Insurance Industry Perspectives

2016 Review

Contents

Introduction

We live in interesting times. Ever since the financial crisis in 2008-9, we have witnessed almost continual change in relation to the regulation of insurance, and now the insurance industry faces very significant political and economic uncertainty with Brexit, the result of the U.S. election, the prospect of a slowdown in China and the continued weakness of fragile European economies. On top of that, there are challenges to insurers from new technology, changing customer expectations and big data.

As a practice, we follow industry trends very closely and we take great care to listen to our clients and contacts – to understand the issues they face and how the insurance industry is changing. This brochure reflects this dialogue and brings together a number of different perspectives, ranging from views on how UK regulators are engaging with disruption in the insurance industry, changes to capital requirements for reinsurance in the EU and the U.S., insurance M&A trends, the Insurance Distribution Directive and Solvency II capital requirements for infrastructure investments.

Our vision is to be a bold and distinctive law firm that creates valuable solutions for clients. We hope that this brochure illustrates our commitment to this vision and our engagement with the insurance industry.

Our global insurance team

Hogan Lovells has one of the leading insurance practices in the world, providing advice on regulation, M&A, dispute resolution and commercial matters such as reinsurance, outsourcing and distribution arrangements. We offer our clients an exceptional platform for advice and support on highly complex issues.

We advise in all of the main segments of the insurance industry, including life and general insurance, Lloyd's of London, and run-off and consolidation businesses, and in relation to all forms of insurance products. With more than 220 lawyers with in-depth knowledge of the insurance industry located in Europe, the U.S., Latin America, Asia, the Middle East and South Africa, we are one of the few insurance practices that can offer a truly global perspective.

What we offer

Recognition

– Ranked for insurance in 10+ jurisdictions in *Legal 500* and *Chambers*, including band 1 rankings in the UK, U.S., France, Spain and Poland.

– Insurance Law Firm of the Year – *Who's Who Legal 2016*.

– Insurance Practice Group of the Year 2014 – *Law 360*.

– Shortlisted for Insurance Team of the Year at the Legal Business Awards 2015 for our advice to MAPFRE on its acquisition of Direct Line's German and Italian insurance businesses.

– We have 24 ranked lawyers in *Chambers*, *Legal 500* and *Who's Who Legal* across nine jurisdictions.

Key trends in the insurance industry

In this section, we look at some of the key trends affecting the insurance industry – regulatory change, digitalisation, low interest returns, demographics, Japanese and Chinese outbound investment and cyber risk.

Regulatory change

The insurance industry has seen considerable regulatory change since the financial crisis in 2008. A completely new, risk-based regulatory system (Solvency II) has been adopted in Europe. In the U.S., enhanced corporate governance requirements have been adopted for U.S. insurers, and lower capital requirements for foreign reinsurers of U.S. risks should improve access to the U.S. reinsurance market for global reinsurers. The U.S. will also be implementing the fiduciary rule of the Department of Labor (DOL), which requires advisors to demonstrate that they have acted in their client's best interests when advising on pensions, has been described as the most transformative pieces of insurance legislation since the Employee Retirement Income Security Act of 1974 (ERISA). A U.S. group capital standard is also being considered. Following the Brexit referendum result, there is the possibility of further regulatory change in the UK.

There is also considerably more interaction between insurance regulators internationally, with the development of capital requirements, and recovery and resolution planning, for global systemically important insurers.

How these changes will affect insurance businesses is hard to predict – mergers to take advantage of the credit that Solvency II gives diversified businesses, disposals of non-core businesses and group restructurings to regionalise businesses to mitigate recovery and resolution issues are all possibilities.

Digitalisation

Digitalisation covers a number of trends, from changing customer expectations to improved customer profiling and claims assessments, new sales channels and digitalising business processes. One survey indicated that 71% of consumers undertook digital research before buying an insurance policy while 25% buy insurance online. Competitors from outside the insurance industry may be in a position to sell their data to insurers or provide new sales channels, which could erode traditional insurer exclusivity. Personal lines insurers are particularly vulnerable to disruption.

25% of consumers buy insurance online

Opportunities to digitalise business processes should reduce costs for insurers and could also improve customer experience. Some consider that legacy systems are an insurmountable obstacle to business process changes but others think that only discrete systems changes are needed.

Low interest rates

Low interest rates have made investments such as government securities and corporate bonds less attractive. Since the financial crisis, many insurers have looked for yield amongst less traditional investments such as infrastructure, property, private equity and loan portfolios. In some cases, insurers are replacing banks and lenders and some have even moved into aircraft and ship leasing. Life insurers in particular are looking for secure, long term income streams to match their outgoings, for example, annuities. At the same time, many insurers are struggling to find attractive investments and therefore expect to hold more cash in the next 12 to 24 months.

In Europe, insurers' combined assets under management amount to €9.8tn, equal to 61% of the EU's total economic output

The low interest rate environment also makes guarantees offered by insurers relatively more expensive. This is impacting new product design and, for some inforce books, restructuring may be appropriate.

Insurers collectively are an investment behemoth. In Europe, their combined assets under management amounted to €9.8tn in 2015, equal to 61% of the EU's total economic output.

Demographics

Changing demographics, particularly when coupled with rising affluence and greater access to insurance products through new technology, provide an indication of the opportunities for insurance companies in the future. Asia is expected to account for much of the insurance premium growth in emerging markets. While Asia's middle class is growing, it is also aging rapidly with people over 60 years old expected to triple, to 1.3bn, by 2050. China is expected to be the biggest emerging market opportunity. Indonesia offers promising opportunities as well – as the world's single largest Muslim country, takaful products will be important. Low penetration and rising affluence in other Asian countries such as Malaysia, Thailand and Vietnam suggest that there should be opportunities in these countries as well. India's huge population and increasing affluence has made it an attractive country for insurers – with the cap on foreign direct investment having been increased from 26% to 49%, access for foreign insurers should be easier.

People aged 60+ in China expected to triple to 1.3bn by 2050

For similar reasons, there appear to be good opportunities in Africa, with Nigeria and Kenya often mentioned. Similar patterns can also be seen in South America, with low penetration and rising affluence suggesting that there should be opportunities in Colombia and Mexico. Chile has the highest insurance penetration, but new opportunities can be expected as a result of changes in the health and pensions systems (under which retirement ages and mandatory pension contributions have been increased).

Japanese and Chinese outbound investment

Japanese outbound M&A is an increasingly significant trend in the insurance industry. In Japan, this has been prompted by low growth and an ageing population. Japanese groups spent more than US$33bn in 2015 on insurance M&A, and three of the four largest insurance M&A deals in 2015 in the U.S. involved a Japanese buyer (Meiji Yasuda acquiring StanCorp Financial for just under US$5bn, Sumitomo Life acquiring Symetra Financial for US$3.79bn and Tokio Marine acquiring

HCC Insurance for US$7.5bn). Chinese buyers have also played their part, making a number of acquisitions around the world (an increasing feature of insurance M&A since Chinese rules on foreign investment were relaxed in 2012).

Japanese groups spent more than $33bn in 2015 on insurance M&A

Japanese outbound M&A has slowed in 2016 for various reasons. Brexit has probably had an effect, and there are some indications that Japanese companies may be more cautious than before on Europe. A number of Japanese insurers are also focused on post-acquisition integration. However, the reasons for outbound investment continue to apply (low growth in the Japanese economy and an ageing population), and many Japanese insurers are still focused on diversification in terms of both business lines and geography.

Cyber risk

The increase in cyber attacks and the continuing upward swing of liability for all manner of data breaches creates both risk and opportunity for insurers.

In the U.S., increasingly strict cyber obligations on insurers are coming from regulatory authorities, such as the National Association of Insurance Commissioner's insurance data security model law and the New York Department of Financial Services' proposed cyber regulation: these are seen as a precursor to more. In the EU, the upcoming General Data Protection Regulation will introduce mandatory personal data breach reporting and substantial fines for data breaches, ensuring that cyber security continues to be a top 5 issue for senior management and general counsels.

Downtime caused by security incidents can be significant – as a result, cyber risk needs to be viewed as a key commercial risk to an insurer's operations, not just an IT issue. This view is endorsed by many insurance regulators, and the UK's FCA announced recently that it will be looking for regulated companies to have a 'security culture' driven from the top down, with senior management engagement and responsibility for cyber security.

As defences struggle to keep pace with new cyber threats, the approach to cyber security is increasingly focused on monitoring cyber attacks, having a robust response and recovery plan, and risk mitigation, predominantly through insurance. The global cyber insurance market is booming as a result. With governments and regulators increasingly looking at cyber insurance as a key part of any business' approach to cyber risk – in 2015 the UK government announced initiatives with the insurance sector to help firms get to grips with cyber risk and called on insurers to simplify and raise awareness of their cyber insurance offering – this can only continue.

Insurtech: UK regulators ahead of the game

By Helen Chapman (Partner, London) and John Salmon (Partner, London).

This article was originally published in The Times Raconteur report on the Future of Insurance on 12 October 2016.

A number of factors are driving disruption in the insurance industry, posing a major challenge for the regulators – a challenge the UK regulators are rising to with gusto.

So what are the factors driving the disruption?

Major Societal Changes

In the retail insurance space, consumers are more connected than ever, via a multitude of devices and through multiple platforms. This has two consequences: first, consumers increasingly expect a much better, smarter service. “People are frustrated with a clunky process for buying insurance, and want an easier and quicker process through simple digital channels,” says John Salmon, a technology partner at Hogan Lovells.

Second, a larger proportion of consumers fall into Generation Y or the millennial generation: these individuals are less likely to own property or cars, are less attracted by life assurance and are looking for more tailored cover they can buy easily and quickly. They are attracted by the sharing economy. Helen Chapman, who runs the insurance policy wording unit at Hogan Lovells, is seeing an increase in demand for insurance products to be designed on a modular basis, allowing customers to purchase just the cover they need at a price which is calculated on the basis of actual customer data. Customers are no longer interested in annual policies which might cover them for risks they do not run.

Big Data

As the FCA (Financial Conduct Authority), the UK’s conduct regulator, has said, big data “can be used by firms to transform how consumers deal with insurance firms, allowing firms to develop new products as well as reducing form-filling, streamlining sales and claims processes”. It also allows insurers to price risk more accurately. This is a major opportunity for insurers, which they are seeking to capitalise on through the use of technology: telematics in motor insurance; wearable tech in life and illness insurance; intelligent home technologies for property insurance.

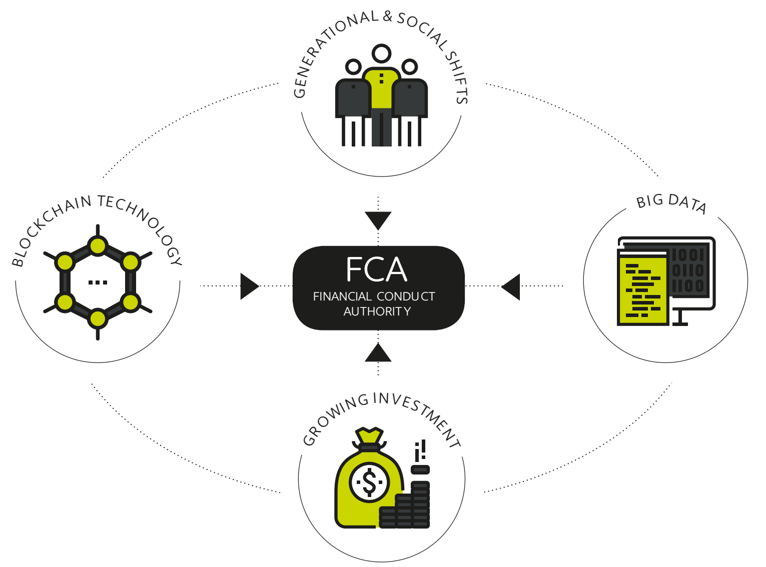
New Technology

The new technology available to insurers and intermediaries is revolutionising the way they run their businesses. Artificial intelligence technology, such as robo-advisers and chatbots, can increase efficiency and improve customer experience. Drones have the potential to cut costs involved in inspections for claims purposes. As insurers amass more and more data, in particular from connected devices, data analytics tools allow insurers to use their data in a smart way and gain valuable insights into customer behaviour and trends. Often, cloud computing underpins the use of these other technologies. And not forgetting blockchain technology, which has the potential to transform the insurance industry, but which insurers and reinsurers are just beginning to consider seriously.

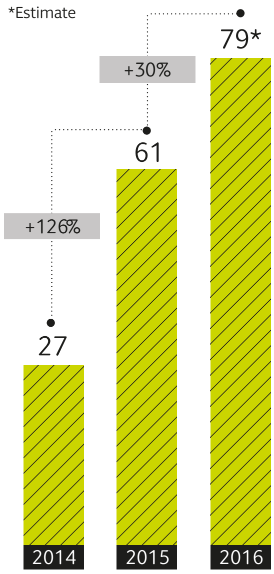
Availability of Capital

A feature of the insurtech phenomenon is the mountain of capital available from interested venture capital and private equity firms as well as established insurance market players. This is fuelling a boom in innovative startups.

DIFFERENT ISSUES AFFECTING THE INSURANCE INDUSTRY WHICH THE REGULATORS NEED TO CONSIDER

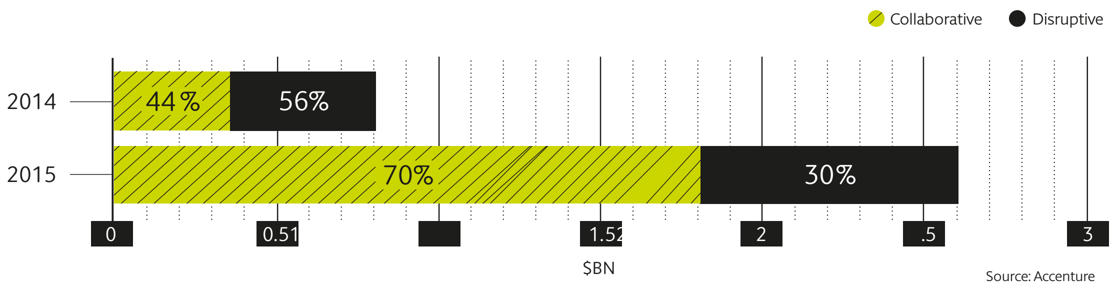


NUMBER OF STARTUPS PURCHASED BY (RE)INSURERS



Source: CB insights

INVESTMENT LANDSCAPE FOR INSURTECH



Source: Accenture

Who are the disruptors?

Not who you might think. While there are many startups vying for a piece of the pie, much of the innovation is being driven by incumbents: large, often global players in the insurance markets. All the major insurer groups have their own accelerators or incubators, mentoring and investing in innovative ideas either for products or means of distribution. Many reinsurers are investing heavily in these sorts of ventures because they see the mining of the data that they have access to over broad market segments as key to their future success. One of the challenges, however, is the cultural shift that is needed for a traditionally risk-averse organisation to truly embrace innovation and creativity.

Alongside the might of the incumbent insurance and reinsurance groups are the innovative startups, often funded by venture capitalists. What they might be lacking in experience, they make up for in agility.

The ability for technology to shake up the insurance distribution chain has attracted non-insurance brands into parts of the market too. Insurers and intermediaries are facing off to major players from other areas, including technology providers, and manufacturers of cars and consumer electronics. While some incumbents view this advancement as a threat, others have been welcoming the opportunities this could bring and otherwise unlikely partnerships have been forming.

Regulators: running scared or embracing the future?

The scale and pace of change in the industry presents a significant challenge for the regulators. The FCA has commented that it sees change as the new normal and is embracing it. The FCA has actively sought ways of ensuring it meets its objectives, which include ensuring the relevant markets function well and protecting consumers.

In order to do this and ensure that regulation remains relevant to the new normal, it initiated Project Innovate in 2014, including an Innovation Hub, which Mr Salmon describes as "extensive 'sandbox' testing, enabling innovative insurance businesses to take part in assessments of how they meet regulation, without fear of penalty". It promises to provide fast, frank feedback on the regulatory implications of financial firms' technological development. Working closely with firms in this way gives the regulator the information it needs to tailor its regulations to the new business models.

Alongside the Innovation Hub, the FCA is actively considering issues such as big data to understand the use of data by firms better, and how this affects consumer outcomes and competition.

Even more noteworthy is the FCA's international engagement. It has co-operation agreements with a number of overseas regulators (Australia, Singapore and Korea), with the aim of promoting the UK as a centre for innovation in financial services.

These activities are in stark contrast to other regulators around the world. Lawyers in Hogan Lovells' international insurance practice have remarked on the progressive steps being taken by the FCA compared with those in their jurisdictions. There are few local regulators that are taking as pro-active an approach as the UK regulators. However, as already mentioned, some other jurisdictions are co-operating with the FCA and positive steps are also being taken in Hong Kong. In the United States, a House Bill was introduced in September with the expressly stated aim of keeping the U.S. from losing financial innovators to the UK's regulatory sandbox.

It is clear that we are witnessing a watershed in both the insurance industry and the relevant regulation.

> "They get our industry. They understand the regulatory context, the product, the types of transactions we engage in and the kind of regulatory environment we are in"
>
> *Chambers UK 2014*

Taking the credit: eligibility requirements for reinsurance in the EU and the U.S.

By Therese Goldsmith (Partner, Baltimore) and Steven McEwan (Partner, London)

Reinsurance is the primary tool that insurers use to lay off risk on their insurance portfolios. Laying off the risk enables an insurer to underwrite a wider range of business while still controlling its exposure to particular events, entities, and geographical regions.

In addition, provided that the reinsurance is eligible under the applicable regulatory rules, the insurer laying off the risk (the "cedant") will be able to take credit for it in a number of ways. These include (i) recognising the reinsurance as an asset on the cedant's balance sheet; (ii) reducing the value of the cedant's technical provisions (its insurance liabilities); and (iii) reducing the cedant's capital requirement.

The rules relating to reinsurance eligibility have recently been harmonised in the European Union under Solvency II, and reform is also being actively pursued in the United States. This article considers the developments.

European Union

The eligibility requirements for reinsurance under Solvency II can be divided into three categories: (i) legal effectiveness and enforceability; (ii) effective transfer of risk; and (iii) eligibility of the reinsurer.

Legal effectiveness: Legal review will be required to confirm that the arrangements are legally effective and enforceable in all relevant jurisdictions, although a formal legal opinion is not required. The cedant will be required to monitor the effectiveness on an on-going basis. The arrangements must give the cedant a direct claim on the counterparty. This means, for example, that the cedant would not be permitted to rely on reinsurance provided to its parent company for the benefit of all group companies. Reinsurance is normally expected to remain in force for at least 12 months, and additional requirements apply to arrangements of shorter duration.

Effective transfer of risk: The rules require effective transfer of risk, and that the extent of the cover provided by the risk mitigation

> An accomplished insurance practice with extensive global offerings across the UK, continental Europe, Latin America, China and the USA. Experienced in handling cross-border insurance and reinsurance claims, reorganisation mandates and a broad range of transaction matters, including longevity transfers.”
>
> *Chambers Global 2016*

arrangement must be "clearly defined and incontrovertible". A determination of whether the transfer of risk is effective is based on:

– whether the contractual arrangement is subject to any condition which could undermine the effective transfer of risk, the fulfilment of which is outside the direct control of the cedant; and
– whether there are any connected transactions which could undermine the effective transfer of risk.

These rules give rise to uncertainty where the reinsurer tries to negotiate the inclusion of termination or exclusion clauses in the reinsurance agreement. In particular, there is uncertainty over what types of termination event are considered to be "outside the direct control of the cedant" – for example, insolvency of the cedant, change of control of the cedant, change of law, force majeure and failure of a service provider.

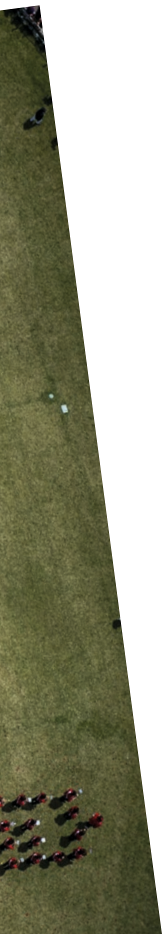
Given the uncertainty, the safest approach is for the cedant to resist termination rights in any of these cases, although some workarounds can be adopted if a termination right for the reinsurer is considered to be essential.

Eligibility of the counterparty: If the reinsurer is one of the following then it will be eligible as a counterparty for the purposes of the Solvency II rules:

– a (re)insurer authorized under Solvency II that is satisfying its capital requirements under Solvency II;
– a (re)insurer authorized in a third country jurisdiction that has been determined to be equivalent for purposes of reinsurance supervision and which complies with the solvency requirements in that jurisdiction;

- a (re)insurer that is authorized in a non-equivalent jurisdiction that has a credit rating of at least BBB or equivalent, or that has its obligations covered by a guarantee satisfying the Solvency II guarantee eligibility requirements (which are similar to the reinsurance eligibility requirements) given by an entity which does have such a credit quality; and
- If the reinsurer does not fall into one of these categories then the reinsurance can still be eligible provided that the reinsurer provides collateral satisfying the Solvency II collateral eligibility rules.

Even if the reinsurer does fall into one of these categories, it may still be desirable for the cedant to ask for collateral, as this will help to mitigate the credit exposure to the reinsurer that will otherwise be taken into account in the calculation of the cedant's capital requirement.



United States

In some respects, developments under U.S. state insurance regulators' Solvency Modernization Initiative (SMI) parallel those in the EU under Solvency II with regard to a cedant's ability to take regulatory credit for reinsurance. In particular, the states increasingly have permitted domiciliary insurers ceding risk to non-U.S. reinsurers to recognize a corresponding asset or reduction in liabilities under regulatory accounting rules without the need for the assuming reinsurer to fully collateralize the reinsured liabilities.

Previously, National Association of Insurance Commissioner (NAIC) model laws and regulations enacted by the states provided that for a U.S. ceding insurer to receive credit for reinsurance, the risk must either have been ceded to a reinsurer licensed in the U.S. or be secured by collateral representing 100 percent of the liabilities for which the credit was recorded. On November 6, 2011, however, the NAIC adopted revisions to its Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786) that, if enacted by the states, would reduce or eliminate collateral requirements for non-U.S. reinsurers, provided that the reinsurer were licensed by and domiciled in a "qualified jurisdiction" and "certified" by the ceding insurer's U.S. domiciliary regulator. As of July 2016, 34 states and the District of Columbia – representing 68 percent of direct U.S. premium – have adopted Model Law #785, and 26 have adopted Model Regulation #786. Effective January 1, 2019, adoption of these models will become a "required and uniform standard" under the NAIC Financial Regulation Standards and Accreditation Program, virtually assuring their adoption in most, if not all, of the remaining U.S. jurisdictions.

Under Model Law #785, where an applicant for certification already has been certified as a reinsurer by an NAIC-accredited jurisdiction, states have the discretion to defer to the certification granted, and the collateral requirements assigned, by that jurisdiction through a "passporting" process. As of this writing, over 35 reinsurers have been certified by one or more U.S. jurisdictions, with additional applications pending. For those certified reinsurers, collateral requirements generally range from 10 percent to 50 percent of ceded liabilities for which credit was recorded.

Although each state's insurance commissioner ultimately is responsible for evaluating and determining whether a non-U.S. reinsurer's jurisdiction of domicile is a "qualified jurisdiction" in that state, the NAIC has in place a process for developing and maintaining a list of qualified jurisdictions that the commissioner "shall consider" in making such determinations. The process involves an assessment of the "appropriateness and effectiveness of the entire reinsurance supervisory system within the jurisdiction, both initially and on an on-going basis." It is based, in part, upon a comparison of the jurisdiction's insurance financial solvency regulatory regime to that in the U.S., its adherence to international supervisory standards, and relevant international guidance for recognition of reinsurance supervision. Factors considered in the evaluation process include, among others, the history of performance by reinsurers in the relevant jurisdiction, and whether the jurisdiction adequately and promptly enforces final U.S. judgments or arbitration awards. To date, the NAIC list of qualified jurisdictions includes Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom.

A jurisdiction's status as a "qualified jurisdiction" is, however, subject to continuous review. We note that on August 27, 2016, the NAIC Reinsurance Task Force requested that its Qualified Jurisdiction Working Group study and report on EU member state implementation of Solvency II and its potential impact on the qualified jurisdiction status of EU member states. In particular, the Task Force referenced recent actions taken by the German Federal Financial Supervisory Authority (BaFin) with respect to restricting third-country insurance and reinsurance undertakings, and actions taken by the United Kingdom regarding waiver filing requirements.

> Hogan Lovells International LLP provides 'well-thought-out advice and knows when to contact its offices around the world'. The group's wide-ranging expertise includes coverage and contractual disputes, economic and trade sanctions, and D&O claims.
>
> *Legal 500 UK 2015*

Increasing insurance M&A: will the trend continue?

By Nicola Evans (Partner, London), Tony Fitzpatrick (Partner, New York) and Charles Rix (Partner, London)

The increasing levels of M&A in the insurance industry beg two questions – what's driving this trend? And will it continue? In this article, we consider some of the factors driving insurance M&A and look ahead and ask whether the trend will continue. We also look at how M&A in the insurance industry is changing.

What factors have been driving M&A in 2015 and 2016?

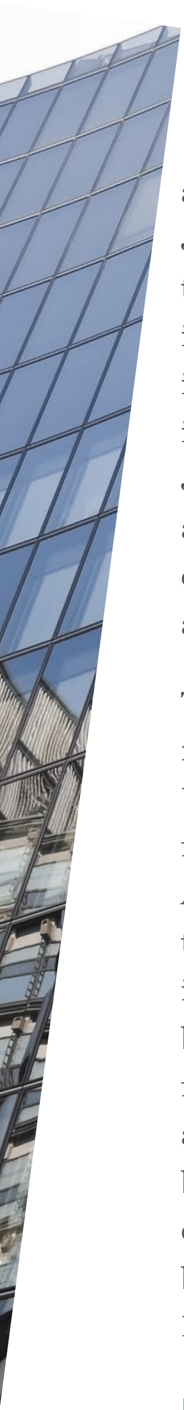
2015 was a record year for M&A in the insurance industry. Mergermarket recorded 565 deals with a total value of $111bn. Not surprisingly, 2016 has seen lower levels of activity but at the current rate this year could still be impressive. That being said, the second half of 2016 may yet see a slowdown with uncertainty around the UK referendum on Brexit and the U.S. elections.

There are a number of reasons for the surge in insurance M&A. The reinsurance industry for example, has seen greater competitive pressure as a result of falling prices caused by unusually low catastrophe losses and competing money from hedge funds, pension schemes and other investors. These factors were cited as reasons for the transactions involving XL/Catlin, Endurance/Montpelier Re and Renaissance Re/Platinium. Over the last few years, Lloyd's businesses have also been a popular target because of the access they provide to general and specialty risks around the world. This continued in 2015 with Mitsui Sumitomo's acquisition of Amlin and Fairfax's acquisition of Brit.

The other significant trend has been Japanese outbound M&A prompted by Japan's low growth and ageing population. Japanese groups spent more than US$33bn in 2015 on insurance M&A, and three of the four largest insurance M&A deals in 2015 in the U.S. involved a Japanese buyer (Meiji Yasuda acquiring StanCorp Financial for just under US$5bn, Sumitomo Life acquiring Symetra Financial for US$3.79bn and Tokio Marine acquiring HCC Insurance for US$7.5bn). Chinese buyers have also played their part, making a number of acquisitions around the world (an increasing feature of insurance M&A since Chinese rules on foreign investments were relaxed in 2012).

Japanese outbound M&A has slowed in 2016 for various reasons. Brexit has probably had

> Successful corporate insurance practice with particular strength in cross-border M&A, supported by its strong tax department. Active in regulatory matters, and well equipped to handle transactions with a significant international element.
>
> *Chambers Europe 2015*



an effect, and there are some indications that Japanese companies may be more cautious than before on Europe. A number of Japanese insurers are also focused on post-acquisition integration. However, the reasons for outbound investment continue to apply (low growth in the Japanese economy and an ageing population), and many Japanese insurers are still focused on diversification in term of both business lines and geography.

There have also been some more specific reasons for insurance M&A. For example, in the U.S., the Affordable Care Act is cited as a reason for Anthem's US$53.8bn bid for Cigna and for Aetna's US$37bn bid for Humana, and, in India, the government's decision to allow foreign interests a greater share in local insurance businesses is cited as a reason for increased foreign investment. Solvency II has also been a factor. One example of this is the divestiture by several European insurers of their Asian operations, such as Allianz's sale of its Korean business to Anbang and Ageas' sale of its Hong Kong life business to JD Capita.

How is M&A in the insurance industry changing?

We have seen a number of changes in insurance M&A in the last few years, ranging from increasing regulatory complexity through to changing approaches to acquisition finance and increasing activity from private equity investors.

Private equity purchasers are increasingly active in the insurance industry. Historically, private equity has been reluctant to look at opportunities in the insurance sector due to the regulatory burden and their short-term horizon for realising their investment. However, we have seen that change over the last five to ten years, in part because the traditional players have had less appetite for M&A. For example, Italy has seen the lions' share of divestments made by foreign insurers and its troubled banks going to private equity. Unsurprisingly, private equity has also been reshaping market practice in insurance M&A, for example, in relation to the use of vendor due diligence and warranty and indemnity insurance to top up contractual warranty cover that private equity sellers are prepared to offer.

Complex acquisition finance is now a feature of M&A in the sector. Traditionally, acquisitions in the insurance industry, if not wholly financed from internal resources, were financed with simple acquisition facilities. We're seeing that change with more complex acquisition finance structures being used. In a number of cases, this has involved combinations of equity and debt financing with the debt often syndicated amongst a number of banks. These developments are likely to be due to a number of factors, including the fact that bank debt is now less available and more expensive due to higher bank regulatory capital, liquidity and leverage requirements following Basel III and, possibly, as a consequence of the changes to group-level regulatory capital requirements introduced by Solvency II which require the capital requirements of a group to be satisfied in large part by equity.

Complex interactions with regulators are often a feature of insurance M&A. This is in part because of the size and cross-border nature of so many recent deals, which has resulted in regulatory clearances being made in multiple jurisdictions. This requires careful planning and project management to ensure the timely delivery of all required regulatory approvals, as well as the commitment of considerable management time dealing with meetings with regulators and addressing questions. And the discussions with regulators have also become more demanding, in terms of questions about acquisition finance, governance, culture and cross-border risks. Impact on timetable is less of an issue for private M&A, but it's a different story for public M&A where the timetable is set by the applicable regulatory rules, such as the UK City Code on Takeovers and Mergers. The complex regulatory landscape can also make implementing the transaction very costly due to the need in some jurisdictions for "certain funds" to be available from the time that the bid is launched or submitted. To deal with these issues, we've seen a number of public bids in the UK launched as pre-conditional bids (a special process which allows a bidder to engage with regulatory authorities without triggering the UK Takeover Code timetable). This was the approach taken on the Just Retirement/Partnership merger in 2015.

Due diligence requirements have become more extensive on private M&A. This trend is in part due to the increasing trend of insurers, in their search for yield in our low interest rate environment and for life insurers to match the outflow on annuity payments to their policyholders, to buy into categories of investment that a few years ago would have been considered very unusual for insurance companies, such as infrastructure, mortgage portfolios and real estate. These investments are often illiquid and bespoke, and sometimes include change of control provisions which can come into play in M&A.

Increasing levels of regulatory intervention also mean that regulatory compliance and the broader relationship with regulators require detailed consideration.

Of course, the level of due diligence in private M&A that can be conducted on an auction process is in part driven by the need for bidders to be competitive, and in public M&A it is sometimes limited to publicly available information.

Looking ahead

Looking ahead, the uncertainty created by Brexit is likely to dampen M&A in the UK, although for some weaker sterling will create an opportunity. But there are opportunities in other regions and Brexit may encourage buyers to look elsewhere. Our view is that Solvency II will encourage M&A in the EEA, not just because of its high capital requirements but also because of the greater level of disclosure of financial information and (from 2018 at the latest) separate disclosure of any capital add-ons imposed by regulators.

In all jurisdictions, low interest rates are likely to drive M&A activity, in particular, for life insurance businesses where low interest rates result in the guarantees available to policyholders under their policy terms being relatively more expensive. This has been identified as an issue for German life insurers, although whether this will translate into M&A is unclear.

Chinese and Japanese companies can also be expected to continue their interest in acquiring insurance businesses both globally and in Asia.

Asia remains an interesting market for insurance M&A as does Latin America. Investors have for many years recognized the benefits of rising affluence and more benign regulatory regimes in developing countries, particularly with greater regulatory intervention in Europe and the USA. As governments in, for example, South East Asian countries, such as Vietnam and Indonesia, become more open to foreign investors, more insurance-related M&A opportunities will arise in these countries.

UK insurance disruption from the 17th century

By Helen Chapman (Partner, London)

2016 is the 350th anniversary of the Great Fire of London. This is an anniversary of some significance for the insurance industry as a number of new insurance structures emerged in the aftermath of the Great Fire – some of which bear striking resemblance to the new structures threatening to disrupt the insurance market right now.

A number of InsurTech startups are seeking to do for insurance what peer-to-peer (P2P) arrangements did for retail banking – fundamentally change the business model of an industry by removing slow and costly middlemen. These startups have proposed a new solution to the age-old problem of mitigating risk: P2P insurance pools.

P2P insurance pools can be structured in a number of different ways. Here is one example: a group of people with a need for the same type of insurance is brought together (using an online service). They form a pool into which they each contribute an amount of money. Some of this money is used to buy a conventional group insurance policy providing cover for them all. The rest is maintained in the pool. Any claims which arise are paid using the pooled cash first. If this runs out, the insurance covers all subsequent claims. If the pooled monies do not run out, the pool members benefit, either by receiving a cashback payment or having to pay less into the pool for future years' cover.

Are P2P insurance pools really a new idea?

Following the Great Fire of London, insurance companies and mutuals began to form specifically to protect property from fire. Many of these early insurers were mutual societies, designed to help their members manage their risks. A feature of these societies was that they pooled funds to deal with any damage occurring. Some would even maintain a private fire brigade, paid out of the pool of premiums, to reach the insured property should fire break out.

One of these insurers, the Sun Fire Office, included in its proposal form the following statement:

"*For the farther encouragement of all persons there are actually employed in the service of the office thirty lusty able-body'd firemen*".

Having had cause to look at a number of proposal forms in recent times (given the advent of the Insurance Act 2015) we can't say many modern proposal forms contain anything so evocative!

Insured properties were then identified by iron or lead "fire marks" over doorways. This often led to the bizarre spectacle of rival gangs of firefighters rushing over to blazing buildings only to stand idly by as the building with no mark, or the fire mark of a different company, burned. Thankfully, fire brigades began to combine and to recognize that it was best to put all fires out as soon as possible, rather than let them grow into conflagrations which threatened to destroy insured properties. The problem was of course finally solved with the creation of the modern fire and rescue services.

How will disruption fit into the modern regulatory regime?

So the idea of individuals grouping together to pool risk and cash is not a new idea. But, irrespective of any historical parallels that might be drawn between fire protection mutuals and modern P2P pools, P2P pools undoubtedly represent a business model that is significantly different to the insurance industry's current model, under which risk-weighted premiums are paid to an insurer and invested to fund claims and shareholder dividends, all within a highly regulated environment which protects the interests of the insureds.

One of the challenges for both industry participants and regulators is how P2P pools will fit into the modern regulatory regime, which is understandably built around the industry's current model. Given the clear benefits of the model for consumers, it is in everyone's interests to work this out and to open up the market to these contenders.

P2P pools will no doubt be lobbying the regulators and Government to make legislative changes in their interest and to clarify the precise regime that will apply to them. Successful engagement with Government by P2P lenders led to the creation of the Innovative Finance ISA, putting P2P lenders on an equal footing with established lenders. We hope to see some of these innovators coming through the FCA's regulatory sandbox.

P2P pools might not be completely original, but they are certainly very different to the current business model in the insurance industry. That presents challenges for them as well as great opportunities – but without a focused approach to tackling regulation, those opportunities might not burn so brightly.

> "They are extremely creative and helpful. They understand the insurance sector and what the business risks might be, and they can apply it to the project."
>
> *Chambers Global 2014, Spotlight*

Solvency II rules on infrastructure investments by insurers: encouragement for a new trend

By Steven McEwan (Partner, London)

Ever since the financial crisis in 2008, there has been an increasing trend of investments in infrastructure by insurance companies. This has been driven by various factors including the increasing availability of these investments following the deleveraging of bank's balance sheets, and the search by insurers for yield and for reliable, long-term income to match outflows on, for example, annuities. As this article explains, the Solvency II rules for infrastructure investments are likely to encourage that trend.

Before Solvency II became effective on 1 January 2016, EIOPA provided some risk-based economic justifications for relaxing the capital requirements for infrastructure investments, but the changes to these rules are also motivated by the European Commission's policy objective, included in its Investment Plan for Europe announced in November 2014, which aims to encourage investment in infrastructure of at least €315bn by the end of 2017.

By their terms, the Solvency II rules for infrastructure investments will only apply to insurers who will calculate their SCR according to the standard formula. However, it seems likely that the rules will be taken into account when regulators are assessing internal model applications of insurers which hope to calculate their SCR using internal models. The proposed new rules should therefore be considered by all insurers, as well as those working on infrastructure transactions in which they hope insurers will invest.

Reduced capital charges

The proposed legislation will introduce a new concept of "qualifying infrastructure investments". This concept is divided, by reference to the form of the investment, into two categories: "qualifying infrastructure investments in bonds or loans" and "qualifying infrastructure equities". There are a number of criteria that must be satisfied for an asset to constitute a qualifying infrastructure investment.

Where the criteria are satisfied, the asset will receive a more favorable capital charge, meaning that the insurer will be permitted to hold less capital in respect of the asset than would otherwise have been required. In particular:

Infrastructure Debt: Where the asset takes the form of bonds or loans issued by an infrastructure project entity, it will not be treated as a securitization (for which capital charges are much higher than for corporate bonds), and it will benefit from a lower capital charge than a corporate bond of the same credit rating and duration.

For example, a BBB-rated qualifying infrastructure investment of 3 years duration would have a capital charge of 5%, whereas an ordinary corporate bond of the same duration would have a capital charge of 7.5%.

Unrated qualifying infrastructure investments are treated as if they were BBB-rated. By comparison, unrated corporate bonds which are not qualifying infrastructure investments are subject to higher capital charges than BBB-rated corporate bonds.

EIOPA considered whether bonds or loans guaranteed by regional governments or local authorities should be treated as though they were guaranteed by a central bank (which would result in very low capital charges). It decided against this suggestion, but recommended reconsidering it as part of the wider review of the Solvency II standard formula in 2018. The suggested treatment has also not been adopted in the EU Commission's proposed rules.

Infrastructure Equities: Where the asset takes the form of an equity investment in an infrastructure project entity, it will benefit from a more favorable capital charge than a listed equity, even where it is not itself listed.

Where the infrastructure project entity is not a related undertaking of the insurer, the equity will have a capital charge of 30%, subject to certain adjustments. By comparison, a listed equity generally has a capital charge of 39%, and an unlisted equity generally has a capital charge of 49%, in each case, subject to adjustments.

It is notable that EIOPA had proposed a range of between 30% and 39% for the capital charge for qualifying infrastructure equities, and the EU Commission has opted for 30%, the percentage at the bottom of EIOPA's proposed range.

Where the infrastructure project entity is a related undertaking of the insurer, the capital charge is reduced to 22%, which is the same as for non-infrastructure equities in related undertakings.

The lower capital requirements will only apply where the relevant qualifying criteria are satisfied, which underlines the importance of ensuring that transactions are structured so as to satisfy them. This is particularly pronounced in the case of unlisted equity, where the capital charge will differ by 19% depending on whether the criteria are satisfied.

Provisions have been made so that insurers which will benefit from the Matching Adjustment in determining their technical provisions will not receive a duplicate benefit from the more favourable requirements. In particular:

- the lower capital requirements will not apply in relation to qualifying infrastructure investments in bonds and loans assigned to credit quality step 2 or better (equivalent to A or better) that are held as part of the Matching Adjustment portfolio; and
- the lower capital requirements will apply in relation to other qualifying infrastructure investments in bonds and loans, but there will be a reduction in the level of the Matching Adjustment in respect of those assets.

Qualifying criteria

In order for an asset to constitute a qualifying infrastructure investment, a number of criteria must be satisfied. These criteria include the following:

Core definitions: The investment must be made directly in an "infrastructure project entity". This is defined as: "an entity which is not permitted to perform any other function than owning, financing, developing or operating infrastructure assets, where the primary source of payments to debt providers and equity investors is the income generated by the assets being financed."

Some stakeholders had suggested a wider definition of "infrastructure corporates". However, EIOPA was not satisfied with the evidence that such entities would perform better than other corporates, so preferred the narrower definition, and this preference has been accepted by the EU Commission.

Infrastructure assets are defined as: "physical structures or facilities, systems and networks that provide or support essential public services."

This leaves some doubt about what projects will constitute "essential public services". For example, is a public swimming pool an "essential" service ?

Predictable cash flows: The cash flows that the infrastructure project entity generates for investors must be "predictable". This will be satisfied if:

- the revenues it receives are "availability-based" (meaning that the revenues will be paid to the project infrastructure entity irrespective of actual demand or level of usage), subject to a "rate-of-return regulation" (meaning that the revenues are set by law or regulation) or subject to a "take-or-pay contract" (meaning that the ultimate purchaser of the project must either accept and pay for the project or pay a penalty), or if the same objectives are otherwise satisfied; and
- other than where the revenues are funded by payments from a large number of users, the ultimate purchaser of the project is rated at least BBB or is an EU institution or similar institution, or a central or regional government or local authority, or is replaceable without a significant change in the level and timing of revenues.

Following feedback received by EIOPA, it has been made clear that immaterial parts of the cash flows do not have to satisfy this criterion.

High degree of protection: Investors must benefit from a contractual framework that provides a high degree of protection. This includes the following:

– there must be protection against losses arising from termination by the ultimate purchaser of the infrastructure project. However, this does not apply if the revenues are funded by revenues from a large number of users. It is not clear what will constitute "a large number" of users.; and

– the infrastructure project entity must have sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project. Other financial arrangements would include letters of credit and liquidity facilities.

Further requirements in the case of debt: For qualifying infrastructure investments in bonds or loans, further requirements apply:

– the bonds or loans must be assigned, by external or internal rating, to at least credit quality step 3 (equivalent to BBB).

– the insurer must be able to demonstrate to the regulator that it is able to hold the bonds or loans to maturity.

– the investors must have security to the extent permitted by law or regulation in all assets and contracts necessary to operate the project; and

– equity in the project entity must be pledged to the debt providers so that they can take control of the infrastructure project entity prior to default.

- there must be restrictions on the infrastructure project entity to prevent it:
  - using cash flows other than for paying mandatory payment obligations and servicing debt obligations; or
  - performing activities that may be detrimental to debt providers; or
  - issuing new debt without the consent of the existing debt providers.

Further protections in the case of unrated bonds: If the relevant bonds are unrated, they must be senior to all other claims against the infrastructure project entity other than statutory claims and claims from derivatives counterparties. This leaves some questions over how the claims of security trustees, paying agents and liquidity providers will be treated.

Further requirements in the case of equities and unrated debt: In the case of equities and unrated bonds or loans, further requirements apply. In particular:

- the infrastructure assets and the infrastructure project entity must be located in the EEA or the OECD; and
- the equity investors must have a history of successfully overseeing infrastructure projects and the relevant expertise, have a low risk of default, and be incentivized to protect the interests of investors. EIOPA had originally proposed that country-specific expertise would be required, but this proposal was dropped following industry feedback.

Additional requirements

In addition to the above qualifying criteria, the insurer must conduct adequate due diligence prior to making the qualifying infrastructure investment, with suitable controls to avoid conflicts of interest. Verification of financial models is required, but this can be done by suitably independent internal personnel, and an external auditor is not required.

When holding the investment, the insurer must regularly monitor and perform stress tests on the cash flows and collateral values. The insurer must also set up its asset-liability management to ensure that it is able to hold the investment to maturity.

The Insurance Distribution Directive: what can we expect?

By Victor Fornasier (Partner, London) and Sara Bradstock (Professional Support Lawyer, London)

The Insurance Distribution Directive (EU 2016/97) ("IDD") was passed by the European Parliament on 20 January 2016. Member States are required to transpose the requirements set out in the IDD into local legislation by 23 February 2018 (Article 42). This article looks at some of the impacts that we expect the IDD to have.

Will the IDD bring about significant change in the regulatory landscape for insurance intermediaries? If we look at a couple of features of the IDD in a selection of the larger European countries (France, Germany, Italy, Poland, Spain and the UK) it is relatively clear that it may bring about significant change in some member states but not in others.

Before looking at some of the IDD requirements, it is worth considering the background. The Insurance Mediation Directive (2002/92/EC) ("IMD") introduced the basic regulatory framework for insurance mediation across the EU. The IMD requirements were introduced into most member states in January 2005. The IMD was a minimum harmonization directive and when, in 2012, EIOPA reviewed how effective IMD was at creating standardized insurance mediation practices across Europe it found that it had been implemented across the 27 member states in substantially different ways. The UK, for example applied the IMD selling requirements to direct sales by insurers (which was not implemented in most other EU member states) and each member state implemented the detailed IMD selling requirements in a multitude of different ways.

So, the IDD is being implemented with a view to harmonizing insurance sales practices across Europe. By its terms, its main objective is to harmonize national provisions concerning insurance and reinsurance distribution (see Recital 2 to the IDD); it is also aimed at ensuring consumer protection across all distribution channels (like insurance brokers, direct sales by insurers and more "non-core" insurance distributors like banks, travel agents and car manufacturers (Recital 6)).

So, what can we expect from IDD – will it standardize practices across member states? Here are some general thoughts on two material changes introduced by IDD: the requirement for ancillary intermediaries to become authorized and the more prescriptive information sales disclosure requirements.

One preliminary point to note is that the IDD is, itself, a minimum harmonization directive. Member states will be freely able to enhance or gold-plate its requirements provided that the specified requirements are met as a minimum. So, for example, while the IDD selling requirements are considerably more detailed than IMD (thus making gold-plating more difficult) there is still scope for local state regulators to introduce more stringent requirements.

One significant change introduced by IDD (when compared to the IMD) is for local state regulators to require regulatory authorization for what the IDD calls "ancillary intermediaries" (loosely, those businesses or individuals that sell insurance but whose principal business is other than insurance mediation – for example, travel agents and car hire companies). In terms of authorization requirements, some countries like France, Spain and the UK already have a (detailed) regime for these types of ancillary intermediaries (including lighter touch conduct requirements) whereas, other countries like Italy and Poland do not while Germany only has light regulatory requirements. For countries like the France, Spain and the UK, there will be little change introduced by the IDD. In other countries, the IDD will considerably impact the regulatory landscape for these so-called ancillary intermediaries. But, the extent of the regulatory impact is not entirely clear because market practice differs in each member state and it is not clear how certain practices unique to local markets will fit into the IDD requirements for ancillary intermediaries. In Spain (a country that already regulates ancillary intermediaries), for example, one feature of the insurance market is the use of so-called "external collaborators" who are registered with an insurance intermediary but who are not separately registered with DGSFP (the Spanish insurance regulator). It is not clear how their position will be affected by the IDD until the local implementing legislation is introduced.

Another of the more detailed changes introduced by IDD is the prescriptive and detailed list of selling requirements (see mainly Articles 20 and 21). What can we expect to see on this front? Again, there are currently markedly differing practices across Europe. In France and in Italy, there are currently detailed information disclosure requirements for life insurance distribution but not for general insurance; there are detailed information requirements for both life insurance and general insurance distribution in the UK (applicable to intermediated and direct sales); similarly, there already exist detailed information requirements for insurance distribution in Germany, but the implementation of IDD will expand them to direct or online distribution (which is welcomed by German insurance broker associations); in Poland there are detailed selling requirements but they are not mandatory in every case. While introducing a standardized minimum list of selling requirements is to be welcomed and can certainly provide the underpinnings of harmonized sales practices across Europe there is a question over whether the requirements are prescriptive enough to meet that aim. While the IDD selling requirements are certainly more prescriptive than IMD, they only focus, for example, on nine specific information disclosures in terms of insurance product detail. As noted above, there is significant scope for variation in terms of local practice and local regulatory requirements – we will have to wait for the detail of the local implementing legislation in each state to see how standardized requirements will become.

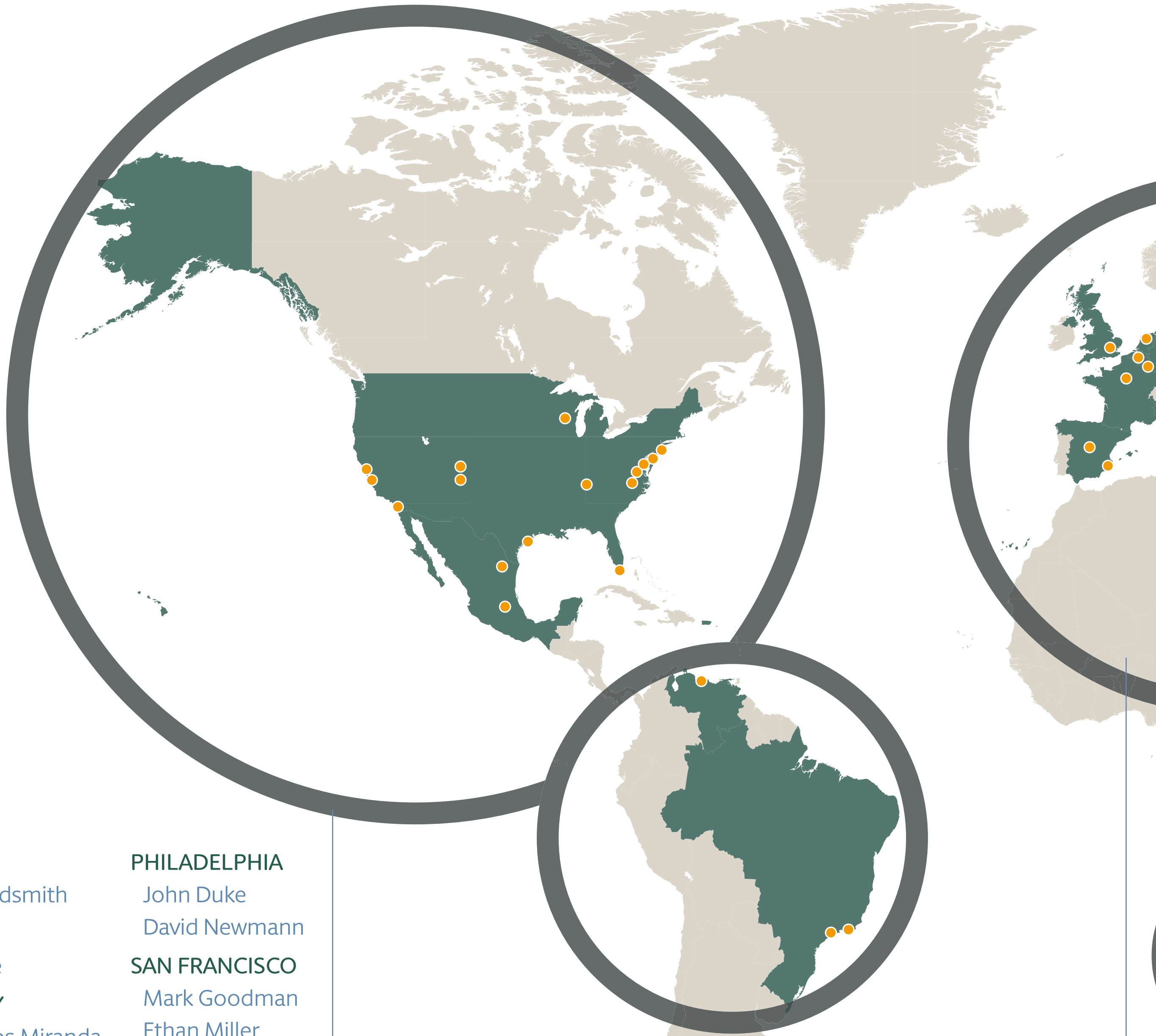
As can be seen from the above, while the IDD does set a valiant goal of introducing minimum requirements with a view to harmonizing market practices across member states, it is not entirely certain that its aim will be achieved given the strong traditions of market practices that have developed over time in each of the member states. Those traditional and historical market practices will not easily be fully displaced.

One last word about the UK. Given the Brexit vote, there is the obvious question about whether any of the IDD measures will be implemented in the UK. When the UK implemented its local IMD regime in 2005 it heavily gold-plated the IMD requirements, such that the IDD is not introducing too many material changes to the current UK insurance distribution regulatory regime. It is too early to tell what impact the Brexit vote will have for the UK (negotiations for exit from the EU have not even commenced) – will the FCA (the local UK insurance conduct regulator) reverse or modify any of its current regime in light of the IDD? No answer can be given at this point. All we have for now is a statement from Andrew Bailey, head of the FCA, on 19 July 2016 in which he appears to have confirmed that Directive requirements will continue to be met/implemented until such time as the UK has effected an exit from the EU. If that is right, given the current timing of the Brexit negotiations, they will likely not be completed before 23 February 2018 so the UK should expect to see IDD requirements transposed into the UK regulatory regime.

This article first appeared in Post, and can be found at: http://www.postonline.co.uk/post/analysis/2470794/europe-the-insurance-distribution-directive-and-its-expected-impacts

Global reach

Our insurance team around the world



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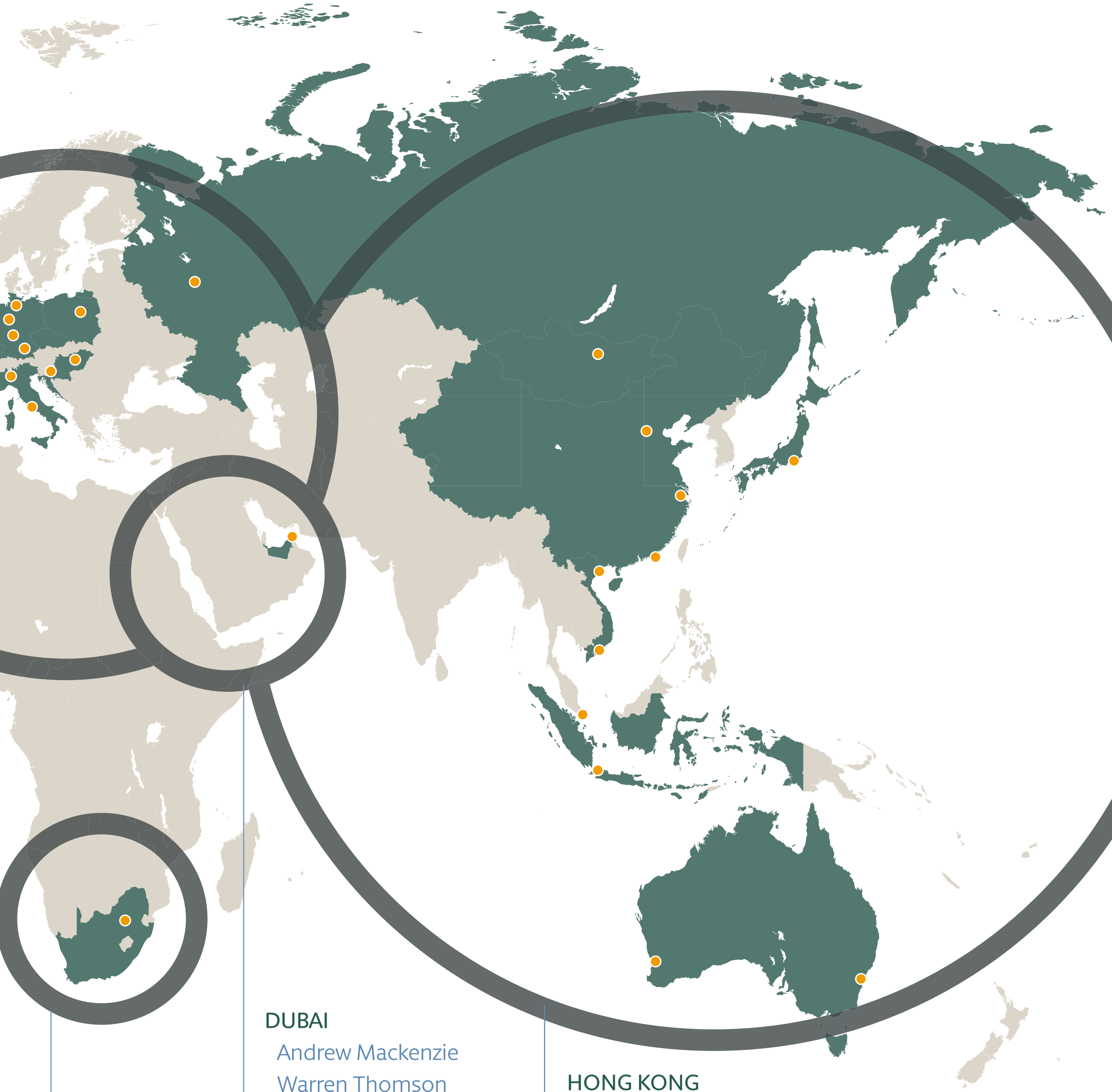

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Steven Tran

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Stephanie Keen

TOKYO
Rika Beppu

All lawyers listed are partners at Hogan Lovells, except for Silvia Lolli and Andrew Mackenzie who are Counsel.

About Hogan Lovells

We understand and work with you as part of your team to solve the toughest legal issues in your sectors and commercial centers around the world. We have more than 2,500 lawyers operating out of more than 45 offices in Africa, Asia, Australia, Europe, Latin America, the Middle East, and the U.S.

Values

Our five values reflect the principles by which we conduct ourselves, shaping what we do and how we do it.

Clients come first. Our aim is to satisfy clients through a deep understanding of their needs, their businesses, and their industries and by providing excellent, responsive, and innovative service.

Excellence in all we do. We combine technical excellence in our work with a business-oriented approach, the highest level of integrity, and a focus on solutions.

One team worldwide. We act as an integrated team across our entire practice worldwide, working together in an atmosphere of mutual respect, collegiality, and friendliness.

Commitment to our global practice's success. We put intense effort into our work and actively look for ways to deliver the best results for our clients, and, in doing so, for our global practice.

Good citizenship. We embrace our responsibility to give back to our communities through pro bono and community service work, and we are committed to a diverse workforce that is inclusive and welcoming.

These values guide us as we continue to build Hogan Lovells into a major force in the global legal marketplace. They are embedded into the operations of our business as well as our underlying culture.

A distinctive culture

We believe that our commitment to client service, community, and teamwork provides benefits to our clients and enhances effective business relationships.

Our practice breadth, geographical reach, and industry knowledge provide us with insights into the issues that affect our clients most deeply and enable us to provide high-quality, business oriented legal advice to assist our clients in achieving their commercial goals.

> They really get what ‘client service’ means to us.
>
> *Chambers Asia 2015*

Good Citizenship – our best work

Righting injustices. Strengthening society. Mentoring young people. Restoring neighborhoods. We go beyond talking about good citizenship – we live it every day. Everyone is asked to volunteer at least 25 hours each year as part of normal work duties, and our lawyers devote more than 100,000 hours every year to pro bono matters. We invest our time, talents, and resources in the places where we live and work, and across our global community.

We have five pillars of good citizenship:

Pro Bono

Making more of our hours

Everyone deserves access to justice. We provide free legal services to people who need it most. Working together, we bring about change for victims of violence and abuse, the wrongfully convicted, disenfranchised voters, the homeless and hungry, victims of human trafficking, and other underserved populations.

Community Investment

It starts at home

Our global reach has local benefits. We've cooked meals for the critically ill in Los Angeles; supported victims of sexual abuse in Johannesburg; and taught debating skills to students in Hong Kong, London, and Germany. We team up with non-profits and local leaders to make sure our contributions have a real, lasting impact.

Matched Global Giving

Doubling up on good work

We can do more collectively than we can do individually. The firm's commitment to match the funds we raise through our TOUCH activities ensures our giving has a greater impact. Each office unites behind a local charity, and together, we support one global organization. In the last five years, we raised enough money to provide microloans to 2,090 women entrepreneurs in developing countries.

Diversity

Opening up

Unique perspectives make us more effective, so we put diversity at our core. Our Global Diversity and Inclusion Committee along with 10 regional diversity teams throughout the world work to attract and retain the best and brightest, while maintaining a place where everyone can fulfill their potential.

Environment

Green means go

We continually look at our work environment to understand how we consume resources and how we can make our offices – and our lives – greener. We pursue sustainability around the world through in-house water bottling, bike-to-work programs, auto-light sensors and computer shut-offs, e-waste recycle days, and much more.

> Citizenship expresses who we are, and we need to be as bold in our Citizenship programs as we are in the rest of our business.
>
> *Steve Immelt*
> *Hogan Lovells Chief Executive Officer*

One Hogan Lovells. Many Perspectives

Diversity is at the core of who we are and how we do business. We are a high-performing global team with people from different backgrounds, perspectives and life experiences. We are at our best when we can be ourselves – working together and delivering for our clients.

Our Global Diversity and Inclusion Committee, a senior group of executive management, board members, and partners, is responsible for ensuring diversity and inclusion are embedded into everything we do. We recognize the need to take a multi-faceted approach, devolving responsibility to regional and practice management to develop plans to embed diversity and inclusion into existing and traditional structures and to embrace fundamental change.

Inspiring future generations

We are widening access to the legal profession for ethnically diverse, socially disadvantaged, and LGBT students. Our programs focus on different groups of students. The early engagement program aims to inspire younger students to consider careers in law with support and advice on how to achieve this, and the university engagement program reaches out to all talented students who want to pursue a career in law by providing open days, work experience, mentoring and application support. Examples of initiatives include Hogan Lovells Ladder to Law, Colorado Practical Skills Program, and the Sticks and Stones Careers Fair.

Developing our talent

We want our partnership to reflect the diversity of our clients and the communities where we work. All of our people, regardless of their diversity, are given full opportunity to develop and excel in their practices; to become pre-eminent in their fields, and to become leaders at the firm. We've also set targets for the number of women partners and women in management roles to help achieve that goal.

Strengthening our communities

Embracing inclusivity. Educating on differences. Celebrating value. Our network and affinity groups give traditionally underrepresented groups in the legal profession a chance to network and foster relationships to help them grow professionally.

We partner with clients and other outside organizations to deepen our understanding of diversity issues across the regions in which we operate. Examples include PRIME, an alliance of law firms broadening access into the profession, which our Chair, Nicholas Cheffings, is leading; 30% Club, a collaborative, concerted, business-led effort to accelerate progress towards better gender balance at all levels of organizations; Stonewall, a best-practice employers' forum for sexual orientation and gender identity equality; Leadership Council on Legal Diversity, a coalition of chief legal officers and law firm managing partners, working together to build a more open and diverse legal profession; and, Community Business, working with companies operating across the Asia region to promote diversity and inclusion.

The real deal

Our commitment to diversity and inclusion is backed up by the recognition we receive around the world. In 2015 alone, we received over 20 awards for our global diversity efforts, including:

– *Top 50 Law Firm for Women* by Working Mother & Flex-Time Lawyers, for initiatives on retention and advancement

– *A Top 100 Employer* in the Stonewall 2016 Workplace Equality Index, a guide to the UK's top LGBT friendly employers

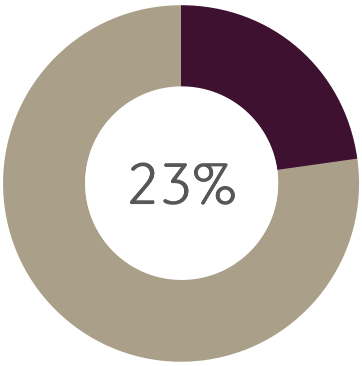
– Ranked in the *Top 100 Law Firms* on the Diversity Scorecard – The American Lawyer, for percentage of minority lawyers and partners

– Winner of *Best Diversity Initiative* at the British Legal Awards 2015

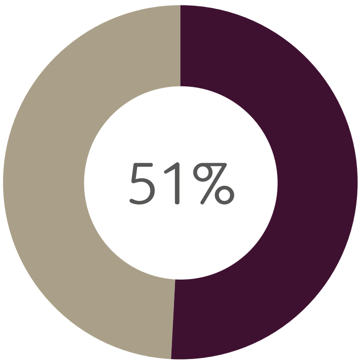
– Winner of *Best International Firm for Work-Life Balance* – Euromoney European Women in Business Law Awards 2015

– Featured in the inaugural Asian Legal Business Diversity List 2015

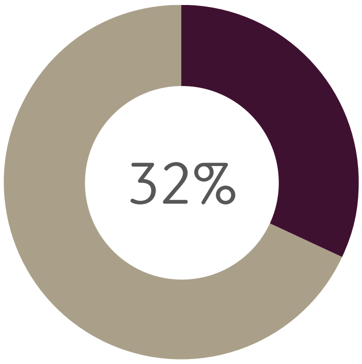
Our statistics



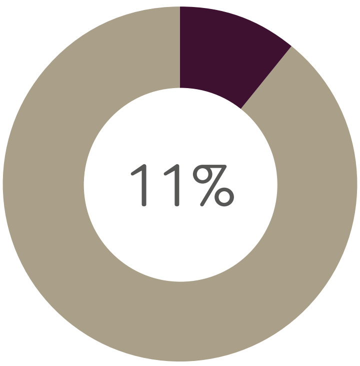
Women Partners



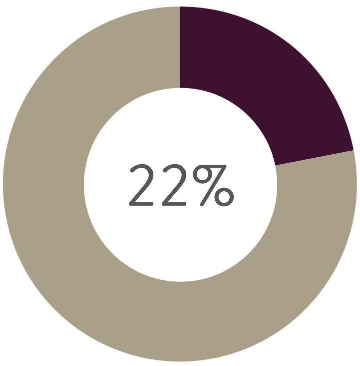
Women Counsel and Associates



Women in Leadership Positions



LGBT and Ethnically Diverse Partners (UK and U.S.)



LGBT and Ethnically Diverse Counsel and Associates(UK and U.S.)

Events and thought leadership

Seminar on European mechanisms for reorganizing insurance businesses

March 2016

Japanese outbound investment: M&A strategies and structures in the U.S. and the UK

June 2016

Webinar on Implications of Brexit for the insurance industry

July 2016

Future of Insurance Dinner

September 2016

Webinar on legal and regulatory developments for mutuals

September 2016

U.S. Elections dinner – who will win, how will they govern

October 2016

Seminar on insurance regulation – perspectives from our UK, U.S. and German practices

October 2016

Upcoming: Insurance summit – Insurance in a changing world

February 2017

Notes

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Amsterdam
Baltimore
Beijing
Brussels
Budapest
Caracas
Colorado Springs
Denver
Dubai
Dusseldorf
Frankfurt
Hamburg
Hanoi
Ho Chi Minh City
Hong Kong
Houston
Jakarta
Johannesburg
London
Los Angeles
Louisville
Luxembourg
Madrid
Mexico City
Miami
Milan
Minneapolis
Monterrey
Moscow
Munich
New York
Northern Virginia
Paris
Perth
Philadelphia
Rio de Janeiro
Rome
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Tokyo
Ulaanbaatar
Warsaw
Washington, D.C.
Zagreb

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Associated offices

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