

The Insurance M&A Capital Plan: Funding Purchase Price, Reserves and Integration

A decision framework for acquisition funding, reserve uncertainty, legal-entity liquidity and post-close execution

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Abstract

An insurance acquisition requires more capital than the purchase price shown in the announcement. The buyer must fund consideration, transaction costs, reserve strengthening, regulatory recapitalisation, integration expenditure, operational liquidity and downside contingencies. These uses arise at different legal entities and at different times. A plan that balances at signing can therefore fail at closing or during integration when cash is trapped, dividends are restricted, reserves deteriorate or debt service begins before synergies arrive.

This paper develops an Insurance Acquisition Capital Plan for boards, insurers, private-capital investors and transaction teams. It connects sources and uses, reserve evidence, regulatory capital, legal-entity liquidity, acquisition debt, sustainable dividends, integration cash and contingency funding. The framework treats the capital plan as a controlled set of linked ledgers rather than a single sources-and-uses schedule. It establishes decision gates for indicative bid, binding bid, signing, regulatory submission, closing and the first twenty-four months after control changes.

The worked case is wholly hypothetical. A diversified insurance group considers acquiring a regional insurer for USD 2.4 billion. The illustrative funding comprises USD 1.4 billion of new equity, USD 700 million of holding-company debt and USD 300 million of existing cash. The target begins with USD 1.20 billion of eligible own funds against an USD 800 million capital requirement. The scenarios add reserve strengthening, recapitalisation, integration costs, trapped cash, debt service and downside contingencies. They are neither forecasts nor descriptions of an actual insurer. The analysis shows that transaction funding should be sized against the peak legal-entity cash deficit and stressed distribution capacity, with committed contingency capital available before the buyer relies on post-close dividends.

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1. Build the capital plan before fixing the price

Insurance M&A joins two regulated balance sheets whose economic capacity cannot be inferred from book equity alone. The buyer acquires underwriting obligations, investment assets, reinsurance arrangements, operational systems and licences. It also acquires capital requirements, supervisory relationships and restrictions on how resources can be used or distributed.

The transaction model should therefore begin with the regulatory balance sheet. It should identify eligible own funds, required capital, capital quality, legal-entity location, group treatment, restrictions and

management buffers. Purchase price, financing and expected earnings should then be connected to that architecture.

The International Association of Insurance Supervisors adopted the Insurance Capital Standard as a prescribed capital requirement for internationally active insurance groups in December 2024 [1]. The standard provides a group-wide risk-based measure and a solvency control level for supervisory intervention. Jurisdictions retain their own legal implementation, and buyers should map the rules that apply to each relevant entity and group.

The proposed Insurance Acquisition Capital Plan has eight linked ledgers. They cover purchase-price funding, the target reserve and capital baseline, closing deductions and recapitalisation, integration and restructuring cash, legal-entity liquidity, dividend capacity, acquisition debt service, and downside contingency funding. The plan is a decision framework rather than a substitute for actuarial, legal, accounting or supervisory analysis.

The board should receive three capital numbers alongside the price. The first is cash required at closing. The second is peak committed capital through the integration period. The third is contingent capital required in the severe case. A bid should proceed only when each amount has an identified source, a legal path to the entity that needs it, and an owner authorised to draw or inject it.

2. Treat change of control as a value gate

An insurance acquisition usually requires supervisory approval before control changes. IAIS Insurance Core Principle 6 states that supervisors assess proposals to acquire significant ownership or control and portfolio transfers [2]. The assessment extends through direct, indirect and beneficial ownership and can address financial soundness, governance, effective supervision and policyholder interests.

Approval is therefore a value gate. The legal condition precedent determines whether the transaction can close. The supervisory review can also shape the economic result through capital commitments, governance changes, restrictions on distributions, reporting obligations, business-plan requirements or structural remedies.

The United Kingdom requires prior approval for an acquisition or increase in control of a dual-regulated firm. The Prudential Regulation Authority can assess the target's business model, capital, liquidity, governance, controls and group structure [3]. Its supervisory statement on acquisitions also explains the approach to conditional approvals [4]. A model that includes only an approval probability misses the cost and operating effect of possible conditions.

In the United States, a purchaser of a domestic insurer commonly makes a Form A filing under the relevant state holding-company framework. The NAIC identifies Form A as the filing used when acquiring or merging an insurance company [5]. State requirements vary, so the model should follow the target domicile and the exact filing process.

The UAE's Insurance Group Supervision Regulation applies group supervision to specified insurance companies and holding companies and requires relevant group information [6]. It also requires notification of plans for a holding company to be merged with or acquired by another entity [7]. The transaction team should map solo, subgroup and group obligations rather than rely on a consolidated headline.

The approval workstream should produce a conditions register. Each potential condition should have an owner, probability range, cash effect, capital effect, timing effect and valuation response. The register turns regulatory engagement into a managed transaction input.

3. Establish the opening capital and reserve baseline

The regulatory balance sheet can differ materially from the accounting balance sheet. Assets and liabilities may use different valuation methods, technical provisions can include risk-sensitive adjustments, and only eligible own funds can cover prescribed requirements. Goodwill and some intangible assets can receive limited or no capital recognition.

The buyer should rebuild the target's position from source data. The reconstruction should include assets by class and legal entity, technical provisions, reinsurance recoverables, deferred tax, own-fund items, capital tiers, solvency capital requirement, minimum requirement, group adjustments and supervisory add-ons. It should reconcile to filed returns and explain every material difference from statutory accounts.

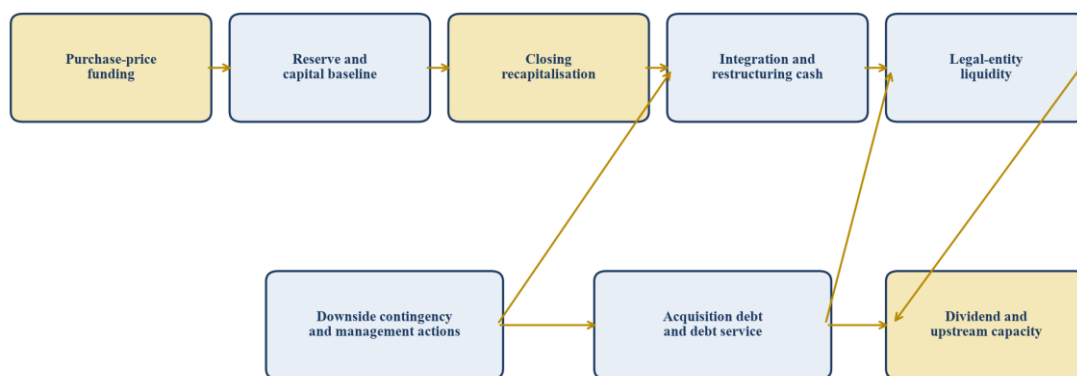
The European Solvency II framework uses market-consistent valuation, technical provisions, own funds and risk-based capital. The 2025 review changes elements of the framework from 30 January 2027, including valuation, proportionality, reporting and group solvency [8]. Transaction models spanning that date should identify both current and forthcoming rules where they affect price or capital.

US statutory risk-based capital is designed as a regulatory tool based on insurer size and inherent risk. The NAIC explains that it is not a general ranking measure and is one element of solvency supervision [9]. A cross-border buyer should resist converting US RBC and European or other solvency ratios into a single percentage without explaining their different construction.

The reconstruction should also identify management overlays. Insurers commonly operate above regulatory minima because of rating objectives, risk appetite, volatility, board policy, debt covenants and supervisory expectations. The economic constraint is the highest binding threshold under the relevant scenario.

The output should be a controlled capital ledger. It should show source, date, owner, currency, legal entity, capital classification, restriction, valuation basis and reconciliation status for every material line.

Figure 1. Proposed Insurance Acquisition Capital Plan architecture



One controlled record: legal entity | source | use | timing | restriction | owner | scenario

The architecture connects purchase-price funding, reserve evidence, recapitalisation, integration cash, legal-entity liquidity, dividends, debt service and contingency funding.

4. Define the hypothetical acquisition and funding stack

The worked case assumes a diversified insurance group considers acquiring a regional life and general insurer for USD 2.4 billion. The target reports eligible own funds of USD 1.20 billion and a solvency capital requirement of USD 800 million. Its reported coverage ratio is therefore 150 per cent.

The headline consideration is funded with USD 1.40 billion of new ordinary equity, USD 700 million of holding-company debt and USD 300 million of existing buyer cash. The separate capital plan assumes USD 160 million of reserve strengthening, USD 180 million of target recapitalisation, USD 220 million of integration and restructuring expenditure over twenty-four months, and USD 140 million of cash that cannot be relied upon outside its legal entity. These amounts are illustrative. Whether any instrument counts as group own funds depends on its legal terms, issuing entity and applicable framework.

The buyer reports eligible own funds of USD 5.00 billion and a capital requirement of USD 2.90 billion before the transaction. Its reported ratio is approximately 172 per cent, while management intends to maintain at least 165 per cent after closing. The difference between the regulatory minimum and the management threshold is treated as committed operating capital rather than available purchase-price funding.

The central case assumes sustainable annual upstream distributions of USD 190 million once integration stabilises and annual acquisition-debt service of USD 95 million. The adverse and severe cases reduce distributions, increase reserve and integration needs, and delay synergies. The model does not treat expected dividends as a source available at closing.

The buyer's policy is to maintain a post-close operating buffer above the regulatory requirement. The central case tests a 165 per cent operating target. The downside case tests a 150 per cent target and a larger stressed capital requirement. Those targets are management assumptions, not regulatory minima.

The target is assumed to generate USD 155 million of sustainable annual distributable earnings before transaction financing, subject to capital restrictions. The model tests whether earnings are legally available to the holding company and whether they remain sustainable after reserve, reinsurance, investment, integration and tax changes.

The transaction requires approval in the target jurisdiction and recognition by the buyer's group supervisor. The model assumes that closing conditions can include a target recapitalisation, a temporary distribution restriction and an integration plan. The actual conditions in any transaction would require direct supervisory evidence.

Table 1. Hypothetical transaction and regulatory-capital assumptions

Item	Illustrative assumption	Transaction relevance	Required evidence
Purchase price	USD 2.40bn	Headline equity consideration	Executed sale agreement and funding plan
Target eligible own funds	USD 1.20bn	Starting regulatory resources	Filed return and capital-quality schedule
Target capital requirement	USD 800m	Starting prescribed requirement	Regulatory return and actuarial support
Target coverage ratio	150%	Starting headroom	Reconciled calculation and supervisor correspondence
Buyer eligible own funds	USD 5.00bn	Group starting resources	Filed group return
Buyer capital requirement	USD 2.90bn	Group starting requirement	Group capital model
New ordinary equity	USD 1.40bn	Funds purchase price	Subscription and draw evidence

Item	Illustrative assumption	Transaction relevance	Required evidence
Holding-company debt	USD 700m	Funds purchase and creates fixed service	Facility terms and upstream capacity
Existing buyer cash	USD 300m	Completes headline consideration	Treasury confirmation and liquidity test
Reserve strengthening	USD 160m	Reduces target own funds	Actuarial review and accounting treatment
Target recapitalisation	USD 180m	Restores required operating buffer	Entity injection plan and approval
Integration programme	USD 220m over 24 months	Creates post-close cash demand	Bottom-up programme budget
Sustainable upstream distributions	USD 190m a year central case	Supports parent obligations after stabilisation	Distribution-capacity bridge
Acquisition-debt service	USD 95m a year	Fixed holding-company cash use	Facility schedule and covenant model
Operating buffer target	165% central case	Defines capital retained above minimum	Board-approved risk appetite

All amounts and ratios are illustrative. Eligibility, requirements, buffers and distributions require jurisdiction-specific verification.

5. Separate purchase-price funding from regulated capital

Two transactions with the same coverage ratio can have different resilience because their own funds differ in permanence, subordination, loss absorbency, duration and availability. Capital quality affects eligibility, limits and the capacity to absorb stress.

The diligence team should map every material own-fund item to the legal instrument, issuer, holder, maturity, coupon, step-up, redemption, conversion, subordination and regulatory classification. It should identify limits by tier and any amount that becomes ineligible after closing or refinancing.

The IAIS Insurance Capital Standard provides a globally comparable measure for internationally active insurance groups and forms part of ComFrame [1]. Its legal effect depends on jurisdictional implementation. A buyer should determine whether the target, buyer or combined group is within scope and how local rules interact.

The PRA requires notification for most insurance capital instruments intended to qualify as own funds, and its process asks firms to explain the intended qualification and legal basis [10]. A transaction-financing instrument should therefore be assessed for both funding and regulatory-capital consequences.

The capital ledger should also distinguish equity that supports acquisition consideration from equity that is available inside regulated insurance entities. Cash raised at a parent does not automatically solve a subsidiary solvency deficit. Transfer requires legal capacity, governance approval, tax analysis and supervisory acceptability.

The valuation model should assign no benefit to proposed capital until eligibility and location are supported. A sensitivity can show the result if only part of an issuance qualifies or if the capital is recognised at group level while remaining unavailable to a stressed subsidiary.

6. Build a complete closing sources-and-uses schedule

Purchase accounting and regulatory capital use different lenses. The buyer may recognise goodwill, customer relationships, distribution rights, software or deferred tax assets in its financial statements. Regulatory frameworks can deduct or constrain some of those items when determining eligible resources.

The transaction model should create a purchase-price deduction schedule. It should begin with consideration and acquired net assets, then identify expected goodwill and intangibles, capital treatment, tax effects, minority interests and any double-gearing adjustment. The schedule should be scenario-based because final purchase-price allocation follows closing.

A buyer that pays a high multiple for future growth can create a larger regulatory deduction before the growth materialises. The resulting capital drag can reduce distributable earnings and delay the economic payback. The board should see this effect before signing.

The schedule should separate accounting uncertainty from regulatory uncertainty. Accounting valuation specialists can estimate identifiable assets and goodwill. Regulatory specialists should determine eligibility, deductions and group treatment. The model then connects both conclusions without assuming they are the same.

Deferred tax effects require specific support. A deferred tax asset can depend on future taxable profit and may receive constrained recognition for regulatory purposes. A deferred tax liability can affect net asset value and the purchase-price allocation. The transaction case should show both the accounting and solvency pathways.

Any post-close restructuring should be included. Portfolio transfers, reinsurance, legal-entity mergers and asset reallocations can change deductions or capital requirements, but they also need execution, approval and time. Value should be recognised according to probability and timing rather than as immediate certainty.

7. Fund reserve uncertainty explicitly

Diversification can reduce a group capital requirement when risks are not perfectly correlated and the applicable framework recognises the combination. It is a potential source of value in insurance M&A and a common source of overstatement.

The buyer should calculate diversification at several levels. The first is within the target. The second is within the buyer. The third is incremental diversification after consolidation. The fourth is the amount still recognised after legal-entity, group and supervisory constraints.

The calculation should preserve gross requirements by risk. These can include market, credit, underwriting, operational and other applicable modules. Netting directly to a combined requirement hides where concentration increases and where the model depends on correlation assumptions.

The EIOPA framework recognises group diversification while requiring assessment of availability, fungibility and transferability of own funds [11]. A mathematical reduction in group requirement does not establish that resources are available where losses occur.

The buyer should challenge diversification under stress. Correlations can increase, reinsurance recoverables can weaken, asset exposures can become concentrated and management actions can be delayed. The downside case should therefore reduce claimed diversification and increase selected requirements.

The deal team should also test model approval. If the combined group uses different internal models, a standard formula and an internal model, or different local methods, the integration timetable matters. The PRA's Solvency II review permits a group up to six months after an acquisition to produce a clear

integration plan for internal models, followed by a two-year implementation period [12]. The value model should reflect the required capital during transition.

8. Size the closing recapitalisation

An acquisition can diversify products or geographies while increasing concentration in assets, counterparties, catastrophe zones, distributors, reinsurers or operational platforms. The net capital effect requires a risk-by-risk view.

Asset concentration should be tested through issuer, sector, geography, currency, duration, liquidity and collateral. A life insurer acquisition can add long-duration assets that appear aligned with liabilities while increasing exposure to a narrow credit sector. A general insurer acquisition can add short-tail liquidity while increasing catastrophe accumulation.

Reinsurance concentration should include recoverables, collateral, recapture rights, termination events and the capital effect of counterparty deterioration. The model should distinguish risk transfer from financing and identify any dependence on affiliate reinsurance.

Operational concentration can arise when both businesses depend on the same cloud provider, administrator, data source or distribution partner. Regulatory capital may capture only part of that dependency. The board's operating buffer should reflect the residual risk.

The combined risk map should use exposure measures appropriate to each risk. Percentages of own funds, requirements, earnings and liquidity can all be useful. A single heat-map score should link back to the underlying amount and evidence.

Concentration remedies can include reinsurance, asset sales, hedging, portfolio transfers, capital injection, product change or operational separation. The model should include cost, timing, approval and residual risk for each remedy.

9. Map cash and capital by legal entity

Fungibility asks whether capital can be used across the group. Transferability asks whether resources can move when and where needed. Both are central to transaction value because group headroom can coexist with a constrained subsidiary.

Restrictions can arise from law, regulation, policyholder protection, ring-fenced funds, contractual terms, tax, exchange controls, minority interests, debt covenants and supervisory expectations. The model should identify each restriction by legal entity and scenario.

EIOPA has stated that groups should assess significant restrictions affecting availability, fungibility or transferability and should be able to demonstrate the availability of own funds [11]. The buyer should therefore support upstream assumptions with dividend capacity, capital policy and supervisory evidence.

The model should calculate three resource measures. Reported eligible own funds follow the applicable return. Deployable own funds exclude amounts unavailable for the relevant loss or requirement. Distributable resources reflect legal and practical capacity to pay the parent after maintaining the operating buffer.

These measures should not be collapsed. A resource can qualify for a group ratio while remaining unavailable for holding-company debt service. Another resource can be distributable in the central case and become restricted under stress.

The board should receive a legal-entity capital map. It should show local requirements, operating buffers, excess, restrictions, expected distributions, liquidity and management actions. The map provides the bridge from solvency coverage to cash returns.

10. Model peak liquidity through integration

Solvency measures the capacity to absorb loss under the applicable framework. Liquidity measures the ability to meet cash obligations when due. An insurer can report capital headroom and still face liquidity pressure from collateral calls, claims, surrenders, reinsurance timing or debt service.

The transaction can change liquidity through purchase consideration, refinancing, derivative close-out, tax, integration expenditure and collateral. The buyer should model daily and monthly cash through signing, closing and the first stressed period.

The EU Solvency II review includes new liquidity-management requirements and supervisory powers that become applicable from 30 January 2027 [13]. Transaction planning that spans this period should identify the combined group's implementation obligations.

The target's liquid assets should be mapped by legal entity, encumbrance, settlement period and currency. Assets counted in regulatory capital may require a discount or delay in a liquidity model. Reinsurance recoverables should follow contractual timing and dispute assumptions.

The downside case should combine underwriting loss, asset decline, collateral demand, lower distributions and transaction funding. This joint stress is more informative than a separate solvency and liquidity test.

Management actions should be sequenced. Asset sales, reinsurance, capital injection, dividend suspension and debt draw can have different execution speeds and secondary effects. The model should apply an action only after its authority, capacity and timing are established.

11. Link solo, subgroup and group capital plans

Group consolidation can obscure the entity that bears a loss. The transaction model should therefore calculate capital at the target legal entity, material subsidiaries, relevant subgroups and ultimate group.

Each level can have a different perimeter and method. Insurance subsidiaries can be risk-based. Non-insurance entities can be deducted, consolidated or treated under sectoral rules. Joint ventures and minority interests can require additional adjustments.

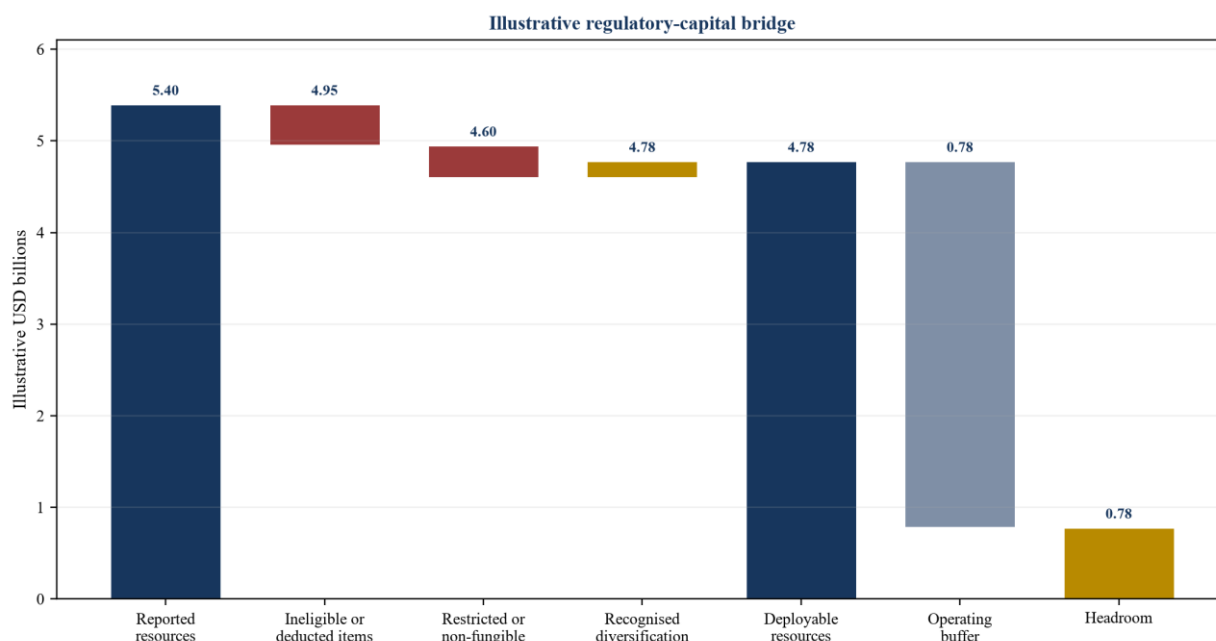
The CBUAE Insurance Group Supervision Regulation permits case-by-case decisions on scope where inclusion would be negligible, inappropriate or misleading [6]. The NAIC Group Capital Calculation also gives the lead state a role in determining group scope [14]. Scope is therefore an evidence item rather than a modelling convenience.

The model should prevent double use of capital. A parent investment in a subsidiary can appear as an asset at the parent and as capital inside the subsidiary. Group rules address this through consolidation, deduction or other adjustments. The capital ledger should show the elimination.

Subgroup constraints matter in cross-border groups. A regional holding company can face a local group requirement even when the ultimate group reports ample resources. The buyer should identify concurrent requirements and the resources allocated to each.

The acquisition agreement should allocate responsibility for pre-closing capital deterioration. A covenant can require the target to operate within agreed capital ranges, restrict dividends and notify the buyer of material changes. The buyer should retain termination, price or capital-injection responses appropriate to the negotiated risk.

Figure 2. Hypothetical capital bridge from reported resources to deployable post-close headroom



The bridge uses illustrative amounts. Regulatory classification, deductions, diversification and buffers require transaction-specific evidence.

12. Translate approval conditions into funding commitments

Supervisory approval can be unconditional, conditional or refused, subject to the applicable law. A condition can preserve policyholder protection while changing transaction economics.

Potential conditions can include additional capital, limits on distributions, governance appointments, reporting, risk reduction, reinsurance changes, local incorporation, business-plan commitments or integration milestones. The transaction team should not predict a condition without evidence. It should maintain a scenario register based on regulatory dialogue and precedent reviewed by counsel.

Each condition should be translated into cash and time. An additional capital commitment increases deployed resources. A distribution restriction delays holding-company cash. A governance condition creates recurring cost. A portfolio remedy can reduce earnings or release capital. Reporting and integration conditions consume management capacity.

The purchase agreement should allocate the risk of conditions. A buyer can seek a cap on required capital, define unacceptable structural conditions, negotiate a price response or retain a termination right. The language should be aligned with the financing documents and board mandate.

The bid model should show a condition-adjusted price. The model can assign scenarios rather than a single expected value where evidence is limited. The board should see the full result under each relevant condition.

Regulatory engagement should begin early enough to test structure. Early engagement does not guarantee approval. It can identify information needs, control issues, ownership questions and likely sequencing before the transaction becomes difficult to change.

13. Size acquisition debt against upstream capacity

Holding-company debt can reduce equity funding and increase shareholder returns in the central case. It also creates fixed obligations outside the regulated insurer. Debt service depends on cash that can be distributed upstream.

The model should calculate interest, amortisation, maturity, covenant, refinancing and liquidity under central and stressed distributions. It should identify which subsidiaries pay dividends, when they can pay, the tax cost and the required approvals.

The target's reported earnings are not the same as distributable cash. Earnings can be retained to support growth, reserves, capital requirements or stress recovery. The parent may also need to inject capital while servicing debt.

The buyer should set a debt-service coverage threshold based on its financing documents and risk appetite. The model should test zero target distributions for a defined period, because a supervisory restriction or stress event can interrupt cash even when the group remains solvent.

Debt at a regulated entity requires separate analysis. Its capital treatment, policyholder ranking, interest burden and regulatory approval can differ from parent debt. The model should preserve the issuer and claim hierarchy.

The board should receive a funding capacity range. It should show the maximum debt supportable without relying on capital release, unapproved distributions or immediate refinancing. Any additional leverage should be recognised as a separate risk decision.

14. Build a dividend-capacity bridge

Regulatory returns need a defensible numerator. Reported net income can include reserve releases, investment gains, assumption changes, tax benefits or acquisition accounting that do not recur or cannot be distributed.

The team should build sustainable earnings from underwriting margin, claims, expenses, investment income, reinsurance, tax and capital costs. It should reconcile to historical accounts, actuarial reports and the business plan.

Reserve quality is central. A favourable development pattern can support earnings, while adverse development can consume capital and cash. The diligence should examine reserve methods, claims inflation, catastrophe exposure, discounting, reinsurance collectability and management overlays.

Investment earnings should be tested against asset quality, duration, liquidity and reinvestment assumptions. A higher yield can accompany higher capital charges or credit risk. The return model should include both income and capital consumption.

Synergies should follow implementation evidence. Expense savings require systems, people, contracts and timing. Reinsurance and capital synergies require market capacity and approval. Revenue synergies should reflect distribution, customer and product constraints.

The output should show earnings before financing, after financing, after required capital retention and available for distribution. This sequence prevents the model from using the same cash for growth, solvency support and debt service.

15. Measure return on total committed capital

No single return measure captures insurance M&A. The board should use a small set of consistent measures tied to capital and cash.

Return on deployable capital can divide sustainable post-tax earnings by the equity and regulatory resources that must remain committed. Return on incremental capital can compare incremental earnings with the additional resources required because of the transaction. Cash payback can compare cumulative distributions with capital-adjusted consideration.

These measures are management tools, not regulatory definitions. Their construction should be disclosed. The denominator should state whether it includes purchase price, acquisition funding, regulatory capital, deductions, integration cost and trapped resources.

The model should also calculate value under stress. A transaction that meets the central return threshold and requires a large recapitalisation under a plausible downside may be inconsistent with risk appetite.

The discount rate should reflect the cash-flow risk and capital structure. It should not duplicate risks already captured through reduced cash flows or explicit capital charges. The valuation memo should explain the treatment.

The board should compare the acquisition with alternatives such as organic growth, a distribution agreement, reinsurance, a portfolio transfer or a minority investment. Each route has a different capital and control profile.

Table 2. Proposed regulatory-return measures for an insurance acquisition

Measure	Proposed calculation	Decision use	Principal limitation
Capital-adjusted consideration	Headline price plus required recapitalisation, deductions and transaction cash less verified releases	Compares economic outlay with headline bid	Depends on regulatory and purchase-price estimates
Return on deployable capital	Sustainable post-tax earnings divided by deployable capital committed	Tests recurring return against capital use	Sensitive to earnings normalisation and fungibility
Incremental capital return	Incremental post-close earnings divided by incremental required and buffer capital	Tests transaction-specific capital efficiency	Allocation of group diversification requires judgement
Distribution yield	Verified upstream cash divided by capital-adjusted consideration	Tests holding-company cash support	Can understate value retained for growth
Debt-service coverage	Upstream cash available for debt service divided by required interest and principal	Tests financing resilience	Supervisory action can interrupt distributions
Stressed recapitalisation	Additional capital required to restore the chosen buffer after stress	Tests downside capacity	Depends on scenario severity and management actions
Cash payback	Years until cumulative verified distributions equal capital-adjusted consideration	Tests recovery period	Ignores value after payback and timing within periods

These are management measures. Their definitions should be approved and applied consistently to the transaction scenarios.

16. Stress the full capital plan

The central case should use evidence-supported business plans, current regulatory rules and a stated operating buffer. It should not assume immediate capital release from unapproved actions.

The adverse case can combine lower earnings, weaker asset values, higher underwriting requirements, reduced diversification and delayed distributions. The severe case can add reserve deterioration, reinsurance stress, liquidity pressure and a capital-injection condition.

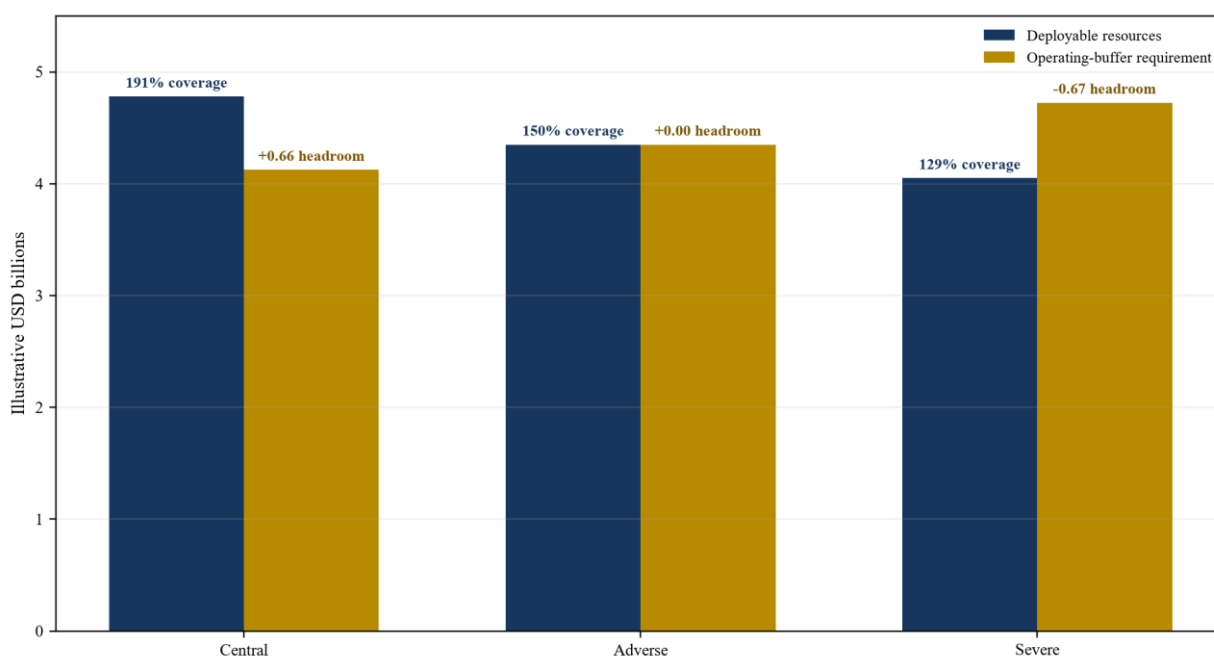
Each case should show own funds, capital requirement, coverage ratio, deployable resources, target buffer, headroom, holding-company liquidity, debt-service coverage and shareholder return. The model should preserve legal-entity detail beneath the consolidated view.

The scenario should identify which inputs are observed, management estimates or hypothetical stresses. It should show management actions before and after approval. An unapproved portfolio transfer or capital instrument should not appear in the pre-action result.

The hypothetical central case assumes USD 4.78 billion of deployable group resources after deductions, restrictions and recognised diversification. It compares this with a USD 2.50 billion combined requirement and a USD 4.125 billion operating-buffer requirement at 165 per cent, leaving USD 655 million of headroom.

The illustrative adverse case reduces deployable resources to USD 4.35 billion and increases the requirement to USD 2.90 billion. A 150 per cent operating target then requires USD 4.35 billion, leaving no headroom. The severe case assumes USD 4.05 billion of resources and a USD 3.15 billion requirement, producing a reported ratio of about 129 per cent and an illustrative capital need of USD 675 million to restore a 150 per cent buffer.

Figure 3. Hypothetical post-close coverage and operating-buffer headroom



The scenarios are illustrative and are not probabilities or forecasts. Actual capital ratios and buffers depend on the applicable regime and transaction facts.

17. Commit the operating buffer before closing

The regulatory minimum is an intervention threshold rather than a transaction target. Boards generally need a higher operating buffer to absorb volatility, support ratings, write business, pay dividends and avoid repeated capital actions.

The operating target should be approved before price. It should reflect business mix, volatility, model uncertainty, liquidity, refinancing, risk appetite and supervisory expectations. A target chosen after the purchase price is agreed can become a balancing item.

The model should distinguish the target by legal entity and group. A subsidiary can require a higher ratio because of local volatility or distribution constraints. The combined group target should not allow one entity's excess to disguise another's weakness.

Management can define a ladder. A green zone supports ordinary operations and planned distributions. An amber zone restricts growth or distributions and activates remediation. A red zone triggers capital, reinsurance, asset or business actions. The ladder should align with the risk-management framework.

Transaction documents can require a pre-closing minimum and a no-leakage covenant. Financing documents can restrict debt draw if the solvency position deteriorates. These protections should use agreed definitions and data dates.

The value case should include the cost of the chosen buffer. Capital held above the legal minimum has an opportunity cost, while reducing it can increase volatility and supervisory risk. The board should decide the trade-off explicitly.

18. Test reinsurance as a capital-plan lever

Reinsurance can reduce underwriting risk and capital requirements. It also creates counterparty, collateral, basis, renewal and recapture risk. A transaction model should show both sides.

The diligence should inventory treaties, facultative covers, collateral, limits, exclusions, reinstatements, termination, change-of-control clauses and disputes. It should identify affiliate arrangements and transactions with non-traditional risk transfer.

The capital model should test the effect of reinsurer downgrade, delayed recovery, collateral shortfall and non-renewal. The liquidity model should apply actual payment timing rather than assume immediate cash.

Post-close reinsurance changes can create value through programme consolidation, improved terms or portfolio protection. Those benefits require market quotes, capacity and approval. The model should phase them according to renewal dates and execution evidence.

19. Connect integration choices with capital consumption

Insurance value combines in-force earnings, new business, capital release and risk. A single earnings multiple can obscure their different capital profiles.

The model should separate existing portfolios from future originations. In-force business can release capital over time as obligations run off, subject to claims, lapse, market and expense experience. New business can consume capital before producing distributable earnings.

The transaction case should show the present value of in-force cash flows, the value and capital strain of new business, and the cost of required buffers. Accounting measures such as contractual service margin can inform analysis but do not replace solvency and cash modelling.

Growth assumptions should include distribution capacity, pricing, claims, expenses, reinsurance and regulatory capital. A high-growth plan can reduce near-term distributions even when franchise value increases.

20. Protect ratings and market access

Regulatory capital is one constraint. Rating agencies, counterparties, distributors, policyholders and debt investors can apply additional thresholds.

A downgrade can affect new business, collateral, reinsurance, borrowing cost and customer retention. The model should identify rating sensitivities and any contractual triggers. It should avoid presenting a rating outcome as certain without direct evidence.

The transaction funding plan should include rating-agency engagement where appropriate. The buyer should explain leverage, capital, integration, liquidity and management actions. An equity-funded deal can still create rating pressure if business risk, execution or asset concentration increases.

Market access also matters. The combined group can need to refinance debt or issue capital in stressed conditions. The model should test cost and availability rather than assume constant spreads.

21. Create the eight-ledger capital model

The first ledger records purchase-price sources and uses. It distinguishes consideration, fees, taxes, refinancing, break costs and closing adjustments. Each source records commitment status, draw conditions, currency, tenor and issuing entity. This ledger answers whether the transaction can close on the contractual date.

The second ledger records the target's opening reserves and regulatory capital. It reconciles actuarial estimates, statutory accounts, regulatory returns and the buyer's adjustments. Each adjustment records whether it affects own funds, required capital, distributable profit, tax or cash. This ledger prevents a reserve finding from being reflected in valuation while omitted from funding.

The third ledger records closing deductions and recapitalisation. It includes goodwill and intangible treatment, foreseeable distributions, transaction costs charged to regulated entities, capital-instrument eligibility, supervisory commitments and the buffer required by the buyer. This ledger determines the cash or eligible capital that must reach each regulated entity at or before closing.

The fourth ledger records integration and restructuring cash. It separates one-time operating expense, capital expenditure, redundancy, systems migration, data remediation, model change, legal-entity restructuring and stranded cost. Monthly timing matters because accounting provisions do not supply cash. Benefits are recorded separately and recognised only when the relevant milestone has been achieved.

The fifth ledger records legal-entity liquidity. It maps cash, liquid assets, collateral, margin, claims payments, premium flows, reinsurance settlements, tax, restricted accounts and transfer routes. A group surplus does not cure a subsidiary deficit when law, regulation, contract, minority rights or operational timing prevents transfer.

The sixth ledger records sustainable dividend and upstream capacity. It begins with subsidiary earnings and deducts reserve strengthening, capital growth, management buffer, liquidity needs, tax, local restrictions and supervisory conditions. The resulting amount is the cash that may support holding-company obligations. Expected dividends remain unavailable until governance and regulatory conditions are satisfied.

The seventh ledger records acquisition debt service. It contains interest, amortisation, fees, covenants, maturity, hedging, refinancing and permitted payment conditions. Coverage is tested against the sixth ledger rather than consolidated accounting earnings. This prevents the acquisition vehicle from depending on cash that remains inside regulated subsidiaries.

The eighth ledger records contingency funding. It lists committed equity, undrawn facilities, callable instruments, reinsurance actions, asset-sale capacity and other management actions. Each source has a draw time, approval path, cost, legal destination and severe-case availability test. An uncommitted intention is disclosed as an option rather than counted as capital.

All eight ledgers use common legal-entity, currency, date and scenario identifiers. Every number retains source, version, owner and approval. The controlled model reconciles regulatory, statutory, actuarial, treasury and transaction information while preserving explanations for legitimate differences.

Table 3. Eight-ledger Insurance Acquisition Capital Plan

Ledger	Principal inputs	Primary decision	Required control
Purchase price	Consideration, fees, tax, refinancing and closing adjustments	Can committed sources fund contractual closing?	Sources-and-uses reconciliation
Reserve and capital baseline	Actuarial estimates, regulatory returns and buyer adjustments	What capital position is being acquired?	Reserve-to-capital bridge
Closing recapitalisation	Deductions, eligibility, commitments and management buffer	What must be injected into each entity?	Pre-close capital certificate
Integration cash	Expense, capex, restructuring, remediation and timing	What is peak post-close cash use?	Monthly integration cash forecast
Legal-entity liquidity	Cash, collateral, claims, restrictions and transfers	Where can a cash deficit arise?	Entity liquidity dashboard
Dividend capacity	Earnings, reserve needs, growth, tax, buffer and conditions	What can sustainably move upstream?	Board-approved distribution bridge
Acquisition debt	Interest, amortisation, covenants and refinancing	Can upstream cash service debt under stress?	Debt-service coverage test
Contingency funding	Committed equity, facilities and executable actions	How is the severe case funded?	Draw-ready contingency register

The ledgers are linked by legal entity, currency, date and scenario. Transaction-specific legal, actuarial and regulatory advice remains necessary.

22. Pre-fund executable management actions

Management actions can reduce requirements, increase resources or protect liquidity. They include reinsurance, asset sales, hedging, dividend suspension, capital issuance, portfolio transfer, business reduction and expense action.

The model should classify each action by authority, legal feasibility, supervisory approval, market capacity, time, cost and operational dependency. An action should not reduce required capital before those conditions are met.

The ORSA and stress framework can provide evidence about existing actions. The buyer should test whether they remain feasible after the acquisition and whether both businesses rely on the same scarce capacity.

Actions can interact. Asset sales can crystallise losses and reduce earnings. Reinsurance can reduce requirements and create counterparty concentration. Dividend suspension can protect a subsidiary and weaken holding-company debt service.

The board should approve a prioritised action ladder and identify which actions require pre-funding. Early actions should preserve optionality and address the binding constraint. Later actions can be more structural and require approval.

The post-close model should track action readiness. A proposed action should move to recognised only when evidence is complete. This keeps solvency forecasts from depending on stale assumptions.

23. Apply the Insurance Acquisition Capital Plan

Gate one confirms ownership, control thresholds, filing requirements, supervisory perimeter and possible conditions. Gate two locks the purchase-price sources and uses and verifies the draw conditions for every committed source.

Gate three reconstructs the opening reserve and capital baseline. Gate four measures deductions, required recapitalisation and the buyer's operating buffer. Gate five tests legal-entity liquidity, fungibility and transfer routes.

Gate six funds integration cash month by month. Gate seven tests dividends and acquisition-debt service. Gate eight verifies draw-ready contingency capital for the adverse and severe cases.

Each gate has a pass, conditional pass or fail. A conditional pass requires a priced mitigation, owner and deadline. The board pack should retain the open items and show their effect on value.

The test should be run at indicative bid, binding bid, signing, regulatory submission, pre-closing refresh and closing. A material change returns the case to the relevant gate.

The investment decision should identify the maximum supportable price under the approved risk appetite. That price can differ from the negotiating price and should remain controlled.

Table 4. Insurance Acquisition Capital Plan decision gates

Gate	Required evidence	Decision output	Accountable owner
Control and approval	Ownership chain, thresholds, filings and supervisor engagement	Approval path and conditions envelope	General counsel and regulatory lead
Purchase-price funding	Commitments, draw conditions, fees, tax and closing adjustments	Fully funded closing schedule	CFO and treasurer
Reserve and capital baseline	Filed returns, actuarial evidence, valuation and reconciliations	Verified opening position	Chief actuary and CFO
Closing recapitalisation	Instrument terms, deductions, buffer and supervisory commitments	Entity-by-entity injection schedule	Capital management lead
Integration and liquidity	Monthly programme costs, cash, collateral and transfer routes	Peak funding requirement	Integration lead and treasurer
Dividends and debt	Distribution bridge, covenants, interest and amortisation	Sustainable debt-service coverage	CFO and treasury committee
Downside resilience	Stresses, committed facilities and executable actions	Draw-ready contingency plan	Board and chief risk officer
Return and value	Total committed capital, sustainable earnings and scenarios	Maximum price and risk-adjusted return	Board and investment committee

Each gate requires transaction-specific evidence. A balanced headline sources-and-uses schedule alone does not satisfy the plan.

24. Execute the capital plan through transaction gates

During strategic screening, the buyer should identify the regulatory regime, ownership thresholds, target solvency position and likely capital intensity. It should reject opportunities that conflict with group risk appetite before incurring full diligence cost.

At indicative bid, the buyer should build a preliminary capital bridge and approval map. Price should be conditional on verified regulatory data, reserves, capital quality and fungibility.

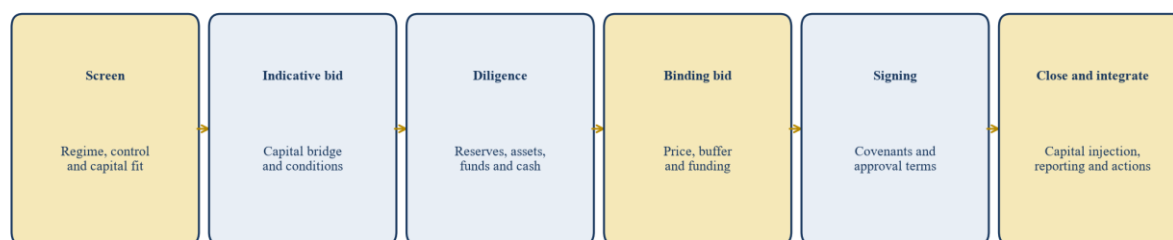
During diligence, the team should reconstruct the regulatory balance sheet, challenge actuarial and investment assumptions, map legal entities and quantify funding. Supervisor engagement should follow counsel's advice and the applicable process.

Before binding bid, the board should approve the maximum price, minimum closing capital, operating buffer, financing limits, unacceptable conditions and management-action plan. The model should include central, adverse and severe cases.

At signing, the transaction documents should preserve capital, restrict leakage, require updates and allocate approval-condition risk. Financing commitments should align with regulatory conditions and long-stop dates.

Before closing, the buyer should refresh capital, reserves, investments, reinsurance, liquidity and approvals. Closing funds should include verified capital injection and transaction costs. Post-close reporting should begin from the signed capital ledger.

Figure 4. Proposed insurance M&A capital and approval roadmap



Controlled evidence through every stage: capital | approvals | liquidity | funding | return

The roadmap connects screening, diligence, bidding, signing, supervisory review, closing and post-close integration.

25. Govern capital and cash after closing

The first post-close year determines whether modeled capital value becomes available. The combined group should establish decision rights, reporting, limits and escalation from day one.

The capital committee should reconcile actual closing resources and requirements to the signing model. Differences should be attributed to purchase price, market movement, reserves, transaction costs, financing, deductions, model treatment and approval conditions.

The combined ORSA should incorporate the transaction, integration and funding risks. Legal-entity plans should remain visible. Group aggregation should not remove local accountability.

Model integration should have milestones, validation, governance and fallback calculations. The transition capital position should be monitored using the method accepted by supervisors. Any planned capital benefit should remain contingent until recognised.

Distributions should follow a policy tied to solvency, liquidity, operating buffer, rating and debt service. The policy should state when distributions stop and who decides.

The board should receive a monthly capital and liquidity dashboard during integration. It should show resources, requirements, ratios, headroom, restrictions, actions, conditions, debt coverage and forecast changes by legal entity and group.

26. Assign funding decisions and escalation rights

The board should approve the transaction capital framework, maximum price, operating buffer, funding, management actions and regulatory-condition envelope. It should receive changes that threaten those limits.

The chief financial officer should own the integrated capital and return model. The chief risk officer should own requirement, stress and risk-appetite analysis. The chief actuary should own reserve and liability evidence. Treasury should own liquidity and funding. Legal and regulatory teams should own approval, ownership and restriction analysis.

Escalation triggers should include capital below the operating target, a material reserve change, asset or reinsurance concentration, distribution restriction, approval condition outside the board envelope, model delay, rating pressure, debt-service weakness or a change in law.

Each trigger should have a response time and authority. The board should know which actions are executable without further approval and which require supervisor consent.

The decision record should preserve evidence at each transaction stage. It should state what was known, what was estimated, which scenario was approved and how the price responded.

This governance supports accountability during a period when market data, actuarial estimates and supervisory requirements can change quickly.

27. Limitations and conclusion

This paper provides a transaction decision framework. It does not constitute investment, actuarial, accounting, legal, tax, regulatory or rating advice. Solvency treatment, approvals and capital eligibility depend on the jurisdictions, entities, products, instruments and facts.

The worked case is hypothetical. Purchase price, own funds, requirements, ratios, financing, earnings, diversification, deductions, restrictions and stress outcomes are illustrative. They are not forecasts and should not be applied to an actual insurer without independent evidence.

The central conclusion is that an insurance acquisition requires a capital plan extending beyond the headline purchase price. Consideration, reserve strengthening, recapitalisation, integration cash, legal-entity liquidity and contingencies should be funded through one reconciled architecture.

The peak requirement can arise after closing. Integration costs may precede synergies, debt service can begin before dividends stabilise, and reserve or approval outcomes can require capital in a subsidiary that cannot be supplied from local cash. The board should therefore approve total committed capital and severe-case contingency capacity alongside the bid price.

Approval conditions are transaction economics. They should be identified, priced and allocated in transaction documents and funding commitments. Acquisition debt should be sized against stressed upstream distributions rather than consolidated earnings.

The Insurance Acquisition Capital Plan gives boards a controlled path from regulatory and actuarial evidence to closing and post-close funding. Its eight ledgers make the location, timing, source and ownership of capital visible before control changes.

Frequently asked questions

Why is the purchase-price sources-and-uses schedule insufficient?

It usually covers contractual closing while omitting reserve strengthening, regulated-entity recapitalisation, integration cash, trapped liquidity and downside contingencies. The buyer should model total committed capital through the integration period.

When can the peak funding requirement occur?

It can occur after closing when integration expenditure, reserve deterioration, collateral calls or dividend restrictions coincide. Monthly legal-entity cash modelling is required to locate the peak.

How should reserve uncertainty enter the capital plan?

Translate supported actuarial scenarios into own-fund, required-capital, tax, cash and earnings effects. Fund the resulting recapitalisation or contingency need rather than leaving it only as a valuation sensitivity.

Why should cash be modelled by legal entity?

Law, regulation, contract, tax, minority rights and operational timing can restrict transfers. A consolidated surplus can coexist with a deficit at the entity that must pay claims, collateral or integration costs.

How do approval conditions affect funding?

Conditions can require capital, delay distributions, change governance, restrict activities or create recurring cost. Each supported condition scenario should be translated into cash, capital, timing and a committed source.

How should holding-company debt be sized?

Size it against sustainable upstream distributions after reserve needs, growth, capital buffers, tax and restrictions. Test interruption, refinancing and covenants. Consolidated earnings alone do not establish debt-service capacity.

What counts as contingency funding?

Only a source with credible availability, documented amount, draw conditions, approval path, timing, cost and legal destination should be counted. An intention to raise capital later remains an option.

When should the capital plan be refreshed?

Refresh it at indicative bid, binding bid, signing, regulatory submission, pre-closing update and closing, then monthly through integration. Refresh immediately when reserves, assets, reinsurance, funding, approval conditions or rules change materially.

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