

Choosing a location for Insurance or Reinsurance Companies

A review of location criteria and the application process for passporting within Europe

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In the wake of recent Brexit developments, many UK (re)insurance entities are assessing their options. In particular, entities that sell on a cross border basis may choose to relocate or to establish a new hub in the EU to continue to 'passport' into EU markets.

In such a scenario, there are several locations across Europe which could be attractive options. The best location will vary depending on each company's individual circumstances.

In this briefing note we will discuss some of the key considerations for companies when deciding on a location. We will look at Ireland as a sample location and provide information on the application process, drawing on our extensive experience of past and current licence applications.

New locations, new considerations

Set out below are some of the key factors to consider when choosing a location for a (re)insurance entity. This list has a special focus on the needs of British entities that want to continue passporting business across the EU post-Brexit.

FIGURE 1: LOCATION CONSIDERATIONS



MARKET ACCESS

Market access is the catalyst that has forced many UK companies to consider alternative locations. As such, full market access is critical for any new location;

- Full access to all EU financial services markets;
- A territory that is fully committed to remaining in the EU.

PRACTICAL CONSIDERATIONS

Factors such as taxation and regulation are obvious criteria for assessing possible locations, but some of the practical aspects related to selecting a location can be just as important;

- Language: fluent English will be a requirement for most companies coming from the UK.

- Time Zone: consider the time difference compared to the UK and other international markets.
- Legal regime: the impact on any legal contracts should be considered. The UK operates on a common law system, unlike mainland Europe.
- Accessibility: transport links are another key consideration, especially links with London.
- Choosing a location that already has a well-developed international financial services sector will minimise the level of risk faced.

STAFF/PEOPLE

Any potential location should offer a wide pool of local skills, knowledge and expertise, but should also be suitable for existing employees that may be relocating;

- Well educated workforce, with a focus on financial skills.
- Large pool of highly skilled employees who have experience working in the insurance industry. Availability of specialised roles such as actuarial expertise, tax and legal advice should be considered.
- Attractiveness of the new location for existing staff, or for attracting staff from other territories.
- Quality of life; housing, education and healthcare as well as the range of cultural, social, and sporting amenities should be considered.

REGULATION

The introduction of Solvency II has done much to harmonise the regulatory landscape across Europe, however differences still exist between locations from a regulatory perspective;

- Familiarity of the regulator in dealing with this type of business and cross-border companies.
- Experience of the regulator in processing new authorisation applications as well as the attitude and willingness of the regulator to work with new applicants.

TAXATION

EU member states set taxation at a local level so each territory will have a different regime;

- Corporate tax rates are a key consideration.
- Grants, financial assistance programmes or advice may be available to encourage foreign direct investment or to incentivise the creation of new businesses and jobs.

Example location: Ireland

Some of the most popular locations being considered for new (re)insurance entities include Dublin, Luxembourg, Brussels, Frankfurt, Paris, and Malta, among others.

Every business is different and therefore the choice of location must be tailored to suit each individual business. As an example, some of the key considerations for Ireland are considered below. While Ireland won't be the location of choice for every entity, choosing Ireland as a location has many benefits ranging from practical considerations such as language and the quality of the educated workforce to fiscal and regulatory considerations.

MARKET ACCESS

Ireland has full access to all EU financial services markets and is fully committed to remaining in the EU.

PRACTICAL CONSIDERATIONS

Ireland ranks highly in terms of practicality. It is the only other native English speaking country within the EU and is also in the same time zone (GMT) as the UK.

Ireland operates on a common law basis similar to the UK, the only other common law jurisdiction in the EU. Irish law would permit most existing UK contracts to continue with few if any changes, should a change of governing law need to be considered. Ireland also has flexible labour laws.

Ireland is very accessible - Dublin-London is the second busiest international air travel route in the world¹.

STAFF/PEOPLE

Ireland is renowned for having a well-educated workforce with an education system ranking in the top 10 in the world and ranked 1st in the world for availability of financial skills².

There is a large pool of highly skilled people working in insurance in Ireland, with 28,000 employed directly or indirectly. For example, Ireland has more actuaries per capita than any other country in the world.

REGULATION

The Central Bank of Ireland ("CBI") is responsible for Financial Regulation in Ireland. The CBI is seen as a strong, independent regulator with international credibility and relationships with EIOPA, national regulators and EU supervisors.

TAXATION

Ireland offers a competitive corporate taxation rate of 12.5%. Successive Irish governments have repeatedly committed to the retention of Ireland's corporate tax rate and sovereign control over this. Other incentives and assistance are available to encourage job creation.

¹ IDA Ireland 2017 – "Ireland for International Insurance Activities"

² IMD 2016

Authorisation Applications

Any insurance or reinsurance undertaking wishing to carry out the business of insurance or reinsurance must first obtain authorisation from the relevant regulator. This is done through a formal authorisation application.

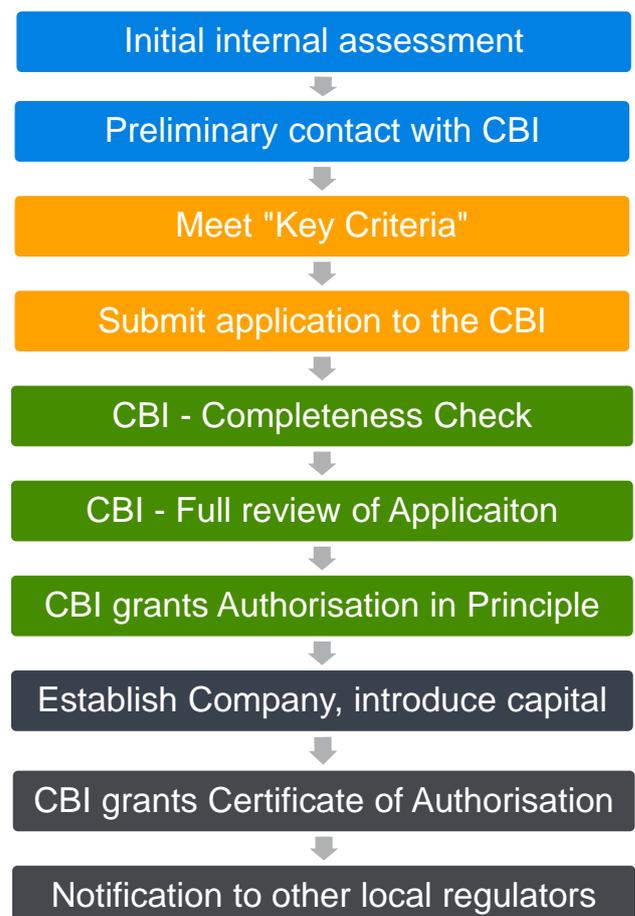
The authorisation process will differ from country to country. As an example of what to expect, details of the application process for authorisations in Ireland is discussed below.

Our experience has shown that there is a lot of interaction between the applicant, their representatives and the CBI throughout the application process. The CBI itself says that it *"aims to make the application process an efficient one, however, it must be stressed that it is not a one-step process; rather, it is an iterative process involving contact and consultation..."*

To this end it is useful for potential applicants to have a clear picture of the entire process at outset and a support team they can trust.

A summary of the application process is set out below:

FIGURE 2: AUTHORISATION PROCESS



AUTHORISATION PROCESS

Before engaging with the regulator on a new application it is important to do some ground-work. This includes reviewing the proposed business model, the requirements for authorisation and the requirements for insurance and reinsurance undertakings on an on-going basis. Typically, companies will also analyse capital requirements and funding mechanisms at this stage.

A summary of the key steps is as follows:

- The first step is to contact the CBI's Insurance Authorisation team and arrange a preliminary meeting to outline your proposal.
- Following this initial meeting, the applicant must prepare the information outlined in the CBI application checklist. The Key Criteria section below gives more details of these.
- A completed and signed application, together with supporting documentation, is then submitted to the CBI.
- On receipt of the application, the CBI reviews its contents and will let the applicant know if there are any missing details or additional information required.
- The CBI then reviews the application. Following this review, the CBI may ask for additional information or clarifications. In our experience this is an interactive process with phases of questioning and clarifications. For indicated timelines, please see below.
- Once the review is complete, the CBI submits the application to its Authorisations Committee for a decision. Assuming you are successful, it then issues an "authorisation in principle" letter. This means that the application has been fully examined, reviewed, and approved in principle by the CBI. It is worth noting that receiving authorisation in principle does not entitle the applicant to start writing business.
- The applicant then finalises its preparations, such as introducing capital, appointing directors and confirming it is in a position to comply with all relevant regulations, within 21 days of receipt of the authorisation in principle.
- The final step is the receipt from the CBI of the Certificate of Authorisation.

Once the Certificate of Authorisation has been received, the entity can then start writing business in that territory, subject to any "undertakings" specified particular to the application.

If the applicant wishes to establish a branch or operate on a freedom of services basis in another territory, the relevant regulatory bodies must be notified. This may lead to further queries from the other regulators. Depending on the model selected this notification/authorisation could take between 1 and 5 months.

EXPECTED TIMELINE

The expected timeline of the CBI's application review is 3 months from the receipt of what the CBI deems to be a fully completed application. However, this can easily take up to 6 months. The timeline will depend on:

- Quality and complexity of application;
- Time taken by the applicant to respond to comments/feedback and quality of those responses;
- Time taken by any relevant third parties to respond to queries;
- Any changes made by the applicant during the authorisation process.

It is worth bearing in mind that these timelines don't include the time required to compile the full application, which, depending on the complexity, could take a number of weeks or months.

KEY CRITERIA

The key areas considered by the CBI as part of the application process are:

<p>Background & Legal Details</p> <ul style="list-style-type: none"> • Applicant's legal structure • Applicant's Ownership structure • Overview of the applicant's group (where applicable) 	<p>Business Systems</p> <ul style="list-style-type: none"> • Scheme of operations • System of governance (including fitness and probity of key personnel) • Risk management system
<p>Calculations & Projections</p> <ul style="list-style-type: none"> • Own Risk and Solvency Assessment • Financial information and projections • Capital requirements and solvency projections 	<p>Consumer Issues</p> <ul style="list-style-type: none"> • Relevant consumer issues i.e. consumer protection and conduct of business requirements

Further details and information on the documentation required as part of the application for authorisation are set out in the relevant checklists produced by the CBI. The checklists vary slightly, depending on the corresponding type of business that the proposed entity will write. Applicants are expected to expand on the information required according to the specific nature of the proposed business.

While the authorisation process will differ from one jurisdiction to another, the above example will be quite typical of the authorisation process in most territories.

How Milliman can help

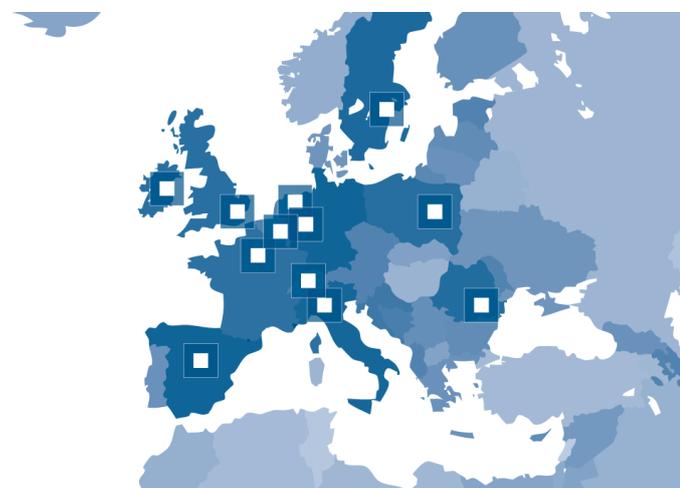
Establishing a new entity is a complex process that needs the correct blend of technical expertise, local market knowledge and a track record working with the regulator. Milliman bring all of these attributes to every project we undertake.

GLOBAL NETWORK

Milliman has 61 offices worldwide, with more than 3,000 employees, providing a comprehensive network to deal with any business needs that may arise.

With over 250 consultants and 12 offices spread throughout Europe, Milliman is ready to assist with new application queries related to any territory.

FIGURE 3: EUROPEAN MILLIMAN LOCATIONS



EXPERTISE AND EXPERIENCE – START-UPS AND LICENCE APPLICATIONS

We have unrivalled experience of licence applications for greenfield start-ups as well as the associated work required to make the new insurer operational.

As actuarial advisors we are particularly experienced in the preparation of business plans, capital assessments and the financial projections required. We also have day-to-day experience of the local regulatory and actuarial topics and we discharge statutory roles across Europe.

We are accustomed to working with all of the major legal firms and/or tax advisors to successfully deliver for clients. We also work with all the local third-party administrators and insurance administration outsourcers.

We can also help entities to transfer their existing EU businesses from the UK to the new entities via Part VII transfers with Milliman acting as the Independent Experts, if appropriate.

ONGOING SUPPORT

We provide support through the entire application process but are also available for support beyond this initial establishment phase.

For example, most of the companies we have helped establish in Ireland have then retained our services on an ongoing basis. Our service offering can be tailored to your needs and can change over time as your business matures. Our consultants offer services ranging from a full outsourced actuarial team and/or discharging statutory roles to a trusted advisor role to support in-house teams or work on ad-hoc projects as required.

We have been involved in Solvency II projects with major life, health and non-life insurance companies and are widely recognised as experts in this area. Our experience spans all three pillars of Solvency II. Extensive experience of modelling projected balance sheets, technical provisions and SCR calculations.

For more information contact your usual Milliman contact or one of the contacts listed below.



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