

IFoA GIRO Conference 2024

18-20 November, ICC, Birmingham



Actuaries in legacy deal pricing

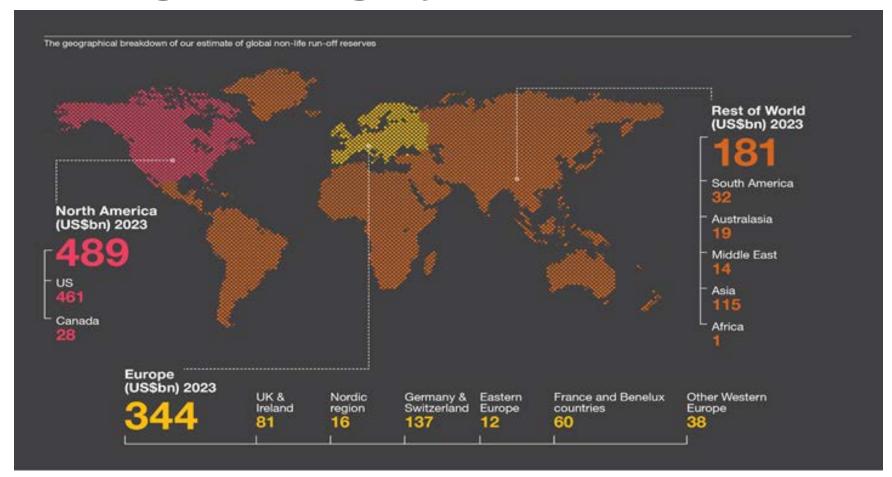
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IFoA GIRO Conference 2024

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How big is the legacy market?



Global non-life run-off reserves

> US\$1tn

Global corporate run-off liabilities

> US\$73bn

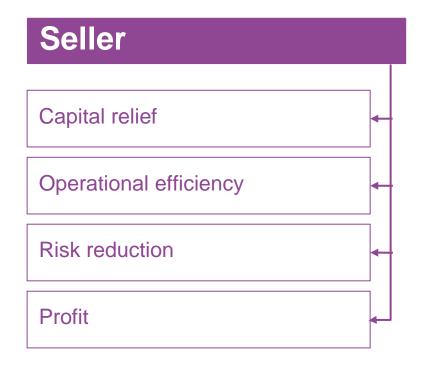
Source: PwC Global Insurance Run-off Survey 2024

Publicly disclosed legacy deal activity – Q1-Q3 2024



Source: PwC Non-life insurance run-off deals review Q3 2024

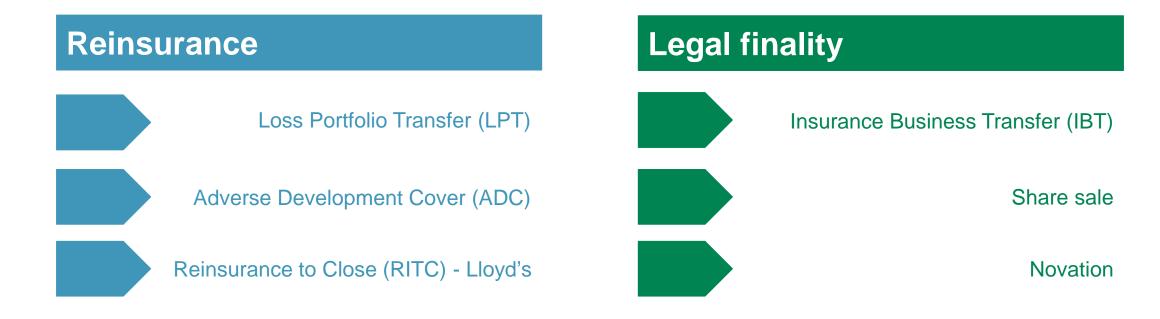
Why do a legacy deal?







Transaction structures



Transaction process – overview

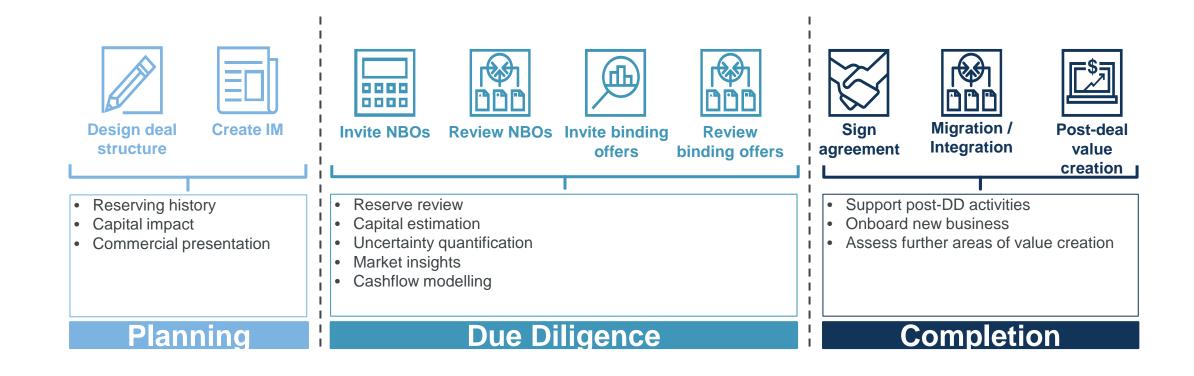
Create Information Migration / **Review binding** Memorandum **Review NBOs** offers Integration (TH) 0000 0000 Sign **Design deal Invite binding Invite non-binding** agreement offers structure offers with chosen party Round 2, 3? 4? ... **Round 1 Planning Due Diligence** Completion

Post-deal

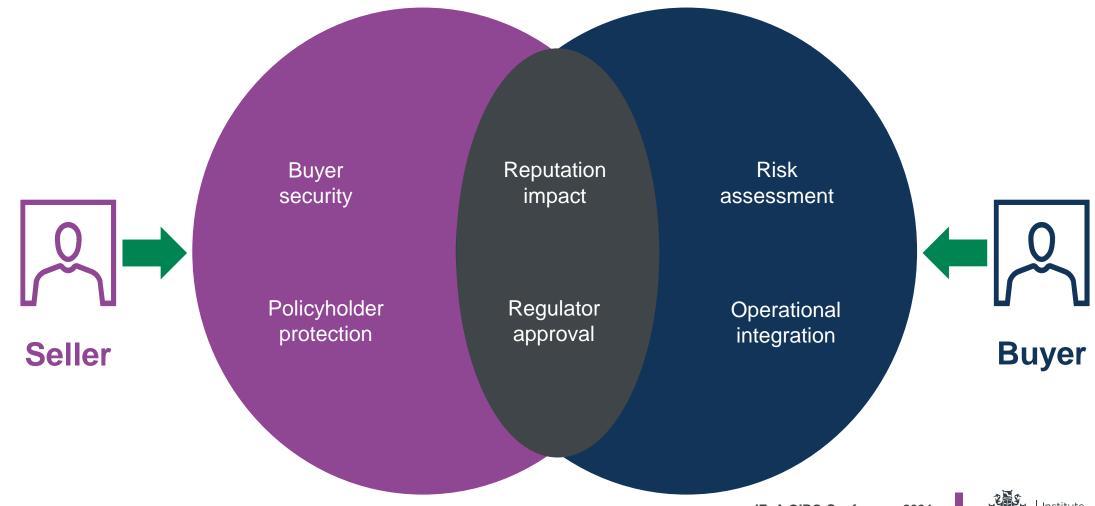
value

creation

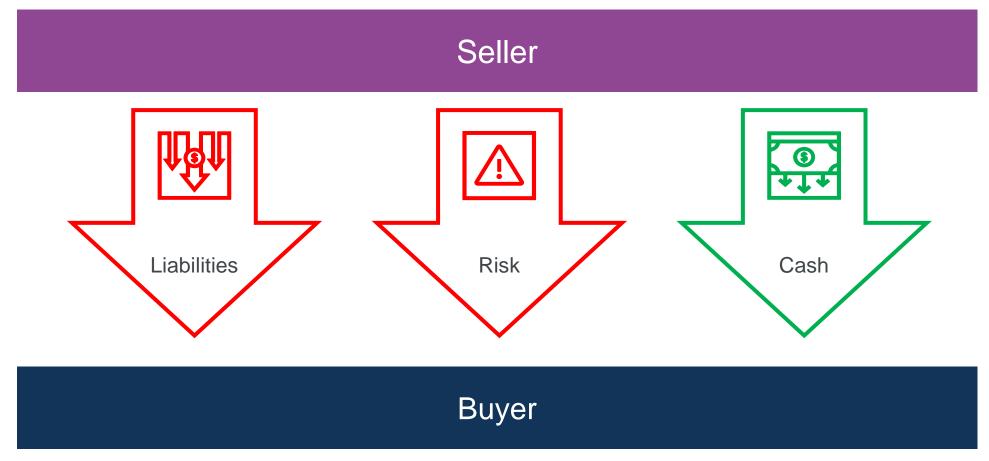
Transaction process – actuarial involvement



Qualitative considerations during a deal



How do you transact? (LPT example)



Price = % of Reserve

Day 1 balance sheet

LIABILITIES **Additional Solvency Capital Solvency Capital** Requirement (SCR) Solvency II adjustments **UK GAAP** reserves (or equivalent)

40

20

100

Prices offered by buyers (% of UK GAAP EXAMPLE 80% reserves) 110%



Buyer funds in total → 65



35

Buyer cashflow overview (1/2)

LIABILITIES

Additional Solvency Capital

Solvency Capital Requirement (SCR)

Solvency II adjustments

UK GAAP reserves (or equivalent)

Provisioned cashflows

Released as claims are paid

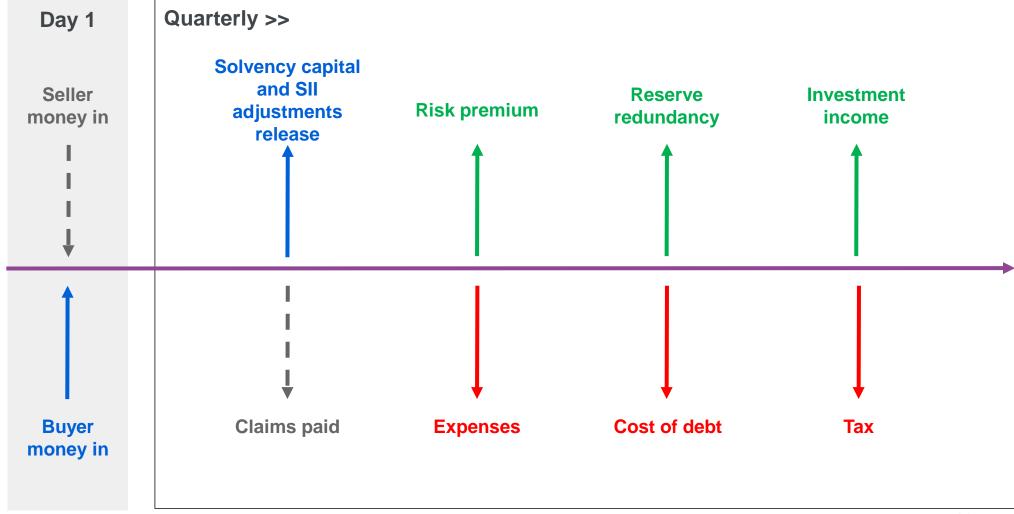
Reserve redundancy

Paid to policyholders

Other cashflows

- Investment income on:
 - Technical Provisions
 - Capital
- Expenses
- Cost of debt
 - Expenses
 - Interest
- Tax

Buyer cashflow overview (2/2)



Takeaways for you

Seller

- Consider and propose legacy deal solutions
- Identify capital-intensive parts of business
- Bring a commercial mindset to reserving

- Perform comprehensive due diligence
- Investigate uncertainty
- Examine deal pricing levers

Buyer

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.