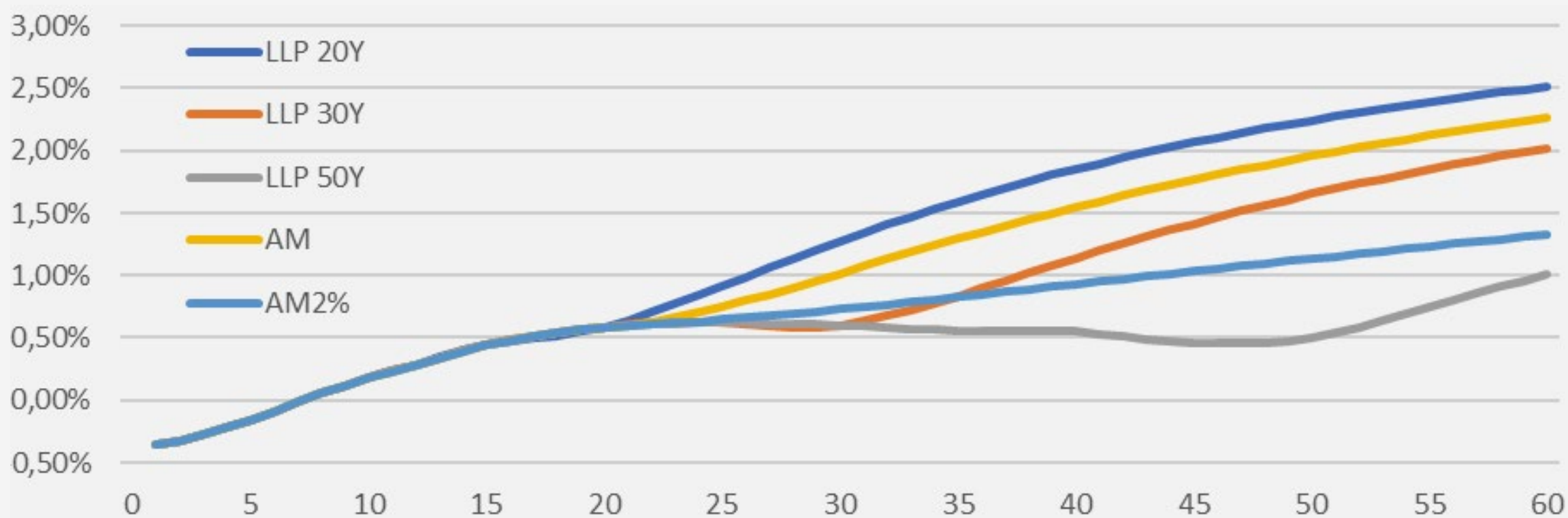


## Insurance Guarantee Schemes



## Extrapolation (1/2)

What did EIOPA propose again?





## Extrapolation (2/2)

What did everybody else have to say about this?

### European Commission

- Largely follows EIOPA's proposal
- Details deferred to Delegated Acts



### Council of the European Union

- Consistent with Commission



### European Parliament Rapporteur

- Prefers to include details in Directive
- Proposes alpha of 20% and no transition period

### Other Members of Parliament

Range of views including:

- Alpha parameter 5% - 20%
- First smoothing point 20 – 30 years
- Transition period: None / 2029 – 2032
- Disclose impact / restrict dividends if alpha decreased

# Volatility Adjustment

Did they all agree on this one then?

## EIOPA

- Supervisory approval required in all countries
- 65% increased to 85%
- VA split into permanent VA and macro-economic VA
- Factor to measure duration and volume mismatch
- Factor to take into account the illiquidity of the liabilities
- Factor to scale sovereign & corporate weights in reference portfolio

## European Commission

- Largely follows EIOPA's proposal
- Details deferred to Delegated Acts
- Removal of illiquidity factor but unclear due to less details



## Council of the European Union

- In line with the Commission
- Additional factor addressing mismatch between undertaking's investment portfolio and reference portfolio



## European Parliament Rapporteur

- Prefers to include details in Directive (and not Delegated Acts as proposed by Commission)
- Deleted proposal to replace country component with macro component; Views unclear

## Other Members of Parliament

Range of views including whether change is needed and others based on EIOPA, Commission & Council proposals.

# Risk Margin

The good news item...

## EIOPA

- Risk margin reduced by applying a factor to the SCR projection.
- Factor starts at 97.5% at year 1 and reduces to 50% by year 28.
- No change to cost of capital



## European Commission

- Details deferred to Delegated Acts
- Supports introduction of reduction factor but proposes no floor of 50%
- Proposes reducing cost of capital from 6% to 5%



## Council of the European Union

- No reference



## European Parliament Rapporteur

- Prefers to include details in Directive (and not Delegated Acts as proposed by Commission)
- Factor starting at 90%
- Cost of capital of 4%

## Other Members of Parliament

Range of views on reduction factor and cost of capital.

# SCR interest rate risk capital

Last technical one for today!

## EIOPA

- Downward shock when interest rates are negative to a minimum of -1.25%
- Between 20 and 90 years shock will be linearly interpolated.
- At 90 years up and down shock is 20%
- Phased in over 5 years



## European Commission

- As per EIOPA except for extrapolation:
- Shocked rates extrapolated in same manner as base but towards stressed UFR 15bps lower or higher than base UFR



## Council of the European Union

- Agrees that “significant changes” are needed and should be phased in.



## European Parliament Rapporteur

- Negative floor applies to interest rate down shock such that likelihood of not being above negative floor at all times is sufficiently small

## Other Members of Parliament

Seem to agree with rapporteur on need for a floor. However, “the floor should not be flat but term dependent”

# Sustainability

To be or not to be... sustainable...

## EIOPA

- April 2021 opinion on use of climate change scenarios in **ORSA**
- Dec 2020 SII 2020 opinion: **SFCR** information



## European Commission

- Delegated Regulation August 2022 incorporate in:
  - Risk management policies and processes
  - ORSA
  - Investment decisions
  - Product approval process
- In addition to EIOPA proposals, EIOPA should report on risk profile of environmental or socially harmful investments.

## Council of the European Union

- In addition to Commission proposals:
- EIOPA should evaluate undertakings' assessments of their material exposure to risks related to biodiversity loss and define future actions, if necessary



## European Parliament Rapporteur

Removed all references to sustainability from the Directive “there is little evidence to suggest that insurance undertakings are systematically underestimating sustainability risks”.

## Other Members of Parliament

Proposed to further build on Commission suggestions by including climate risk in equity & spread modules and mandated transition to sustainable economy

# Areas impacted

Status

## LTG measures

- Extrapolation
- Volatility adjustment
- Matching adjustment



## Technical Provisions

- Risk margin
- Expenses in BEL
- Contract boundaries
- EPIFP



## SCR

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## Proportionality

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## Pillar 2

- Macroprudential considerations
- Liquidity risk
- Systemic Risk Management Plans



## Pillar 3

- SFCR
- QRTs



## Recovery & Resolution plans



## Insurance Guarantee Schemes



# Q&A





# Speaker Contact Details

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