

Supplementary Report by Simon Sheaf FIA FSAI, Independent Expert, on the Proposed Transfer of a Portfolio of Policies from Ageas Insurance Limited to RiverStone Insurance (UK) Limited

10 March 2020



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1 Introduction

- 1.1 Ageas Insurance Limited (“AIL”) and RiverStone Insurance (UK) Limited (“RIUK”) have jointly nominated Simon Sheaf (“I” or “me”) of Grant Thornton UK LLP (“Grant Thornton”, “we” or “us”) to act as the Independent Expert for the proposed insurance business transfer of a portfolio of insurance business from AIL to RIUK (“the Scheme”). This nomination has been approved by the PRA in consultation with the FCA. The Scheme is intended to be effected on 1 April 2020 (“the Effective Date”).

Scope of this report

- 1.2 I prepared a report addressed to the High Court of Justice, England and Wales (“the Court”) dated 21 November 2019 and entitled “Report by Simon Sheaf FIA FSAI, Independent Expert, on the Proposed Transfer of a Portfolio of Policies from Ageas Insurance Limited to RiverStone Insurance (UK) Limited” (“the Report”). The Report sets out my considerations as to the likely effects of the proposed Scheme on the policyholders of AIL and RIUK. This included my assessment as to whether the Scheme will result in material detriment to any policyholders affected by the Scheme relative to their current situation.
- 1.3 The conclusions within the Report were based on financial information as at 31 March 2019 and other information available to me when I prepared the Report. Since submitting the Report to the Court, I have been provided with more recent information. A list of the additional information that I have been provided with is contained within Appendix A.
- 1.4 This report (“the Supplementary Report”) provides an update to the conclusions I set out in the Report in light of this additional information. It also considers any other changes that have occurred since the Report was submitted and provides an update to the conclusions set out in the Report in light of those changes. In addition, this report also provides my opinion on the communications received in respect of the Scheme from policyholders and other interested parties of AIL and RIUK.
- 1.5 I am not aware of any further matters not discussed in this report that have the potential to change the conclusions in the Report.

Layout of this report

- 1.6 This report is structured as follows:
- This section sets out an introduction to the Scheme and to this report
 - Section 2 is an executive summary, which summarises the Scheme and the various analyses conducted and describes my conclusion
 - Section 3 sets out significant changes to each of AIL and RIUK since the Report, along with any relevant developments external to AIL and RIUK
 - Section 4 describes the work that I have carried out to review my conclusions in respect of the claims reserves for AIL and RIUK
 - Section 5 describes the work that I have carried out to review my conclusions in respect of the capital requirements of AIL and RIUK
 - Section 6 describes the work that I have carried out to review my conclusions in respect of policyholder security, including under insolvency
 - Section 7 describes the work that I have carried out to review my conclusions in respect of my assessment of other financial considerations

- Section 8 describes the work that I have carried out to review my conclusions in respect of my assessment of other non-financial considerations
- Section 9 describes the work I have done to consider the communications process
- Section 10 sets out my conclusions on the Scheme.

Independence

- 1.7 I have no financial interest in AIL or the group of companies to which AIL belongs. I have been involved in a number of projects advising AIL and the group of companies to which AIL belongs in a professional capacity; however, I do not believe these previous assignments impair my independence to act as the Independent Expert on the Scheme. These previous assignments were disclosed to the PRA and the FCA, prior to my approval as the Independent Expert for the Scheme.
- 1.8 I have no financial interest in RIUK, nor have I previously advised RIUK in a professional capacity. I also have no financial interest in the corporate groups to which RIUK belongs (i.e. the RHL Group and the Fairfax Group). I have been involved in a project advising a company which is now in the RHL Group in a professional capacity; however, I do not believe this previous assignment impairs my independence to act as the Independent Expert on the Scheme. This previous assignment was disclosed to the PRA and the FCA, prior to my approval as the Independent Expert for the Scheme.

Use of this report

- 1.9 This Supplementary Report should be read in conjunction with the Report as reading this report in isolation may be misleading. In particular, this report has an analogous scope and is subject to the same reliances and limitations and restrictions on distribution and use as the Report. All abbreviations and technical terms used in this Supplementary Report have the same meaning as in the Report. These abbreviations are included in Appendix B of this report.
- 1.10 This report is provided for the use of the Court, the AIL Board, the RIUK Board, AIL's policyholders, RIUK's policyholders, the PRA, the FCA and any other relevant regulator for the sole purpose of considering the impact of the Scheme on the affected policyholders.
- 1.11 Copies of the final version of this report may be made available for inspection by policyholders and copies may be provided to any person requesting the same in accordance with legal requirements. The final version of this report may also be made available on websites hosted by or on behalf of RIUK and AIL in connection with the Scheme.
- 1.12 However, notwithstanding the above, Grant Thornton does not accept any liability to any party other than AIL, RIUK and the Court who chooses to act on the basis of any of the reports we have issued in connection with the Scheme.
- 1.13 Judgements about the conclusions drawn in this report should only be made after considering the report in its entirety as any part or parts read in isolation may be misleading.
- 1.14 The underlying figures in this report are calculated to many decimal places. In the presentation of the figures in the various tables, there may be reconciliation differences due to the effect of rounding.
- 1.15 The figures used throughout this report are shown in Pound Sterling. All of the information provided to me in respect of both AIL and RIUK has been presented in Pound Sterling.

Professional Guidance

- 1.16 As an Independent Expert reporting to the Court, I am required to act in accordance with Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Guidance for the Instruction of Experts in Civil Claims. Accordingly, this report is prepared for the assistance of the Court and I confirm that I understand my duty to the Court and have complied with that duty.
- 1.17 This report has been prepared under the terms of the Statement of Policy produced by the PRA in April 2015, namely "The Prudential Regulation Authority's approach to insurance business transfers" and the guidance set out in Chapter 18 of the Supervision Manual ("SUP18") contained in the FCA Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. In addition, this report has been prepared in accordance with the FCA's guidance paper, entitled "The FCA's approach to the review of Part VII insurance business transfers".
- 1.18 In my opinion, this report has been produced in line with the requirements of the Technical Actuarial Standards ("TASs") issued by the Financial Reporting Council ("FRC"). In particular, this report has been prepared in accordance with TAS 100: Principles of Technical Actuarial Work and TAS 200: Insurance.
- 1.19 This report has also been produced in line with the requirements of APS X3: The Actuary as an Expert in Legal Proceedings, issued by the IFoA.
- 1.20 In addition, this report has been internally peer reviewed in line with the requirements of APS X2: Review of Actuarial Work, issued by the IFoA.

Statement of truth

- 1.21 I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions that I have expressed and conclusions that I have drawn represent my true and complete professional opinions on the matters to which they refer.

2 Executive Summary

My approach

- 2.1 In preparing this report, I have considered relevant events and experience since completing the Report and their impact on the conclusions set out in the Report. In particular, I have sought to:
- Understand changes to AIL and RIUK since the Report, both financial and non-financial
 - Understand the impact of changes in the external environment on AIL and RIUK
 - Consider the implications of these changes on the level of security provided to the affected policyholders
 - Consider the potential impact of changes since the Report on levels of customer service
 - Consider the changes in other factors that might affect policyholders since the Report
 - Consider the implication of changes since the Report on co-insurers and reinsurers.
- 2.2 Since the Report was issued, I have been provided with financial information as at 30 September 2019 for each of AIL and RIUK. In addition, I have held discussions with AIL and RIUK and been provided with confirmation from them of the changes in respect of financial and non-financial factors relating to AIL and RIUK.
- 2.3 I have also considered the correspondence with policyholders of AIL and RIUK that has taken place in connection with the Scheme and the responses received up to 6 March 2020.

Findings

- 2.4 The findings set out in this report are summarised in this section. The detailed explanation behind these conclusions follows in the body of this report and within the Report.

Policyholder security

Transferring policyholders

- 2.5 With respect to the transferring policyholders, I do not expect any material adverse impact on policyholder security, including under insolvency, as a result of the Scheme. These policyholders would be moving to a company that I consider to have a sufficient level of capital in order to meet policyholder obligations.

Policyholders remaining in AIL

- 2.6 With respect to the policyholders remaining in AIL, I do not consider that there will be any material adverse impact on policyholder security, including under insolvency, as a result of the Scheme. This is because the Transferring Portfolio is immaterial in the context of AIL's overall business and I also consider that AIL has a sufficient level of capital in order to meet policyholder obligations following the Scheme.

Existing policyholders of RIUK

- 2.7 With respect to the existing policyholders of RIUK, I do not expect any material adverse impact on policyholder security, including under insolvency, as a result of the Scheme. This is because the Transferring Portfolio is immaterial in the context of RIUK's overall business and I also consider that RIUK has a sufficient level of capital in order to meet policyholder obligations following the Scheme.

Levels of service

- 2.8 I do not anticipate any material adverse changes to the level of service provided to any of the groups of policyholders following the Scheme.

Other financial and non-financial considerations

- 2.9 I do not consider there to be any material adverse impact to any group of policyholders following the Scheme as a result of the other financial and non-financial factors considered.

- 2.10 The other financial factors that I have considered are:

- Investment strategy
- Liquidity position
- Implications of the Scheme on ongoing expense levels
- Pension arrangements
- Tax implications
- Changes to the ILU guarantee
- Impact of new business strategy
- Impact of other transfers
- RIUK's termination of the Part VII transfer that was initiated as part of its Brexit contingency plan ("Project Byzantine")
- The agreement between The Ontario Municipal Employees Retirement System ("OMERS") and Fairfax for OMERS to acquire a 40% interest in (a) RHL and its subsidiaries (including RIUK and RSML), (b) TIG Barbados and (c) Advent Capital Holdings Limited ("Advent").

- 2.11 The other non-financial factors that I have considered are:

- Regulatory regime
- Complaints
- Impact of the EU referendum ("Brexit")
- US comity
- Governance and management frameworks
- Ruling of Mr Justice Snowden on the proposed Part VII transfer of a book of in-payment annuities from The Prudential Assurance Company Limited to Rothesay Life Plc.

Impact on co-insurers

- 2.12 I do not consider there to be a material adverse impact on the remaining co-insurers on the Bishopsgate Stamp as a result of the Scheme.

Impact on transferring reinsurers

- 2.13 I have not identified any reinsurers transferring from AIL to RIUK that would be materially adversely affected by the Scheme.

Conclusion

- 2.14 I conclude that I do not consider that the Scheme will result in material detriment to any policyholders, co-insurers or reinsurers affected by the Scheme, relative to their current situation. Therefore, I see no reason why the Scheme should not proceed.

3 Business developments

AIL

- 3.1 In paragraph 5.27 of the Report, I described the expected changes in the quota share reinsurance arrangements between Ageas SA/NV and AIL. At the time of writing the Report, the quota share percentage was 30% but AIL was in discussions with the Ageas Group about changing the quota share percentage to 40%.
- 3.2 At 30 September 2019, the quota share percentage remained at 30%. However, I understand from AIL that, at the time of writing this report, the quota share percentage is now 40%, and that it expects this to remain the case at the Effective Date. Therefore, I have presented the financial data for AIL at the Effective Date in this report on the basis that the quota share percentage will be 40% at the Effective Date.
- 3.3 I understand from AIL that there have been no material changes in its business since the Report was issued.

RIUK

OMERS acquisition

- 3.4 I understand that OMERS has entered into an agreement with Fairfax to acquire a 40% interest in (a) RHL and its subsidiaries (including RIUK and RSML), (b) TIG Barbados and (c) Advent. I understand that the transaction is expected to be completed before the Effective Date.
- 3.5 RIUK has informed me that a new holding company will be created which will sit above RHL, TIG Barbados and Advent in the group structure. Fairfax will hold a 60% interest in the holding company and OMERS will hold a 40% interest.
- 3.6 I discuss the impact of the OMERS acquisition in paragraph 5.38 of this report.

Project Androp

- 3.7 I understand from RIUK that Project Androp became effective on 31 January 2020 and the Androp policyholders transferred to RIUK on that date. This is consistent with the basis on which I presented the information in the Report.

RIUK's termination of Project Byzantine

- 3.8 RIUK has informed me that it has terminated Project Byzantine. I discuss the impact of this termination in paragraphs 7.6 to 7.11 of this report.

Changes to the ILU guarantee

- 3.9 As described in paragraphs 5.64 to 5.69 of the Report, some of the business written by Bishopsgate was written through the ILU. The ILU required that members procured an unconditional guarantee guaranteeing certain past, present and future liabilities of the member in respect of insurance and reinsurance policies issued by the ILU on behalf of that member.
- 3.10 RIUK has informed me that, as of the time of writing this report, they have agreed with the ILU to replace the five existing guarantees that attach to the transferring policies from AIL with a single guarantee from Fairfax. Additionally, I understand from RIUK that, following an actuarial review, the ILU also agreed that the single guarantee from Fairfax can be capped at \$25m, rather than being an unlimited guarantee.

- 3.11 I discuss this change further in paragraphs 7.12 to 7.20 of this report.

Other developments

- 3.12 I understand from RIUK that there have been no other material changes in its business since the Report was issued.

Regulatory developments

Brexit

- 3.13 At the time of writing the Report, it was expected that the UK would have left the EU by 31 January 2020, at the latest. In the event, the UK left the EU on 31 January 2020, and has now entered a transition period until 31 December 2020 while the EU and UK negotiate additional arrangements.
- 3.14 It follows that there have not been any changes in relation to Brexit that give me reason to change the conclusions in the Report.

Other developments

- 3.15 I am not aware of any other market or financial developments since the date of the Report that would have an impact on my conclusions.

4 Claims reserves

Reserve strength of the Remaining AIL Portfolio

Process for setting reserves

- 4.1 I have been informed by AIL that there have not been any material changes to its processes for calculating its reserves and Solvency II technical provisions since the Report.

IFRS claims reserves

- 4.2 The table below shows the claims reserves for the Remaining AIL Portfolio as at 30 September 2019 compared to the reserves at 31 March 2019.

Table 4.1 IFRS claims reserves for the Remaining AIL Portfolio (£m)

	As at 31 March 2019	As at 30 September 2019	Movement
Gross actuarial best estimate claims reserve	1,487.6	1,516.7	29.1
Management margin	102.3	44.4	-57.9
Ceded reserves	639.3	646.8	7.5
Net booked claims reserve	950.6	914.3	-36.3

- 4.3 As can be seen from the table above, the net booked claims reserves for the Remaining AIL Portfolio have reduced from £950.6m at 31 March 2019 to £914.3m at 30 September 2019. This is due to a significant reduction in the management margin, partly offset by adverse experience in AIL's Motor business.
- 4.4 The reduction in the management margin is due to a release of £41m as a result of a change in the Ogden discount rate from -0.75% to -0.25%, and a further release of £17m in the management margin.
- 4.5 The management margin was initially set prior to the Quota Share arrangement with the Ageas Group coming into force and it had not been adjusted for the 30% Quota Share arrangement at 31 March 2019. Between 31 March 2019 and 30 September 2019, 30% of the management margin (£17m) was released to reflect the fact that the Quota Share agreement is in place.
- 4.6 Given the explanations for the changes in the actuarial best estimate claims reserve and margin provided by AIL and since the process for setting reserves within AIL has not changed materially since the Report, I have no reason to change the conclusions contained within the Report with respect to the strength of AIL's IFRS claims reserves.

Solvency II technical provisions

- 4.7 The table below shows AIL's Solvency II technical provisions as at 30 September 2019 compared to the technical provisions as at 31 March 2019.

Table 4.2: Solvency II technical provisions for the Remaining AIL Portfolio (£m)

	31 March 2019	30 September 2019	Movement
Gross of reinsurance	2,123.1	2,157.0	33.9
Net of reinsurance	1,240.9	1,276.0	35.1

- 4.8 I understand that from AIL that the changes in its Solvency II technical provisions are directionally consistent with movements in the IFRS results outlined in Table 4.1 and 4.3. In addition, there was a shift in the yield curve used to discount the technical provisions between 31 March 2019 and 30 September 2019. As a result, the credit for discounting was lower at 30 September 2019 than it was at 31 March 2019.
- 4.9 As shown in the table above, the net Solvency II technical provisions have increased slightly (2.8%) since 31 March 2019. I understand from AIL that this was driven by an increase in Motor reserves and a reduction in the discounting credit applied on a Solvency II basis due to movements in the yield curve between 31 March 2019 and 30 September 2019.
- 4.10 Given this explanation for the change in the Solvency II technical provisions and since the process for setting the Solvency II technical provisions within AIL has not changed materially since the Report, I have no reason to change the conclusions contained within the Report with respect to the strength of AIL's Solvency II technical provisions.

Reserve strength of the Existing RIUK Portfolio

Process for setting reserves

- 4.11 I have been informed by RIUK that there have not been any material changes to its processes for calculating its reserves and Solvency II technical provisions for the Existing RIUK Portfolio since the Report.
- 4.12 RIUK has informed me it does not expect the OMERS acquisition to have any impact on its processes for setting its claims reserves or Solvency II technical provisions.

GAAP claims reserves

- 4.13 The table below shows the claims reserves for the Existing RIUK Portfolio as at 30 September 2019 compared to the reserves at 31 March 2019.

Table 4.3: GAAP claims reserves for the Existing RIUK Portfolio (£m)

	As at 31 March 2019	As at 30 September 2019	Movement
Gross actuarial best estimate claims reserve	960.4	939.9	-20.5
Management margin	0	0	0
Ceded reserves	367.3	359.0	-8.3
Net booked claims reserve	593.1	580.9	-12.2

- 4.14 As can be seen from the table above, the net booked claims reserves have reduced by £12.2m (2.1%) since 31 March 2019. I have been informed by RIUK that there have been no changes to its estimate of the ultimate claims since 31 March 2019 and that the decrease in net claims reserves is due to the payment of claims over the period.
- 4.15 As a result, I have no reason to change the conclusions contained within the Report with respect to the strength of RIUK's claims reserves.

Solvency II technical provisions

- 4.16 The table below shows RIUK's Solvency II technical provisions as at 30 September 2019 compared to its technical provisions as at 31 March 2019.

Table 4.4: Solvency II technical provisions for the Existing RIUK Portfolio (£m)

	31 March 2019	30 September 2019	Movement
Gross of reinsurance	1,068.4	1,068.7	0.3
Net of reinsurance	676.2	654.8	-21.4

- 4.17 As can be seen from the table above, there has been a 0.03% change in the gross technical provisions between 31 March 2019 and 30 September 2019.
- 4.18 I understand from RIUK that the changes in its Solvency II technical provisions between 31 March 2019 and 30 September 2019 are due to the reduction in best estimate reserves on a GAAP basis of £20.5m (as shown in Table 4.3), offset by a reduction in the discounting credit on a Solvency II basis. I further understand from RIUK that this reduction in discounting credit was due to a shift in the yield curve used to discount the technical provisions between 31 March 2019 and 30 September 2019. As a result, the Solvency II technical provisions increased by £0.3m, gross of reinsurance.
- 4.19 The net technical provisions have decreased by £21.4m (3.2%). I have been informed by RIUK that this is predominantly driven by an increase in the recovery of expenses in relation to its outwards reinsurance with Wentworth.
- 4.20 Given the explanations for the changes in the Solvency II technical provisions provided by RIUK and since the process for setting the Solvency II technical provisions within RIUK has not changed materially since the Report, I have no reason to change the conclusions contained within the Report with respect to the strength of RIUK's Solvency II technical provisions.

Reserve strength of the Transferring portfolio

- 4.21 I have been informed by AIL and RIUK that there have not been any material changes in their processes for calculating their reserves and Solvency II technical provisions for the Transferring Portfolio since the Report.

Claims reserves

- 4.22 Neither AIL nor RIUK has undertaken an actuarial reserve review in respect of the Transferring Portfolio since those that I was provided with for the Report. I understand that both AIL and RIUK have performed a rollforward of their estimates for the Transferring Portfolio and that they have maintained their estimates of the ultimate cost of claims in respect of the Transferring Portfolio in line with those that I set out in the Report.
- 4.23 The tables below set out the reserves of the Transferring Portfolio as estimated by each of AIL and RIUK as at both 31 March 2019 and 30 September 2019. In line with my comments in paragraph 7.48 of the Report, to provide a like-for-like comparison between AIL and RIUK's reserving estimates for the Transferring Portfolio, the figures in the table below have been produced on the following basis:
- The gross of reinsurance figures do not include the co-insurers' shares of the Transferring Portfolio since AIL and RIUK, both prior to and after the Scheme, are not liable for the co-insurers' shares. They are however gross of the recoveries from the fronting reinsurers and external reinsurers.

- The net of reinsurance figures are net of the recoveries from the fronting reinsurers and external reinsurers but are gross of the reinsurance provided by RIUK under the RTD.

Table 4.5: Claims reserves for the Transferring Portfolio at 31 March 2019 (£m)

	AIL	RIUK	Difference
Gross of reinsurance	18.2	17.4	-0.8
Net of reinsurance	15.2	13.6	-1.6

Table 4.6: Claims reserves for the Transferring Portfolio at 30 September 2019 (£m)

	AIL	RIUK	Difference
Gross of reinsurance	19.5	18.3	-1.2
Net of reinsurance	15.9	14.3	-1.6

Table 4.7: Movements in claims reserves for the Transferring Portfolio between 31 March 2019 and 30 September 2019 (£m)

	AIL	RIUK
Gross of reinsurance	1.3	0.9
Net of reinsurance	0.7	0.7

- 4.24 As can be seen from the tables above, both AIL and RIUK's claims reserves for the Transferring Portfolio have increased since 31 March 2019. I have been informed by AIL and RIUK that this was primarily driven by adverse changes in the US Dollar to Sterling exchange rates over the period.
- 4.25 In order to satisfy myself that it is appropriate to maintain the ultimate claims from the most recent reserve reviews, I have performed a number of analyses. In particular, I have reviewed the survival ratios and IBNR-outstanding ratios for both AIL and RIUK as at 31 March 2019 and 30 September 2019. As a result of these analyses, I have no reason to believe that it is inappropriate for the ultimate claims to be maintained at the same level as at the previous review.
- 4.26 As discussed in paragraph 7.50 in the Report, the difference in reserve estimates between AIL and RIUK are not material to either of them in the context of their overall portfolios. The difference between AIL and RIUK's estimates has increased since the Report but remains immaterial in the context of both AIL and RIUK's overall portfolios.
- 4.27 As a result of the above, I have no reason to change my conclusions in respect of the reserve strength of the Transferring Portfolio.

Solvency II technical provisions

- 4.28 The tables below compare AIL and RIUK's Solvency II technical provisions for the Transferring Portfolio as at 31 March 2019 and 30 September 2019.

Table 4.8: Solvency II best estimate technical provisions for the Transferring Portfolio at 31 March 2019 (£m)

	AIL	RIUK	Difference
Gross Solvency II best estimate technical provisions	16.4	16.0	-0.4
Net Solvency II best estimate technical provisions	13.8	12.2	-1.6

Table 4.9: Solvency II best estimate technical provisions for the Transferring Portfolio at 30 September 2019 (£m)

	AIL	RIUK	Difference
Gross Solvency II best estimate technical provisions	18.7	17.5	-1.1
Net Solvency II best estimate technical provisions	15.3	13.4	-1.9

Table 4.10: Movements in Solvency II best estimate technical provisions for the Transferring Portfolio between 31 March 2019 and 30 September 2019 (£m)

	AIL	RIUK
Gross Solvency II best estimate technical provisions	2.3	1.5
Net Solvency II best estimate technical provisions	1.5	1.2

- 4.29 I understand that both AIL and RIUK's increases in their Solvency II technical provisions are in line with movements in the IFRS results outlined in Table 4.5. In addition, there was a shift in the yield curve used to discount the technical provisions between 31 March 2019 and 30 September 2019. As a result, the credit for discounting was lower at 30 September 2019 than it was at 31 March 2019.
- 4.30 As discussed in paragraph 7.54 in the Report, the difference between the two estimates for the Solvency II technical provisions for the Transferring Portfolio are not material to either AIL or RIUK in the context of their overall portfolios. In addition, the difference has reduced since the Report and remains immaterial in the context of both AIL and RIUK's portfolios.
- 4.31 As a result of the above, I have no reason to change my conclusions in respect of the Solvency II technical provisions for the Transferring Portfolio.

5 Capital Requirements

AIL

Capital strategy

- 5.1 I understand from AIL that there has been no change in its capital strategy as set out in paragraphs 8.18 to 8.22 of the Report. Target levels of capital are agreed with the Ageas Group to maximise shareholder value while ensuring that the entities continue to meet their regulatory capital requirements and comply with the Ageas Group's risk appetite. To maximise shareholder value, surplus capital above the target level is distributed back to the Ageas Group via upwards dividend payments so that it can be invested elsewhere. If AIL is holding excess capital, dividend payments will usually be made upwards to AUK. Dividends may also be paid if AIL is above 90% of its target level.
- 5.2 I understand from AIL that it paid £22.6m of dividends in Q2 2019. I further understand from AIL that, at 30 September 2019, it had £41.4m of foreseeable dividend with respect to year-to-date 2019 dividend accruals.
- 5.3 AIL has informed me that it continues to manage its solvency towards the target level of capital which equates to approximately a 150% SCR coverage ratio.

IFRS balance sheet

- 5.4 I have repeated below Table 8.1 of the Report, which showed the IFRS balance sheets for AIL before the Scheme and after the Scheme on the basis that the Scheme had become effective as at 31 March 2019. I have also provided the equivalent information as at 30 September 2019.

Table 5.1: AIL's IFRS balance sheets before and after the Scheme as at 31 March 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Financial investments	1,509.1	-	1,509.1
Cash	95.2	-	95.2
Reinsurers' share of reserves	843.9	-18.4	825.5
Insurance and other receivables	383.9	-	383.9
Other assets	185.9	-	185.9
Total assets	3,018.1	-18.4	2,999.7
Liabilities:			
Insurance reserves	2,250.0	-18.2	2,231.8
Intra-group loans	139.0	-	139.0
Other liabilities	142.2	-0.2	142.0
Total liabilities	2,531.2	-18.4	2,512.9
Net assets	486.8	-	486.8

Table 5.2: AIL's IFRS balance sheets before and after the Scheme as at 30 September 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Financial investments	1,557.0	-	1,557.0
Cash	76.4	-	76.4
Reinsurers' share of reserves	859.5	-19.7	839.7
Insurance and other receivables	376.2		376.2
Other assets	191.9	-	191.9
Total assets	3,061.1	-19.7	3,041.3
Liabilities:			
Insurance reserves	2,247.9	-19.5	2,228.4
Intra-group loans	139.0	-	139.0
Other liabilities	148.4	-0.2	148.2
Total liabilities	2,535.3	-19.7	2,515.6
Net assets	525.7	-	525.7

- 5.5 It can be seen from the table above that the net assets on an IFRS basis increased between 31 March 2019 and 30 September 2019.
- 5.6 I understand from AIL that this was driven by an increase in financial assets, predominantly due to a favourable operating cashflow over the period, offset by the dividend payment of £22.6m which I discussed in paragraph 5.2.
- 5.7 As I mentioned in paragraph 8.24 of the Report, the Transferring Portfolio is currently 100% reinsured by RIUK under the RTD. Therefore, as shown in both Tables 5.1 and 5.2, the Scheme will have no impact on AIL's net assets.

Solvency II balance sheet

- 5.8 I have repeated below Table 8.2 of the Report, which showed the simplified indicative Solvency II balance sheet for AIL before and after the Scheme as at 31 March 2019. I have also provided the equivalent information as at 30 September 2019.

Table 5.3: AIL's Solvency II balance sheets and SCR coverage ratios, before and after the Scheme, as at 31 March 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Investments	1,619.7	-	1,619.7
Cash	2.4	-	2.4
Reinsurers' share of technical provisions	897.4	-16.6	880.8
Insurance and other receivables	299.9	-	299.9
Other assets	100.5	-	100.5
Total assets	2,919.9	-16.6	2,903.3
Liabilities:			
Gross best estimate technical provisions	2,065.0	-16.4	2,048.6
Risk margin	73.2	-	73.2
Other liabilities	298.4	-0.2	298.2
Total liabilities	2,436.6	-16.6	2,420.1
Own Funds:			
Net assets	483.2	-	483.2
Subordinated liabilities	139.0	-	139.0
Total Eligible Own Funds	622.2	-	622.2
SCR Coverage Ratio:			
Solvency Capital Requirement (SCR)	387.3	-2.2	385.1
Eligible Own Funds	622.2	-	622.2
SCR coverage ratio	160.7%	0.9%	161.6%

Table 5.4: AIL's Solvency II balance sheets and SCR coverage ratios, before and after the Scheme as at 30 September 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Investments	1,663.5	-	1,663.5
Cash	-8.5	-	-8.5
Reinsurers' share of technical provisions	897.1	-18.9	878.2
Insurance and other receivables	293.6	-	293.6
Other assets	112.1	-	112.1
Total assets	2,957.6	-18.9	2,938.7
Liabilities:			
Gross best estimate technical provisions	2,099.4	-18.7	2,080.8
Risk margin	73.7	-	73.7
Other liabilities	315.0	-0.2	314.8
Total liabilities	2,488.1	-18.9	2,469.3
Own Funds:			
Net assets	469.5	-0.0	469.5
Subordinated liabilities	139.1	-	139.1
Total Eligible Own Funds	608.6	-0.0	608.5
SCR Coverage Ratio:			
Solvency Capital Requirement (SCR)	391.0	-0.9	390.1
Eligible Own Funds	608.6	-0.0	608.5
SCR coverage ratio	155.7%	0.3%	156.0%

- 5.9 The net assets decreased by £13.7m between 31 March 2019 and 30 September 2019 and the SCR increased from £387.3m to £391.0m. This resulted in a reduction in the SCR coverage ratio by 5.0 percentage points.
- 5.10 I understand from AIL that the decrease in net assets is driven by the reduction in the credit for discounting applied to the liabilities. AIL's assets have increased by £37.8m, due to the increase in

unrealised gains driven by the shift in the yield curve. However, the liabilities have increased by £51.5m due to a number of factors, including:

- A £35m movement in the Solvency II Technical Provisions as shown in Table 4.2
- An increase in the foreseeable dividend from £30.8m as at 31 March 2019 to £41.1m as at 30 September 2019
- A £7.5m increase in trade payables relating to increased Insurance Premium Tax.

ORSA

- 5.11 The ORSA document that I was provided with for the Report remains the latest ORSA available. Therefore, I have no updates to provide in relation to AIL's ORSA.

Access to capital

- 5.12 I understand from AIL that there has been no change to AIL's access to capital as described in paragraph 8.22 of the Report.

Conclusions

- 5.13 There are no changes described in paragraphs 5.1 to 5.12 that give me reason to repeat the stress tests described in paragraphs 8.35 to 8.60 of the Report or to change my conclusion contained in paragraph 8.46 of the Report regarding the strength of the capital base of AIL.

RIUK

Capital strategy

- 5.14 I understand from RIUK that there has been no change in its capital strategy as set out in paragraphs 8.52 to 8.53 of the Report.

GAAP balance sheet

- 5.15 I have repeated below Table 8.3 of the Report, which showed the GAAP balance sheets for RIUK before the Scheme and after the Scheme on the basis that the Scheme had become effective as at 31 March 2019. I have also provided equivalent information as at 30 September 2019.

Table 5.5: RIUK's GAAP balance sheets before and after the Scheme as at 31 March 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Financial Investments	883.7	-	883.7
Cash	79.6	-	79.6
Reinsurer's Share of Provisions - Intra Group	316.2	-	316.2
Reinsurer's Share of Provisions - Other	58.0	3.9	61.9
Insurance Debtors	65.5	-	65.5
Reinsurance Debtors	12.6	0.3	12.9
Other Asset	125.2	-	125.2
Total Assets	1,540.8	4.2	1,545.0
Liabilities:			
Insurance Contract Provisions	994.6	3.4	998.0
Reinsurance Creditors	21.6	0.8	22.3
Other liabilities	1.6	-	1.6
Total Liabilities	1,017.8	4.2	1,022.1
Net assets	522.9	-	522.9

Table 5.6: RIUK's GAAP balance sheets before and after the Scheme as at 30 September 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Financial Investments	874.2	-	874.2
Cash	91.2	-	91.2
Reinsurer's Share of Provisions - Intra Group	302.0	-	302.0
Reinsurer's Share of Provisions - Other	55.6	4.0	59.6
Insurance Debtors	44.3	-	44.3
Reinsurance Debtors	19.6	0.4	20.0
Other Asset	129.0	-	129.0
Total Assets	1,516.0	4.3	1,520.3
Liabilities:			
Insurance Contract Provisions	955.8	3.5	959.3
Reinsurance Creditors	22.1	0.8	23.0
Other liabilities	3.5	-	3.5
Total Liabilities	981.4	4.3	985.7
Net assets	534.6	-	534.6

- 5.16 I understand from RIUK that the reduction in liabilities from 31 March 2019 to 30 September 2019 is due to claim payments during the period.
- 5.17 This reduction in liabilities was partly offset by a £21.2m reduction in insurance debtors due to settlement of inter-company balances with Lloyd's Syndicate 3500.
- 5.18 As I discussed in paragraphs 8.85 to 8.88 of the Report, RIUK's reinsurance of the Transferring Portfolio under the RTD does not cover the shares of the remaining co-insurers and it is net of recoveries from external reinsurance. At 30 September 2019, RIUK's claims reserves in respect of the Transferring Portfolio were £14.3m as per the net of reinsurance figures in Table 4.6. These claims reserves are included within the liabilities on RIUK's balance sheet in Table 5.6 and therefore the Scheme will have no impact on RIUK's balance sheet aside from the accounting treatment discussed in paragraph 5.19 below.
- 5.19 Following the Scheme, RIUK will recognise the recoveries from the fronting reinsurers and external reinsurers (totalling £4.3m as at 30 September 2019) as reinsurance assets on its balance sheet whereas they are currently netted from the liabilities. The liabilities will increase by a corresponding amount. The Scheme will therefore have no impact on RIUK's net assets.

Solvency II balance sheet

5.20 I have repeated below Table 8.4 of the Report, which showed the simplified Solvency II balance sheet for RIUK before the Scheme and after the Scheme on the basis that the Scheme had become effective as at 31 March 2019. I have also provided equivalent information as at 30 September 2019.

Table 5.7: RIUK's Solvency II balance sheets and SCR coverage ratios, before and after the Scheme as at 31 March 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Investments and Cash	965.9	-	965.9
Reinsurer's Share of Provisions – Intra Group	318.3	-	318.3
Reinsurer's Share of Provisions - Other	73.9	3.4	77.3
Other assets	190.7	0.3	191.0
Total assets	1,548.8	3.7	1,552.6
Liabilities:			
Gross best estimate technical provisions	1,003.7	2.9	1,006.6
Risk margin	78.0	-	78.0
Other liabilities	20.4	0.8	21.2
Total liabilities	1,102.0	3.7	1,105.8
Own Funds:			
Net assets	446.8	-	446.8
Ring fenced funds restriction	-33.1	-	-33.1
Total Eligible Own Funds	413.7	-	413.7
SCR Coverage Ratio:			
Solvency Capital Requirement (SCR)	315.1	0.3	315.4
Eligible Own Funds	413.7	-	413.7
SCR coverage ratio	131.3%	-0.1%	131.1%

Table 5.8: RIUK's Solvency II balance sheets and SCR coverage ratios, before and after the Scheme as at 30 September 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Investments and Cash	967.6	-	967.6
Reinsurer's Share of Provisions – Intra Group	338.2	-	338.2
Reinsurer's Share of Provisions - Other	75.6	3.7	79.3
Other assets	175.9	0.4	176.3
Total assets	1,557.3	4.0	1,561.4
Liabilities:			
Gross best estimate technical provisions	1,004.6	3.2	1,007.7
Risk margin	77.7	-	77.7
Other liabilities	22.3	0.8	23.1
Total liabilities	1,104.6	4.0	1,108.6
Own Funds:			
Net assets	452.8	-	452.8
Ring fenced funds restriction	-12.7	-	-12.7
Total Eligible Own Funds	440.1	-	440.1
SCR Coverage Ratio:			
Solvency Capital Requirement (SCR)	315.0	0.4	315.4
Eligible Own Funds	440.1	-	440.1
SCR coverage ratio	139.7%	-0.2%	139.5%

5.21 As can be seen from the tables above, the Eligible Own Funds for RIUK increased between 31 March 2019 and 30 September 2019. This has increased the SCR coverage ratio over the period.

5.22 I understand from RIUK that the increase in Own Funds is due to a number of factors, including:

- Claim payments made during the period
- Net GAAP profits of £11.2m since 31 March 2019
- An increase in the ceded assets between 31 March 2019 and 30 September 2019 following the reforecast of expense allocations that was mentioned in paragraph 4.19
- A reduction in the ring-fenced funds restriction, which I discuss further below.

- 5.23 At 31 March 2019, RIUK had a £33.1m ring-fenced funds restriction, a significant proportion of which related to capital support that RIUK provided to RCCL, the corporate member of Lloyd's Syndicate 3500, to enable Syndicate 3500 to underwrite a RITC in early February.
- 5.24 As I described in paragraph 8.91 of the Report, this capital was expected to be released to RIUK. This release took place between 31 March 2019 and 30 September 2019 which has driven a reduction of the ring-fenced funds restriction to £12.7m.
- 5.25 I understand from RIUK that the above increases to Own Funds were partially offset by a number of factors, including:
- A reduction in the discounting credit applied, following a fall in the yield curves used
 - The strengthening of US Dollars against Sterling.

Regulatory capital requirements

- 5.26 I have repeated below Table 8.5 of the Report which showed the coverage ratio of RIUK as at the Effective date, projected based on financial information as at 31 March 2019. I have also provided the same information projected based on financial information as at 30 September 2019.

Table 5.9: RIUK's SCR coverage ratios projected to the Effective Date, before and after the Scheme, as at 31 March 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
SCR	295.1	0.2	295.2
Eligible Own Funds to meet the SCR	481.5	0.0	481.5
SCR coverage ratio	163.2%	-0.1%	163.1%

Table 5.10: RIUK's SCR coverage ratios projected to the Effective Date, before and after the Scheme, as at 30 September 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
SCR	305.3	0.3	305.6
Eligible Own Funds to meet the SCR	461.6	0.0	461.6
SCR coverage ratio	151.2%	-0.1%	151.1%

- 5.27 I understand that the SCR has increased and Own Funds have reduced due to the fall in USD yield curve rates as described in paragraph 4.18. I have investigated the impact of this change in the SCR coverage ratio in the Stress Testing section below.
- 5.28 As per my observation in paragraph 8.96 of the Report, the Scheme continues to have a negligible impact on the SCR coverage ratio.

Stress Testing

- 5.29 Given the movements in the coverage ratio as set out in the paragraphs above, I have revisited the stress testing that I conducted in the Report.
- 5.30 I have reviewed the stress tests to assess whether there are any changes to my conclusions in the Report, given that the Eligible Own Funds at the Effective Date are £461.6m based on projections as at

30 September 2019 compared to £481.5m when projected as at 31 March 2019. I have reviewed the stress tests and I have no reason to change my conclusions of the stress tests from the Report.

- 5.31 Therefore, I do not believe that the impact of the change in the SCR coverage ratio between 31 March 2019 and 30 September 2019 changes my conclusions set out in the Report.

ORSA

- 5.32 I have been provided with a copy of RIUK's most recent ORSA report. The document is dated 18 December 2019 and has been approved by RIUK's Board. This represents RIUK's forward-looking assessment of its risk profile and regulatory and economic capital requirements.
- 5.33 In paragraphs 8.82 and 8.83 of the Report I noted that, in RIUK's previous ORSA report, it projected that its coverage of its SCR will be maintained above its target solvency coverage ratio for the period to 2030. This remains the case in RIUK's latest ORSA report and I have no reason change my conclusions set out in paragraph 8.82 of the Report.

Stress tests within the ORSA report

- 5.34 RIUK has considered various stress and scenario tests within its ORSA report to test the robustness of the capital base. The stress and scenario testing covers a wide range of risks that RIUK is exposed to such as market risk and reserve risk. I have reviewed the approach undertaken in relation to this stress testing and consider the range of tests, the approach to the testing and the key assumptions to be reasonable.
- 5.35 The vast majority of the stress tests undertaken would not reduce RIUK's SCR coverage ratio below 100%. For stress tests where the SCR coverage ratio would reduce below 100%, RIUK's assets would still be in excess of its liabilities.
- 5.36 RIUK also analysed what events or combination of events would materially threaten RIUK's viability to continue trading in the future. It has identified the severe scenario where Wentworth, TIG Barbados and Fairfax Barbados are unable to meet their obligations to RIUK, alongside an equity market crash and ultimately the failure of Fairfax. Whilst those scenarios are possible, I consider the likelihood of all of them occurring simultaneously to be remote. I have come to this conclusion because, in paragraphs 8.116 to 8.119 of the Report, I conclude that the likelihood of Wentworth, TIG Barbados and Fairfax Barbados all defaulting is remote. The scenario considered in the ORSA is even more extreme than this.

Access to capital

- 5.37 As discussed in Section 3.4 to 3.5, OMERS has entered into an agreement with Fairfax to acquire a 40% interest in (a) RHL and its subsidiaries (including RIUK and RSML), (b) TIG Barbados and (c) Advent.
- 5.38 I do not believe that this acquisition will have an adverse impact on RIUK's access to capital. On the contrary, I believe that it may strengthen RIUK's position. This is because:
- This acquisition provides RIUK with access to capital from both Fairfax and OMERS. To demonstrate the scale of both companies, OMERS' most recent financial statements as at 31 December 2018 show net assets of approximately £56.3bn (converted from CAD to GBP at a rate of 1 GBP = 1.73 CAD). By comparison, Fairfax's most recent financial statements as at 30 September 2019 show assets of approximately £54.9bn (converted from USD to GBP at a rate of 1 GBP = 1.27 USD).
 - RIUK can now raise its own capital through debt, which was not an available option when it was wholly owned by Fairfax

- I understand from RIUK that this acquisition has not changed the process for RIUK to obtain capital from its owner(s) except that additional capital will firstly be contributed to the new holding company before being passed down to RIUK via RHL. I further understand from RIUK that Fairfax's appetite for providing capital remains unchanged. However, following this transaction, Fairfax will now be entitled to provide 60% of any approved capital transfers, while OMERS will be entitled to provide the remaining 40%. I understand from RIUK that OMERS' appetite is not out of line with Fairfax's appetite and that either party is entitled to increase its share of a capital call if the other party does not elect to participate in that capital call.
- RIUK has informed me that it does not expect there to be any changes to dividend policies following the acquisition, or any other changes to the capital strategy.

Conclusions

- 5.39 There are no changes described in paragraphs 5.14 to 5.38 that gives me reason to change my conclusion contained in paragraph 8.95 of the Report regarding the strength of the capital base of RIUK.

6 Policyholder security

Impact of the Scheme on the security of the transferring policyholders

- 6.1 Based on the information I have seen since the Report was issued, I have no reason to change the conclusions set out in paragraphs 9.9 to 9.11 of the Report in respect of the security of the transferring policyholders. In reaching this conclusion, I have considered the following:
- RIUK's coverage of its SCR is materially unchanged by the Scheme becoming effective
 - Although RIUK's regulatory SCR coverage ratio has reduced by 11.9% between 31 March 2019 and 30 September 2019, RIUK is still expected to have substantial Own Funds in excess of its SCR following the Scheme, as shown in Tables 5.7, 5.8 and 5.9
 - I have considered the implications of the OMERS acquisition, and, in my opinion, it will not have a material adverse impact on RIUK's ability to meet its obligations
 - As discussed in paragraph 5.31, I have reached similar conclusions in respect of my own stress testing to those I reached in the Report.

Impact of the Scheme on the security of the policyholders remaining in AIL

- 6.2 Based on the information I have seen since the Report was issued, I have no reason to change the conclusions set out in paragraph 9.12 of the Report in respect of the security of the policyholders remaining in AIL.
- 6.3 This is because, as shown in Table 5.4, AIL's coverage of its SCR is materially unchanged by the Scheme becoming effective.

Impact of the Scheme on the security of the existing policyholders in RIUK

- 6.4 Based on the information I have seen since the Report was issued, I have no reason to change the conclusions set out in paragraphs 9.28 to 9.38 of the Report in respect of the security of the existing policyholders in RIUK. In reaching this conclusion, I have considered the following:
- RIUK's coverage of its SCR is materially unchanged by the Scheme becoming effective
 - Although RIUK's regulatory SCR coverage ratio has reduced by 11.9% between 31 March 2019 and 30 September 2019, RIUK is still expected to have substantial Own Funds in excess of its SCR following the Scheme, as shown in Tables 5.7, 5.8 and 5.9
 - I have considered the implications of the OMERS acquisition, and, in my opinion, it will not have a material adverse impact on RIUK's ability to meet its obligations
 - As discussed in paragraph 5.31, I have reached similar conclusions in respect of my own stress testing to those I reached in the Report.

7 Other financial considerations

- 7.1 I considered the following financial aspects in Section 10 of the Report:
- Investment strategy implications
 - Liquidity position
 - Implications of the Scheme on ongoing expense levels
 - Pension arrangements
 - Tax implications
 - Impact on the co-insurers of the Transferring Portfolio
 - Impact on transferring reinsurers
 - Impact of the ILU guarantee
 - Impact of new business strategy
 - Impact of other transfers.
- 7.2 I discuss the impact of other transfers in paragraphs 7.5 to 7.11 below.
- 7.3 I have also considered the impact of the changes to the ILU guarantee in paragraphs 7.12 to 7.20 below.
- 7.4 Based on my discussions with AIL and RIUK, I understand that there have been no developments since the Report with respect to any of the other financial aspects listed above that would give me reason to change the conclusions contained in the Report.

Impact of other transfers

Project Androp

- 7.5 As discussed in paragraphs 3.10 to 3.14 of the Report, at the time of writing the Report, I expected Project Androp to be completed prior to the Effective Date of this Scheme. I understand from RIUK that Project Androp became effective on 31 January 2020 and that the Androp policyholders transferred to RIUK on that date.

RIUK's termination of Project Byzantine

- 7.6 RIUK has informed me that it has terminated its Part VII transfer that was initiated as part of its Brexit contingency plan. I discussed this as a possible course of action in the first bullet point of paragraph 11.36 of the Report where there was potential for RIUK's EEA-based liabilities to be impacted by Brexit.
- 7.7 RIUK has informed me that, since the Report, it has undertaken work to determine the regulatory position in each EEA state in which it has liabilities, including those liabilities incoming from the Scheme. This work has significantly reduced the liabilities that RIUK considers potentially at risk of Brexit to a residual amount.
- 7.8 I further understand from RIUK that there have been developments which have significantly mitigated the adverse impact that Brexit could have on RIUK's ability to service its policyholders, including those arising from Project Androp and the Transferring Portfolio. RIUK has provided me with details of these developments. I have reviewed these and, based on that review, I believe that it is reasonable to assume that the adverse impact that Brexit could have on RIUK's ability to service its policyholders has been significantly mitigated.

- 7.9 In particular, I understand from RIUK that it has undertaken jurisdictional analysis to determine the post-Brexit position in the various EEA states, both through obtaining legal advice and through reviewing publicly available information. I further understand from RIUK that it has also contacted all EEA National Competent Authorities to validate its understanding of the post-Brexit position in those jurisdictions. Having reviewed this documentation, I consider that the responses that RIUK has received to date have been broadly positive and indicate that it will continue to be possible to administer policies in those states.
- 7.10 Since the UK entered into the transition period at 31 January 2020, I have reviewed and challenged the appropriateness of this analysis. In so doing, I have considered the following:
- Since the claims data provided for the Report, the liabilities in the Transferring Portfolio have had an additional few months to run off. In addition, I understand from RIUK that, since the claims data was provided for the Report, it has undertaken an exercise to review the outstanding claims within the Transferring Portfolio. As a result, RIUK's estimate of the total outstanding claims within the Transferring Portfolio that relate to EEA jurisdictions has reduced significantly. I understand from RIUK that, as at 31 January 2020, it estimated that the total outstanding claims within the Transferring Portfolio that relate to EEA jurisdictions were only \$57k. This amount arises from ten claims in respect of reinsurance policies with four cedants across three EEA jurisdictions, namely Germany, Italy and the Netherlands.
 - RIUK has told me that it has reviewed its jurisdictional analysis for all EEA Member States (including Germany, Italy and the Netherlands) and has concluded that the position that it determined prior to 31 January 2020 remains accurate following 31 January 2020.
 - RIUK has informed me that it has assessed, and continues to assess, its EEA exposures and that it will continue to seek legal advice and engage directly with EEA regulators as part of its wider Brexit assessment including, but not limited to, the Transferring Portfolio.
 - Over the last few months, EEA regulators have been contacted directly both by RIUK in October 2019 during the exercise discussed in paragraph 7.5, and as part of the EEA consultation on the Scheme, and RIUK has informed me that, to date, no regulator has raised an objection to RIUK's proposed approach.
- 7.11 Having considered the above, I am comfortable that the decision to stop Project Byzantine does not change my conclusion in paragraph 11.42 of the Report.

Changes to the ILU guarantee

- 7.12 In paragraphs 10.39 to 10.42 of the Report, I described the intention of RIUK to replace the existing ILU guarantees with a single guarantee which would be effective from the Effective Date.
- 7.13 As I mentioned in paragraphs 3.9 and 3.10 of this report, RIUK has informed me that the ILU has agreed to replace the existing guarantees with a single guarantee provided by Fairfax and that the limit on this guarantee will be \$25m.
- 7.14 I understand from RIUK that this single guarantee remains with Fairfax and is unaffected by the OMERS acquisition.
- 7.15 As discussed in the Report, for the previous ILU guarantees, it is not clear which company or companies were providing the ILU guarantees and whether those companies were still in a position to honour the guarantees if the need arises. By contrast, under the new guarantee, all policyholders within the Transferring Portfolio which are entitled to an ILU guarantee are covered by the single guarantee provided by Fairfax. This is beneficial to the transferring policyholders.

- 7.16 On the other hand, the \$25m limit on the single guarantee provided by Fairfax is disadvantageous to the policyholders who previously had the benefit of an unlimited guarantees in place.
- 7.17 The \$25m limit has been derived by RIUK based on the current size of the reserves and RIUK's analysis of the size and likelihood of potential reserve deteriorations from the current booked estimate. I have reviewed the analysis performed by RIUK in deriving the \$25m limit and I am comfortable that it is reasonable.
- 7.18 I have considered circumstances in which the \$25m limit could be breached:
- The ILU guarantee will not be required unless RIUK is unable to meet its liabilities
 - In order for the ILU guarantee to be breached, the claims payable to those transferring policyholders who are entitled to the ILU guarantee once RIUK has ceased paying claims would need to exceed \$25m.
- 7.19 In paragraph 8.127 of the Report, I concluded that the likelihood of the assets of RIUK falling beneath its liabilities over the course of the run-off of the liabilities, and of RIUK therefore being unable to pay claims as they fall due, was remote. It follows that I consider the likelihood of RIUK being unable to pay claims as they fall due and the claims payable to those transferring policyholders who are entitled to the ILU guarantee once RIUK has ceased paying claims exceeding \$25m to also be remote.
- 7.20 It follows from the above that, although those transferring policyholders who are entitled to the ILU guarantee and who are currently able to identify the guarantor could be disadvantaged by the \$25m limit, I do not believe that disadvantage to be material.

8 Other non-financial considerations

- 8.1 I considered the following non-financial aspects in Section 11 of the Report:
- Regulatory jurisdiction
 - Claims handling and policy administration
 - Complaints
 - 'Brexit'
 - US comity
 - The recognition of the Scheme in other jurisdictions
 - Governance and management frameworks
 - Ruling of Mr Justice Snowden on the proposed Part VII transfer of a book of in-payment annuities from The Prudential Assurance Company Limited to Rothesay Life Plc.
- 8.2 I discuss the impact of RIUK's Brexit strategy and the change in AIL's complaints handling procedures below.
- 8.3 Based on my discussions with AIL and RIUK, I understand that there have been no other developments with respect to the above non-financial aspects since the Report that would give me reason to change the conclusions contained in the Report with respect to these aspects.

RIUK's Brexit Strategy

- 8.4 In paragraph 11.37 of the Report, I explained that, where no transitional arrangements were in place in a relevant EEA state and the other options set out in paragraph 11.36 of the Report were not feasible and if RIUK was unable to work with the policyholders to bring finality to the contract (either through commutations or the pro-active settlement of outstanding claims), they would seek to transfer or novate those EEA policies to an EEA-based affiliate in the Fairfax Group.
- 8.5 RIUK has informed me that, with the exception of the termination of Project Byzantine, there has been no change to RIUK's Brexit strategy since the Report and that a novation remains one of a number of contingencies that RIUK is considering. Therefore, I do not believe that there are any changes that would give me reason to change the conclusions set out in paragraphs 11.38 and 11.42 of the Report.

Changes to AIL's complaints handling procedures

- 8.6 Since the Report, AIL has provided me with an updated Complaints Policy document that was released in October 2019. Having reviewed these policies against the Complaints Policy document available at the time of the Report, I do not believe that there are any changes that would give me reason to change the conclusion contained in paragraph 11.22 of the Report.

9 Considerations of the communications process and objections received

Policyholder and third-party communications

- 9.1 I understand from AIL and RIUK that the approach to policyholder notifications set out in the Report proceeded as planned. The advertisements were placed in accordance with the Directions Order and the policyholder communications were undertaken as planned.
- 9.2 I understand from AIL and RIUK that some minor amendments were made to the wording of the communications in order to clarify the instructions on how to contact AIL. I further understand from AIL and RIUK that amendments were made to letters that were resent to some Norwegian policyholders in order to acknowledge that AIL had tried to contact them previously. I am satisfied that these changes were minor and did not materially change the key messages.
- 9.3 As a result, I am satisfied that that the communications exercise was appropriate.

Transferring Portfolio

- 9.4 In respect of the Transferring Portfolio, I understand from AIL that, as of 6 March 2020, approximately 11% of communications to policyholders and third parties had been returned to AIL. I understand from AIL that it has sought to trace contact details for these policyholders and third parties.
- 9.5 In respect of that tracing exercise, I understand from AIL that:
- Approximately 17% of the returned mail related to corporates that have been dissolved. As a result, there was nothing further AIL could reasonably do to trace those policyholders or third parties.
 - AIL was able to find an alternative address and resend the mail for approximately 48% of the returned mail
 - AIL was unable to find an alternative address for approximately 35% of the returned mail.
- I discuss this further in paragraph 9.7.
- 9.6 Of the original communications that were returned, and where the entity was not dissolved but where AIL was unable to trace revised addresses, I understand from AIL that 87% were policyholders and 13% were reinsurers and that their jurisdictions are as follows:
- Belgium – 4%
 - France – 9%
 - Germany – 7%
 - India – 2%
 - Ireland – 2%
 - Netherlands – 2%
 - New Zealand – 2%
 - Norway – 9%
 - Spain – 2%
 - UK – 30%
 - USA – 30%.

9.7 Following the tracing exercise and the resending of mail, of the policyholders and third parties which AIL initially sent communications to, it has been unable to notify approximately 5.8%. This was either because they related to corporates that have been dissolved or because AIL was unable to find an alternative address. I have calculated this percentage as follows:

- At the time of the Report, AIL had identified 1,079 policyholders, 283 reinsurers and 2 co-insurers within the Transferring Portfolio with an outstanding claim balance on AIL's accounting records. Since then, AIL has informed me that, of these, initial communications were ultimately sent to 946 policyholders, 228 reinsurers and 2 co-insurers (1,176 in total). This reduction was as a result of removing:
 - policyholders and reinsurers who were identified as dissolved or liquidated;
 - policyholders and reinsurers whose addresses could not be located, whose policies date back to 2008 or prior and who have not experienced movements in their outstanding claims reserves in the last ten years; and
 - duplicates which were identified prior to AIL sending out the initial communications.
- Of the 1,176 policyholders, reinsurers and co-insurers to whom communications were initially sent, 11 (0.9%) were identified as duplicates
- Of the remaining 1,165 policyholders, reinsurers and co-insurers that AIL sent communications to:
 - the mailings to 63 policyholders and reinsurers (5.4%) have been returned but AIL has identified an alternative address and re-sent the communications
 - the mailings to 46 policyholders and reinsurers (3.9%) have been returned and AIL was unable to find alternative addresses
 - 22 policyholders and reinsurers (1.9%) were identified as being dissolved.
- It follows from the above that AIL was unable to notify 68 (5.8%) of the 1,165 policyholders, reinsurers and co-insurers that it initially sent communications to. I discuss the breakdown of this figure separately for policyholders, reinsurers and co-insurers below.

9.8 The figures for policyholders are as follows:

- Of the 946 policyholders to whom communications were initially sent, 10 policyholders (1.1%) were identified as duplicates
- Of the remaining 936 policyholders to whom communications were sent out:
 - the mailings to 57 policyholders (6.1%) have been returned but AIL has identified an alternative address and re-sent the communications
 - the mailings to 40 policyholders (4.3%) have been returned and AIL was unable to find alternative addresses
 - 17 policyholders (1.8%) were identified as being dissolved.
- As a result, AIL was unable to notify 57 (6.1%) of the 936 policyholders that it initially sent communications to.

- 9.9 The figures for reinsurers are as follows:
- Of the 228 reinsurers to whom communications were initially sent, 1 reinsurer (0.4%) was identified as a duplicate
 - Of the remaining 227 reinsurers to whom communications were sent out:
 - the mailings to 6 reinsurers (2.6%) have been returned but AIL has identified an alternative address and re-sent the communications.
 - the mailings to 6 reinsurers (2.6%) have been returned and AIL was unable to find alternative addresses
 - 5 reinsurers (2.2%) were identified as being dissolved
 - As a result, AIL was unable to notify 11 (4.8%) of the 227 reinsurers that it initially sent communications to.
- 9.10 The figures for co-insurers are as follows:
- Of the 2 co-insurers to whom communications were initially sent, none were returned
 - As a result, AIL was able to notify both of the co-insurers that it initially sent communications to.
- 9.11 AIL has provided me with further information regarding the steps which were taken to arrive at the conclusion that addresses could not be located for some policyholders and reinsurers, including how any further tracing exercises were undertaken. Having considered this, I am comfortable that all reasonable and proportionate avenues have been explored.
- 9.12 Based on my experience of fulfilling the role of Independent Expert on other Part VII transfers, I do not consider the number of communications that have been returned and which AIL has been unable to resend to be unusual in the context of the total number of transferring policyholders that it attempted to notify.

Remaining AIL policyholders

- 9.13 As I discussed in paragraph 12.6 of the Report, AIL has not directly notified any of the remaining AIL policyholders.

Existing RIUK policyholders

- 9.14 As I discussed in paragraph 12.7 of the Report, RIUK has not directly notified any of the existing RIUK policyholders

Policyholder correspondence

- 9.15 At 6 March 2020, I understand from AIL and RIUK that there were:
- no objections to the Scheme from policyholders
 - 13 enquiries from either policyholders or policyholder's representatives which AIL has responded to or is in the process of responding to. These enquiries relate to requests for more information on the affected policies or for the removal of policy information from AIL's database.
- 9.16 I have reviewed these enquiries and AIL's responses to them and I consider those responses to be appropriate. Furthermore, none of the enquiries give me reason to change my conclusions on the Scheme as set out in the Report.

Reinsurer communication

- 9.17 At 6 March 2020, I understand from AIL and RIUK that there were no objections or enquiries to the Scheme from reinsurers.

Co-insurer communication

- 9.18 At 6 March 2020, I understand from AIL and RIUK that there were no objections or enquiries to the Scheme from co-insurers.

10 Conclusions

- 10.1 I have further considered the effect of the proposed Scheme on the transferring policyholders, the policyholders remaining in AIL and the existing policyholders of RIUK. I confirm that the substance of my overall opinion and conclusions as set out in paragraphs 14.3 to 14.9 of the Report are unchanged. For ease of reference, I set out my conclusions in the following paragraphs.

Transferring policyholders

- 10.2 I have concluded that there will be no material adverse impact to the service provided to the transferring policyholders and, to the contrary, the transferring policyholders may benefit by transferring from an insurer for which the management of a run-off portfolio is not a core element of its strategy to an insurer which specialises in the management of run-off portfolios.
- 10.3 I have concluded that there will be no material adverse impact on the security provided to the transferring policyholders.
- 10.4 Therefore, I do not consider that the transferring policyholders would be materially adversely affected by the Scheme.

Policyholders remaining in AIL

- 10.5 I have also concluded that there will be no material adverse impact to the service provided to the policyholders remaining in AIL and no material adverse impact on the security provided to them. Therefore, I do not consider that the policyholders remaining in AIL would be materially adversely affected by the Scheme.

Existing policyholders of RIUK

- 10.6 In addition, I have concluded that there will be no material adverse impact to the service provided to the existing policyholders of RIUK and no material adverse impact on the security provided to them. Therefore, I do not consider that the existing policyholders of RIUK would be materially adversely affected by the Scheme.

Co-insurers of the Transferring Portfolio

- 10.7 I have concluded that the co-insurers of the Transferring Portfolio would not be materially adversely affected by the Scheme.

Reinsurers

- 10.8 In addition, I have concluded that the reinsurers of the Transferring Portfolio would not be materially adversely affected by the Scheme.

Conclusion

- 10.9 Given the above, I conclude that the risk of any group of policyholders, co-insurers or reinsurers being materially adversely affected by the Scheme is sufficiently remote that there is no reason why the Scheme should not proceed.



Simon Sheaf FIA, FSAI

Partner and Head of General Insurance Actuarial & Risk

Grant Thornton UK LLP

A Additional information received

Information provided by or on behalf of AIL

- IFRS balance sheet as at 30 September 2019
- Solvency II balance sheet as at 30 September 2019
- Information on the movements in claims for the Remaining AIL Portfolio
- Information on claims developments since 30 September 2019 for the Remaining AIL Portfolio
- Complaints Policy October 2019
- Market Consistent Balance Sheet as at 31 March 2019 and 30 September 2019
- Additional Technical Provisions information for the Transferring Portfolio
- SCR capital projections for AIL
- Information on communications received from policyholders, third parties and reinsurers
- Letter of No Objection by the NAIC International Insurers Department (IID)

Information provided by or on behalf of RIUK

- IFRS balance sheet as at 30 September 2019
- Solvency II balance sheet as at 30 September 2019
- Information on the movements in claims for the Existing RIUK Portfolio
- Information on claims developments since 30 September 2019 for the Existing RIUK Portfolio
- Additional Technical Provisions information on transferring portfolio
- SCR capital projections for AIL
- OMERS 2018 Annual Report
- Fairfax 2019 Q3 Interim Report
- Transferring portfolio roll-forward reserves
- Riverstone reserve summary document
- SCR capital projections for RIUK
- ORSA report December 2019
- Information on Project Byzantine
- Information on OMERS acquisition
- ILU Guarantee Limit Analysis
- RIUK Letter of Amendment to the Reinsurance Transfer Deed

Information provided by legal advisers

- Second draft of the RIUK witness statement
- Third draft of the AIL witness statement

Other

I also relied on information arising from correspondence and discussions with AIL, RIUK and their legal advisers.

I have checked that all of the above information has been supplied by persons appropriately qualified to provide such information and I am satisfied that it is reasonable for me to rely on this information.

A number of the items received are of a commercially sensitive or confidential nature. All relevant information received has been used to inform the conclusions given in this report while taking care to respect the confidentiality of the entities involved. It should be noted that there are no instances where I have omitted implications of this documentation from this report for the sake of respecting confidentiality. Therefore, in my opinion it is not necessary to produce a separate document exclusively for the Court providing further details of these data items although these items can be made available to the Court if required.

