Report by Simon Sheaf FIA FSAI, Independent Expert, on the Proposed Transfer of a Portfolio of Policies from SCOR UK Company Limited to R&Q Gamma Company Limited

5 November 2019

Contents

1 Introduction

Approval as Independent Expert

1.1 Insurance business transfers are subject to Part VII of Financial Services and Markets Act 2000, as amended (“FSMA”). These transfers are required to be approved by the High Court of England and Wales (“the Court”) (or the Court of Sessions in Scotland) under Section 111 of FSMA. Such transfers are often referred to as “Part VII transfers”.

1.2 Section 109 of FSMA requires that a scheme report must accompany an application to the Court to approve an insurance business transfer scheme. This scheme report should be produced by a suitably qualified independent person ("Independent Expert") who has been approved by the Prudential Regulation Authority ("PRA"), in consultation with the Financial Conduct Authority ("FCA"). The scheme report should address the question of whether or not any policyholders impacted by the proposed insurance business transfer are adversely affected to a material extent.

1.3 SCOR UK Company Limited (“SCOR UK”) and R&Q Gamma Company Limited (“R&Q Gamma”) 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 part of the insurance business of SCOR UK to R&Q Gamma ("the Scheme"). The Scheme is intended to be effected on 16 December 2019 ("the Effective Date").

1.4 This nomination has been approved by the PRA in consultation with the FCA.

1.5 The terms of my engagement are set out in a letter dated 14 January 2019. An extract of this letter setting out the scope of my work is included in Appendix F. R&Q Gamma is bearing the costs of this scheme report.

Background to the Scheme

SCOR UK

1.6 SCOR UK is a UK regulated non-life insurance company which is authorised by the PRA and regulated by the PRA and the FCA. It is ultimately owned by SCOR SE, the ultimate parent company for the SCOR Group.

1.7 SCOR UK underwrites commercial insurance and facultative reinsurance of large corporate risks on a global basis, with the largest locations of risk being North America and Europe, followed by Asia Pacific. In addition, SCOR UK underwrites commercial insurance business via a number of Managing General Agents (“MGAs”) with selected insurance counterparties.

1.8 SCOR UK underwrites a range of commercial insurance products, the most material by premium being property; marine, aviation and transport (“MAT”) and general liability. It cedes a large percentage of this business to internal and external reinsurers.

1.9 SCOR UK also has a Canadian branch which is authorised by the Office of the Supervisor of Financial Institutions (“OFSI”). It currently underwrites commercial insurance in Canada and cedes 95% of its insurance business to SCOR Canada Reinsurance Company.

R&Q Gamma

1.10 R&Q Gamma is a UK regulated non-life insurance company which is authorised by the PRA and regulated by the PRA and the FCA. It is a subsidiary of Randall & Quilter Investment Holdings Ltd (“RQIH”), the parent company of the “R&Q Group”. It was acquired in December 2016 from The Royal London Mutual Insurance Society Limited (“RLM”).

1.11 The insurance business currently managed by R&Q Gamma consists of two insurance portfolios which are both in run-off. R&Q Gamma does not currently sell insurance business.

1.12 The first of these portfolios consists of insurance business underwritten by R&Q Gamma under its former name Royal London General Insurance Company Limited ("RLGIL"), while it was part of the RLM corporate group, and business underwritten by other entities in the RLM corporate group and transferred to R&Q Gamma during that period. The business in the RLGIL portfolio was underwritten between 1984 and 1999.

1.13 R&Q Gamma wrote household and commercial insurance policies through RLM's sales force and brokers. It also wrote direct and facultative insurance through a London Underwriting Room ("LUR"). It was closed to new business in 1999. The business transferred from other RLM group companies consists of household, accident and health, motor, employers' liability and public liability business. The business was transferred to R&Q Gamma in December 2000.

1.14 The second portfolio is a book of Solicitors Professional Indemnity ("Solicitors PI") business which was transferred to R&Q Gamma from Solicitors Indemnity Mutual Insurance Association Limited ("SIMIA") in September 2018. This book of Solicitors PI insurance was underwritten by SIMIA and covered firms of solicitors based in England and Wales.

The Transferring Portfolio

1.15 Anglo French Ltd ("Anglo-French") was formed in 1958 by a pool of French insurance companies and English & American Insurance Company Limited ("E&A") to write US liability insurance. It wrote a combination of direct business and facultative and treaty reinsurance.

1.16 Anglo-French underwrote business from 1958 to 1969. Following the insolvency of E&A, SCOR UK assumed all of the risks in relation to the Anglo-French portfolio in 1990. The other pool members agreed to reinsure SCOR UK for their original shares of the portfolio. All of these reinsurance arrangements, with the exception of two, had been commuted at 31 December 2018. At 31 December 2018, Hamburger Internationale Rückversicherung AG (referred to herein as "Compre") was reinsuring 4.5% of the Anglo-French portfolio and Rampart Insurance Company (referred to herein as "Armour Risk") was reinsuring 8%. These two reinsurance arrangements have since been commuted.

1.17 The Anglo-French portfolio is immaterial in the context of SCOR UK's overall business. The claims reserves for the Anglo-French portfolio represented less than 1% of SCOR UK's overall gross claims reserves at 31 December 2018.

1.18 It is proposed that the liabilities relating to the business described in paragraph 1.15 (the "Transferring Portfolio") will be transferred to R&Q Gamma and they are the subject of the Scheme.

1.19 In preparation for the Scheme, SCOR UK entered into a Loss Portfolio Transfer Agreement ("LPTA") with Accredited Insurance (Europe) Limited ("AIEL") in August 2017. AIEL is an insurer within the same corporate group as R&Q Gamma. Under this LPTA, AIEL was fully reinsuring SCOR UK in respect of the Anglo-French portfolio and, prior to the commutations of the Compre and Armour Risk reinsurance arrangements, was then recovering 4.5% from Compre and 8% from Armour Risk (the net effect being that AIEL was reinsuring 87.5% of the Anglo-French portfolio). Since the commutations of the Compre and Armour Risk reinsurance arrangements, AIEL has continued to reinsure SCOR UK for 100% of the Anglo-French portfolio but has no longer sought reinsurance recoveries from Compre and Armour Risk. As a result, AIEL's net exposure is now 100% of the Anglo-French portfolio.

1.20 R&Q Gamma will put an adverse development cover (the "ADC") in place with AIEL in relation to the Transferring Portfolio which will come into effect on the Effective Date. The ADC will provide protection to R&Q Gamma in the event of a severe deterioration in the reserves for the Transferring Portfolio. The ADC will attach at £8.25m (110% of SCOR UK's estimate of the Solvency II net best estimate technical provisions for the Transferring Portfolio projected to the Effective Date). It will provide unlimited reinsurance cover for the Transferring Portfolio above that attachment point. In practice, this will mean that AIEL would provide reinsurance recoveries to R&Q Gamma in relation to any Solvency II best estimate technical provisions above £8.25m. As specified in the Scheme document, the Scheme will not proceed unless the ADC has been entered into and will be in effect on the Effective Date.

1.21 Claims handling and policy servicing for the Transferring Portfolio is currently performed by R&Q Central Services Limited ("RQCS") under a claims handling agreement with SCOR UK.

1.22 For the purposes of this report, the policyholders that will remain in SCOR UK following the Scheme will be referred to as "the Remaining Portfolio". In addition, I will refer to those policyholders who will be in R&Q Gamma prior to the Scheme as the "Existing R&Q Gamma Portfolio".

Layout of this Scheme report

1.23 My report is structured as follows:

- This section sets out an introduction to the Scheme and to this report
- The second section is an executive summary, which summarises the Scheme and the various analyses conducted and describes my conclusion
- Section 3 sets out the scope of this report
- Section 4 provides a summary of the methodology I have employed in order to assess the Scheme
- Section 5 describes the background to the entities involved
- Section 6 describes the regulatory background
- Section 7 describes the work that I have carried out to assess the claims reserves of SCOR UK and R&Q Gamma
- Section 8 describes the work that I have carried out to assess the capital requirements of SCOR UK and R&Q Gamma
- Section 9 provides my assessment of the policyholder security considerations, including under insolvency
- Section 10 provides my assessment of other financial considerations
- Section 11 provides my assessment of other non-financial considerations
- Section 12 provides my assessment of the proposed communications strategy
- Section 13 sets out the reliances and limitations that apply to my analysis and this report.
- Section 14 sets out my conclusions on the Scheme.

1.24 Definitions of technical terms and explanations of abbreviations used in this report are contained in Appendices B and C respectively.

Professional Experience

1.25 I am a Fellow of the Institute and Faculty of Actuaries ("IFoA") and a Fellow of the Society of Actuaries in Ireland. I currently hold a Chief Actuary (Non-life with Lloyd's) Practising Certificate and a Lloyd's Syndicates Practising Certificate. In addition, I have previously held an Irish Signing Actuary Practising Certificate and have previously been recognised as a Responsible Actuary by the financial regulator in Liechtenstein.

1.26 I joined Grant Thornton's Financial Services Group as General Insurance Practice Leader in 2006. I am a Partner in Grant Thornton and my current job title is Head of General Insurance Actuarial and Risk. I lead the provision of actuarial and risk consulting services to the general insurance sector. Prior to joining Grant Thornton, I held senior roles at Tillinghast – Towers Perrin (now part of Willis Towers Watson) and Travelers Insurance Company Limited.

1.27 I have experience in all areas of general insurance actuarial work (including reserving, capital, pricing, transactions, etc), and have previously acted as Independent Expert for eight other sanctioned insurance business transfer schemes.

1.28 Further details of my experience can be found in Appendix E.

Independence

1.29 I have no financial interest in either SCOR UK or R&Q Gamma, nor have I previously advised either SCOR UK or R&Q Gamma in a professional capacity. I also have no financial interest in the corporate groups to which SCOR UK and R&Q Gamma belong.

1.30 I have previously acted as the Independent Expert for a transfer of a portfolio of insurance liabilities from Guardian Assurance Limited to AIEL (under its former name R&Q Insurance (Malta) Limited). I do not consider this previous assignment to impair my independence to act as the Independent Expert in relation to this Scheme. This previous assignment was disclosed to the PRA and the FCA prior to my approval as the Independent Expert in relation to this Scheme.

Use of this report

1.31 The purpose of this report is to inform the Court of the likely effect of the Scheme upon policyholders. This report is not necessarily suitable for any other purpose.

1.32 This report is provided for the use of the Court, the SCOR UK Board, the R&Q Gamma Board, SCOR UK's policyholders, R&Q Gamma'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.

1.33 In addition, draft and final versions of this report and the other reports that I produce in connection with the Scheme may be distributed to SCOR UK's and R&Q Gamma's legal advisers and companies within the corporate groups to which SCOR UK and R&Q Gamma belong as necessary in connection with the transaction. Should any of my reports be distributed to any of the entities listed in the previous sentence, no reliance should be placed on my reports by these entities, and we do not assume any liability to either these entities or to any other third parties that choose to rely on my reports.

1.34 SCOR UK shall be responsible for any confidentiality breaches that arise from the distribution of my reports to SCOR UK's legal advisers, to companies within the group to which SCOR UK belongs or to any other entities to which it releases my reports. R&Q Gamma shall be responsible for any confidentiality breaches that arise from the distribution of my reports to R&Q Gamma's legal advisers, to companies within the group to which R&Q Gamma belongs or to any other entities to which it releases my reports.

1.35 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 a website hosted by the R&Q Group in connection with the Scheme.

1.36 However, notwithstanding the above, Grant Thornton does not accept any liability to any party other than SCOR UK, R&Q Gamma and the Court who chooses to act on the basis of this report.

1.37 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.

1.38 The underlying figures in this report are calculated to many decimal places. As a result, in the presentation of the figures in the various tables, there may be reconciliation differences due to the effect of rounding.

Summary and Supplementary Reports

1.39 I have prepared a summary of this report to be included in the information sent to the policyholders of SCOR UK and R&Q Gamma (“the Summary Report”).

1.40 Shortly before the date of the Court hearing, at which an order sanctioning the Scheme will be sought, I will prepare an update to this report covering any relevant matters which have arisen since the date of this report (“the Supplementary Report”).

1.41 I consent to the final versions of my Summary Report and Supplementary Report being made available on the website to be hosted by the R&Q Group in connection with the Scheme.

1.42 However, Grant Thornton does not accept any liability to any party other than SCOR UK, R&Q Gamma and the Court who chooses to act on the basis of any of my reports.

Professional Guidance

1.43 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.

1.44 This report has been prepared in accordance with 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”.

1.45 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.

1.46 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.

1.47 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.

1.48 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 the conclusions that I have drawn represent my true and complete professional opinions on the matters to which they refer.

2 Executive Summary

Overview of the Scheme

2.1 This report considers the impact of the proposed transfer of a portfolio of insurance business from SCOR UK to R&Q Gamma. The transferring policyholders are described in paragraph 1.18.

2.2 The purpose of the Scheme is to transfer the legal obligations relating to the Transferring Portfolio from SCOR UK to R&Q Gamma.

2.3 I understand from SCOR UK that managing a run-off book does not form a core element of its business strategy and, as such, the management of the run-off of the Anglo-French portfolio has been outsourced to the R&Q Group. I further understand from SCOR UK that, from its perspective, the purpose of the LPTA and the resulting Scheme is to dispose of a non-core portfolio which it is no longer underwriting.

2.4 The R&Q Group specialises in the management of insurance portfolios in run-off. I understand from R&Q Gamma that it intends to fulfil its contractual obligations with respect to the transferring portfolio in an orderly run-off and, in the process, hopes to make a saving on the current reserves.

Background to the parties

2.5 SCOR UK was established as SCOR (UK) Reinsurance Company Limited in 1977 and changed its name to SCOR UK in 1993. It underwrites commercial insurance and facultative reinsurance of large corporate risks on a global basis. It also underwrites commercial insurance business via a number of Managing General Agents ("MGAs") with selected insurance counterparties.

2.6 R&Q Gamma, previously known as RLGIL, was acquired by the R&Q Group in 2016 and is a non-life insurance company which specialises in the management of insurance portfolios in run-off. R&Q Gamma currently manages the insurance business it underwrote as RLGIL, the business underwritten by other entities in the RLM corporate group and a book of Solicitors Professional Indemnity ("Solicitors PI") business which was transferred to R&Q Gamma from SIMIA in September 2018.

My approach

2.7 My approach to assessing the likely effects of the Scheme on policyholders is to:

- Understand the nature and structure of the Scheme
- Identify the groups of policyholders that would be affected
- Assess the financial positions of the companies involved in the Scheme
- Consider the implications of the Scheme on the level of security provided to the affected policyholders
- Consider the potential impact on levels of customer service
- Consider other financial factors that might affect policyholders
- Consider other non-financial factors that might affect policyholders
- Consider the implications of the Scheme on reinsurers.

2.8 In order to consider the effect of the proposed Scheme on each of the entities and groups of policyholders concerned, I have been provided with a range of published and internal documentation by SCOR UK and R&Q Gamma. A listing of the documents provided to me is shown in Appendix A.

2.9 This report is based on data and information at 31 December 2018, being the most recent date at which financial information was available at the time of my review. For some items, more up to date versions will be available by the time of the first Court hearing. I will issue a Supplementary Report containing the most up to date information available to me prior to the final Court hearing.

2.10 In forming my opinion, I have conducted a number of interviews of key personnel responsible for core functions in SCOR UK and R&Q Gamma. I have also placed reliance on the information provided to me by SCOR UK and R&Q Gamma.

2.11 I have placed reliance on estimates of the claims reserves in respect of each of SCOR UK and R&Q Gamma. In Section 7, I describe the information that I have relied upon in relation to the reserves of SCOR UK and R&Q Gamma and the analyses I have undertaken to assure myself that it is reasonable to rely on that information.

2.12 Further to this, I have placed reliance on estimates of the regulatory capital requirements in respect of each of SCOR UK and R&Q Gamma. In Section 8, I describe the information that I have relied upon in relation to the capital requirements of SCOR UK and R&Q Gamma and the analyses I have undertaken to assure myself that it is reasonable to rely on that information.

Findings

2.13 The findings in this report are summarised in this section. The detailed explanation behind these conclusions follows in the body of this report.

2.14 I have identified three distinct groups of policyholders:

- The policyholders transferring from SCOR UK to R&Q Gamma under the Scheme (the "Transferring Portfolio")
- The policyholders remaining in SCOR UK following the Scheme (the "Remaining Portfolio")
- The existing policyholders of R&Q Gamma (the "Existing R&Q Gamma Portfolio").

Policyholder security

2.15 Below, I set out my opinions on policyholder security. The evidence supporting these opinions is discussed in Section 7, 8 and 9 of this report.

Transferring policyholders

2.16 As a result of the Scheme, the transferring policyholders would transfer from a large insurer writing new business to a smaller insurer which specialises in the management of legacy portfolios.

2.17 In my opinion, the implementation of the Scheme would not have a material adverse impact on the security of the transferring policyholders, including under insolvency. These policyholders would be moving to a company that I consider to have a sufficient level of capital in order to meet policyholder obligations.

2.18 It should be noted that this conclusion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL, in relation to the Transferring Portfolio, which will be in force on the Effective Date. As discussed in paragraph 1.20, the Scheme will not proceed if the ADC is not in place on the Effective Date.

Policyholders remaining in SCOR UK

2.19 With respect to the policyholders remaining in SCOR UK, 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 SCOR UK's overall business and I also consider that SCOR UK has a sufficient level of capital in order to meet policyholder obligations following the Scheme.

Existing policyholders of R&Q Gamma

2.20 In my opinion, the existing policyholders of R&Q Gamma will be impacted by the Scheme.

2.21 The existing policyholders of R&Q Gamma will be impacted by the Scheme because very little surplus capital will be injected into R&Q Gamma as a result of the Scheme. Therefore, the capital within R&Q Gamma that is currently available to meet the obligations of the existing policyholders would be reallocated to meet the obligations of both the existing policyholders and the transferring policyholders following the Scheme.

2.22 The Scheme will also have an impact on the protections afforded to the policyholders currently in R&Q Gamma in the event of insolvency of R&Q Gamma. This is because, after the Scheme, there would be more policyholders who would seek payment of their claims from the funds left within R&Q Gamma in the event of insolvency. This means that there is a higher chance of the existing policyholders' claims not being paid by R&Q Gamma in the event of insolvency.

2.23 In addition, the existing reinsurance policyholders of R&Q Gamma currently rank below the direct policyholders of R&Q Gamma in the event of an insolvency. Following the Scheme, the existing reinsurance policyholders of R&Q Gamma would rank below both the direct policyholders of R&Q Gamma but also the direct policyholders in the Transferring Portfolio. This means that there is a higher chance of the existing reinsurance policyholders' claims not being paid by R&Q Gamma in the event of insolvency. Whilst this adversely impacts the reinsurance policyholders, I do not consider this to be represent a material adverse impact in the policyholders' security because I consider that R&Q Gamma will have a sufficient level of capital to meet policyholder obligations following the Scheme.

2.24 In my opinion, the implementation of the Scheme will not have a material adverse impact on the security of the existing policyholders of R&Q Gamma. This is because I consider that R&Q Gamma will have a sufficient level of capital to meet policyholder obligations following the Scheme.

2.25 As above, it should be noted that this conclusion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL, in relation to the Transferring Portfolio, which will be in force on the Effective Date.

Levels of service

2.26 The transferring policyholders are currently with an insurer for which the management of a run-off book does not form a core element of its business strategy. SCOR UK therefore does not have the specialist resources for managing a run-off portfolio of this nature and therefore currently outsources the management to RQCS.

2.27 Since RQCS will continue to manage the run-off of the Transferring Portfolio, the transferring policyholders will not see any material changes to the level of service provided as a result of the Scheme.

2.28 The remaining SCOR UK policyholders and the existing R&Q Gamma policyholders will not see any material changes to the level of service provided as a result of the Scheme.

2.29 Therefore, I do not anticipate any material changes to the level of service provided to any of the groups of policyholders following the Scheme. The evidence supporting this opinion is discussed in Section 11 of this report.

Other financial and non-financial considerations

2.30 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 that I have considered.

2.31 The other financial factors that I have considered are:

- Investment strategy implications
- Implications of the Scheme on ongoing expense levels
- Pension arrangements
- Tax implications
- Liquidity
- New business strategy
- Other portfolio transfers.

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

- Regulatory regime
- Complaints
- Brexit
- Management and governance framework.

2.33 The evidence supporting this opinion is discussed in Sections 10 and 11 of this report.

Impact on reinsurers

2.34 There are no reinsurers transferring from SCOR UK to R&Q Gamma as a result of the Scheme.

2.35 I do not consider there to be a material adverse impact to AIEL, the existing reinsurer of the Transferring Portfolio under the LPTA, as a result of the Scheme.

2.36 I do not consider there to be a material adverse impact on the reinsurers of SCOR UK or R&Q Gamma as a result of the Scheme.

2.37 The evidence supporting these opinions is discussed in Section 10 of this report.

Conclusion

2.38 I conclude that I do not consider that the Scheme will result in material detriment to any policyholders affected by the Scheme, relative to their current situation and therefore, I see no reason why the Scheme should not proceed.

2.39 My conclusion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL, in relation to the Transferring Portfolio, which will be in force on the Effective Date.

2.40 It also assumes that, aside from the capital reduction planned for 2019 (as discussed in paragraph 4.25), there are no further planned capital extractions from R&Q Gamma. I note that any capital extractions from R&Q Gamma, including the capital reduction planned for 2019, are subject to approval by the PRA.

3 Scope

Purpose of this report

3.1 I am required as the Independent Expert to consider the likely effects of the Scheme on policyholders, including whether or not the Scheme will result in material detriment to any policyholders affected by the Scheme, relative to their current situation. The purpose of this report is to set out my considerations. For the purposes of this report, policyholders include existing and future claimants.

What is a material detriment?

3.2 Material detriment in the context of this report means any material adverse effect on:

- The security of policyholders' contractual rights
- The levels of service provided to policyholders.

3.3 For the purposes of this report, a material adverse effect is defined as a negative change that is considered to have a material impact on policyholders. A material impact is one that could cause a policyholder to take a different view on the future performance of their policy.

3.4 When considering policyholder security, this would be the case if the Scheme would result in a substantially greater probability of a policyholder's claim not being paid, in comparison to the probability of a policyholder's claim not being paid due to day-to-day fluctuations in the value of assets in the company's investment portfolio, or from the reporting of a particularly large but not extreme claim.

3.5 In terms of non-financial impacts, an assessment of materiality is more subjective but, as an example, a change in claims handling process that added a few hours to the customer response time is probably not material. However, if it added a few days then it could be, depending on the type of claim.

Policyholders affected by the Scheme

3.6 This report considers the effect of the Scheme on the following groups of policyholders:

- The policyholders transferring from SCOR UK to R&Q Gamma under the Scheme
- The policyholders remaining within SCOR UK following the Scheme
- The existing policyholders of R&Q Gamma.

3.7 I have not considered the impact of the Scheme on any policyholders that subsequently effect policies with either SCOR UK or R&Q Gamma.

Reinsurers affected by the Scheme

3.8 I have considered the impact of the Scheme on any reinsurers that provide or will provide protection to the Transferring Portfolio. A material adverse impact on a reinsurer is one that could cause the reinsurer to take a different view on the future performance of the reinsurance policy that it has written. A hypothetical example could be that the Scheme gives rise to a non-trivial additional exposure for the reinsurer.

Alternative schemes or proposals considered

3.9 I am not aware of any alternative scheme or proposal so I have not considered it necessary to discuss alternative proposals within this report.

Future changes of ownership

3.10 I have not considered any future changes of ownership in either SCOR UK or R&Q Gamma. I am not aware of any proposals to change ownership at the time of writing this report.

Exchange rates

3.11 The figures used throughout this report are shown in Pound Sterling. All of the information provided to me in respect of both SCOR UK and R&Q Gamma has been presented in Pound Sterling.

3.12 Information provided to me in respect of overseas entities within the SCOR Group has been presented in the relevant local currency. I have converted from the local currency to Pound Sterling at the prevailing exchange rate at 31 December 2018.

Reliance on data

3.13 I have neither audited nor have I independently verified the data and information supplied to me. However, I have reviewed it for reasonableness and for internal consistency.

3.14 A list of the data provided to me can be found in Appendix A.

3.15 I have checked that all of the information I have been provided with 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.

3.16 I have been provided with all the information that I have requested.

Peer review process

3.17 In accordance with the Institute and Faculty of Actuaries' Guidance APS X2 on the Review of Actuarial Work and the internal control processes of Grant Thornton, the work documented in this report has been peer reviewed by a suitably qualified person (an Actuary within my own firm who has considerable experience of Part VII transfers and of working in capital modelling and reserving in the general insurance market). The peer review process has included a review of the methodology and key assumptions used and discussion of the key elements of the analysis.

Supplementary Report

3.18 Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a Supplementary Report covering any relevant matters which might have arisen since the date of this report.

4 Methodology

4.1 In this section, I describe my approach to assessing the Scheme.

4.2 My conclusions have been drawn by undertaking the following activities:

- Reviews of documentation received from SCOR UK and R&Q Gamma
- Discussions with key personnel at both SCOR UK and R&Q Gamma
- By undertaking my own analysis, where necessary.

4.3 In particular:

- My view on the insurance liabilities of the Transferring Portfolio is based upon my review of the calculations and documentation provided to me by SCOR UK and the R&Q Group, and discussions with the relevant individuals at SCOR UK and the R&Q Group
- My view on the insurance liabilities of SCOR UK is based upon my review of documentation provided to me by SCOR UK, and discussions with the relevant individuals at SCOR UK
- My view on the insurance liabilities of R&Q Gamma is based upon my review of documentation provided to me by R&Q Gamma, and discussions with the relevant individuals at R&Q Gamma
- My view on the capital requirements and assessments of SCOR UK is based upon my review of the calculations and documentation provided to me by SCOR UK, and discussions with the relevant individuals at SCOR UK
- My view on the capital requirements and assessments of R&Q Gamma is based upon my review of the calculations and documentation provided to me by R&Q Gamma, and discussions with the relevant individuals at R&Q Gamma.

4.4 My approach to assessing the Scheme has been to:

- Understand the nature and structure of the Scheme and identify the groups of policyholders that will be affected
- Assess the financial positions of SCOR UK and R&Q Gamma
- Consider the implications of the Scheme for the level of security, including under insolvency, being offered to each group of policyholders
- Consider the potential impact on levels of customer service
- Consider other factors that might affect policyholders
- Consider the implications of the Scheme for reinsurers.

4.5 I provide additional details of each of the activities listed in paragraph 4.4 in the remainder of this section.

Understand the nature and structure of the Scheme and identify the groups of policyholders that would be affected

4.6 I have discussed the nature and the structure of the Scheme with SCOR UK and R&Q Gamma and reviewed relevant documentation that I have received.

Assess the financial positions of SCOR UK and R&Q Gamma

4.7 The level of security provided to policyholders of an insurance company depends on the available capital of the company and, in particular, the probability that this level of capital is sufficient to make claim payments as they fall due.

4.8 Insurers are subject to capital requirements imposed by regulators. In the case of SCOR UK and R&Q Gamma, this regulator is the PRA. These capital requirements are discussed in more details in paragraphs 0 to 6.9. The level of available capital compared to regulatory capital requirements is a measure of the security provided to the policyholders.

4.9 Insurers are also required to undertake an assessment of their own risks and solvency needs and hence their view of the required capital. Another measure of the security provided to policyholders is the level of available capital compared to the insurer's view of required capital (also known as its "economic capital requirement").

4.10 I have considered the balance sheets of SCOR UK and R&Q Gamma, on a regulatory basis, as part of my assessment of their relative financial strengths, including the net assets and level of capital.

4.11 I have compared the balance sheets of SCOR UK and R&Q Gamma prior to the Scheme with the balance sheets following the Scheme based on data at 31 December 2018, being the most recent date at which financial information was available. This is discussed in Section 8.

4.12 I have also compared the coverage of the Solvency Capital Requirement ("SCR") prior to the Scheme with the coverage of the SCR following the Scheme for both SCOR UK and R&Q Gamma based on projections at 31 December 2019. In my view, this date is sufficiently close to the expected Effective Date of the Scheme to enable me to use the SCR coverage ratios at this date as a proxy for those at the expected Effective Date.

4.13 Due to changes in R&Q Gamma's investment strategy since 31 December 2018, I have also considered R&Q Gamma's projected asset allocation at 31 December 2019.

Assess the claims reserve of SCOR UK and R&Q Gamma

4.14 An important part of the security provided to policyholders is the strength of the claims reserves – the amount of money the insurer puts aside to pay out on unpaid reported claims, unreported claims and future claims in respect of policies already sold. The claims reserves generally form the largest part of the liabilities for a general insurer.

4.15 I have therefore considered the claims reserves included on the balance sheet for each of SCOR UK and R&Q Gamma. This is discussed in Section 7.

Assess the capital modelling undertaken and the capital positions of SCOR UK and R&Q Gamma

4.16 To further review the financial strength of SCOR UK and R&Q Gamma, I have reviewed the modelling undertaken by each insurer to assess its required regulatory capital and each insurer's own view of its required capital.

4.17 In addition, I have undertaken my own testing to understand the robustness of the capital bases of SCOR UK and R&Q Gamma to various stresses and to assess whether SCOR UK and R&Q Gamma will be able to meet policyholder obligations over the run-off of their respective insurance liabilities.

4.18 These reviews are discussed further in Section 8.

Impact of the commutations of the Compre and Armour Risk reinsurance arrangements on financial information provided at 31 December 2018

4.19 As discussed in paragraph 1.16, Compre and Armour Risk's reinsurance of the Transferring Portfolio was commuted by SCOR UK after 31 December 2018. As a result, SCOR UK's financial information at 31 December 2018 has been prepared and reported prior to these commutations.

4.20 The claims reserves for the Transferring Portfolio equate to less than 1% of SCOR UK's overall claims reserves. In addition, AIEL is reinsuring SCOR UK for 100% of the Transferring Portfolio under the LPTA. As a result, the Compre and Armour Risk reinsurance arrangements were immaterial in the context of SCOR UK's overall business at 31 December 2018. I therefore consider that SCOR UK's financial information at 31 December 2018 is appropriate to use and I have not requested that SCOR UK prepares indicative financial and capital information at 31 December 2018 on the basis that the commutations of the Compre and Armour Risk reinsurance arrangements had become effective prior to that date.

4.21 R&Q Gamma's financial information at 31 December 2018, showing the impact of the Scheme, has also been prepared prior to these commutations becoming effective. Since the Transferring Portfolio is more material to R&Q Gamma, for simplicity and to provide a like-for-like comparison with figures shown at other dates, I have requested that R&Q Gamma prepares indicative financial and capital information at 31 December 2018 on the basis that the commutations of the Compre and Armour Risk reinsurance arrangements had already become effective prior to 31 December 2018.

4.22 I have discussed with R&Q Gamma its approach to producing this indicative information and I am satisfied that it has taken the appropriate steps to ensure that this information provides a reasonable view of the financial position of R&Q Gamma at 31 December 2018, both before and after the Scheme, and on the basis that the commutations of the Compre and Armour Risk reinsurance arrangements had become effective prior to 31 December 2018.

Impact of R&Q Gamma's recall of its intra-group loan to RQIH

4.23 R&Q Gamma has provided an intra-group loan to its parent company, RQIH. At 31 December 2018, the outstanding value of the loan was £14.3m on a UK GAAP basis and £14.0m on a Solvency II basis. The difference in valuations is due to differing accounting principles between GAAP and Solvency II. I understand from R&Q Gamma that it is in the process of reducing its intra-group loan to RQIH.

4.24 I understand from R&Q Gamma that, on a GAAP basis, RQIH will repay £5.0m of the intra-group loan to R&Q Gamma during 2019. This is equivalent to £4.7m on a Solvency II basis.

4.25 In addition, I understand from R&Q Gamma that, during 2019, it plans to action a capital reduction for a further £5.0m (also £5.0m on a Solvency II basis) which will be implemented by way of a loan waiver. In order to do so, approval is required from the PRA for the capital reduction. Should this approval be granted, the outstanding value of the intra-group loan will reduce by £5m and the value of R&Q Gamma's share capital will also reduce by £5m on a GAAP basis. On a Solvency II basis, the impact will be a reduction in Own Funds of £5m. This will have the impact of materially reducing R&Q Gamma's SCR and MCR coverage ratios.

4.26 It follows that, if RQIH repays £5m (£4.7m on a Solvency II basis) of the intra-group loan to R&Q Gamma and R&Q Gamma is successful in its application for the £5m capital reduction, these combined actions will reduce the loan from £14.3m to £4.3m on a GAAP basis and from £14.0m to £4.3m on a Solvency II basis. On the other hand, if RQIH repays £5m of the intra-group loan to R&Q Gamma but R&Q Gamma is not successful in its application for the capital reduction, the loan will reduce to from £14.3m to £9.3m on a GAAP basis and from £14.0 to £9.3m on a Solvency II basis.

4.27 Given that it is not certain that the application for the capital reduction will be approved by the PRA, I have assessed the level of security provided to policyholders of R&Q Gamma under two alternative scenarios:

- Scenario A - on the basis that RQIH has repaid £5m (£4.7m on a Solvency II basis) of its intra-group loans and R&Q Gamma is successful in its application for the £5m (also £5m on a Solvency II basis) capital reduction prior to 31 December 2019.
- Scenario B – on the basis that RQIH has repaid £5m (£4.7m on a Solvency II basis) of its intra-group loans but R&Q Gamma is not successful in its application for the £5m (also £5m on a Solvency II basis) capital reduction prior to 31 December 2019.

4.28 R&Q Gamma has informed me that it expects that the outstanding intra-group loan will be repaid by RQIH by 31 December 2020, regardless of whether or not R&Q Gamma is successful in its application for the capital reduction discussed in paragraph 4.25.

Impact of the ADC with AIEL on the financial information provided by R&Q Gamma

4.29 As discussed in paragraph 1.20, R&Q Gamma will put the ADC in place with AIEL in relation to the Transferring Portfolio. It will come into force on the Effective Date.

4.30 The ADC cover is a recent development and therefore the financial information provided by R&Q Gamma does not allow for the impact of the ADC being in place. Nevertheless, I consider the financial information provided to me by R&Q Gamma appropriate to use for the purpose of this report for the reasons provided below.

4.31 The attachment point of the ADC is significantly above R&Q Gamma's current estimate of the claims reserves for the Transferring Portfolio. As a result, I consider it unlikely that a scenario would arise where R&Q Gamma makes reinsurance recoveries on the Transferring Portfolio from the ADC.

4.32 As a result, I do not believe that R&Q Gamma's estimates of the GAAP reserves and Solvency II technical provisions for the Transferring Portfolio are materially misstated in not allowing for the reinsurance recoveries from the ADC.

4.33 R&Q Gamma's projected capital requirements after the Scheme do not allow for the fact that there will be a reduced risk of losses on a net basis as a result of a deterioration in the reserves of the Transferring Portfolio or for the increase in risk of losses due to reinsurer defaults, both of which arise as a result of the ADC being in place. However, for the reasons given in paragraphs 4.31 and 4.32, and since AIEL has a high credit rating, I do not consider the omission of the ADC from these calculations to materially impact the capital requirements and hence the SCR coverage ratios presented in this report. In addition, for reasons discussed in Section 8, I place more reliance on my stress testing of the robustness of R&Q Gamma's capital base than on its regulatory capital requirements.

4.34 I therefore consider the financial information provided to me by R&Q Gamma appropriate to use for the purpose of this report.

Consider the implications of the Scheme for the level of security, including under insolvency, being offered to each group of policyholders

4.35 I have considered each group of policyholders both before and after the Scheme and the relative level of security available to them, including under insolvency. This is discussed further in Section 9.

Consider the potential impact on levels of customer service

4.36 I have considered how the level of customer service, specifically claims handling and policy servicing, experienced by each group of policyholders could change following the Scheme. This is discussed in paragraphs 11.3 to 11.21

Consider other financial factors that might affect policyholders

4.37 Through my discussions with SCOR UK and R&Q Gamma and reviews of documentation, I have also considered various other financial factors that might affect policyholders, namely the following:

- Investment strategy implications
- Implications of the Scheme on ongoing expense levels
- Pension arrangements
- Tax implications
- Liquidity position
- Impact on existing reinsurers
- Impact of new business strategy
- Impact of other transfers.

4.38 These issues are discussed in Section 10.

Consider other non-financial factors that might affect policyholders

4.39 Through my discussions with SCOR UK and R&Q Gamma and reviews of documentation, I have also considered various other non-financial factors that might affect policyholders, namely the following:

- ‘Brexit’
- Governance and management frameworks
- Complaints
- The Scheme not becoming effective.

4.40 These issues are discussed in Section 11 of this report.

Consider the communication strategy

4.41 Through my discussions with SCOR UK and R&Q Gamma and reviews of documentation, I have also considered the communication strategy that they are planning to use to notify impacted policyholders and reinsurers about the Scheme:

4.42 These issues are discussed in Section 12 of this report.

Consider the implications of the Scheme for reinsurers

4.43 I have considered the implications of the Scheme on any reinsurers that will provide protection to the Transferring Portfolio. This is discussed in paragraphs 10.35 to 10.40.

5 Background

Purpose of the Scheme

5.1 The purpose of the Scheme is to transfer the legal obligations relating to the Transferring Portfolio from SCOR UK to R&Q Gamma.

5.2 I understand from SCOR UK that managing a run-off book does not form a core element of its strategy and, as such, the management of the run-off of the Anglo-French portfolio has been outsourced to the R&Q Group. I further understand from SCOR UK that, from its perspective, the purpose of the LPTA and the resulting Scheme is to dispose of a non-core portfolio which it is no longer underwriting.

5.3 The R&Q Group specialises in the management of insurance portfolios in run-off. I understand from R&Q Gamma that it intends to fulfil its contractual obligations with respect to the transferring portfolio in an orderly run-off and, in the process, hopes to make a saving on the current reserves.

Background to SCOR UK

5.4 SCOR UK was established in 1977 as SCOR (UK) Reinsurance Company Limited, subsequently changing its name to SCOR UK Company Limited in 1993. It is a non-life insurance and reinsurance company domiciled in the UK which has been authorised by the PRA and is regulated by the FCA and the PRA.

The SCOR Group

5.5 SCOR UK is 74% owned by SCOR (UK) Group Limited and 26% owned by SCOR Services UK Limited and is ultimately owned by SCOR SE, the ultimate parent company for the SCOR Group. SCOR SE is a global reinsurance company domiciled in France and is listed on the Euronext Paris, the French Stock Exchange. It is one of the largest insurance and reinsurance companies in the world and is subject to prudential regulation by Autorité des marchés financiers ("AMF"), the French financial market authority, and Autorité de Controle Prudentiel ("ACPR"), the French insurance and reinsurance regulator.

SCOR UK's insurance portfolios

5.6 SCOR UK underwrites commercial insurance and facultative reinsurance of large corporate risks on a global basis, with the largest locations of risk being North America and Europe, followed by Asia Pacific. In addition, SCOR UK underwrites commercial insurance business via a number of Managing General Agents ("MGAs") with selected insurance counterparties.

5.7 SCOR UK underwrites a range of commercial insurance products, the most material by premium being property; marine, aviation and transport ("MAT") and general liability. It cedes a large percentage of this business to reinsurers and retrocessionaires, both within the SCOR Group and externally (65% in 2018).

5.8 SCOR UK also has a Canadian branch which is authorised by the Office of the Supervisor of Financial Institutions ("OFSI") which currently underwrites commercial insurance in Canada and cedes 95% of its insurance business to SCOR Canada Reinsurance Company.

5.9 The table below shows a breakdown of SCOR UK's gross written premium ("GWP") in 2018.

Table 1: Breakdown of SCOR UK's business by class of business (£m)

Class of business	2018 GWP	Percentage of business
Direct business		
Marine, aviation and transport	72.9	22%
Fire and other damage to property	132.1	40%
General liability	23.4	7%
Credit and suretyship	12.7	4%
Proportional reinsurance		
Marine, aviation and transport	15.1	5%
Fire and other damage to property	0.3	0%
Non-proportional reinsurance		
Casualty	19.6	6%
Marine, aviation and transport	5.8	2%
Property	50.3	15%
Total	**332.3**	

The Transferring Portfolio

5.10 Anglo French Ltd ("Anglo-French") was formed in 1958 by a pool of French insurance companies and English & American Insurance Company Limited to write US liability insurance through a combination of direct business and facultative and treaty reinsurance.

5.11 Anglo-French underwrote business from 1958 to 1969, following which the business was placed into run-off. Following the insolvency of E&A, SCOR UK assumed all the risks in relation to the Anglo-French portfolio in 1990. The other pool members agreed to reinsure SCOR UK for their original shares of the portfolio. All of these reinsurance arrangements, with the exception of two, had been commuted at 31 December 2018. At 31 December 2018, Compre was reinsuring 4.5% of the Anglo-French portfolio and Armour Risk was reinsuring 8%. These two reinsurance arrangements have since been commuted.

5.12 The policies included in the Anglo-French portfolio have been in run-off since 1969 and, as a result, the substantial majority of the claims remaining in the Anglo-French portfolio relate to pollution, asbestos and other latent claims. This is because these types of claims tend to emerge a long time after the expiry of the policies. Having said that, it is worth noting that, when the policies were underwritten, I would not have expected either the underwriters or the policyholders to have been aware that these risks existed and were covered by the policies, and that claims would still be being paid in respect of these policies at this stage.

5.13 At 31 December 2018, there were 81 Anglo-French policies for which either a claim was outstanding or a precautionary claim notification had been made. The gross open claims reserves were approximately \$3.1m (approximately £2.5m). Of these reserves, 25% relate to 62 policyholders with direct insurance policies and 75% relate to cedants with reinsurance policies. 58% of the open claims reserves relate to asbestos claims, 31% to pollution claims and 11% to other types of claims.

5.14 I understand from SCOR UK that it has decided to sell the Anglo-French insurance portfolio and has agreed to transfer the liabilities in the portfolio to R&Q Gamma under the provisions of the FSMA.

Existing reinsurance of the Transferring Portfolio with AIEL

5.15 In preparation for the Scheme, SCOR UK entered into an LPTA with AIEL in August 2017. AIEL is an insurer within the same corporate group as R&Q Gamma. Under this LPTA, AIEL was reinsuring SCOR UK for 100% of the Anglo-French portfolio and was then recovering 4.5% of the gross claims from Compre and 8% of the gross claims from Armour Risk (the net effect being that AIEL was reinsuring 87.5% of the Anglo-French portfolio). Since the commutations of the Compre and Armour Risk reinsurance arrangements, AIEL has continued to reinsure SCOR UK for 100% of the Anglo-French portfolio but has not sought reinsurance recoveries from Compre and Armour Risk. As a result, AIEL's net exposure is now 100% of the Anglo-French portfolio.

5.16 The LPTA will terminate at the Effective Date if the Scheme is approved. If the Scheme is not approved, the LPTA will remain in place.

5.17 Further details regarding the terms of the LPTA are provided below.

Reinsurance of the Transferring Portfolio after the Scheme

5.18 As discussed in paragraph 1.20, prior to the Effective Date, R&Q Gamma will enter into the ADC with AIEL which will attach at £8.25m. This reinsurance will be in force from the Effective Date.

Claims handling and servicing of the Transferring Portfolio

5.19 Claims handling and policy servicing for the Transferring Portfolio is currently performed by RQCS under a Claims Handling and Administration Services Agreement with SCOR UK (the "Services Agreement"). In addition, RQCS is currently responsible for complaints handling for the Transferring Portfolio, acting on behalf of SCOR UK as per the Services Agreement

5.20 If the Scheme is approved, this Services Agreement will terminate. However, RQCS will remain responsible for the claims handling and servicing of the Transferring Portfolio following the Scheme under the existing arrangements with R&Q Gamma.

5.21 If the Scheme is not approved, the Services Agreement will remain in place and RQCS will continue providing the claims handling and servicing of the Transferring Portfolio.

Complaints handling for the Transferring Portfolio

5.22 RQCS is currently responsible for complaints handling for the Transferring Portfolio, acting on behalf of SCOR UK as per the Services Agreement. However, the ultimate responsibility for complaints handling lies with SCOR UK.

5.23 Following the Scheme, RQCS will remain responsible for complaints handling for the Transferring Portfolio, acting on behalf of R&Q Gamma. However, the ultimate responsibility for complaints handling will lie with R&Q Gamma.

5.24 If the Scheme is not approved, the Services Agreement will remain in place and RQCS will continue to be responsible for complaints handling for the Transferring Portfolio, acting on behalf of SCOR UK.

Background to R&Q Gamma

5.25 R&Q Gamma is a UK regulated non-life insurance company which is authorised by the PRA and regulated by the PRA and the FCA. It was acquired by Randall & Quilter Investment Holdings Ltd ("RQIH") in December 2016 from The Royal London Mutual Insurance Society Limited ("RLM").

The R&Q Group

5.26 R&Q Gamma remains a wholly owned subsidiary of RQIH, the ultimate parent company of the R&Q Group, which is domiciled in Bermuda and regulated by the Bermuda Monetary Authority ("BMA").

5.27 At 31 December 2018, RQIH was holding excess assets above liabilities, on a GAAP basis, of £176.0m. In addition, the R&Q Group has publicly announced that, since 31 December 2018, RQIH has raised in the region of £100m through an oversubscribed placing of new Ordinary Shares to investors.

The Existing R&Q Gamma Portfolio

5.28 The insurance policies currently managed by R&Q Gamma consists of two insurance portfolios which are both in run-off. R&Q Gamma does not currently sell insurance business.

The RLGIL portfolio

5.29 The first of these portfolios consists of insurance business underwritten by R&Q Gamma under its former name Royal London General Insurance Company Limited ("RLGIL"), while it was part of the RLM corporate group, and business underwritten by other entities in the RLM corporate group and transferred to R&Q Gamma during that period. The business in the RLGIL portfolio was underwritten between 1984 and 1999.

5.30 R&Q Gamma wrote household and commercial insurance policies through RLM's sales force and brokers. It also wrote direct insurance and facultative reinsurance through a London Underwriting Room ("LUR"). It was closed to new business in 1999. The business transferred from other RLM group companies consists of household, accident and health, motor, employers' liability and public liability business. The business was transferred to R&Q Gamma in December 2000.

5.31 The RLGIL portfolio is protected by three layers of outwards Excess of Loss reinsurance with a combined coverage of £900k in excess of £100k. The portfolio is reinsured with a combination of AA-rated, A-rated and unrated reinsurers. The unrated reinsurers are compliant with Solvency II equivalent solvency regimes.

The SIMIA portfolio

5.32 The second portfolio is a book of Solicitors PI business which was transferred to R&Q Gamma from SIMIA in September 2018. This book of Solicitors PI insurance was underwritten by SIMIA from 1986 to 2011 inclusive and covered firms of solicitors based in England and Wales.

5.33 All of the Solicitors PI business was underwritten in the UK with a small amount of business covering risks arising out of branches of the law firms which were providing advice in other locations, including Europe and North America.

5.34 The SIMIA portfolio is protected by several layers of outwards Excess of Loss reinsurance for each underwriting year. The portfolio is primarily reinsured with reinsurers rated A and above. However, there is also exposure to an unrated reinsurer, although this reinsurer is compliant with a Solvency II equivalent solvency regime.

Overview of the LPTA

5.35 As discussed in paragraph 5.15, AIEL is currently reinsuring SCOR UK for 100% of the Transferring Portfolio via the LPTA.

Claims Float

5.36 An account (the “Claims Float”) has been created from which claim payments relating to the Anglo-French portfolio are made. The Claims Float is operated by RQCS. When the funds in the Claims Float are exhausted, SCOR UK provides further advances to RQCS in order to top up the Claims Float. These advances are taken from the LPTA premium of $8.5m. The funds within the Claims Float remain the property of SCOR UK until the Scheme becomes effective or the LPTA is terminated, if earlier.

Policy administration under the LPTA

5.37 Under the terms of the LPTA between SCOR UK and AIEL and the Services Agreement between SCOR UK and RQCS, RQCS is responsible for managing the claims and the policy administration of the Anglo-French portfolio.

5.38 Under this Services Agreement, RQCS submits a bordereau to SCOR UK shortly after the end of each quarter which provides information on claims paid and claims arising during the quarter, potential claims disputes and litigation and reinsurance recoveries.

5.39 The Services Agreement will terminate at the Effective Date if the Scheme is approved. If the Scheme is not approved, the Services Agreement will remain in place.

Termination rights

5.40 SCOR UK has the option to terminate the LPTA in the following circumstances:

- An insolvency occurs in relation to AIEL
- AIEL ceases to be authorised by applicable law or regulation to carry out its rights and obligations under the LPTA
- AIEL fails to comply with its obligations regarding the payment of gross claims within 15 business days of written notice by SCOR UK requiring it to do so
- The performance by AIEL of the whole or any part of the LPTA is prohibited or rendered impossible.

5.41 AIEL does not have the option to terminate the LPTA.

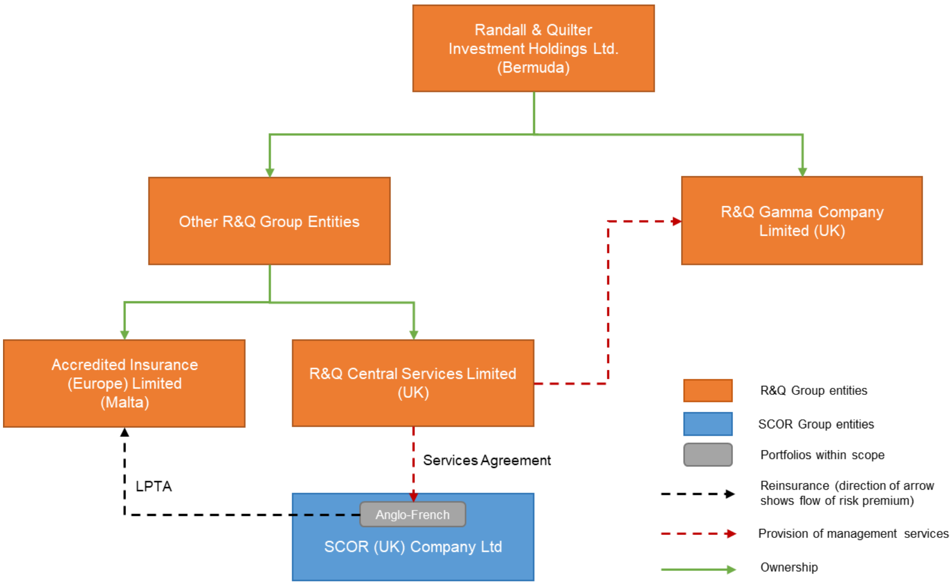
5.42 The LPTA will terminate at the Effective Date if the Scheme is approved. If the Scheme is not approved, the LPTA will remain in place.

The Scheme

Overview of structure prior to the Scheme

5.43 The diagram below illustrates the structure of the businesses prior to the Scheme.

Figure 1: Simplified structure of businesses prior to the Scheme (showing main entities only)



The Scheme

5.44 SCOR UK wishes to transfer:

- The insurance liabilities in relation to the Transferring Portfolio
- All rights and title in the records that related to the Transferring Portfolio.

Policyholders transferring under the Scheme

5.45 Following the Scheme, all policyholders in the Transferring Portfolio will become policyholders of R&Q Gamma.

5.46 The Transferring Portfolio includes all policies written for or on behalf of Anglo-French. I understand from SCOR UK that it does not expect any policies to be excluded from the Transfer but the Scheme makes provision for the theoretical possibility that a subset of policies may be excluded for regulatory or legal reasons.

Outwards reinsurance contracts transferring under the Scheme

5.47 The Scheme makes provision for the transferral of outwards reinsurance contracts in relation to the Transferring Portfolio from SCOR UK to R&Q Gamma. However, neither R&Q Gamma nor SCOR UK is aware of any existing outwards reinsurance contracts in relation to the Transferring Portfolio aside from the LPTA between SCOR UK and AIEL. The LPTA will terminate if the Scheme becomes effective and hence SCOR UK’s outwards reinsurance contract with AIEL will not transfer to R&Q Gamma if the Scheme becomes effective.

5.48 However, on the Scheme becoming effective, AIEL will provide the ADC to R&Q Gamma in respect of the Transferring Portfolio. The ADC will attach at £8.25m and will provide R&Q Gamma with unlimited reinsurance cover above that attachment point.

Assets transferring from SCOR UK to R&Q Gamma under the Scheme

5.49 Upon the Scheme becoming effective, R&Q Gamma will receive assets from SCOR UK to the value of the liabilities in respect of the Transferring Portfolio (the "Transfer Funds"), calculated as at five business days prior to the Effective Date (the "Calculation Date"). As defined in the Scheme, this value will be calculated as:

- R&Q Gamma's valuation of the liabilities in respect of the Transferring Portfolio, on a GAAP basis, as at 31 December 2018
- less claims paid between 31 December 2018 and the Calculation Date
- plus any recoveries in respect of the Transferring Portfolio received by or on behalf of SCOR UK between 31 December 2018 and the Calculation Date, excluding any recoveries from Armour Risk or Compre such as the proceeds of the Armour Risk and Compre commutations (since the proceeds of the Armour Risk and Compre commutations will be paid to AIEL).

5.50 Within 14 business days of the Scheme becoming effective, R&Q Gamma will calculate an adjustment to the Transfer Funds which allows for gross claims paid and recoveries received by, or on behalf of, SCOR UK during the period between the Calculation Date and the Effective Date (the "Adjustment Period"). If the aggregate amount of the gross claims paid during the Adjustment Period exceeds the aggregate amount of recoveries received during the Adjustment Period, R&Q Gamma will pay cash equal to this excess to AIEL. If the aggregate amount of reinsurance recoveries received during the Adjustment Period exceeds the aggregate amount of gross claims paid during the Adjustment Period, AIEL will pay cash equal to this excess to R&Q Gamma.

5.51 The remainder of the premium in relation to the LPTA, subject to certain adjustments, will be paid to AIEL upon the Scheme becoming effective.

Retained Business

5.52 As is standard with most Schemes, there is a provision for certain liabilities and assets that may not be, or may not be capable of being, transferred on the Effective Date. These liabilities and assets are defined as "Retained Business" within the Scheme document.

5.53 The Scheme provides a provision for SCOR UK and R&Q Gamma to seek to transfer these liabilities and assets at a later date. In the meantime, R&Q Gamma will be under obligation to indemnify SCOR UK in respect of any losses or liabilities arising out of the Retained Business less any assets arising out of the Retained Business. R&Q Gamma will also be under obligation to ensure that RQCS performs the policy servicing and claims handling in respect of the Retained Business in line with the Services Agreement that is currently in place between SCOR UK and R&Q Gamma.

5.54 I understand from SCOR UK and R&Q Gamma that no Retained Business has been identified at this stage and that it is not anticipated that there will be an such business.

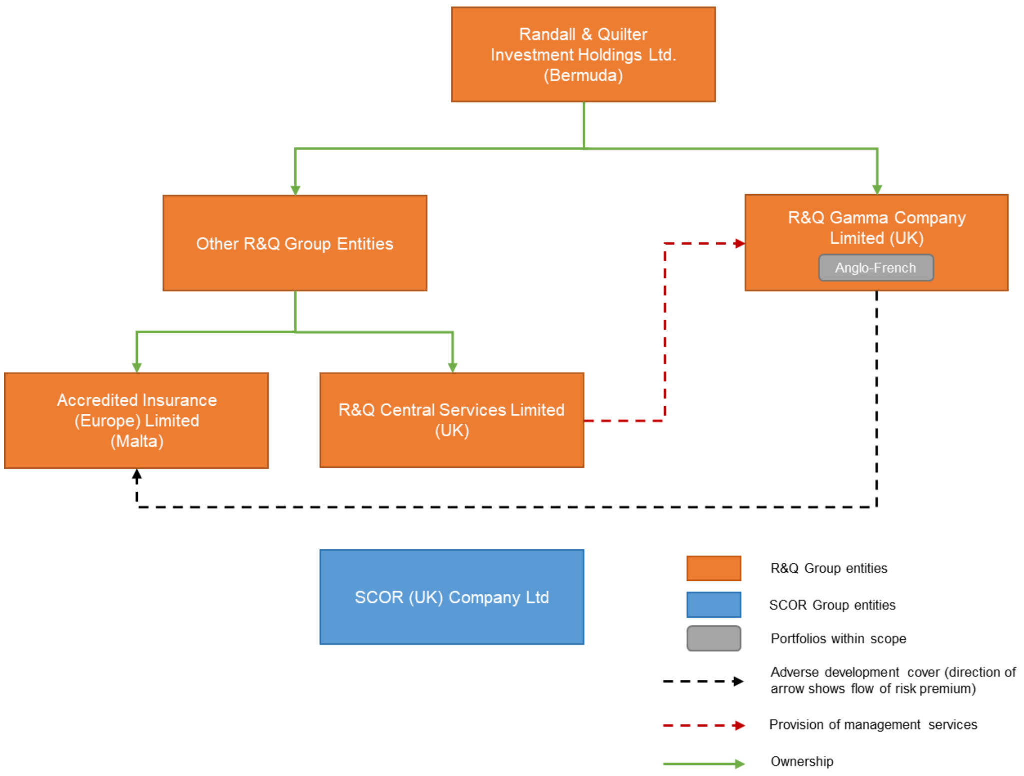
Termination of the Services Agreement

5.55 The Services Agreement between SCOR UK and RQCS will terminate at the Effective Date. I understand from R&Q Gamma that, following the Scheme, RQCS will perform claims handling and policy servicing of the Transferring Portfolio on behalf of R&Q Gamma in addition to the claims handling and policy servicing that RQCS currently provides R&Q Gamma for the RLGIL and SIMIA portfolios.

Overview of structure following the Scheme

5.56 The diagram below illustrates the proposed structure of the businesses following the Scheme.

Figure 2: Simplified structure of businesses following the Scheme (showing main entities only)



Impact of the Scheme on policyholders

Impact of the Scheme on the transferring policyholders

5.57 The policies that are expected to transfer as a result of the Scheme are those in the Transferring Portfolio. Following the Scheme, all policyholders in the Transferring Portfolio will become policyholders of R&Q Gamma rather than being policyholders of SCOR UK. R&Q Gamma will become responsible for the settling of outstanding claims and any new claims which arise.

5.58 As a result of the Scheme, the transferring policyholders would lose the security of SCOR UK but gain the protection of R&Q Gamma.

5.59 The transferring policyholders would also lose the 100% reinsurance protection provided by AIEL as the LPTA will no longer be in place following the Scheme. However, it should be noted that the reinsurance protections arising from the LPTA were put in place for the purpose of conducting the Scheme. Without the Scheme, the LPTA would not have been in place.

5.60 However, following the Scheme, the transferring policyholders gain the protection of R&Q Gamma. In addition, the transferring policyholders would gain the protection of the ADC.

5.61 Reinsurance policyholders within the Transferring Portfolio currently rank behind direct policyholders of SCOR UK in the event of a wind up. Following the Scheme, these reinsurance policyholders will rank behind the direct policyholders of R&Q Gamma.

5.62 Claims handling and policy servicing for the Transferring Portfolio is currently performed by RQCS on behalf of SCOR UK. Following the Scheme, the claims handling and policy servicing would continue to be performed by RQCS but on behalf of R&Q Gamma.

5.63 Similarly, complaints handling is currently performed by RQCS on behalf of SCOR UK. Following the Scheme, complaints handling would continue to be performed by RQCS but on behalf of R&Q Gamma.

5.64 The Scheme will have no material impact on the protections afforded to the transferring policyholders in the event of insolvency, including access to the Financial Services Compensation Scheme ("FSCS").

5.65 In Sections 8 to 11 of this report, I provide my opinion on why I do not believe that the changes described above will have a material adverse impact on the transferring policyholders.

Impact of the Scheme on the remaining policyholders in SCOR UK

5.66 The Scheme will have no material impact on the policyholders of SCOR UK since the Transferring Portfolio is immaterial in the context of SCOR UK's overall business.

5.67 There will be no changes to claims handling, policy servicing or complaints handling for the remaining SCOR UK policyholders are as a result of the Scheme.

5.68 The Scheme will have no material impact on the protections afforded to the policyholders remaining in SCOR UK in the event of insolvency of SCOR UK, including access to the FSCS.

Impact of the Scheme on the existing policyholders in R&Q Gamma

5.69 Following the Scheme, the capital within R&Q Gamma that is currently available to meet the obligations of the existing policyholders will be reallocated to meet the obligations of both the existing policyholders and the transferring policyholders after the Scheme. In Sections 8 and 9 of this report, I provide my opinion on why I do not believe that this will have a material adverse impact on the existing R&Q Gamma policyholders.

5.70 Reinsurance policyholders within the Existing R&Q Gamma Portfolio currently rank behind direct policyholders of R&Q Gamma. Following the Scheme, these reinsurance policyholders will rank behind the direct policyholders in the Existing R&Q Gamma portfolio and the direct policyholders in the Transferring Portfolio. Whilst this adversely impacts the reinsurance policyholders, in Sections 8 and 9 of this report, I provide my opinion on why I do not believe that this will have a material adverse impact on the existing R&Q Gamma policyholders.

5.71 There will be no changes to claims handling, policy servicing or complaints handling for the existing R&Q Gamma policyholders as a result of the Scheme.

Protections afforded in the event of insolvency of R&Q Gamma

5.72 The Scheme will have an impact on the protections afforded to the policyholders currently in R&Q Gamma in the event of insolvency of R&Q Gamma. This is because, after the Scheme, there would be more policyholders who would seek payment of their claims from the funds left within R&Q Gamma.

5.73 In addition, the existing reinsurance policyholders of R&Q Gamma currently rank below the direct policyholders of R&Q Gamma in the event of an insolvency. Following the Scheme, the existing reinsurance policyholders of R&Q Gamma would rank below both the direct policyholders of R&Q Gamma but also the direct policyholders in the Transferring Portfolio.

5.74 However, I do not believe that this will have a material adverse impact on the existing R&Q Gamma policyholders. This is because I consider that R&Q Gamma will have a sufficient level of capital to meet policyholder obligations following the Scheme. In addition, the Scheme would not impact on the policyholders' access to the FSCS.

5.75 As above, it should be noted that this conclusion is predicated on the fact that AIEL will provide support to R&Q Gamma in the form of an adverse development cover which would provide protection to R&Q Gamma, and hence to the existing policyholders of R&Q Gamma, in the event of a severe deterioration in the reserves for the Transferring Portfolio.

6 Regulatory background

6.1 In this section, I provide some background on the regulatory requirements in the UK. As discussed in paragraph 14.12, the opinions contained in this report are based on my own analysis and not based on regulators' views of the companies involved.

6.2 This section is structured as follows:

- Paragraphs 6.3 to 6.12 discuss the prudential regime that applies to all European insurers
- Paragraphs 6.17 to 6.19 discuss the impact of the referendum on whether the UK should remain a member of or leave the European Union (the "EU referendum")
- Paragraphs 6.20 to 6.36 discuss the regulatory environment for insurers authorised in the UK.

Solvency II

6.3 In 2016, insurance regulation in Europe underwent a major overhaul. Since 1 January 2016, all EU insurers have been required to meet a common set of requirements developed by the European Commission ("Solvency II").

6.4 Solvency II is a principles-based regime set around three pillars:

- Pillar 1 – quantitative requirements
- Pillar 2 – qualitative requirements
- Pillar 3 – reporting and disclosure requirements.

Regulatory capital requirements

6.5 Under Solvency II, there are two sets of capital requirements to allow for different levels of supervisory intervention.

6.6 The usually higher of these two is the Solvency Capital Requirement ("SCR"). This is the amount of capital required in excess of liabilities in order to ensure continued solvency over a one year time frame in 99.5% of cases.

6.7 The MCR defines the point of most severe supervisory intervention.

Approaches to calculating the SCR

6.8 The SCR can be calculated using one of four approaches; the Standard Formula, the Standard Formula with undertaking specific parameters, an Internal Model, or a Partial Internal Model:

- the Standard Formula approach uses a prescribed set of formulae and parameters in order to work out the SCR.
- within the Standard Formula framework, entities are able to use undertaking specific parameters ("USPs") in order to refine certain parameters, subject to regulatory approval.
- the Internal Model approach involves the entity using its own capital model to calculate the SCR. The model requires regulatory approval.
- the Partial Internal Model approach is a combination of the first and third approaches. An approved Internal Model is used to calculate parts of the SCR and the Standard Formula is used to calculate the remaining parts of the SCR.

6.9 The Minimum Capital Requirement ("MCR") defines the point of most severe supervisory intervention.

6.10 Further to calculating the SCR, insurers are required to calculate the level of capital ("Own Funds") eligible to meet the SCR. This requires the calculation of a balance sheet according to Solvency II requirements. The Own Funds are then assessed and allocated into tiers depending on their eligibility to meet the SCR.

6.11 It is important to note that, even if an insurer does not have sufficient Own Funds to meet its SCR, or even its MCR, then this does not necessarily mean that it would not be able to settle all of its claims in full.

Own Risk and Solvency Assessment

6.12 An additional requirement for Solvency II is that every insurer must undertake an Own Risk and Solvency Assessment ("ORSA") at least annually.

6.13 An insurer's ORSA sets out its current and future risk profile. It also includes a forward-looking assessment of the insurer's "economic capital requirement", the insurer's assessment of the level of capital that it expects to require over the medium to long term in order to remain solvent (standard market practice is to consider the next three to five years).

6.14 This ongoing assessment of capital requirements enables the insurer to address potential issues before it would reach a point where regulatory intervention is required and/or it is unable to meet its obligations.

Solvency II technical provisions

6.15 The technical provisions are the Solvency II equivalent of the claims reserves on the GAAP/IFRS balance sheet. Under Solvency II, the technical provisions are made up of a claims provision and a premium provision (together the "best estimate technical provisions") and a risk margin. These are defined as follows:

- The claims provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to past exposure
- The premium provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to future exposure arising from policies that the (re)insurer has already written or is obligated to write at the valuation date
- Under Solvency II, insurers must hold a risk margin in excess of their best estimate of liabilities. This risk margin is designed to represent the amount of capital a third party would require to take on the obligations of a given insurance company. It effectively means that if an insurer were, as a result of a shock, to use up all its free surplus and capital, then it would still have sufficient assets to safely wind-up and transfer its obligations to a third party.

6.16 It is common to calculate the Solvency II technical provisions by applying a series of adjustments to the GAAP/IFRS claims reserves. These would typically include the following

- The release of any margins for prudence, as the Solvency II technical provisions assume no margins over best estimate
- The release of the Unearned Premium Reserves ("UPR") and replacement with a provision for expected future claims and expenses on incepted business
- A provision for inflows and outflows relating to legally obliged but unincepted business
- A provision for the expenses that are expected to be incurred to run-off incepted business and legally obligated but unincepted business
- Allowance for extreme events that cannot be projected using historic data, which are referred to as Events Not In Data ("ENIDs")
- An allowance for discounting to account for the time value of money, calculated using the risk-free yield curves published by the European Insurance and Occupational Pensions Authority ("EIOPA") at the relevant date

- The inclusion of a risk margin, which is calculated as the net present value of the cost of capital associated with the insurance and unavoidable market risk.

Impact of EU referendum

6.17 On 23 June 2016, the UK voted to leave the EU. On 29 March 2017, the UK officially notified the European Commission of its intention to withdraw from the EU. At this stage, it is unclear what will happen as a result of this vote. What is clear is that both R&Q Gamma and SCOR UK are subject to the UK regulatory regime. Currently, the prudential regulatory regime in the UK incorporates Solvency II. This is likely to continue to be the case at least until the date when the UK leaves the EU. At the time of writing this report, this is expected to be by 31 October 2019, although it may be sooner.

6.18 The developments in the regulatory regime in the UK will ultimately be determined by the PRA, the FCA and UK lawmakers. However, what will happen and when it may happen are not yet known.

6.19 This issue is discussed further in paragraphs 11.22 to 11.24.

Overview of UK regulations

6.20 UK insurers are regulated by both the PRA and FCA. The PRA and FCA are statutory bodies set up under the Financial Services Act 2012. Prior to 1 April 2013, all regulation of financial services institutions was undertaken by the Financial Services Authority ("FSA"). All regulatory responsibility was transferred from the FSA to the PRA and/or FCA on 1 April 2013.

6.21 The PRA is part of the Bank of England and is responsible for the prudential regulation of:

- banks
- building societies
- credit unions
- insurance companies
- major investment firms.

6.22 Its three statutory objectives, as applicable to insurance companies, are:

- to promote the safety and soundness of the firms which it regulates
- to contribute to the securing of an appropriate degree of protection for policyholders
- to facilitate effective competition.

The third objective above is secondary to the first two.

6.23 The FCA is a separate organisation and its strategic objective is to ensure that the relevant markets function well.

6.24 To support this, it has three operational objectives:

- to secure an appropriate degree of protection for consumers
- to protect and enhance the integrity of the UK financial system
- to promote effective competition in the interests of consumers.

Current regulatory capital requirements

6.25 Since 1 January 2016, most insurance companies in the UK are required to maintain capital in line with the Solvency II requirements as discussed in paragraphs 0 to 6.9.

Capital extraction

6.26 Insurers that are not in run-off, such as SCOR UK, are able to extract capital from the business without the PRA's prior approval. However, insurers that are in run-off, such as R&Q Gamma, require the PRA's prior approval to extract capital from the business.

6.27 The PRA expects insurers to maintain an adequate level of capital above the SCR before and after the extraction of capital.

FCA conduct principles

6.28 The FCA has set out its Principles for Businesses, the general statements of the fundamental obligations of firms under its regulatory system. These principles include the following that relate to the fair treatment of customers:

- Principle 6: A firm must pay due regard to the interests of its customers and treat them fairly
- Principle 7: A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading
- Principle 8: A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client
- Principle 9: A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely on its judgement.

Security under wind up

6.29 The winding up of an insurance undertaking is governed by the Insurers (Reorganisation and Winding Up) Regulations 2004 in the UK. Under these regulations, insurance claims take precedence over other claims on the insurance undertaking with the exception of certain preferential claims (for example, claims by employees, rights in rem etc). Therefore, direct policyholders rank equally and above inwards reinsurance policyholders and all other unsecured/non preferential creditors in the event that an insurer is wound up.

Financial Services Compensation Scheme

6.30 The FSCS is the compensation fund of last resort for customers of authorised financial services firms.

6.31 Most private policyholders, small businesses and charities are eligible for protection from the FSCS, in the event that an insurer is unable to meet its liabilities.

6.32 The FSCS will pay 100% of any claim incurred for compulsory insurance (for example, motor third party liability insurance) and 90% of the claim incurred for non-compulsory insurance without any limit on the amount payable. The FSCS is funded by levies on firms authorised by the PRA. No protection is available for goods in transit, marine, aviation and credit insurance and contracts of reinsurance are also not protected.

6.33 The impact of the Scheme on the level of compensation available to the transferring policyholders is discussed in paragraphs 9.28 to 9.34.

Financial Ombudsman Service

6.34 The Financial Ombudsman Service ("FOS") was set up as an independent public body. Its job is to resolve individual disputes between consumers and financial services businesses. In order to access the FOS, it is necessary for the insurance policy to have been administered from within the UK.

6.35 Eligible claimants are defined as:

- Consumers, which for these purposes means natural persons acting for purposes outside their trade, business or profession
- Micro-enterprises, which means any enterprise (being a person, irrespective of legal form, engaged in an economic activity) which employs fewer than 10 persons and has a turnover or annual balance sheet that does not exceed €2 million
- Charities which have an annual income of less than £1 million
- Trustees of a trust which has a net asset value of less than £1 million.

6.36 The impact of the Scheme on the access to FOS of the affected policyholders is discussed in paragraphs 11.17 to 11.21.

7 Claims Reserves

7.1 In this section, I discuss the claims reserve strength of the Transferring Portfolio, Remaining Portfolio and the Existing R&Q Gamma Portfolio. In doing so, I have considered:

- The best estimate reserves for the Transferring Portfolio by claim type as calculated by SCOR UK and the adjustments applied by SCOR UK to the best estimate reserves to determine the Solvency II technical provisions for the Transferring Portfolio
- The best estimate reserves for the Transferring Portfolio by claim type as calculated by R&Q Gamma and the adjustments applied by R&Q Gamma to the best estimate reserves to determine the Solvency II technical provisions for the Transferring Portfolio
- The best estimate reserves for the Remaining Portfolio as estimated by SCOR UK and the adjustments applied by SCOR UK to the best estimate reserves to determine the Solvency II technical provisions for the Remaining Portfolio
- The best estimate reserves for the Existing R&Q Gamma Portfolio as estimated by R&Q Gamma and the adjustments applied by R&Q Gamma to the best estimate reserves to determine the Solvency II technical provisions for the Existing R&Q Gamma Portfolio
- The governance processes relating to the reserves of SCOR UK and R&Q Gamma.

7.2 This section is set out as follows:

- Paragraphs 7.3 to 7.8 outline a summary of the reserves for each of SCOR UK and R&Q Gamma, both before and after the Scheme. They also discuss the reserves held by AIEL, the reinsurer of the Transferring Portfolio under the LPTA.
- Paragraphs 7.9 to 7.26 provide a summary of my opinions on the strength of the reserves and Solvency II technical provisions for each of SCOR UK and R&Q Gamma
- Paragraphs 7.27 to 0 discuss the processes undertaken by SCOR UK and R&Q Gamma in setting reserves, including my opinion on the robustness of these processes
- Paragraphs 7.44 to 7.60 discuss the Remaining Portfolio, including my opinion on the strength of the reserves and the Solvency II technical provisions
- Paragraphs 7.62 to 7.81 discuss the Existing R&Q Gamma Portfolio, including my opinion on the strength of the reserves and the Solvency II technical provisions
- Paragraphs 7.82 to discuss the Transferring Portfolio, including my opinion on the strength of the reserves and the Solvency II technical provisions.

Summary of reserves

SCOR UK

7.3 The table below shows the booked claims reserves for SCOR UK at 31 December 2018, both gross and net of reinsurance, before and after the Scheme, on the basis that the Scheme had become effective at 31 December 2018. For the purposes of this table I have shown the impact on the basis that the Compre and Armour Risk reinsurance contracts had been commuted prior to 31 December 2018.

Table 7.1: Booked claims reserves of SCOR UK before and after the Scheme (£m)

	Before Scheme	Impact of Scheme	After Scheme
Gross of reinsurance	863.2	-7.6	855.6
Net of reinsurance	198.4	-	198.4

7.4 Following the Scheme, SCOR UK's gross claims reserves reduce by an amount equal to SCOR UK's booked reserves for the Transferring Portfolio at 31 December 2018. Since the Transferring Portfolio is 100% reinsured by AIEL under the LPTA, there is no impact to the reserves, net of reinsurance.

R&Q Gamma

7.5 The table below shows the booked claims reserves for R&Q Gamma at 31 December 2018, both gross and net of reinsurance, before and after the Scheme, on the basis that the Scheme had become effective at 31 December 2018. I have shown the impact on the basis that the Compre and Armour Risk reinsurance contracts had been commuted prior to 31 December 2018.

Table 7.2: Booked claims reserves of R&Q Gamma before and after the Scheme (£m)

	Before Scheme	Impact of Scheme	After Scheme
Gross of reinsurance	6.0	5.7	11.8
Net of reinsurance	4.8	5.7	10.6

7.6 Following the Scheme, R&Q Gamma's gross claims reserves increase by the R&Q Group's estimate of the reserves for the Transferring Portfolio at 31 December 2018. Since no reinsurance is transferring to R&Q Gamma under the Scheme, the impact net of reinsurance is equal to the impact gross of reinsurance.

AIEL

7.7 AIEL, the reinsurer of the Transferring Portfolio under the LPTA, currently sets its International Financial Reporting Standards ("IFRS") reserves and Solvency II technical provisions for the Transferring Portfolio in line with R&Q Gamma's estimates.

Difference in impact of the Scheme

7.8 As can be seen in Tables 7.1 and 7.2, SCOR UK's gross claims reserves reduce by more than R&Q Gamma's gross claims reserves increase following the Scheme. This is because the underlying assumptions used by the R&Q Group to calculate the reserves for the Transferring Portfolio differ to those used by SCOR UK. This is discussed in further detail below.

Summary of conclusions

Reserving uncertainty

7.9 There is a limitation upon the accuracy of any estimate of claims reserves in that there is an inherent uncertainty in any estimate of future liabilities. This is due to the fact that the claims will be subject to the outcome of events yet to occur, such as judicial decisions, legislative actions, claim consciousness amongst potential claimants, claims management, claim settlement practices, changes in inflation and economic decisions. As a result, it should be recognised that actual future claim emergence will likely deviate, perhaps materially, from any estimate of claims reserves.

7.10 Given the inherent uncertainty in any estimate of future liabilities, there is a range of reasonable best estimates of the reserves for any portfolio.

Remaining Portfolio

7.11 Based on my experience and knowledge of the market, the process for setting the reserves on an IFRS basis and Solvency II technical provisions at SCOR UK appears robust. My reasons for reaching this conclusion are given in paragraphs 7.28 to 7.37. In addition, I understand from SCOR UK that the reserving process will be unaffected by the Scheme.

7.12 In respect of the Remaining Portfolio, I have no reason to believe that either the reserves or Solvency II technical provisions lie outside a range of reasonable best estimates. My reasons for reaching this conclusion are discussed in paragraphs 7.44 to 7.61.

Existing R&Q Gamma Portfolio

7.13 Based on my experience and knowledge of the market, the process for setting the GAAP reserves and Solvency II technical provisions at R&Q Gamma appears robust. My reasons for reaching this conclusion are discussed in paragraphs 7.38 to 0. In addition, I understand from R&Q Gamma that this reserving process will be unaffected by the Scheme and the same process will apply to the Transferring Portfolio.

7.14 In respect of the Existing R&Q Gamma Portfolio, I have no reason to believe that either the reserves or Solvency II technical provisions lie outside a range of reasonable estimates. My reasons for reaching this conclusion are given in paragraphs 7.62 to 7.81.

Stress testing deteriorations in the reserves for the Existing R&Q Gamma Portfolio

7.15 Whilst I have no reason to believe that either the reserves or Solvency II technical provisions for the Existing R&Q Gamma portfolio lie outside a range of reasonable estimates, for the reasons given in paragraph 7.9, there is considerable uncertainty in the estimates. It is therefore possible that the liabilities could ultimately be higher than R&Q Gamma's current estimates.

7.16 Given this uncertainty, I have undertaken my own stress testing to understand the robustness of the capital base of R&Q Gamma to deteriorations in the levels of its claims reserves for the Existing R&Q Gamma Portfolio over the entirety of the run-off of the Existing R&Q Gamma Portfolio. The results of this testing are set out in Section 8.

Transferring Portfolio

7.17 SCOR UK's actuarial best estimate of the reserves for the Transferring Portfolio at 31 December 2018 is £8.7m (a reserve of £7.6m is booked in the financial statements). R&Q Gamma's actuarial best estimate of the reserves for the Transferring Portfolio is £5.7m. There is therefore a £3.0m difference between the actuarial best estimates of SCOR UK and R&Q Gamma.

7.18 As discussed in paragraph 7.9, future claim emergence will likely deviate, perhaps materially, from any estimate of claims reserves. This uncertainty is exacerbated when estimating claims reserves for latent disease-related liabilities such as those within the Transferring Portfolio. As a result, I consider there to be a wide range of plausible reserve estimates for the Transferring Portfolio.

7.19 Based on my experience and knowledge of the market, the process for setting the GAAP reserves and Solvency II technical provisions for the Transferring Portfolio at R&Q Gamma appears robust. My reasons for reaching this conclusion are discussed in paragraphs 7.38 to 0.

7.20 In addition, I have no reason to believe that R&Q Gamma's estimate of either the reserves or Solvency II technical provisions for the Transferring Portfolio lie outside a range of reasonable estimates. My reasons for reaching this conclusion are discussed in paragraphs 7.115 to 7.129.

7.21 Based on my experience and knowledge of the market, the process for setting the IFRS reserves and Solvency II technical provisions at SCOR UK appears robust. My reasons for reaching this conclusion are discussed in paragraphs 7.28 to 7.37.

7.22 In addition, although I am of the opinion that there may be an element of conservatism within SCOR UK's estimate, there is a wide range of reasonable estimates for the reserves of the Transferring Portfolio given the uncertainty inherent in the liabilities. I consider that SCOR UK's estimates of the reserves and Solvency II technical provisions lie within a range of reasonable estimates. My reasons for reaching this conclusion are discussed in paragraphs 7.93 to 7.114.

7.23 As discussed in paragraphs 7.19 and 7.21, I consider both R&Q Gamma's reserve estimate and SCOR UK's reserve estimate to lie within a range of plausible outcomes, although I consider SCOR UK's reserve estimate to contain an element of conservatism.

7.24 However, given the wide range of plausible reserve estimates and the uncertainty inherent in the Transferring Portfolio, I have undertaken my own testing to understand the robustness of the capital base of R&Q Gamma by considering its levels of solvency if it were to hold claims reserves for the Transferring Portfolio equal to SCOR UK's estimate.

7.25 In addition, I have undertaken my own testing to understand the robustness of the capital base of R&Q Gamma to severe deteriorations in the reserves of the Transferring Portfolio above and beyond SCOR UK's estimate of the reserves.

7.26 The results of this testing are set out in Section 8.

Process for setting claims reserves

7.27 In this section, I discuss the process for setting reserves within each of SCOR UK and R&Q Gamma, both before and after the Scheme.

SCOR UK's process

7.28 In general, SCOR UK undertakes detailed reserving analyses on an annual basis, or more frequently as required. Assessments of movements in reserves and analyses of actual experience versus expected experience are performed quarterly.

7.29 Reserving is performed separately for each class of business / portfolio, including for the Transferring Portfolio.

7.30 The reserving for a significant proportion of the business (41% of gross reserves at 31 December 2018) is undertaken by other reserving teams in the SCOR Group with local knowledge of the business. For example, the reserving for the Canadian Branch is undertaken by the SCOR Re US reserving team. The reserves estimated by reserving teams in other parts of the SCOR Group are reviewed by the SCOR UK Head of Reserving.

7.31 In determining the reserves, I understand from SCOR UK that there are discussions between the actuarial team and other functions within the business such as claims and underwriting.

7.32 The claims reserves and Solvency II technical provisions estimated by SCOR UK are subject to several layers of internal review which take place for each annual reserving exercise, namely:

- Reviews by the SCOR Global P&C Chief Reserving Actuary of a substantial proportion of the total reserves for classes which are either material or have significant uncertainty (I understand from SCOR UK that these covered 94% of the total IFRS reserves at 31 December 2018)
- Reviews by the SCOR Group Reserving team for a subset of the portfolio each year (I understand from SCOR UK that these covered 82% of the total IFRS reserves at 31 December 2018)

- Both the SCOR Global P&C Chief Reserving Actuary and the Group Chief Actuary give an opinion on the SCOR UK IFRS reserves.

7.33 Due to the immateriality of the Transferring Portfolio in the context of SCOR UK's overall claims reserves, internal reviews of the reserves for the Transferring Portfolio are performed in aggregate with other immaterial classes of business to assess whether the overall quantum of claims reserves for the aggregated classes of business is appropriate.

7.34 The reserves, and the methodology and assumptions used to derive the reserve estimates, are presented to the management of SCOR UK for review and are presented to the Board for review and approval.

7.35 In addition, the external auditor of SCOR UK undertakes a review of the claims reserves annually and internal audits are performed of the SCOR UK reserving process.

7.36 SCOR UK has informed me that the governance process that currently applies to SCOR UK will continue to apply to the Remaining Portfolio following the Scheme.

7.37 Based on my experience and knowledge of the market, my view is that the process for setting the IFRS reserves and Solvency II technical provisions at SCOR UK appears to be appropriate and robust for the following reasons:

- The process followed is in line with processes that are regularly used elsewhere
- I have reviewed the CVs of the individuals who are responsible for the analysis. Based on these and my interactions with those individuals, I am satisfied that there are sufficiently experienced individuals conducting the reserving analysis.
- There are several layers of review performed, giving the opportunity for a number of people to challenge the analysis and results.

R&Q Group's process

7.38 Prior to the Scheme, the R&Q Group undertakes reserving for both the Existing R&Q Gamma Portfolio and the Transferring Portfolio. These reserving exercises are performed on a quarterly basis.

7.39 I understand from the R&Q Group that, following the Scheme, the R&Q Group will continue to perform the reserving for both the Existing R&Q Gamma Portfolio and the Transferring Portfolio. I understand from the R&Q Group that this will continue to occur on a quarterly basis.

7.40 I understand from the R&Q Group that the claims reserves for the Existing R&Q Gamma Portfolio and the Transferring Portfolio are subject to several layers of internal review which take place for each quarterly review, namely: peer reviews of reserving methodology and assumptions within the reserving team; a review by the Group Chief Actuary; and a high level review by the Board.

7.41 In addition, the external auditors of R&Q Gamma and AIEL undertake reviews of the respective claims reserves at least annually.

7.42 The R&Q Group has informed me that the governance process that currently applies to the Existing R&Q Gamma Portfolio and the Transferring Portfolio will continue to apply to both portfolios following the Scheme.

7.43 Based on my experience and knowledge of the market, my view is that the process for setting the GAAP reserves and Solvency II technical provisions at the R&Q Group appears to be appropriate and robust for the following reasons:

- The process followed is in line with processes that are regularly used elsewhere
- I have reviewed the CVs of the individuals who are responsible for the analysis. Based on these and my interactions with those individuals, I am satisfied that there are sufficiently experienced individuals conducting the reserving analysis.
- There are several layers of review performed, giving the opportunity for a number of people to challenge the analysis and results.

Remaining Portfolio

IFRS claims reserves

7.44 I have been provided with a report on the claims reserves of SCOR UK covering its entire portfolio (including the Transferring Portfolio) at 31 December 2018. I am comfortable that this report is sufficient to form an opinion on the Remaining Portfolio given the scale of SCOR UK's wider portfolio in comparison to the Transferring Portfolio, which is less than 1% of SCOR UK's total reserves, gross of reinsurance.

7.45 I have reviewed the CVs of the individuals who are responsible for the analysis. Based on these and my interactions with those individuals, I am satisfied that the actuaries at SCOR UK who undertook this review have the necessary experience and expertise to undertake a review of this nature and for me to rely on their review.

7.46 The table below shows the actuarial best estimate and booked reserves at 31 December 2018, both gross and net of reinsurance.

Table 7.4: IFRS reserves for the Remaining Portfolio at 31 December 2018

£m	Gross of reinsurance	Ceded reserves	Net of reinsurance
Actuarial best estimate claims reserve	874.8	-664.8	210.0
Management margin	3.4	-	3.4
Unearned premium reserve	279.0	-157.1	121.9
Booked reserve	**1,157.3**	**-821.9**	**335.3**

7.47 As can be seen from the table above, the booked reserves for SCOR UK at 31 December 2018 are in excess of the actuarial best estimate. The difference relates to a management margin to allow for some uncertainty within the actuarial estimate.

7.48 I have performed an analysis to satisfy myself that SCOR UK's estimate of insurance liabilities is consistent with my expectations for insurance business of the nature that it writes. This analysis involved:

- A review of the reserve report at 31 December 2018 produced by SCOR UK's reserving actuaries
- A review of the methods used to estimate the reserves compared with industry best practice
- Discussions with individuals at SCOR UK to understand the approaches used to estimate the reserves. These discussions have also involved considering whether any material changes have occurred to the processes since the date of the information received.

7.49 I have concluded that the process appears appropriate and robust in paragraph 7.37. I have no reason to believe that the IFRS reserves for the Remaining Portfolio lie outside a range of reasonable estimates. However, in my opinion, some elements of the reserving may err on the side of caution. In reaching this assessment, I have considered the following:

- SCOR UK has utilised market standard approaches in determining its estimates
- The analyses that SCOR UK has conducted in relation to its own experience are appropriate
- The assumptions utilised by SCOR UK in determining its estimates appear reasonable, although I consider some of the assumptions to be conservative
- The reasonableness of the outputs compared to the historical experience
- My experience and expertise relating to claims reserving.

Solvency II technical provisions

7.50 The Solvency II technical provisions are the sum of the best estimate provisions, calculated on a cash flow basis under Solvency II, and a risk margin.

7.51 The table below shows the Solvency II technical provisions for SCOR UK at 31 December 2018, both gross and net of reinsurance.

Table 7.5: Solvency II technical provisions for the Remaining Portfolio at 31 December 2018 (£m)

£m	Best estimate	Risk margin	Technical provisions
Gross of reinsurance	830.5	18.0	848.5
Net of reinsurance	227.3	18.0	245.3

7.52 I have reviewed the CVs of the individuals who are responsible for the calculation of the Solvency II technical provisions. Based on these and my interactions with those individuals, I am satisfied that the actuaries at SCOR UK who undertook these calculations have the necessary experience and expertise to undertake analysis of this nature and for me to rely on their analysis.

7.53 I have performed an analysis to satisfy myself that SCOR UK's estimate of the Solvency II technical provisions are consistent with my expectations for insurance business of the nature that it writes. This analysis involved:

- An analysis to satisfy myself that SCOR UK's IFRS reserves are consistent with my expectations for insurance business of the nature that it writes, as discussed in paragraph 7.48
- A review of the Actuarial Function Report at 31 December 2017 (the latest date at which an Actuarial Function Report is available) which sets out the adjustments made to the best estimate IFRS claims reserves to derive the Solvency II technical provisions
- A review of the methods used to estimate the Solvency II technical provisions compared with industry best practice
- Discussions with individuals at SCOR UK to understand the approaches used to estimate the Solvency II technical provisions. These discussions have also involved considering whether any material changes have occurred to the processes since the date of the information received.

7.54 I have been provided with the Actuarial Function Report for 31 December 2017, which sets out the adjustments that SCOR UK has made to its IFRS best estimate reserves and Unearned Premium Reserves ("UPR") to derive its Solvency II technical provisions. SCOR UK has informed me that its approach to deriving the Solvency II technical provisions has not changed materially since 31 December 2017.

7.55 SCOR UK does not make the following adjustments when calculating its Solvency II technical provisions:

- Removal of implicit margins from the IFRS actuarial best estimate reserves (implicit margins may be established by deliberately using cautious parameter estimates and assumptions in the reserving calculation)
- Allowance for ENIDs
- Allowance for expected profit on business that has yet to be incepted at the valuation date but that SCOR UK is legally obliged to underwrite ("Bound but not Incepted" or "BBNI").
- Allowance for expected profit on policies that incepted after the closing date for collecting policy data in mid-December ("Post-Closure Inceptions").

7.56 As discussed in 7.49, whilst I have no reason to believe that the reserves for the Remaining Portfolio lie outside a range of reasonable estimates, in my opinion, some elements of the reserving may err on the side of caution.

7.57 SCOR UK has not made adjustments for ENIDs. Including an allowance for ENIDs would have increased the Solvency II technical provisions. SCOR UK estimated that including the ENIDs at 31 December 2017 would have increased the gross best estimate technical provisions by 1.6% and increased the net best estimate technical provisions by 1.0%. I have reviewed SCOR UK's estimation of the provision for ENIDs and I consider the results to be reasonable. However, I am aware of other insurers writing similar business to SCOR where the ENID ratios are higher than 1.6% on a gross basis and 1.0% on a net basis.

7.58 The BBNI and Post-Closure Inceptions not captured within the Solvency II technical provisions at 31 December 2018 were estimated by SCOR UK to be £29.4m of gross written premium. This is approximately 4% of the gross best estimate technical provisions at 31 December 2018, although the impact on the Solvency II technical provisions will be lower than 4% since an allowance would need to be made for claims and expenses on those policies and discounting to reflect the time value of money.

7.59 I have performed an independent analysis to assess the impact of the exclusion of ENIDs, the expected profit on BBNI and the expected profit on Post-Closure Inceptions. I have considered the impact on both the SCR and the Own Funds and hence the impact on SCOR UK's SCR coverage ratio. My analysis indicates that the SCOR UK SCR coverage ratios are not materially misstated by these omissions. This is discussed in Section 8.

7.60 I also note that there is inevitably uncertainty regarding the appropriate level of adjustments to make in order to estimate the technical provisions under Solvency II. SCOR UK could have made other equally valid adjustments which would lead to different results.

7.61 I have concluded that the process appears appropriate and robust in paragraph 7.37. I have no reason to believe that the Solvency II technical provisions for the Remaining Portfolio lie outside a range of reasonable estimates. However, in my opinion, some elements of the Solvency II technical provisions may err on the side of caution. In reaching this assessment, I have considered the following:

- I have concluded that I have no reason to believe that the IFRS reserves for the Remaining Portfolio lie outside a range of reasonable estimates, although I believe that some elements of the reserving may err on the side of caution. Since the Solvency II technical provisions are estimated by making adjustments to the IFRS reserves, the aspects of the IFRS reserving which err on the side of caution result in the Solvency II technical provisions also erring on the side of caution
- Where SCOR UK has made adjustments to the IFRS reserves, it has utilised market standard approaches in making such adjustments and I consider the adjustments to be reasonable

- There are a number of adjustments which have not been made to the IFRS reserves. However I consider that these omissions do not materially misstate the Solvency II technical provisions, as discussed in paragraphs 7.57 to 7.59
- The analyses that SCOR UK has conducted in relation to its own experience are appropriate
- The reasonableness of the outputs compared to the historical experience
- My experience and expertise in relation to Solvency II technical provisions.

Existing R&Q Gamma Portfolio

7.62 I have performed an analysis to satisfy myself that the R&Q Group's estimate of insurance liabilities is consistent with my expectations for the insurance business of the nature of the Existing R&Q Gamma Portfolio. This analysis involved:

- A review of a Board paper produced by the R&Q Group's reserving actuaries which sets out the actuarial best estimate reserves at 31 December 2018 and details of the main outstanding claims and reinsurance protections
- Claims listings of outstanding claims and claims handlers reports
- Discussions with individuals at the R&Q Group to understand the approaches used to estimate the reserves. These discussions have also involved considering whether any material changes have occurred to the processes since the date of the information received.

7.63 I have reviewed the CVs of the individuals who are responsible for the claims reserving. Based on these and my interactions with the individuals who perform the claims reserving, I am satisfied that the actuaries at the R&Q Group who undertook this review have the necessary experience and expertise to undertake a review of this nature and for me to rely on their review.

7.64 The table below shows the actuarial best estimate and the booked reserves at 31 December 2018, both gross and net of reinsurance.

Table 7.6: GAAP reserves for the Existing R&Q Gamma at 31 December 2018

£m	Gross of reinsurance	Ceded reserves	Net of reinsurance
Actuarial best estimate – RLGIL portfolio	0.5	0.1	0.4
Actuarial best estimate – SIMIA portfolio	5.6	1.6	4.0
Management margin	0.0	-0.5	0.5
Booked reserve	**6.0**	**1.2**	**4.8**

The RLGIL portfolio

7.65 As can be seen from the table above, R&Q Gamma currently has very few remaining liabilities in respect of the RLGIL portfolio. I understand that, at 31 December 2018, the reserves consist of £270k in gross outstanding claims reserves and £190k of gross IBNR.

7.66 I understand from R&Q Gamma that the estimates of outstanding claims have been set by the R&Q Group's claims handlers and that the IBNR has been estimated by the R&Q Group's actuaries using a combination of historical claims experience and expert judgement.

7.67 The RLGIL portfolio is protected by three layers of outwards Excess of Loss reinsurance with a combined coverage of £900k in excess of £100k

7.68 The remaining reserves are in relation to the following types of claims:

- A claim in relation to R&Q Gamma's co-insurance of Sheffield Wednesday Football Club at the time of the Hillsborough disaster. Given developments in the recent legal proceedings, R&Q Gamma does not expect any material deteriorations from the existing reserves held. Furthermore, this claim has breached the attachment point of the reinsurance and therefore the gross reserve of £89k is fully recoverable.
- Sexual abuse claims notified against the Football League for the 1986 to 1988 policy years. A number of claims were received during 2017 and 2018. However, the average size of these claims is very small.
- Noise Induced Hearing Loss (NIHL) claims
- A small reserve for other health hazard claims such as Hand-Arm Vibration Syndrome ("HAVS") claims.

7.69 I have concluded that the reserving process appears appropriate and robust in paragraph 0. I have no reason to believe that the reserves for the RLGIL portfolio lie outside a range of reasonable estimates. In reaching this assessment, I have considered the following:

- The recent claims activity, the magnitude of the claims reserves and the reinsurance protection available
- R&Q Gamma has utilised market standard approaches in determining its estimates
- The analyses that R&Q Gamma has conducted in relation to its own experience are appropriate
- The assumptions utilised by R&Q Gamma in determining its estimates appear reasonable
- The reasonableness of the outputs compared to the historical experience
- My experience and expertise in relation to claims reserving.

The SIMIA portfolio

7.70 Whilst SIMIA is a relatively new portfolio to R&Q Gamma, the business is well known to the R&Q Group as it was reinsured by AIEL until the business was transferred from SIMIA to R&Q Gamma. The claims are all in relation to Solicitors PI reinsurance with 2010 being the last year of account.

7.71 The SIMIA portfolio is protected by Excess of Loss reinsurance with an attachment point of £1m for each and every loss and a £1m annual aggregate deductible. The annual aggregate deductible has been exhausted (on a paid basis) on all years of account except for the 2010 year of account where £0.6m remains to be eroded on a paid basis.

7.72 The gross reserves consist of £3.9m of outstanding claims reserves and £1.7m of IBNR. Almost all of the £3.9m outstanding claims relates to two large claims which have outstanding claims reserves of £2.8m and £1.1m respectively.

7.73 The ratio of gross IBNR to gross outstanding claims reserves is 43%. In my experience, this is a relatively high level of IBNR since, given the age of the portfolio, my expectation is that the majority of claims will have been notified to R&Q Gamma. However, the book is in run-off and is therefore subject to increasing volatility as the reserves reduce. This volatility is increased since almost all of the outstanding claims relates to two large losses. Therefore, I do not consider it unreasonable for R&Q Gamma to hold this level of IBNR.

7.74 The reinsurance recoveries are calculated by applying the reinsurance programme to each individual gross claim.

7.75 I have concluded that the reserving process appears appropriate and robust in paragraph 0. I have no reason to believe that the reserves for the SIMIA portfolio lie outside a range of reasonable estimates. In reaching this assessment, I have considered the following:

- The recent claims activity, the magnitude of the claims reserves and the reinsurance protection available
- R&Q Gamma has utilised market standard approaches in determining its estimates
- The analyses that R&Q Gamma has conducted in relation to its own experience are appropriate
- The assumptions utilised by R&Q Gamma in determining its estimates appear reasonable
- The reasonableness of the outputs compared to the historical experience
- My experience and expertise in relation to claims reserving.

Solvency II technical provisions for the RLGIL and SIMIA portfolios

7.76 The Solvency II technical provisions are the sum of the best estimate provisions, calculated on a cash flow basis under Solvency II, and a risk margin.

7.77 The table below shows the Solvency II technical provisions for the Existing R&Q Gamma Portfolio at 31 December 2018, both gross and net of reinsurance.

Table 7.7: Solvency II technical provisions for the Existing R&Q Gamma Portfolio at 31 December 2018 (£m)

£m	Best estimate	Risk margin	Technical provisions
Gross of reinsurance	6.0	0.4	6.5
Net of reinsurance	4.9	0.4	5.3

7.78 I have reviewed the CVs of the individuals who are responsible for the calculation of the Solvency II technical provisions. Based on these and my interactions with the individuals who perform the calculations, I am satisfied that the actuaries at the R&Q Group who undertook this analysis have the necessary experience and expertise to undertake analyses of this nature and for me to rely on their work.

7.79 I have reviewed the adjustments that the R&Q Group has made to the actuarial best estimate reserves to derive the Solvency II technical provisions for the Existing R&Q Portfolio.

7.80 I have concluded that the Solvency II technical provisions process appears appropriate and robust in paragraph 0. I have no reason to believe that the Solvency II technical provisions for the RLGIL and SIMIA portfolios lie outside a range of reasonable estimates. In reaching this assessment, I have considered the following:

- I have concluded that I have no reason to believe that the IFRS reserves for the RLGIL and SIMIA lie outside a range of reasonable estimates
- I consider the adjustments made by the R&Q Group to the IFRS reserves to calculate the Solvency II technical provisions to be appropriate and in line with industry practice
- Where R&Q Group has made adjustments to the IFRS reserves, it has utilised market standard approaches in making its adjustments to the IFRS reserves and I consider the adjustments to be reasonable
- The analyses that R&Q Gamma has conducted in relation to its own experience are appropriate
- The reasonableness of the outputs compared to the historical experience

- My experience and expertise in relation to Solvency II technical provisions.

7.81 I note that there is inevitably uncertainty about the appropriate level of adjustments to make in order to estimate the technical provisions under Solvency II. It follows that the R&Q Group could have made equally valid adjustments which would lead to different results.

Transferring Portfolio

Claims reserves

7.82 I have been provided with two actuarial reserve reviews undertaken on the Transferring Portfolio for the purposes of reporting at 31 December 2018. In addition, I have been provided with documents demonstrating the adjustments applied to the actuarial best estimate reserves to derive the Solvency II technical provisions.

7.83 The first was undertaken by SCOR UK and is based on data at 30 September 2018. A roll-forward process was undertaken to estimate the claims reserve for the Transferring Portfolio at 31 December 2018 by deducting the paid claims from the claims reserves calculated using 30 September 2018 data. I have been provided with a report documenting the claims reserves calculated at 31 December 2018 and the reserving methodology and assumptions. I also held discussions with the SCOR UK actuaries who estimated the reserves.

7.84 The second was undertaken by the R&Q Group and is based on data at 31 December 2018. For this review, I have been provided with the data and calculations used to estimate the reserves. I also held discussions with the R&Q Group actuaries who estimated the reserves.

7.85 The table below shows the actuarial best estimate gross claims reserves for the Transferring Portfolio used for reporting at 31 December 2018, as estimated by each of SCOR UK and R&Q Gamma. I have also shown both SCOR UK's and R&Q Gamma's booked claims reserves for the Transferring Portfolio at 31 December 2018.

Table 7.3: Claims reserves for the Transferring Portfolio at 31 December 2018 (£m)

	SCOR UK estimate	R&Q Gamma estimate	Difference
Actuarial Best Estimate	8.7	5.7	3.0
Booked Reserve	7.6	5.7	1.9

7.86 As can be seen from the table above, there is a £3.0m difference between SCOR UK's and R&Q Gamma's actuarial best estimates. This is because the underlying assumptions used by the R&Q Group to calculate the reserves for the Transferring Portfolio differ from those used by SCOR UK.

7.87 For comparison, I have calculated the paid survival ratio for each of the actuarial best estimates in table 7.3. In this case, the paid survival ratio is defined to be the number of years that claims reserves will last for if an amount equal to the average paid claims over the past five years is paid in each future year and it is a metric by which to compare the sufficiency of each of the reserve estimates. The paid survival ratio for R&Q Gamma's actuarial best estimate for the Transferring Portfolio is in the region of 13.5 years and the paid survival ratio for SCOR UK's actuarial best estimate is in the region of 20 years.

Solvency II technical provisions

7.88 I have been provided with documents which describe the adjustments applied to the actuarial best estimate reserves to derive the Solvency II technical provisions.

7.89 The table below shows the Solvency II technical provisions for the Transferring Portfolio used for reporting at 31 December 2018, as estimated by each of SCOR UK and R&Q Gamma.

Table 7.4: Solvency II technical provisions for the Transferring Portfolio at 31 December 2018 (£m)

	SCOR UK estimate	R&Q Gamma estimate	Difference
Solvency II technical provisions	8.4	4.8	3.6

7.90 As can be seen from the table above, there is a £3.6m difference between SCOR UK’s Solvency II technical provisions and R&Q Gamma’s Solvency II technical provisions for the Transferring Portfolio. The difference arises primarily due to the differences between SCOR UK’s actuarial best estimate and R&Q Gamma’s actuarial best estimate as shown in Table 7.3. The remaining difference is due to differences in the adjustments applied by SCOR UK and R&Q Gamma to the actuarial best estimate reserves to derive the Solvency II technical provisions.

7.91 In the remainder of this section, I will discuss:

- SCOR UK's approach to reserving for the Transferring Portfolio, in paragraphs 7.93 to 7.114. R&Q Gamma's approach to reserving for the Transferring Portfolio, in paragraphs 7.115 to 7.129.
- The reasons for the differences between the estimate determined by SCOR UK and the estimate determined by R&Q Gamma, in paragraphs 7.130 to .

7.92 The reserve reviews that I have considered in this section were the most recent available at the time of my analysis. For my Supplementary Report, I will consider claims movements since these reviews and any more recently available actuarial reserve reviews.

SCOR UK’s estimate of the reserves for the Transferring Portfolio

7.93 I have been provided with the actuarial reserve review for the Transferring Portfolio at 31 December 2018 which was undertaken by SCOR UK’s Actuarial Reserving team.

7.94 I have reviewed the CVs of the individuals that undertook this analysis. Based on these and my interactions with those individuals, I am satisfied that the actuaries at SCOR UK who undertook this review have the necessary experience and expertise to undertake a review of this nature and for me to rely on their review.

7.95 I have performed an analysis to satisfy myself that SCOR UK’s estimate of insurance liabilities is consistent with my expectations for insurance business of the nature that it writes. This analysis involved:

- A review of the reserve report at 31 December 2018 produced by SCOR UK’s reserving actuaries
- A review of the methods used to estimate the reserves compared with industry best practice
- Discussions with individuals at SCOR UK to understand the approaches used to estimate the reserves. These discussions have also involved considering whether any material changes have occurred to the processes since the date of the information received.

7.96 Below I have summarised the methodologies and major assumptions used by SCOR UK to estimate the claims reserves for the Transferring Portfolio. I provide my opinion on the reasonableness of the claims reserves estimated by SCOR UK for the Transferring Portfolio in paragraph 7.102. In addition, I provide my opinion on the reasonableness of the claims reserves held by SCOR UK for the Transferring Portfolio in paragraph 7.106.

7.97 I have also reviewed the methodologies and assumptions used by SCOR UK to estimate the Solvency II technical provisions for the Transferring Portfolio. I provide my opinion on the reasonableness of the Solvency II technical provisions estimated by SCOR UK for the Transferring Portfolio in paragraph 7.114.

7.98 The claims data used in the review was at 30 September 2018. An exercise was subsequently undertaken using data at 31 December 2018 to update assumptions, check the reasonableness of the estimates produced using the earlier data and make allowance for claims paid between 30 September 2018 and 31 December 2018.

Methodology and assumptions for actuarial best estimate reserves, gross of reinsurance

7.99 The data used for the estimation of reserves for the Transferring Portfolio is sourced from the bordereaux provided by RQCS, split by currency and type of contract (direct insurance, facultative reinsurance and treaty reinsurance) with a one quarter delay in receiving the information. The portfolio is then split between Asbestos, Pollution and Other risks for the purposes of the analysis.

7.100 For each risk type, SCOR UK has estimated the IBNR by applying IBNR-to-outstanding ratios to the outstanding claims reserves. These ratios are based on an analysis of SCOR UK's other books of business and on market studies of latent claims experience.

7.101 The Anglo-French portfolio is significantly older than both SCOR UK's other books of business and the portfolios in the market on which market studies utilised by SCOR UK are performed. In addition, SCOR UK has not seen any significant deterioration in claims experience on the Anglo-French portfolio in recent years. SCOR UK therefore considers the IBNR-to-outstanding ratios, and hence the actuarial best estimate reserves, to be conservative.

7.102 I have reviewed the methodology and assumptions used by SCOR UK. Given the uncertainty inherent in the estimation of reserves for the types of liabilities within the Transferring Portfolio, there is inevitably a wide range of plausible outcomes. I do not consider the reserve estimate to lie outside that range of plausible outcomes, although I consider that elements of the reserving may err on the side of caution. In reaching this conclusion I have considered the following:

- The approach adopted by SCOR UK is in line and is proportionate in its complexity with the approaches I have seen used elsewhere. The approach is also proportionate in its complexity given the immateriality of the Transferring Portfolio to SCOR UK's overall business
- In my experience of reserving for books of business of this nature, the IBNR-to-outstanding ratios used by SCOR UK are not unreasonable but they may err on the side of caution
- The reasonableness of the outputs compared to the historical experience
- My experience and expertise in relation to claims reserving.

Outwards reinsurance

7.103 SCOR UK is fully reinsured for the Transferring Portfolio by AIEL under the LPTA. This reinsurance will remain in place until the Effective Date. Therefore, the actuarial best estimate reserves, net of reinsurance, are zero.

Booked reserves

7.104 Based on my experience, the process for calculating the actuarial best estimate reserves appears appropriate and proportionate. As discussed in paragraph 7.102, I do not consider the reserve estimate to lie outside a range of plausible outcomes.

7.105 The Board of SCOR UK is responsible for determining the reserves to be booked in the IFRS accounts. I understand from SCOR UK that the booked ultimate claims for the Transferring Portfolio have been fixed (in US Dollars) since the process of transferring the liabilities to R&Q Gamma commenced in late 2017. Therefore, changes in the booked claims reserve between 31 December 2017 and 31 December 2018 are due to movements in USD to GBP exchange rates and claims paid during the year.

7.106 As a result, the booked claims reserves, gross of reinsurance, for the Transferring Portfolio at 31 December 2018 are £7.6m which is approximately £1.1m below the actuarial best estimate at 31 December 2018. I have no reason to believe that the booked gross claims reserves lie outside a range of plausible estimates. This is because, as discussed in paragraph 7.102, whilst I consider the actuarial best estimate to lie within a reasonable range of reserves, I consider elements of the reserving to be conservative.

Solvency II technical provision adjustments

7.107 The Solvency II technical provisions are the sum of the best estimate provisions, calculated on a cash flow basis under Solvency II, and a risk margin.

7.108 The Board of SCOR UK is responsible for the approval of the Solvency II technical Provisions.

7.109 I have reviewed the CVs of the individuals who are responsible for the calculation of the Solvency II technical Provisions. Based on these and my interactions with those individuals, I am satisfied that the actuaries at SCOR UK who undertook these calculations have the necessary experience and expertise to undertake analyses of this nature and for me to rely on their analysis.

7.110 I have performed an analysis to consider whether or not SCOR UK's estimate of the Solvency II technical provisions is consistent with my expectations for insurance business of the nature that it writes. This analysis involved:

- A review of the reserve report at 31 December 2018 produced by SCOR UK's reserving actuaries which sets out the methodology and assumptions used to estimate the best estimate IFRS claims reserves
- A review of the Actuarial Function Report at 31 December 2017 which sets out the approach taken to deriving Solvency II technical provisions. I have been informed by SCOR UK that the approach has not changed materially since 31 December 2017.
- A review of the methods used to estimate the technical provisions compared with industry best practice
- Discussions with individuals at SCOR UK to understand the approaches used to estimate the technical provisions. These discussions have also involved considering whether any material changes have occurred to the processes since the date of the information received.

7.111 As discussed in paragraphs 7.56 to 7.58, SCOR UK has omitted a number of adjustments when calculating its Solvency II technical provisions. The Solvency II technical provisions for the Transferring Portfolio will be impacted by the inclusion of implicit prudence margins and the omission of ENIDs. It will not be impact by the omission of expected profit on BBNI and Post-Closure Inceptions since the Transferring Portfolio is in run-off.

7.112 Given the nature of the liabilities in the Transferring Portfolio and the age of the portfolio, I do not expect the ENIDs to be significant.

7.113 In addition, I have concluded that, whilst I consider that elements of the reserving may err on the side of caution, I do not consider the best estimate reserves for the Transferring Portfolio to lie outside the range of plausible outcomes. The rationale for this conclusion is discussed in paragraph 7.102.

7.114 When considering the impact in aggregate, my opinion is that SCOR UK's estimate of the Solvency II technical provisions for the Transferring Portfolio may be conservative. However, given the uncertainty inherent in the estimation of reserves for the types of liabilities within the Transferring Portfolio, there is inevitably a wide range of plausible outcomes. I do not consider SCOR UK's Solvency II technical provisions for the Transferring Portfolio to lie outside a range of plausible outcomes. In reaching this assessment, I have considered the following:

- I have concluded that the process appears appropriate and robust in paragraph 7.37
- I have concluded that I have no reason to believe that SCOR UK's actuarial best estimate for the Transferring Portfolio lies outside a range of reasonable estimates, although I believe that some elements of the reserving may err on the side of caution. Since the Solvency II technical provisions are estimated by making adjustments to the IFRS reserves, the aspects of the reserving which err on the side of caution result in the Solvency II technical provisions also erring on the side of caution
- Where SCOR UK has made adjustments to the IFRS reserves (including the allowance for future expenses), it has utilised market standard approaches in making those adjustments and I consider the adjustments to be reasonable
- There are a number of adjustments which would usually be made to convert IFRS reserves to Solvency II technical provisions but which have not been made in this case. However I consider that these omissions do not materially misstate the Solvency II technical provisions, as discussed in paragraphs 7.57 to 7.59
- The analyses that SCOR UK has conducted in relation to its own experience are appropriate
- The reasonableness of the outputs compared to the historical experience
- My experience and expertise in relation to Solvency II technical provisions.

The R&Q Group's estimate of the reserves for the Transferring Portfolio

7.115 I have been provided with the data and calculations used by the R&Q Group to estimate the reserves for the Transferring Portfolio. I have not performed a detailed review of these calculations although I have reviewed them to understand the methodology and assumptions used. I also held discussions with reserving actuaries at the R&Q Group.

7.116 I have reviewed the CVs of the individuals that are responsible for the claims reserving. Based on these and my interactions with the individuals performing the claims reserving, I am satisfied that the actuaries at the R&Q Group who undertook this review have the necessary experience and expertise to undertake a review of this nature and for me to rely on their review.

7.117 Below I have summarised the methodologies and major assumptions used by the R&Q Group to estimate the claims reserves for the Transferring Portfolio. I provide my opinion on the reasonableness of the claims reserves estimated by the R&Q Group for the Transferring Portfolio in paragraph 7.122. In addition, I provide my opinion on the reasonableness of the claims reserves held by R&Q Gamma for the Transferring Portfolio in paragraph 7.125.

7.118 I have also reviewed the methodologies and assumptions used by R&Q Gamma to estimate the Solvency II technical provisions for the Transferring Portfolio. I provide my opinion on the reasonableness of the Solvency II technical provisions estimated by R&Q Gamma for the Transferring Portfolio in paragraph 7.128.

7.119 The data used in the review was at 30 September 2018. The reserves were rolled forward to 31 December 2018 by subtracting the claims paid between 30 September 2018 and 31 December 2018 from the reserves calculated at 30 September 2018. An adjustment was made for exchange rate movements. No other adjustments or assumption changes were made.

Methodology and assumptions for actuarial best estimate reserves, gross of reinsurance

7.120 The data used for the estimation of reserves for the Transferring Portfolio is provided by RQCS and is split by currency and type of contract (direct insurance and facultative reinsurance and treaty reinsurance). The portfolio is then split between Asbestos, Pollution and Other risks for the purposes of the analysis.

7.121 For each risk type and type of contract, the R&Q Group has estimated the IBNR using a survival ratio approach. The IBNR is calculated by multiplying the estimated average annual paid claims by a survival ratio (the number of years that the reserves will last for if an amount equal to the average paid claims is paid in each future year). This approach is frequently used by insurers to estimate reserves for asbestos, pollution and other types of latent claims.

7.122 I have reviewed the methodology and assumptions used by the R&Q Group and I have no reason to believe that the actuarial best estimate reserves lie outside a plausible range of estimates. In reaching this assessment, I have considered the following:

- I have concluded that the process appears appropriate and robust in paragraph 0
- R&Q Gamma has utilised market standard approaches in determining its estimates
- The assumptions utilised by R&Q Gamma in determining its estimates appear reasonable
- My experience and expertise in relation to claims reserving.

Outwards reinsurance

7.123 Since the commutations of the Compre and Armour Risk reinsurance arrangements, AIEL does not have any outwards reinsurance in relation to the Transferring Portfolio.

Booked reserves

7.124 The Board of R&Q Gamma is responsible for determining the reserves to be booked in the financial statements. The Board has set the booked reserves equal to the actuarial best estimate.

7.125 Based on my experience, the process for calculating the actuarial best estimate and booked reserves appears appropriate and proportionate. I have no reason to believe that the actuarial best estimate reserves lie outside a plausible range of estimates. In turn, since the booked reserves are equal to the actuarial best estimate reserves, I have no reason to believe that the booked reserves lie outside a plausible range of estimates.

Solvency II technical provision adjustments

7.126 The Solvency II technical provisions are the sum of the best estimate provisions, calculated on a cash flow basis under Solvency II, and a risk margin.

7.127 I have reviewed the CVs of the individuals who are responsible for the calculation of the Solvency II technical provisions. Based on these and my interactions with those individuals, I am satisfied that the actuaries at R&Q Group who undertook these calculations have the necessary experience and expertise to undertake analysis of this nature and for me to rely on their analysis.

7.128 I have reviewed the adjustments that the R&Q Group has made to the actuarial best estimate reserves to derive the Solvency II technical provisions for the Transferring Portfolio and I consider them to be appropriate and in line with industry best practice. Based on my experience and expertise, the process for calculating Solvency II technical provisions appears appropriate and robust. I therefore have no reason to believe that the Solvency II technical provisions for the Transferring Portfolio lie outside a range of plausible estimates. In reaching this assessment, I have considered the following:

- I have concluded that the process appears appropriate and robust in paragraph 0

- I have concluded that I have no reason to believe that R&Q Gamma's actuarial best estimate for the Transferring Portfolio lies outside a range of reasonable estimates. The actuarial best estimate is used as the starting point for the estimate of the Solvency II technical provisions and therefore any over- or under-reserving in the actuarial best estimate would translate into an over- or under-estimation of the Solvency II technical provisions
- I consider the adjustments (including the allowance for future expenses) made to the actuarial best estimate reserves to be in line with market standard approaches and I consider the adjustments to be reasonable
- My experience and expertise in relation to Solvency II technical provisions.

7.129 I note that there is inevitably uncertainty about the appropriate level of adjustments to make in order to estimate the technical provisions under Solvency II. It follows that the R&Q Group could have made equally valid adjustments which would lead to different results.

Differences between SCOR UK and R&Q Gamma's reserves for the Transferring Portfolio

7.130 As shown in Table 7.3 above, there are differences between SCOR UK's and R&Q Gamma's actuarial best estimates of the reserves for the Transferring Portfolio.

7.131 The differences are as a result of the assumptions used by the actuaries at SCOR UK and R&Q Gamma to estimate the reserves. In particular, as discussed in paragraph 7.102, I consider there to be an element of conservatism within the IBNR-to-outstanding ratios used by SCOR UK.

7.132 As discussed in paragraph 7.9, future claim emergence will likely deviate, perhaps materially, from any estimate of claims reserves. This uncertainty is exacerbated when estimating claims reserves for latent disease-related liabilities such as those within the Transferring portfolio. Therefore, it is possible that the future claim emergence will deviate materially from the reserve estimates of either SCOR UK or R&Q Gamma. As a result, I consider there to be a wide range of plausible reserve estimates for the Transferring Portfolio.

7.133 Based on my experience and knowledge of the market, the process for setting the IFRS reserves and Solvency II technical provisions at R&Q Gamma appears robust. I have no reason to believe that the reserves or Solvency II technical provisions lie outside a range of plausible estimates for the reasons given in paragraphs 7.122 and 7.128 above.

7.134 Based on my experience and knowledge of the market, the process for setting the IFRS reserves and Solvency II technical provisions at SCOR UK appears robust, although I am of the opinion that there may be conservatism within SCOR UK's estimate of the claims reserves and Solvency II technical provisions for the Transferring Portfolio. However, given the uncertainty attached to any reserve estimates for the Transferring Portfolio, I do not consider the reserve estimate to lie outside a range of plausible outcomes. The rationale for this conclusion is given in paragraphs 7.102 and 7.114 above.

7.135 For the reasons given above, I believe that both R&Q Gamma's and SCOR UK's estimates of the reserves and Solvency II technical provisions lie within a reasonable range of estimates given the uncertainty inherent in the liabilities for the Transferring Portfolio. However, I consider that SCOR UK's estimate may be towards the higher end of that reasonable range.

Impact on the transferring policyholders

7.136 The transferring policyholders would transfer to an insurer which is holding lower reserves for the Transferring Portfolio. On the face of it. this appears to have an adverse impact on the security of the transferring policyholders. However, I do not consider the adverse impact to be material for the following reasons:

- Whilst I consider both R&Q Gamma and SCOR UK's reserves estimates to lie within a reasonable range of estimates, I consider that SCOR UK's estimate may be towards the higher end of that reasonable range.
- Given that there is a large difference between R&Q Gamma's and SCOR UK's reserving estimates, I have undertaken my own testing to assess the financial security of R&Q Gamma if it were to book SCOR UK's estimate of the Solvency II technical provisions rather than its own estimate. This analysis is set out in Section 8 and indicates that, in this scenario, R&Q Gamma will be sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the Existing R&Q Gamma Portfolio.
- I have undertaken my own stress testing to understand the robustness of the capital base of R&Q Gamma to deteriorations in the levels of its claims reserves, including deteriorations in the levels of the reserves for the Transferring Portfolio. The results of this testing are set out in Section 8 and indicates that R&Q Gamma will be sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the Existing R&Q Gamma Portfolio.

8 Capital Requirements

8.1 In assessing the impact of the Scheme on policyholders, I have considered the solvency positions of SCOR UK and R&Q Gamma.

8.2 In considering the solvency position, I have considered the following for each company:

- Its capital strategy and its ability to access additional capital and reinsurance if required
- Its regulatory and economic capital requirements, both before and after the Scheme
- My own stress testing of the capital position after the Scheme to assess the likelihood of it not being able to meet its liabilities over the course of the run-off of the liabilities
- The latest ORSA report, including the projections of future capital positions and the stress and scenario testing performed.

8.3 It should be noted that one of the key limitations of the regulatory capital requirements under Solvency II is that they only represent the amount of capital that an insurer is required to hold over the next year. When considering policyholder security, it is also important to consider whether an insurer will have sufficient assets to meet its liabilities over the course of the run-off of the business, or at least whether the risk of that not being the case is remote.

8.4 As a result, whilst in this section I do consider the regulatory capital requirements for each insurer and the extent to which its Own Funds cover its SCR, I also conduct my own stress testing to assess the likelihood of each insurer not being able to meet its liabilities over the course of the run-off of the liabilities following the Scheme.

8.5 In addition to this, I also consider the latest ORSA produced by each insurer which sets out the insurer's view of the resilience of its capital base to meet policyholder needs.

8.6 It is the combination of the four items listed in paragraph 8.2 that I consider when assessing policyholder security, although the most weighting is applied to my own stress testing since it considers the position following the Scheme and also considers the position over the course of the run-off of the liabilities.

Assessment of likelihoods of stress test scenarios

8.7 When performing my stress testing I have used the following words to describe the potential events, based on my assessments of the return periods of the events: reasonably foreseeable; unlikely; highly unlikely; and remote.

8.8 A return period implies the expected frequency of an event of a given severity. For example, a 1 in 50 year return period implies that the event is *expected* to occur in one year out of 50. I emphasise the word "expected" as it is possible that the scenario may not actually occur at all or that it may occur more than once in the next fifty years. A 1 in 50 year return period equates to a 2% probability (2% = 1 / 50) of the event occurring within a single year.

8.9 The words used to set out the likelihoods of the potential events are designed to have the following meanings:

- Reasonably foreseeable – the scenario is expected to happen at least once in a person's working lifetime (i.e. it has a return period of less than 1 in 40 years).
- Unlikely – the scenario has a return period between 1 in 40 years and 1 in 100 years.
- Highly unlikely – the scenario has a return period between 1 in 100 years and 1 in 200 years (a 1 in 200 year return period is the return period at which regulatory capital is set).
- Remote – the scenario has a return period greater than 1 in 200 years.

SCOR UK

Capital strategy

8.10 I understand from SCOR UK that its capital strategy is to maintain a strong capital base, taking full cognisance of the risks underwritten by SCOR UK and the planned business strategy. It has a long-term aim to maintain a buffer above its SCR at a target level. This is set out in the SCOR UK addendum to the SCOR Group's Capital Management Policy. I understand from SCOR UK that the SCOR Group's policy and the SCOR UK addendum are reviewed annually and approved by the Board.

8.11 In addition, the SCOR UK addendum to the Group's Capital Management Policy sets out what actions to take if SCOR UK's SCR coverage ratio drops below its long-term target or it is deemed likely that there will a potential breach of the long-term target. It also sets out what actions to take if its SCR coverage ratio drops below 100% and what actions to take if the MCR coverage ratio drops below 100%.

8.12 In a scenario where SCOR UK needs to improve its coverage ratios, options available to SCOR UK include reinsurance purchase, changing the investment mix and requesting additional capital from the SCOR Group. I have assessed the ability of the SCOR Group to provide additional capital to SCOR UK. At 31 December 2018, the SCOR Group had an SCR coverage ratio of 215% and £4.4bn of Own Funds in excess of its SCR. I therefore consider it likely that SCOR UK would be able to successfully request additional capital from its parent company.

Solvency II balance sheet

8.13 The simplified Solvency II balance sheets for SCOR UK at 31 December 2018, both before and after the Scheme, are shown in the table below, on the basis that the Scheme had become effective at 31 December 2018.

Table 8.1: Solvency II balance sheets at 31 December 2018 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Cash	28.0	0.0	28.0
Investments	408.9	-6.6	402.4
Ceded technical provisions	611.3	-8.1	603.2
Other assets	83.1	0.0	83.1
Total assets:	**1,131.3**	**-14.7**	**1,116.7**
Liabilities:			
Gross technical provisions (excl. risk margin)	838.9	-8.4	830.5
Risk margin	18.0	0.0	18.0
Other liabilities	146.5	-6.6	139.9
Total liabilities:	**1,003.3**	**-15.0**	**988.4**
Excess of assets over liabilities	128.0	0.3	128.3
Adjustments	30.0	0.0	30.0
Eligible Own Funds	**158.0**	**0.3**	**158.3**
Solvency Capital Requirement (SCR)	**98.4**	**-0.2**	**98.3**

8.14 As a result of the Scheme, the gross and reinsurers' share of Solvency II technical provisions (excluding the risk margin) will reduce by the Solvency II technical provisions estimated by SCOR UK for the Transferring Portfolio. Given the immateriality of the Transferring Portfolio compared to SCOR UK's overall business, the impact on the SCR is negligible (see paragraph 8.30) and there is no discernible impact on the risk margin.

8.15 Had the Scheme become effective at 31 December 2018, £6.6m of investments would have been sold to settle the LPTA with AIEL. This reduction in accounts payable on ceded reinsurance transactions is categorised as "Other liabilities" in Table 8.1.

8.16 I have considered the approach used to calculate the Solvency II balance sheets for SCOR UK, both before and after the Scheme, and I consider the approach and results to be reasonable.

8.17 81% of SCOR UK's Own Funds at 31 December 2018 are Tier 1, the highest tier of Own Funds and the remaining 19% are Tier 2. I have reviewed the tiering of Own Funds and consider it to be reasonable. In addition, I understand from SCOR UK that the tiering of Own Funds will not materially change as a result of the Scheme.

Accounting balance sheet

8.18 The simplified IFRS accounting balance sheets for SCOR UK at 31 December 2018, both before and after the Scheme, are shown in the table below, on the basis that the Scheme had become effective at 31 December 2018.

Table 8.2: IFRS balance sheets at 31 December 2018 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Cash	28.0	0.0	28.0
Investments	428.2	-6.6	421.7
Reinsurers' share of reserves	821.9	-7.6	814.3
Other assets	303.8	0.0	303.8
Total assets	**1,581.9**	**-14.2**	**1,567.8**
Liabilities:			
Financial debt	45.3	0.0	45.3
Contract liabilities	1,157.3	-7.6	1,149.7
Other liabilities	254.4	-6.6	247.8
Total liabilities	**1,457.0**	**-14.2**	**1,442.8**
Capital and reserves	**125.0**	**0.0**	**125.0**

8.19 The movements between the accounting balance sheets above, as a result of Scheme, are similar to those in the Solvency II balance sheets. The gross reserves and reinsurers' share of reserves will reduce by the amount of booked reserves for the Transferring Portfolio and the other liabilities will reduce due to the settlement of reinsurance creditors.

Regulatory capital requirements

SCR and MCR

Approach to calculating the SCR and MCR

8.20 SCOR UK uses the Standard Formula to calculate its SCR and MCR under Solvency II.

8.21 The following key risks, arising in the next 12 months, are modelled under the Standard Formula:

- **Reserve risk –** the risk of the best estimate claims deteriorating i.e. that the reserves are insufficient to cover the unpaid claims that have already occurred
- **Premium risk** – the risk that premiums received for the business written in the following 12 months will not be sufficient to cover future claims and related costs from that business
- **Catastrophe risk** – the risk of claims arising due to natural catastrophes such as floods, windstorms and earthquakes and man-made catastrophes such as fire or aggregation of liability claims
- **Market risk** – the risk of adverse changes in net asset value as a result of movements in market risk variables such as interest rates, exchange rates, equity market values etc. It also includes the exposure to investment credit risk (the risk of default or adverse movements in credit ratings of the assets)

- **Counterparty default risk** – the risk of losses due to default or downgrade of reinsurers or due to non-payment of receivables from third parties
- **Operational risk** – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events
- **Loss absorbing capacity of deferred taxes ("LACDT")** – a deduction from the SCR to reflect that a deferred tax asset may be allowable following a severe 1-in-200 year loss.

Appropriateness of the Standard Formula

8.22 SCOR UK calculates its regulatory capital requirements using the Standard Formula. It has however assessed the appropriateness of the assumptions used within the Standard Formula compared to its risk profile and considers its regulatory capital requirements to be conservative.

8.23 I have reviewed SCOR's assessment and consider it to be reasonable for the following reasons:

- SCOR UK is a well-diversified insurer which, on the whole, aligns with the over-arching principles used in the calibration of the Standard Formula parameters, although I do note some specific exceptions below.
- I consider SCOR UK's regulatory capital requirements are conservative since:
  - The premium and reserve risk diversification parameters do not appropriately reflect SCOR UK's well-diversified insurance portfolio and its geographical diversification. This is because the Standard Formula implicitly assumes that premium risk from new business and premium risk from prior business are highly correlated. In addition, a minimum of 25% correlation is applied between classes of business. I consider these assumptions to be conservative given SCOR UK's well diversified insurance portfolio.
  - The reinsurance benefit for non-proportional reinsurance on premium risk is 20%, irrespective of the level of cover provided by the programme. In addition, this benefit is only applied for three out of the twelve Solvency II lines of business. This does not align with SCOR UK's risk profile, in particular the Premium Element Adjustment ("PEA") arrangement, a profit sharing arrangement that SCOR UK has for its insurance of the Medical Defence Union (the "MDU").
  - The Standard Formula applies a simplistic approach to calculating operational risk capital requirements which means that, the larger the gross reserves, the greater the operational risk capital in monetary terms. In reality however, firms with larger gross reserves often have the resources to mitigate the operational risk to an extent. In addition, the operational risk capital does not allow for SCOR UK's purchase of insurance to mitigate the operational risk losses. Furthermore, there is no allowance for diversification between operational risk and other risks.

Calculation of capital requirements

8.24 I have reviewed the CVs of the individuals who are responsible for the assessment of capital requirements at SCOR UK. Based on these and my interactions with those individuals, I am satisfied that the individuals at SCOR UK who undertook these assessments have the necessary experience and expertise to undertake analyses of this nature and for me to rely on their analysis.

8.25 I have considered the approach used to undertake the Standard Formula calculations for SCOR UK and consider the approach to be reasonable and proportionate to the scale and complexity of its operations. I note that, whilst I have considered the methodology for each element described above, I have not reviewed the calculations in detail.

8.26 At 31 December 2018, SCOR UK changed its methodology for calculating the LACDT. The change in LACDT methodology was the main driver of the material reduction in the SCR from £114.6m at 31 December 2017 to £98.4m at 31 December 2018.

8.27 Whilst the European Insurance and Occupational Pensions Authority ("EIOPA") has provided guidance in relation to the calculation of the LACDT, there is not a prescribed methodology. There is therefore a range of methodologies and assumptions used by insurers in the market. I have considered the approach used by SCOR UK to calculate the LACDT and, whilst I consider the approach to be within the guidelines provided by EIOPA, alternative reasonable methodologies and assumptions could be applied which would result in a materially lower LACDT. However, my independent analysis indicates that, even if a lower LACDT was applied, SCOR UK would still hold significant Eligible Own Funds in excess of its SCR.

8.28 I have considered the results of SCOR UK's Standard Formula calculations, and I have established that the SCR is adequate to represent SCOR UK's one-year risk both before and after the Scheme.

8.29 I understand from SCOR UK that its approach to undertaking the Standard Formula calculations will be unaffected by the Scheme and I consider this to be reasonable.

SCR coverage at December 2018

8.30 The SCR coverage ratios of SCOR UK at 31 December 2018, both before and after the Scheme, are shown in the table below, on the basis that the Scheme had become effective at that date.

Table 8.3: SCR coverage ratios at 31 December 2018 (£m)

	Before the Scheme	Impact of the Scheme	After the Scheme
SCR	98.4	-0.2	98.3
Eligible Own Funds to meet the SCR	158.0	0.3	158.3
SCR coverage ratio	160.5%	0.6%	161.0%

8.31 As can be seen in the table above, SCOR UK's SCR coverage ratio will increase by 0.6% as a result of the Scheme. The low impact is due to the fact that the Transferring Portfolio represents a very small proportion of SCOR UK's overall liabilities and because it was fully reinsured at 31 December 2018 as a result of the LPTA with AIEL. The SCR reduces due to SCOR UK's reduced exposure to market risk (due to a reduction in invested assets), reduced exposure to reinsurer default due to the termination of the LPTA as a result of the Scheme, and a small reduction in operational risk. The Eligible Own Funds increase due to the removal of the expenses and reinsurance bad debt associated with the LPTA.

8.32 It can also be seen from the table above that SCOR UK has significant Own Funds in excess of the SCR both before and after the Scheme.

SCR coverage projected to 31 December 2019

8.33 The table below shows the SCR coverage ratio of SCOR UK, projected to 31 December 2019, prior to and after the Scheme.

Table 8.4: SCR coverage ratios at 31 December 2019 (£m)

	Before the Scheme	Impact of the Scheme	After the Scheme
SCR	90.6	0.0	90.6
Eligible Own Funds to meet the SCR	157.3	0.3	157.6
SCR coverage ratio	173.6%	0.3%	173.9%

8.34 The primary reason for the reduction in the SCR from £98.4m at 31 December 2018 to £90.6m at 31 December 2019 is due to SCOR UK's business plan for 2019 and 2020 and, in particular, its Brexit arrangements. Renewals of SCOR UK's business in the 27 member countries of the EU aside from the UK ("EU 27") are being written by SCOR Europe SE from January 2019. Therefore, SCOR UK's premium income is anticipated to reduce during 2019 and 2020. This reduces the non-life premium and reserve risk in SCOR UK's calculation of its SCR and hence a reduced SCR at 31 December 2019.

8.35 As shown in the table above, SCOR UK has significant Own Funds in excess of the SCR both before and after the Scheme. The movement in Own Funds is similar to the movement shown in Table 8.3 and discussed in paragraph 8.31.

Stress tests

8.36 In order to test the sufficiency of SCOR UK's Own Funds and to support my conclusions, I have undertaken a number of high-level stress tests as set out in the paragraphs below.

8.37 I have assessed the resilience of SCOR UK's capital position against a number of scenarios. I have selected the scenarios below based on my review of SCOR UK's business structure and risk profile. The scenarios that I have selected represent, in my opinion, the risks that could most significantly impact SCOR UK's financial and capital strength. The scenarios I have considered in my stress tests are as follows:

- Deterioration of SCOR UK's net best estimate technical provisions for the Remaining Portfolio
- Financial losses from significant catastrophe events
- Reduction in the reinsurance asset as a result of default by reinsurers
- Deterioration in the value of SCOR UK's investment portfolio.

8.38 SCOR UK's SCR coverage ratio following the Scheme is projected to be 173.9% at 31 December 2019. I have therefore performed these stress tests based on a SCR coverage ratio of 173.9%.

8.39 The words used to set out the likelihoods of the potential events are designed to have the following meanings:

- Reasonably foreseeable – the scenario is expected to happen at least once in a person's working lifetime (i.e. it has a return period of less than 1 in 40 years).
- Unlikely – the scenario has a return period between 1 in 40 years and 1 in 100 years.
- Highly unlikely – the scenario has a return period between 1 in 100 years and 1 in 200 years (a 1 in 200 year return period is the return period at which regulatory capital is set).
- Remote – the scenario has a return period greater than 1 in 200 years.

Deterioration of SCOR UK's net best estimate technical provisions for the Remaining Portfolio

8.40 SCOR UK's net technical provisions (excluding the Solvency II risk margin) at 31 December 2019, following the Scheme, in respect of the Remaining Portfolio are projected to be £265.6m.

8.41 In order to reduce its SCR coverage ratio to 100% or below, SCOR UK would need to experience a deterioration in the region of £67.0m (25%) of its net best estimate technical provisions, from £265.6m to £332.5m. I consider a deterioration of this magnitude to be unlikely.

8.42 However, in order for SCOR UK's assets to fall beneath its liabilities, it would need to experience a deterioration in the region of 59% in its net best estimate technical provisions. I consider a deterioration of this magnitude to be highly unlikely.

Financial losses from significant catastrophe events

8.43 In SCOR UK's most recent ORSA Document, it has considered its exposure to a number of natural and man-made catastrophe event scenarios.

8.44 The most severe of these, in terms of impact on Eligible Own Funds, is an extreme natural catastrophe scenario based on the 1900 Galveston hurricane. A greater hurricane intensity was used and the hurricane's landfall was shifted to be closer to SCOR UK's North American exposures. SCOR UK has estimated that, net of reinsurance and tax, if this catastrophe occurs, it would have a £51.2m impact on Eligible Own Funds in 2018. SCOR UK has estimated that there is between a 0.1% likelihood and a 0.2% likelihood that this scenario would occur and would cause a loss in excess of £51.2m, net of reinsurance. I therefore consider this scenario to be remote. Even in this scenario, SCOR UK is expected to maintain a SCR coverage ratio substantially in excess of 100%.

8.45 SCOR UK has also considered the impact of a severe man-made loss scenario affecting the attritional and large loss components of SCOR UK's property business. SCOR UK has estimated that, net of reinsurance and tax, if this catastrophe occurs, it would have a £27.9m impact on Eligible Own Funds. SCOR UK has estimated that there is 0.5% likelihood that this scenario would occur and would cause a loss in excess of £27.9m, net of reinsurance. I therefore consider this scenario to be remote. Even in this scenario, SCOR UK is expected to maintain a SCR coverage ratio substantially in excess of 100%.

Reduction in the reinsurance asset as a result of default by reinsurers

8.46 The reinsurance recoveries at 31 December 2019, (on a hypothetical basis following the Scheme) amount to £480.8m. In order to reduce its SCR coverage ratio to 100% or below, SCOR UK would need to experience a reduction in the value of its reinsurance recoveries in the region of £67.0m, or 14%, as a result of default by reinsurers. In addition, SCOR UK would need to experience a reduction in the value of its reinsurance recoveries in the region of £157.6m, or 33%, for its assets to fall below its liabilities.

8.47 As discussed in paragraph 5.8, SCOR UK benefits from substantial reinsurance from the SCOR Group and the intra-group reinsurance represents the significant majority of SCOR UK's outwards reinsurance. At 31 December 2018, 86% of SCOR UK's ceded business was to entities within the SCOR Group on a GAAP basis. SCOR UK is therefore exposed to significant group risk.

8.48 The SCOR Group has a credit rating of A+ from AM Best and a credit rating of AA- from Standard & Poors. In addition, at 31 December 2018, the SCOR Group had a SCR coverage ratio of 215% and approximately £4.4bn of Own Funds in excess of its SCR. As a result, I consider the risk of default to be remote.

8.49 SCOR UK assesses its exposure to reinsurance bad debt on a regular basis with reinsurance programmes being approved by the Board on an annual basis. SCOR UK also has the benefit of a segregated trust fund arrangement supporting the exposure to its most material intra-group reinsurance contract.

8.50 In addition, the vast majority of SCOR UK's external reinsurers and retrocessionaires have a credit rating of A and above (98% at 31 December 2018).

8.51 Based on this and my experience, I consider a reduction in the reinsurance asset as a result of default by reinsurers of 33% to be highly unlikely. As a result, my opinion is that I consider that SCOR UK will have sufficient assets to meet its liabilities in all reasonably foreseeable scenarios.

Deterioration in the value of SCOR UK's investment portfolio.

8.52 The investments held by SCOR UK at 31 December 2019 (on a hypothetical basis following the Scheme) amount to £425.4m. In order to reduce the SCR coverage ratio to 100% or below, SCOR UK would need to experience a reduction in the value of its investments in the region of £67.0m (16%). In addition, in order to reduce assets such that they fall below the liabilities, SCOR UK would need to experience a reduction in the value of its investments in the region of £157.6m (37%).

8.53 SCOR UK has informed me that, following the Scheme, it expects virtually all of its investment portfolio to be in government and corporate bonds, which is also the case currently. It has informed me that these debt instruments had credit ratings between AAA and BBB at 31 December 2018 (87% had credit ratings of A and above) and that this strategy of investing in highly rated bonds is expected to remain the case following the Scheme.

8.54 In SCOR UK's most recent ORSA Document, it has considered the impact on its Own Funds of a number of historic economic events which had a significant impact on financial markets. The most severe of these, in terms of impact on Eligible Own Funds, is the 2008 Financial Crisis which had particularly significant impacts on interest rates and credit spreads (and hence on the market values of bonds). SCOR UK has estimated that this event would result in a £59.6m reduction in SCOR UK's Eligible Own Funds.

8.55 Based on this and my experience, whilst I consider the likelihood of a 16% reduction in the value of SCOR UK's investments to be possible, albeit unlikely, I consider the likelihood of a 37% reduction in the value of SCOR UK's investments to be remote. As a result, my opinion is that I consider that SCOR UK will have sufficient assets to meet its liabilities in all reasonably foreseeable scenarios.

Summary of my testing

8.56 As shown in tables 8.3 and 8.4, SCOR UK will maintain a buffer in relation to the SCR following the Scheme. The buffer is designed to ensure that it only breaches its regulatory capital requirements in extreme scenarios.

8.57 The testing above demonstrates the types of events that would need to happen in order for Own Funds to fall beneath the SCR. In addition, the testing indicates that the likelihood of SCOR UK's assets falling below its liabilities is remote.

8.58 Further, the testing that I have undertaken and which I have described in paragraphs 8.36 to 8.55, demonstrates to me that, should the Scheme become effective, the likelihood of the assets of SCOR UK falling beneath its liabilities is remote.

ORSA

8.59 I have been provided with a copy of the document outlining SCOR UK's most recent ORSA ("ORSA Document"). The document is dated 7 November 2018 and has been approved by SCOR UK's Board. This represents SCOR UK's forward-looking assessment of its risk profile and regulatory and economic capital requirements.

Projection of regulatory capital requirements

8.60 The ORSA projects that the coverage of SCOR UK's regulatory SCR will be maintained above its target set out in the SCOR UK addendum to the Group Capital Management Policy for the three year period from 31 December 2018 to 31 December 2020.

8.61 Since the most recent ORSA Document was produced, SCOR UK has informed me that its approach to the calculation of the Loss Absorbing Capacity of Deferred Taxes ("LACDT"), which is part of the regulatory SCR calculation, has been updated. As a result, SCOR UK has provided me with updated SCR projections which reflect the updated LACDT methodology but which are otherwise consistent with the approach taken in the ORSA. The updated SCR projections project higher SCR coverage ratios than the SCR coverage ratios projected in the ORSA.

8.62 I have reviewed the process by which SCOR UK has projected the coverage of its SCR in the ORSA, the amendments to the approach for calculating the LACDT and the updated SCR projections and I consider these to be reasonable. It follows that I consider the updated projections of the coverage of the SCR to be reasonable.

Economic capital requirements

8.63 SCOR UK estimates its economic capital requirement, based on its own view of risk, using a Partial Internal Model ("PIM"). Although I have not performed a detailed review of the Partial Internal Model, I consider the approach used by SCOR UK to estimate its economic capital requirement to be reasonable.

8.64 I have reviewed the CVs of the individuals who are responsible for the assessment of SCOR UK's economic capital requirement and the reviews of the PIM. Based on these and my interactions with those individuals, I am satisfied that the individuals at SCOR UK who are responsible for the assessment of SCOR UK's economic capital requirement and the validation of the PIM to have the necessary experience and expertise to undertake analysis of this nature and for me to rely on their analysis.

8.65 SCOR UK's economic capital requirement is significantly below its regulatory SCR. For that reason, in my analysis I have focussed on the regulatory SCR and have not considered the economic capital requirement further.

8.66 In addition, I have performed a number of stress tests to consider whether SCOR UK's regulatory SCR is appropriate. This stress testing indicates that SCOR UK's regulatory capital is not unreasonable.

Stress tests within the ORSA report

8.67 SCOR UK has considered various stress and scenario tests within its ORSA to test the robustness of the capital base. The stress and scenario testing covers a wide range of risks that SCOR UK is exposed to such as natural catastrophe and man-made catastrophe risks, market risks and credit default risks. I have reviewed the approach undertaken in relation to these stresses and consider the approach and key assumptions to be reasonable.

8.68 The vast majority of the stress tests undertaken would not reduce SCOR UK's SCR coverage ratio below 100% and, after the updates to the ORSA projections discussed in paragraph 8.61, this will remain the case. For stress tests where the SCR coverage ratio would reduce below 100%, SCOR UK's assets would still be in excess of its liabilities.

8.69 SCOR UK also analysed what events or combination of events would materially threaten SCOR UK's viability to continue trading in the future. It has identified the failure of the SCOR Group and a significant downgrade to the SCOR Group's credit rating as two such events. Whilst those scenarios are possible, I consider them to be unlikely.

R&Q Gamma

Capital strategy

8.70 I understand from R&Q Gamma that it has a long-term aim to maintain a buffer above its SCR at a target level and this is set out in its Risk Appetite Framework which is reviewed annually. In addition, the Risk Appetite Framework sets out what actions to take if the SCR coverage ratio falls below its long-term target and what actions to take if the coverage of the SCR drops below 110%.

8.71 I understand from R&Q Gamma's Capital Management Plan that, in a scenario where R&Q Gamma needs to improve its SCR coverage ratio, a broad range of options would be considered in the context of the prevailing external environment at that point in time. These include:

- Securing additional capital support from the R&Q Group, including its parent company RQIH
- Considering external sources of capital or strategic reinsurance protections, for example, subordinated loans, letters of credit or adverse development covers
- Reassessing the investment portfolio if the reduction in SCR coverage ratio arises from changes in asset performance
- Reviewing large liabilities to determine if any can be beneficially commuted to release reserves
- Reviewing the overall portfolio to determine if a strategic sale or transfer of business to another party would alleviate the issue.

Adverse development cover for the Transferring Portfolio from AIEL

8.72 As discussed in paragraph 7.132, there is inherent uncertainty in any estimate of the claims reserves for the Transferring Portfolio. There is therefore the possibility that the claims reserves will deteriorate, potentially materially so, from R&Q Gamma's reserve estimate.

8.73 I have been informed by R&Q Gamma that, prior to the Effective Date, it will acquire the ADC with AIEL which will come into force on the Effective Date. The ADC will attach at £8.25m and it will provide unlimited reinsurance cover above that attachment point in respect of the Transferring Portfolio. In practice, this will mean that in the event of a material deterioration in the claims reserves for the Transferring Portfolio, AIEL would provide reinsurance recoveries to R&Q Gamma on any reserves above £8.25m, thus limiting R&Q Gamma's downside reserve risk.

Financial Strength of AIEL

8.74 At 31 December 2018, AIEL was holding excess assets above liabilities of £73m, Solvency II Own Funds of £61.3m and a SCR coverage ratio of 251%. It is A- rated by A.M. Best.

8.75 AIEL is the R&Q Group's rated European consolidation and program management vehicle. The R&Q Group has publicly affirmed during recent capital raises that additional funds would be provided to AIEL in order to reinforce its financial standing and maintain its A-rating and solvency ratio if necessary.

8.76 I have assessed the ability of RQIH to provide additional capital to AIEL if necessary as follows:

- RQIH is regulated by the Bermuda Monetary Authority ("BMA") and files a Bermuda Solvency Capital Return annually. The BMA solvency regime has Solvency II equivalent status.
- RQIH is listed on the AIM sub-market of the London Stock Exchange where it was admitted in December 2007.
- I understand from the R&Q Group that, at 31 December 2018, RQIH had a coverage ratio of 195%. In addition, RQIH was holding excess assets above liabilities on its GAAP balance sheet of £176.0m.

- Furthermore, the R&Q Group has publicly announced that, since 31 December 2018, RQIH has raised in the region of £100m through an oversubscribed placing of new Ordinary Shares to investors.

8.77 I note that there is no legal obligation for RQIH to support AIEL should additional funds be required. However, my view is that there is a substantial incentive for RQIH to do so. This is because the R&Q Group's business model is reliant on its ability acquire legacy portfolios and to service and pay claims on those legacy portfolios. As a result, if the R&Q Group's rated European consolidation and program management vehicle was unable to pay its claims as they fell due, the R&Q Group would lose credibility in the market and be restricted in its ability to purchase further portfolios.

8.78 In the event that support is required, based on the rationale given in paragraphs 8.75 to 8.77, I believe it likely that AIEL would be able to successfully request additional capital from its parent company.

8.79 Based on its SCR coverage ratio and its ability to successfully request additional capital from its parent, I consider the likelihood of AIEL defaulting on its reinsurance obligations to R&Q Gamma following the Scheme to be remote.

Distribution of capital from R&Q Gamma

8.80 As discussed in paragraph 4.25, R&Q Gamma plans to apply to the PRA for a capital reduction in 2019. I understand from R&Q Gamma that, thereafter, R&Q Gamma would only consider distributing surplus Own Funds if the R&Q Gamma Board considered that R&Q Gamma is sufficiently over-capitalised such that the extraction of some of the surplus Own Funds would not adversely affect the business strategy.

Solvency II balance sheet

8.81 The simplified Solvency II balance sheets for R&Q Gamma at 31 December 2018, both before and after the Scheme, are shown in the table below, on the basis that the Scheme had become effective at 31 December 2018 and that the Compre and Armour Risk reinsurance arrangements had been commuted by 31 December 2018.

Table 8.5: Solvency II balance sheets at 31 December 2018 (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
Assets:			
Intra-group loans	14.0	0.3	14.3
Cash	0.2	5.6	5.8
Other investments	8.8	0.0	8.8
Ceded technical provisions	1.1	0.0	1.1
Other assets	0.4	-0.3	0.1
Total assets:	**24.7**	**5.6**	**30.2**
Liabilities:	0.0	0.0	0.0
Gross technical provisions (excl. risk margin)	6.0	4.8	10.8
Risk margin	0.4	0.4	0.9
Other liabilities	3.3	-0.2	3.1
Total liabilities:	**9.8**	**5.0**	**14.8**
Excess of assets over liabilities	14.9	0.5	15.4
Adjustments	0.0	0.0	0.0
Eligible Own Funds:	**14.9**	**0.5**	**15.4**
Solvency Capital Requirement (SCR)	**3.3**	**1.0**	**4.3**

8.82 R&Q Gamma has provided an intra-group loan to its parent company. At 31 December 2018, the outstanding value of the loan was £14.0m on a Solvency II basis.

8.83 As a result of the Scheme, the Solvency II technical provisions (excluding the risk margin) will increase by the amount in the Transferring Portfolio (according to the R&Q Group's valuation). Since the SCR increases as a result of the Scheme (as shown in Table 8.7 below), the risk margin will also increase.

8.84 Due to the commutation of the Compre and Armour Risk reinsurance contracts by SCOR UK, no ceded Solvency II technical provisions (i.e. reinsurance recoveries) will transfer to R&Q Gamma under the Scheme.

8.85 SCOR UK will pay the R&Q Group a premium in return for transferring the Transferring Portfolio to R&Q Gamma. The amount that R&Q Gamma would receive for taking on the liabilities is equal to R&Q Gamma's estimate of the reserves for the Transferring Portfolio at the Effective Date of the Scheme. The remainder of the premium, subject to some adjustments, would be paid to AIEL, the current reinsurer of the Transferring Portfolio. As a result, only a small amount of surplus capital would be injected into R&Q Gamma as a result of the Scheme.

8.86 I have considered the approach used to calculate the Solvency II balance sheets for R&Q Gamma and I consider the approach and results to be reasonable.

8.87 R&Q Gamma has confirmed that all its Eligible Own Funds at 31 December 2018 are Tier 1, the highest Tier of Own Funds. I have reviewed this allocation of all Own Funds to Tier 1 and consider it to be reasonable. In addition, following the Scheme, I understand from R&Q Gamma that all R&Q Gamma's Own Funds will still be classified as Tier 1.

Accounting balance sheet

8.88 The table below shows the simplified GAAP accounting balance sheets for R&Q Gamma at 31 December 2018, both before and after the Scheme, which have been provided by R&Q Gamma. These balance sheets have been prepared by R&Q Gamma on the basis that the Scheme had become effective at 31 December 2018 and that the Compre and Armour Risk reinsurance arrangements had been commuted by 31 December 2018.

Table 8.6: GAAP balance sheets at 31 December 2018 (£m)

Reserve	Before the Scheme	Impact of Scheme	After the Scheme
Assets:			
Intangible assets	0.5	1.2	1.7
Intra-group loans	14.3	-	14.3
Other investments	9.0	-	9.0
Reinsurers' share of reserves	1.2	-	1.2
Cash	0.1	5.7	5.8
Other assets	0.1	0.0	0.2
Total Assets:	**25.2**	**7.0**	**32.2**
Liabilities:			
Claims reserves	6.0	5.7	11.8
Other liabilities	2.9	0.2	3.1
Total Liabilities:	**8.9**	**6.0**	**14.9**
Capital and reserves	**16.3**	**1.0**	**17.3**

8.89 Similarly to the Solvency II balance sheets, following the Scheme, the claims reserves will increase by the amount in the Transferring Portfolio and SCOR UK will transfer assets to R&Q Gamma in the form of cash to compensate it for assuming the liabilities.

8.90 An intangible asset will be created upon the Scheme becoming effective. This intangible asset represents the difference between:

- the fair value of the contractual insurance rights acquired and insurance obligations assumed under the Scheme, which allows for the time value of money under IFRS; and
- the values booked in R&Q Gamma's accounts which do not allow for the time value of money.

Intangible assets are not allowable under Solvency II, which is why an intangible asset is not created on a Solvency basis in Table 8.5.

8.91 The outstanding intra-group loan to RQIH is valued at £14.3m on a UK GAAP basis.

Regulatory capital requirements

SCR and MCR

Approach to calculating the SCR and MCR

8.92 R&Q Gamma uses the Standard Formula to calculate its SCR and MCR under Solvency II.

8.93 The following key risks, arising in the next 12 months, are modelled under the Standard Formula:

- **Reserve risk –** the risk of the best estimate claims deteriorating i.e. that the reserves are insufficient to cover the unpaid claims that have already occurred
- **Market risk** – the risk of adverse changes in R&Q Gamma's net asset value as a result of movements in market risk variables such as interest rates, exchange rates, equity market values etc. It also includes the exposure to investment credit risk (the risk of default or adverse movements in credit ratings of the assets)
- **Counterparty default risk** – the risk of losses due to default or downgrade of reinsurers or due to non-payment of receivables from third parties
- **Operational risk** – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events
- **Loss absorbing capacity of deferred taxes** – a deduction from SCR to reflect that a deferred tax asset would be allowable following a severe 1-in-200 year loss.

Appropriateness of the Standard Formula for R&Q Gamma

8.94 R&Q Gamma has assessed that the Standard Formula is appropriate for calculating its regulatory capital requirements, both prior to and following the Scheme.

8.95 The risks of any entity are unlikely to perfectly match the design of the Standard Formula as it has been designed to be used by a wide range of insurance companies. In particular, the calibration of the parameters within the Standard Formula assumes that the insurer has well-diversified liabilities. Given the current size of the R&Q Gamma and the nature of its insurance liabilities, this is not currently the case. Whilst there are limitations associated with R&Q Gamma's use of the Standard Formula, I consider that it would be disproportionate for R&Q Gamma to develop an internal model, and that the use of the Standard Formula is proportionate to the scale and complexity of its operations.

8.96 In part to address the limitations in the Standard Formula, I have undertaken various stress tests to test the robustness of the capital base of R&Q Gamma over the course of the run-off of the liabilities. These are discussed in paragraphs 8.126 to 8.163.

Calculation of capital requirements

8.97 I have reviewed the CVs of the individuals who are responsible for the assessment of capital requirements at R&Q Gamma. Based on these and my interactions with the individuals who perform the calculations, I am satisfied that the individuals at R&Q Gamma who undertook these assessments have the necessary experience and expertise to undertake analyses of this nature and for me to rely on their analysis.

8.98 I understand from R&Q Gamma that its approach to undertaking the Standard Formula calculations will not change after the Scheme and consider this to be reasonable.

8.99 I note that, whilst I have considered the methodology for each element described above, I have not reviewed the calculations in detail.

SCR coverage at December 2018

8.100 The table below shows the actual SCR coverage ratio of R&Q Gamma at 31 December 2018 and the hypothetical SCR coverage ratio on the basis that the Scheme had become effective at 31 December 2018. I have also shown the impact of the Scheme. As with Tables 8.5 and 8.6, I have assumed that the commutations of SCOR UK's reinsurance contracts with Compre and Armour were effective prior to 31 December 2018.

Table 8.7: SCR coverage ratios at 31 December 2018 (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	3.3	1.0	4.3
Eligible Own Funds to meet the SCR	14.9	0.5	15.4
SCR coverage ratio	450%	-96%	354%

8.101 As can be seen in the table above, R&Q Gamma's SCR coverage ratio is expected to reduce as a result of the Scheme. It can also be seen from the table above that R&Q Gamma has significant Own Funds in excess of the SCR both before and after the Scheme.

SCR coverage projected to 31 December 2019

8.102 In the tables below I show the SCR coverage ratio of R&Q Gamma projected to 31 December 2019, on two bases: (i) on the basis that the Scheme has not become effective on that date; and (ii) on the basis that the Scheme has become effective on that date. I have also shown the impact of the Scheme.

8.103 As discussed in paragraphs 4.23 to 4.28, R&Q Gamma has provided an intra-group loan to its parent company, RQIH. I understand from R&Q Gamma that it is in the process of reducing its intra-group loan to RQIH.

8.104 I understand from R&Q Gamma that RQIH will repay £5m of the intra-group loan (£4.7m on a Solvency II basis) during 2019. In addition, I understand from R&Q Gamma that, during 2019, it plans to action a capital reduction for a further £5m (also £5m on a Solvency II basis) which will be implemented by way of a loan waiver. In order to do so, approval is required from the PRA for the capital reduction.

8.105 Given that it is not certain that the application for the capital reduction will be approved, I have assessed the level of security provided to policyholders of R&Q Gamma under two alternative scenarios:

- Scenario A - on the basis that RQIH has repaid £5m (£4.7m on a Solvency II basis) of its intra-group loans and R&Q Gamma is successful in its application for the £5m (also £5m on a Solvency II basis) capital reduction prior to 31 December 2019
- Scenario B – on the basis that RQIH has repaid £5m (£4.7m on a Solvency II basis) of its intra-group loans but R&Q Gamma is not successful in its application for the £5m (also £5m on a Solvency II basis) capital reduction prior to 31 December 2019.

Scenario A

8.106 Table 8.8 below shows the change in R&Q Gamma's SCR coverage ratio between 31 December 2018 and 31 December 2019 in Scenario A. These SCR coverage ratios are shown prior to the Scheme.

Table 8.8: Change in SCR coverage ratio between 31 December 2018 and 31 December 2019 in Scenario A (£m)

	At 31 December 2018	Change during 2019	At 31 December 2019
SCR	3.3	0.0	3.3
Eligible Own Funds to meet the SCR	14.9	-4.5	10.4
SCR coverage ratio	450%	-134%	316%

8.107 The table above shows that, if RQIH has repaid £5m of its inter-company loan (£4.7m on a Solvency II basis) to R&Q Gamma and R&Q Gamma has successfully applied for a £5m capital reduction (£5m on a Solvency II basis) prior to 31 December 2019, R&Q Gamma's SCR coverage ratio is projected to reduce from 450% at 31 December 2018 to 316% at 31 December 2019.

8.108 The reason for this reduction in the SCR coverage ratio is because R&Q Gamma's Own Funds would reduce by approximately £4.5m between 31 December 2018 and 31 December 2019, primarily as a result of the £5m capital reduction. In addition, R&Q Gamma is not permitted to have an SCR that is below its Absolute Minimum Capital Requirement ("AMCR") of €3.7m (£3.3m using exchange rates at 31 December 2018). As a result the SCR remains unchanged between 31 December 2018 and 31 December 2019.

8.109 Although R&Q Gamma's SCR coverage ratio is expected to reduce from 450% to 316% during 2019 in Scenario A, a 316% SCR coverage ratio, prior to the Scheme, still provides a significant buffer above the SCR.

8.110 Table 8.9 below shows the projected SCR coverage ratios, prior to and following the Scheme at 31 December 2019, on the basis of Scenario A.

Table 8.9: SCR coverage ratios at 31 December 2019 in Scenario A (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	3.3	0.0	3.3
Eligible Own Funds to meet the SCR	10.4	0.4	10.8
SCR coverage ratio	316%	13%	328%

8.111 Table 8.9 shows that R&Q Gamma's SCR coverage ratio is expected to increase as a result of the Scheme. This is due to a small increase in Eligible Own Funds as a result of the Scheme whilst the SCR remains equal to the AMCR both before and after the Scheme.

Scenario B

8.112 Table 8.10 below shows the change in R&Q Gamma's SCR coverage ratio between 31 December 2018 and 31 December 2019 in Scenario B. These SCR coverage ratios are shown prior to the Scheme.

Table 8.10: Change in SCR coverage ratio between 31 December 2018 and 31 December 2019 in Scenario B (£m)

	At 31 December 2018	Change during 2019	At 31 December 2019
SCR	3.3	0.0	3.3
Eligible Own Funds to meet the SCR	14.9	0.5	15.4
SCR coverage ratio	450%	18%	468%

8.113 If RQIH has repaid £5m of its intra-group loan (£4.7m on a Solvency II basis) to R&Q Gamma but R&Q Gamma does not successfully apply for the £5m capital reduction (£5m on a Solvency II basis) prior to the 31 December 2019, R&Q Gamma's SCR coverage ratio is projected to increase from 450% at 31 December 2018 to 468% at 31 December 2019.

8.114 The reason for this increase in SCR coverage ratio is because R&Q Gamma's Own Funds would increase by approximately £0.5m between 31 December 2018 and 31 December 2019. This increase in Own Funds is partly as a result of the loan repayment and partly due to the expected changes in assets and liabilities between 31 December 2018 and 31 December 2019 as a result of R&Q Gamma's 2019 business plan. In addition, R&Q Gamma is not permitted to have an SCR that is below its Absolute Minimum Capital Requirement ("AMCR") of €3.7m (£3.3m using exchange rates at 31 December 2018). As a result, the SCR remains unchanged between 31 December 2018 and 31 December 2019.

8.115 Table 8.11 below shows the projected SCR coverage ratios, prior to and following the Scheme at 31 December 2019, on the basis of Scenario B. For the reasons discussed under Scenario A, R&Q Gamma's SCR coverage ratio is also expected to increase as a result of the Scheme in this scenario.

Table 8.11: SCR coverage ratios at 31 December 2019 in Scenario B (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	3.3	0.0	3.3
Eligible Own Funds to meet the SCR	15.4	0.4	15.8
SCR coverage ratio	468%	13%	481%

Impact of reserve uncertainty on SCR coverage ratio

8.116 R&Q Gamma has estimated Solvency II technical provisions (excluding the risk margin) of £4.8m for the Transferring Portfolio whilst SCOR UK has estimated Solvency II technical provisions (excluding the risk margin) of £8.4m. The difference between the estimates is £3.6m.

8.117 I have therefore assessed the impact of the Scheme on R&Q Gamma's SCR coverage ratio on the basis that the Solvency II technical provisions (excluding the risk margin) for the Transferring Portfolio are £8.4m rather than £4.8m.

SCR coverage at 31 December 2018 using SCOR UK's estimate of the technical provisions

8.118 The table below shows the actual SCR coverage ratio of R&Q Gamma at 31 December 2018 and the hypothetical SCR coverage ratio on the basis that the Scheme had become effective at 31 December

2018, both assuming that the Solvency II technical provisions (excluding the risk margin) for the Transferring Portfolio are £8.4m.

Table 8.12: SCR coverage ratios at 31 December 2018 on the basis that the Solvency II technical provisions (excluding risk margin) for the Transferring Portfolio are £8.4m (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	3.3	2.1	5.4
Eligible Own Funds to meet the SCR	14.9	-3.4	11.4
SCR coverage ratio	450%	-239%	211%

8.119 The reduction in R&Q Gamma's SCR coverage ratio due to the Scheme is considerably larger on this basis than on the basis shown in Table 8.7. However, it can also be seen from the table above that, even if R&Q Gamma booked SCOR UK's estimate of the Solvency II technical provisions (excluding the risk margin), R&Q Gamma has significant Own Funds in excess of the SCR, both before and after the Scheme. Therefore, in my opinion, R&Q Gamma is sufficiently well capitalised both before and after the Scheme on this basis.

SCR coverage projected to 31 December 2019 using SCOR UK's estimate of the technical provisions

8.120 In the tables below I show the SCR coverage ratio of R&Q Gamma projected to 31 December 2019, before and after the Scheme, on the basis that the Solvency II technical provisions (excluding the risk margin) for the Transferring Portfolio are £8.4m at 31 December 2018. In projecting these SCR coverage ratios, allowance has been made for reductions in the provisions from £8.4m at 31 December 2018 to £7.5m at 31 December 2019 due to claim payments during 2019.

8.121 I have considered this on two bases:

- Table 8.13: Scenario A - on the basis that RQIH has repaid £5m (£4.7m on a Solvency II basis) of its intra-group loans and R&Q Gamma is successful in its application for the £5m (also £5m on a Solvency II basis) capital reduction prior to 31 December 2019
- Table 8.14: Scenario B – on the basis that RQIH has repaid £5m (£4.7m on a Solvency II basis) of its intra-group loans but R&Q Gamma is not successful in its application for the £5m (also £5m on a Solvency II basis) capital reduction prior to 31 December 2019.

8.122 Table 8.13 below shows the projected SCR coverage ratios at 31 December 2019, prior to and following the Scheme, on the basis of Scenario A.

Table 8.13: SCR coverage ratios at 31 December 2019 in Scenario A on the basis that the Solvency II technical provisions (excluding risk margin) for the Transferring Portfolio are £8.4m at 31 December 2018 (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	3.3	0.6	3.9
Eligible Own Funds to meet the SCR	10.4	-3.2	7.2
SCR coverage ratio	316%	-132%	184%

8.123 As shown in Table 8.13, on the basis that the Solvency II technical provisions (excluding risk margin) for the Transferring Portfolio are £8.4m at 31 December 2018 (£7.5m at 31 December 2019), R&Q Gamma's SCR coverage ratio at 31 December 2019 is materially reduced as a result of the Scheme in Scenario A. This is because the increase in R&Q Gamma's liabilities would exceed what it is receiving in assets as a result of the Scheme. However, R&Q Gamma still maintains a significant buffer of Own Funds in excess of its SCR following the Scheme and, in my opinion, an SCR coverage ratio of 184% means that R&Q Gamma remains sufficiently well capitalised following the Scheme.

8.124 Table 8.14 below shows the projected SCR coverage ratios at 31 December 2019, prior to and following the Scheme, on the basis of Scenario B.

Table 8.14: SCR coverage ratios at 31 December 2019 in Scenario B on the basis that the Solvency II technical provisions (excluding risk margin) for the Transferring Portfolio are £8.4m at 31 December 2018 (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	3.3	0.6	3.9
Eligible Own Funds to meet the SCR	15.4	-3.2	12.2
SCR coverage ratio	468%	-153%	315%

8.125 As shown in Table 8.14, on the basis that the Solvency II technical provisions (excluding risk margin) for the Transferring Portfolio are £8.4m at 31 December 2018 (£7.5m at 31 December 2019), R&Q Gamma's SCR coverage ratio at 31 December 2019 is materially reduced as a result of the Scheme in Scenario B. However, R&Q Gamma still maintains a significant buffer of Own Funds in excess of its SCR following the Scheme and, in my opinion, an SCR coverage ratio of 315% means that R&Q Gamma remains very well capitalised following the Scheme.

Stress tests

8.126 As discussed in paragraph 8.3, one of the key limitations of the SCR is that it only represents the amount of capital that a firm is required to hold over the next year. In addition, as discussed in paragraph 8.95, there are limitations associated with R&Q Gamma's use of the Standard Formula.

8.127 As a result, in order to test the sufficiency of R&Q Gamma's Own Funds and to support my conclusions, I have undertaken a number of high-level stress tests as set out in the paragraphs below.

8.128 When considering the stresses below, it should be noted that the percentages given represent the percentage deterioration that would be required based on the projections at the Effective Date. In the normal course of business, assuming R&Q Gamma pays off claims in line with expectations, its Own Funds would be expected to grow over time as a result of investment income being higher than the expenses required to run off the business, assuming that the reserves are adequate and that further capital is not extracted. As a result, if the deteriorations were to happen at some future point after the Effective Date, the percentage deteriorations required to breach the various thresholds considered would be expected to be higher.

8.129 I have assessed the resilience of R&Q Gamma's capital position against a number of scenarios. I have selected the scenarios below based on my review of R&Q Gamma's business structure and risk profile. The scenarios that I have selected represent, in my opinion, the risks that could most significantly impact R&Q Gamma's financial and capital strength. The scenarios I have considered in my stress tests are as follows:

- Deterioration in the best estimate technical provisions for the Transferring Portfolio and the impact on R&Q Gamma in the event of a default by AIEL
- Deterioration in the gross best estimate technical provisions for the Existing R&Q Portfolio
- Deterioration in the value of R&Q Gamma's investment portfolio

- Default of the intra-group loan by RQIH
- A combination of a deterioration of R&Q Gamma's total gross best estimate technical provisions and default of the intra-group loan by RQIH
- A combination of a deterioration of R&Q Gamma's total gross best estimate technical provisions and a deterioration in the value of R&Q Gamma's investment portfolio

8.130 I have considered each of the scenarios in paragraph 8.129 on the two bases (Scenario A and B) set out in paragraph 8.121. This is also on the basis that the Solvency II technical provisions (excluding risk margin) for the Transferring Portfolio is £8.4m at 31 December 2018 (£7.5m at 31 December 2019). I have performed the stress tests on this scenario because it is more extreme than assuming R&Q Gamma's estimate of the Solvency II technical provisions.

8.131 On this basis R&Q Gamma's SCR coverage ratio, following the Scheme at 31 December 2019, is projected to be 184% under Scenario A and 315% under Scenario B.

8.132 When considering the impact of the stresses on R&Q Gamma's Own Funds, I have considered the risk mitigation provided by the ADC with AIEL on the Transferring Portfolio which will be in force from the Effective Date.

8.133 The words used to set out the likelihoods of the potential events are designed to have the following meanings:

- Reasonably foreseeable – the scenario is expected to happen at least once in a person's working lifetime (i.e. it has a return period of less than 1 in 40 years).
- Unlikely – the scenario has a return period between 1 in 40 years and 1 in 100 years.
- Highly unlikely – the scenario has a return period between 1 in 100 years and 1 in 200 years
- Remote – the scenario has a return period greater than 1 in 200 years.

Deterioration in the best estimate technical provisions for the Transferring Portfolio and the impact on R&Q Gamma in the event of a default by AIEL

8.134 This stress test considers a deterioration in R&Q Gamma's best estimate technical provisions for the Transferring Portfolio at 31 December 2019, following the Scheme.

8.135 In Scenario A, R&Q Gamma would need to experience a loss of Own Funds of £7.2m in order to reduce assets such that they are below the liabilities.

8.136 A 10% deterioration in the gross best estimate technical provisions would result in a deterioration from £7.5m to £8.25m and hence a loss of Own Funds of £0.75m. Such a deterioration is foreseeable but would not significantly impair R&Q Gamma's solvency (in Scenario A, the SCR coverage ratio would fall from 184% to around 165%). In addition, due to the ADC, larger deteriorations would not impair R&Q Gamma's solvency any more than this unless AIEL was to default on its reinsurance.

8.137 I have therefore considered a scenario where there is both a 100% deterioration in the gross best estimate technical provisions (increasing the technical provisions from £7.5m to £15m) and a default by AIEL. Such a scenario would result in a loss of Own Funds to R&Q Gamma of up to £7.5m, depending on the extent to which R&Q Gamma could recover from AIEL in the event of AIEL's insolvency.

8.138 Based on my experience, I consider the likelihood of this scenario occurring to be remote. In reaching this conclusion, I have considered the following:

- Such a deterioration in the technical provisions could be caused by increases in claim severity, claim frequency, a strengthening of the US Dollar against Sterling or a combination of these.

- The type of scenario that would see a 100% deterioration in the gross best estimate technical provisions for the Transferring Portfolio would be if the average cost per year on asbestos claims were to increase from \$0.5m to \$1.4m.
- Alternatively, the type of scenario that would see a 100% deterioration in the gross best estimate technical provisions for the Transferring Portfolio would be, for example, a 25% strengthening of the US Dollar against Sterling coupled with a 60% deterioration due to claims frequency and severity.
  - Whilst, looking back over the past 10 years, the Dollar has strengthened considerably against Sterling (£1=\$1.6 in 2010 compared to around £1=\$1.2 currently), given that Sterling is currently weak against the Dollar, I consider a further strengthening of a magnitude that would result in such an extreme reserve deterioration for R&Q Gamma to be unlikely.
  - The type of scenario that would see a 60% deterioration in the gross best estimate technical provisions for the Transferring Portfolio would be if the average cost per year on asbestos claims were to increase from \$0.5m to \$1.1m.
- R&Q Gamma has undertaken a detailed review of the technical provisions for the Transferring Portfolio in order to understand the risks that are inherent. I have reviewed this estimation and provided my conclusions in paragraph 7.128 where I have concluded that R&Q Gamma's estimate lies within a reasonable range of reserves.
- The stress test has been performed on the basis that the technical provisions for the Transferring Portfolio are £7.5m at 31 December 2019 (i.e. SCOR UK's estimate). This already represents a 70% deterioration from R&Q Gamma's estimate. Furthermore, as explained in paragraph 7.114, I am of the opinion that this reserve estimate includes an element of prudence.
- As discussed in paragraph 8.74, given the financial strength of AIEL, I consider it unlikely that AIEL will require support from RQIH. In addition, given the likely support of AIEL by the R&Q Group discussed in paragraph 8.72 to 8.78, I consider the likelihood that AIEL defaults and R&Q Gamma doesn't receive the recoveries from the ADC to be remote.
- In the event of a default by AIEL, the loss of Own Funds for R&Q Gamma from this scenario would be, at most, £7.5m. A loss of £7.5m would result in R&Q Gamma's assets falling below its liabilities. However, the loss of Own Funds would likely be less than £7.5m due to the recovery of some of the losses in the event of AIEL's default (it is a commonly used assumption that, even in a reinsurer default, 50% of the losses are recovered, in which case R&Q Gamma's would receive £3.75m of recoveries). Whilst, in Scenario A, this would result in R&Q Gamma's SCR coverage ratio falling below 100%, its assets would still exceed its liabilities (its Own Funds would fall from £7.2m to £3.5m).

8.139 Given the above, it is my view that the likelihood that R&Q Gamma will have insufficient capital to pay claims to its policyholders as they fall due in Scenario A as a result of a deterioration in the gross best estimate technical provisions for the Transferring Portfolio is remote.

8.140 In Scenario B, R&Q Gamma has an additional £5m of assets in excess of its liabilities. It follows from the above that it is my view that the likelihood that R&Q Gamma will have insufficient capital to pay claims to its policyholders as they fall due in Scenario B as a result of a deterioration in the best estimate technical provisions for the Transferring Portfolio is also remote.

Deterioration in the gross best estimate technical provisions for the Existing R&Q Portfolio

8.141 This stress test considers a deterioration in R&Q Gamma's gross best estimate technical provisions for the Existing R&Q Portfolio at 31 December 2019, following the Scheme. For prudence, I have assumed that deteriorations in the gross best estimate technical provisions for the Existing R&Q Gamma Portfolio would not lead to further reinsurance recoveries.

8.142 R&Q Gamma's gross best estimate technical provisions projected to 31 December 2019 for the Existing R&Q Gamma Portfolio are £4.8m under both Scenario A and Scenario B.

8.143 In Scenario A, R&Q Gamma would need to experience a deterioration of 150% (£7.2m) of its gross technical provisions for the Existing R&Q Gamma Portfolio in order to reduce its assets below its liabilities.

8.144 I consider the likelihood of a deterioration of this magnitude to be remote. In reaching this conclusion, I have considered the following:

- R&Q Gamma has undertaken a detailed review of the technical provisions for the Existing R&Q Gamma Portfolio in order to understand the risks that are inherent. I have reviewed this estimation and provided my conclusions in paragraph 7.80 where I have concluded that R&Q Gamma's estimate lies within a reasonable range of reserves.
- R&Q Gamma has estimated that, in order to experience a £7.2m deterioration in the reserves for the SIMIA portfolio, in excess of seven claims would need to deteriorate by greater than £2m above the primary reinsurance layer. I consider this to be unlikely since the SIMIA policies were on a claims made basis and hence all claims have been notified. Therefore, any reserve deteriorations on the SIMIA book would be in relation to deteriorations on known claims for which I consider deteriorations of this magnitude to be unlikely. In addition, the SIMIA book has been in run-off since 2010 and therefore, given the maturity of the portfolio, I consider it very unlikely that such severe deteriorations could occur on so many claims.
- R&Q Gamma has estimated that, in order to experience a £7.2m deterioration, the average cost of NIHL claims in the RLGIL portfolio would need to increase from £2.3k to £170k.
- Alternatively, in order to experience a £7.2m deterioration, R&Q Gamma would need to experience in the region of 830 unreported abuse claims, assuming that the total amount of each abuse claim is for £100k (note that R&Q Gamma takes a maximum share of 8.7% of the overall claim amount). I have been informed by R&Q Gamma that the largest claim seen by the R&Q Gamma claims team is for £80k (of which R&Q Gamma's share was approximately £7k).
- Whilst the £7.2m deterioration could be made up of a combination of these scenarios, the deteriorations on the SIMIA and RLGIL claims would still need to be very extreme.

8.145 Given the above, it is my view that the likelihood that R&Q Gamma will have insufficient capital to pay claims to its policyholders as they fall due in Scenario A as a result of a deterioration in the best estimate technical provisions for the Existing R&Q Gamma Portfolio to be remote.

8.146 In Scenario B, R&Q Gamma has an additional £5m of assets in excess of its liabilities. It follows from the above that it is my view that the likelihood that R&Q Gamma will have insufficient capital to pay claims to its policyholders as they fall due in Scenario B as a result of a deterioration in the best estimate technical provisions for the Transferring Portfolio is also remote.

Deterioration in the value of R&Q Gamma's investment portfolio

8.147 The projected investments held by R&Q Gamma at 31 December 2019 (on a hypothetical basis following the Scheme) amount to £14.9m under both Scenario A and Scenario B. In order to reduce assets such that they fall below the liabilities, R&Q Gamma would need to experience a reduction in the value of its investments in the region of 48% in Scenario A and 82% in Scenario B.

8.148 I consider the likelihood of such deteriorations to be remote. In reaching this conclusion, I have considered the following:

- R&Q Gamma is currently invested solely in corporate bonds and it has informed me that it expects this to continue to be the case following the Scheme

- I understand from R&Q Gamma that its bond investments are managed by third-party investment managers who are regulated by the FCA. I further understand from R&Q Gamma that these managers are engaged to invest in bond portfolios which generate consistent and stable returns for R&Q Gamma in line with its investment guidelines.
- At 31 December 2018, the majority of these debt instruments had credit ratings between AAA and B with a small proportion of unrated debt instruments. I consider that R&Q Gamma will hold a similar proportion of assets in highly rated debt instruments following the Scheme since I have been informed by R&Q Gamma that the investment strategy will not change.
- Whilst highly rated debt instruments can and do lose value over the short term due to changes in interest rates and credit spreads, they are generally quite stable in the medium and long term, especially if the debt instruments are held to maturity
- In general, I understand from R&Q Gamma that it seeks to hold bonds to maturity to reduce the volatility of investment returns. I have been further informed by R&Q Gamma that it seeks to ensure that it is well matched for all material currencies at all times; that the matching position is frequently monitored and that it is reported to the Board on a quarterly basis at a minimum, and any material mismatches addressed as soon as they become evident. The average duration of R&Q Gamma's bonds was 1.9 years at 31 March 2019 and cash realisations are available within twenty working days to settle liabilities as they fall due. I consider that this investment approach will enable R&Q Gamma to hold its bonds to maturity where possible.
- I have also reviewed a stress test performed by R&Q Gamma in its ORSA at 31 December 2017. R&Q Gamma assessed that there was a 0.4% likelihood of a default of 50% of its investment assets at 31 December 2017 over a three year time horizon. In addition, at 31 December 2017, R&Q Gamma was investing in a mix of equities and bonds and therefore there was a higher risk of extreme losses on its investment portfolio at that time than is the case currently or I understand from R&Q Gamma will be the case following the Scheme. As a result, I consider the likelihood of a default of 48% of R&Q Gamma's current investment assets over that time horizon to be lower than 0.4%.

8.149 Based on this and my experience, my opinion is that I consider that R&Q Gamma will have sufficient assets to meet its liabilities in all reasonably foreseeable scenarios.

Default of the intra-group loan by RQIH

8.150 The projected intra-group loan to RQIH at 31 December 2019 is £4.3m under Scenario A and £9.3m under Scenario B.

8.151 If RQIH defaulted on its repayment of the remaining intra-group loan, assuming a recovery rate of 50%, the projected SCR coverage ratio at 31 December 2019 would fall to 129% of the SCR Scenario A and 195% of the SCR in Scenario B. Even in a scenario where RQIH defaulted on its repayment of the remaining intra-group loan and R&Q Gamma was not able to recover any of the asset, R&Q Gamma would still have £2.8m of assets in excess of its liabilities in both scenarios.

8.152 I have assessed the financial security of RQIH as follows:

- RQIH is regulated by the Bermuda Monetary Authority ("BMA") and files a Bermuda Solvency Capital Return annually. The BMA solvency regime has Solvency II equivalent status.
- I understand from the R&Q Group that, at 31 December 2018, RQIH had a coverage ratio of 195%. In addition, RQIH was holding excess assets above liabilities on its GAAP balance sheet of £176.0m.
- Furthermore, R&Q Group has publicly announced that, since 31 December 2018, RQIH has raised in the region of £100m through an oversubscribed placing of new Ordinary Shares to investors.

8.153 I therefore consider the likelihood of a default of the intra-group loan to be remote.

Deterioration of R&Q Gamma's total gross best estimate technical provisions and default of the intra-group loan by RQIH

8.154 In order for R&Q Gamma's assets to fall below its liabilities as a result of a combination of a deterioration in the gross best estimate technical provisions and default of the intra-group loan by RQIH, it would require a loss of £7.2m across a combination of the two in Scenario A. There are any number of combinations that could achieve this so, in my testing, I have considered the following scenarios as a sample of those available:

- Scenario 1:
  - Default of the intra-group loan assuming that R&Q Gamma is able to recover 50% of the asset
  - A deterioration in the technical provisions for the Transferring Portfolio which is capped on a net basis at £0.75m due to the ADC
  - A 90% deterioration in the gross technical provisions for the Existing R&Q Gamma Portfolio, assuming that no additional reinsurance recoveries can be made
- Scenario 2:
  - Default of the intra-group loan assuming that R&Q Gamma is not able to recover any of the asset
  - A deterioration in the technical provisions for the Transferring Portfolio which is capped on a net basis at £0.75m due to the ADC
  - A 45% deterioration in the gross technical provisions for the Existing R&Q Gamma Portfolio, assuming that no additional reinsurance recoveries can be made

8.155 I consider the likelihood of either of these scenarios occurring (and therefore of R&Q Gamma being unable to pay claims as they fall due) to be remote. In reaching this conclusion I have considered the following:

- Since this stress test has been performed on the basis set out in paragraph 8.121, I have already allowed for a significant deterioration in the Solvency II technical provisions for the Transferring Portfolio from R&Q Gamma's estimate by basing my base case on SCOR UK's estimate. Furthermore, as explained in paragraph 7.114, I am of the opinion that SCOR UK's technical provisions include an element of prudence.
- In each scenario, all three components of the stress would need to occur simultaneously or close to each other so that R&Q Gamma was unable to recover
- The stress assumes that AIEL would not default on its reinsurance obligations under the ADC. Given the financial security of AIEL and the support of RQIH, as discussed in paragraphs 8.74 to 8.78, I consider the likelihood of a default by AIEL to be remote. I have considered the defaults of AIEL (and RQIH as the parent) in other stress tests and have therefore assumed that AIEL does not default for the purpose of this test.
- Given the financial security of RQIH which is discussed in paragraph 8.76, I consider the likelihood of a default of the intra-group loan to be remote
- R&Q Gamma has undertaken a detailed review of the claims reserves for the Transferring Portfolio in order to understand the risks that are inherent. I have reviewed this estimation and provided my conclusions in paragraph 7.128 where I have concluded that R&Q Gamma's estimate lies within a reasonable range of reserves.
- R&Q Gamma has undertaken a detailed review of the claims reserves for the Existing R&Q Gamma Portfolio in order to understand the risks that are inherent. I have reviewed this estimation and provided my conclusions in paragraph 7.80 where I have concluded that R&Q Gamma's estimate lies within a reasonable range of reserves.

8.156 In Scenario B, R&Q Gamma has an additional £5m of assets in excess of its liabilities. It follows from the above that it is my view that the likelihood that R&Q Gamma will have insufficient capital to pay claims to its policyholders as they fall due in Scenario B as a result of a deterioration in the best estimate technical provisions and a default of the intra-group loan is also remote.

Deterioration of R&Q Gamma's total gross best estimate technical provisions and a deterioration in the value of R&Q Gamma's investment portfolio

8.157 In order for R&Q Gamma's assets to fall below its liabilities as a result of a combination of a deterioration in the gross best estimate technical provisions and a deterioration in the value of R&Q Gamma's investment portfolio, it would require a loss of £7.2m across a combination of the two in Scenario A. There are any number of combinations that could achieve this so, in my testing, I have considered the following scenarios as a sample of those available:

- Scenario 1:
  - A deterioration in the technical provisions for the Transferring Portfolio which is capped on a net basis at £0.75m due to the ADC
  - A 45% deterioration in the gross technical provisions for the Existing R&Q Gamma Portfolio, assuming that no additional reinsurance recoveries can be made
  - A reduction in the value of its investments in the region of 30%
- Scenario 2:
  - A deterioration in the technical provisions for the Transferring Portfolio which is capped on a net basis at £0.75m due to the ADC
  - A 20% deterioration in the gross technical provisions for the Existing R&Q Gamma Portfolio, assuming that no additional reinsurance recoveries can be made
  - A reduction in the value of its investments in the region of 37.5%

8.158 I consider the likelihood of either of these scenarios occurring (and therefore of R&Q Gamma being unable to pay claims as they fall due) to be remote. In reaching this conclusion I have considered the following:

- Since this stress test has been performed on the basis set out in paragraph 8.121, I have already allowed for a significant deterioration in the Solvency II technical provisions for the Transferring Portfolio from R&Q Gamma's estimate by basing my base case on SCOR UK's estimate . Furthermore, as explained in paragraph 7.114, I am of the opinion that SCOR UK's technical provisions include an element of prudence.
- In each scenario, all three components of the stress would need to occur simultaneously or close to each other so that R&Q Gamma was unable to recover
- The stress assumes that AIEL would not default on its reinsurance obligations under the ADC. Given the financial security of AIEL and the support of RQIH, as discussed in paragraphs 8.74 to 8.78, I consider the likelihood of a default by AIEL to be remote.
- R&Q Gamma is currently invested solely in corporate bonds and it has informed me that it expects this to continue to be the case following the Scheme. At 31 December 2018, the majority of these debt instruments had credit ratings between AAA and B with a small proportion of unrated debt instruments. I consider that R&Q Gamma will hold a similar proportion of assets in highly rated debt instruments following the Scheme since I have been informed by R&Q Gamma that the investment strategy will not change. Whilst highly rated debt instruments can and do lose value over the short term due to changes in interest rates and credit spreads, they are generally quite stable in the medium and long term, especially if held to maturity.

- R&Q Gamma has undertaken a detailed review of the claims reserves for the Transferring Portfolio in order to understand the risks that are inherent. I have reviewed this estimation and provided my conclusions in paragraph 7.128 where I have concluded that R&Q Gamma's estimate lies within a reasonable range of reserves.
- R&Q Gamma has undertaken a detailed review of the claims reserves for the Existing R&Q Gamma Portfolio in order to understand the risks that are inherent. I have reviewed this estimation and provided my conclusions in paragraph 7.80 where I have concluded that R&Q Gamma's estimate lies within a reasonable range of reserves.

8.159 In Scenario B, R&Q Gamma has an additional £5m of assets in excess of its liabilities. It follows from the above that it is my view that the likelihood that R&Q Gamma will have insufficient capital to pay claims to its policyholders as they fall due in Scenario B as a result of a deterioration in the best estimate technical provisions for the Transferring Portfolio is also remote.

Summary of my testing

8.160 As shown in tables 8.7, 8.8 and 8.9, R&Q Gamma will maintain a significant buffer above the SCR following the Scheme. The buffer is designed to ensure that it only breaches its regulatory capital requirements in extreme scenarios.

8.161 The testing above demonstrates the types of events that would need to happen in order for Own Funds to fall beneath the SCR. In addition, the testing indicates that the likelihood of R&Q Gamma breaching its SCR is remote.

8.162 Further, the testing that I have undertaken which I have described in paragraphs 8.126 to 8.159 demonstrates to me that, should the Scheme become effective, the likelihood of the assets of R&Q Gamma falling beneath its liabilities over the course of the run-off of the liabilities, and of R&Q Gamma therefore being unable to pay claims as they fall due, is remote.

8.163 This conclusion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL, in relation to the Transferring Portfolio, which will come into force on the Effective Date.

ORSA

8.164 I have been provided with a copy of the report outlining R&Q Gamma's most recent ORSA. The document is dated 7 November 2018 and has been approved by R&Q Gamma's Board. This represents R&Q Gamma's forward-looking assessment of its risk profile and capital requirements.

8.165 The financial projections in the ORSA make allowance for the Transferring Portfolio.

Economic capital requirements

8.166 R&Q Gamma has not developed an economic capital requirement and I have therefore not been able to consider it.

8.167 In the absence of a capital requirement, I have performed a number of stress tests to consider whether R&Q Gamma's regulatory SCR is appropriate. This stress testing indicates that R&Q Gamma's regulatory capital is not unreasonable.

Stress tests within the ORSA report

8.168 The ORSA projects that the coverage of R&Q Gamma's SCR will be maintained above its target set out in its Risk Appetite Framework for the period from 31 December 2017 to 31 December 2020. I have reviewed the process by which R&Q Gamma has projected the coverage of its SCR and consider it to be reasonable. It follows that I consider the projected coverage of the SCR to be reasonable.

8.169 R&Q Gamma has considered various stress and scenario tests within its ORSA to test the robustness of the capital base. The stress and scenario testing covers a wide range of risks that R&Q Gamma is exposed to. The stress and scenario testing that R&Q Gamma has undertaken demonstrates that, only in extreme scenarios does it fail to have sufficient capital to meet its SCR. Furthermore, there are no stresses identified which reduce the level of assets below the level of liabilities. I consider the range of stress and scenarios that R&Q Gamma has considered to be reasonable.

9 Policyholder security

9.1 In this section, I describe the effect of the Scheme on each group of policyholders with regards to security, including under insolvency, and explain how I have reached my conclusions.

Impact of the Scheme on the solvency positions of the affected companies

9.2 The capital requirements and the approach to capital modelling of SCOR UK and R&Q Gamma are discussed in Section 8.

9.3 The tables below show the SCR coverage ratio, before and after the Scheme, for each of SCOR UK and R&Q Gamma. The information in the tables below is a repeat of the information in Section 8 which is shown here for convenience.

SCOR UK's solvency position

9.4 The table below shows the projected SCR coverage ratios of SCOR UK, both before and after the Scheme, at 31 December 2019.

Table 9.1: SCOR UK's SCR coverage ratios at 31 December 2019 (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	90.6	0.0	90.6
Eligible Own Funds to meet the SCR	157.3	0.3	157.6
SCR coverage ratio	173.6%	0.3%	173.9%

9.5 SCOR UK's coverage of its SCR is materially unchanged by the Scheme becoming effective. This is because the Transferring Portfolio is immaterial in the context of SCOR UK and the majority of the economic risk in relation to the Transferring Portfolio has already transferred out of SCOR UK as a result of the LPTA with AIEL. The Scheme simply provides SCOR UK with the legal transfer of these liabilities.

R&Q Gamma's solvency position

9.6 In assessing the impact of the Scheme on policyholder security, I have considered the SCR coverage ratio of R&Q Gamma before and after the Scheme. In addition, given the limitations of the Standard Formula for calculating the capital requirements for R&Q Gamma and given that the SCR only measures the risk over a one-year time horizon, I have also considered the stress testing discussed in Section 8.

9.7 One of the key risks to R&Q Gamma is a deterioration in the reserves for the Transferring Portfolio. As discussed in Section 7, given the uncertainty inherent in the liabilities of the Transferring Portfolio, I consider there to be a wide range of plausible outcomes. There is therefore the possibility that material reserve deteriorations could occur from R&Q Gamma's reserve estimate.

9.8 I have therefore considered the solvency of R&Q Gamma on the basis that the Solvency II technical provisions (excluding the risk margin) for the Transferring Portfolio are £8.4m at 31 December 2018. As discussed in paragraph 8.116, £8.4m is SCOR UK's estimate of the Solvency II technical provisions (excluding the risk margin). As explained in paragraph 7.114, I am of the opinion that SCOR UK's estimate of the technical provisions contains an element of prudence.

9.9 I have considered the SCR coverage ratios and stress testing on this basis since the SCR coverage ratios and net assets of R&Q Gamma are materially lower on this basis than on the basis where the Solvency II technical provisions (excluding the risk margin) are estimated to be £4.8m.

R&Q Gamma's projected SCR coverage ratios based on SCOR UK's estimate of the technical provisions for the Transferring Portfolio

9.10 Table 9.2 below shows the projected SCR coverage ratios of R&Q Gamma at 31 December 2019, both before and after the Scheme, on the basis that RQIH has repaid £5m (£4.7m on a Solvency II basis) of its intra-group loans to R&Q Gamma during 2019 and R&Q Gamma is successful in its application for a £5m (also £5m on a Solvency II basis) capital reduction prior to 31 December 2019 (Scenario A).

Table 9.2: R&Q Gamma's SCR coverage ratios at 31 December 2019 in Scenario A (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	3.3	0.6	3.9
Eligible Own Funds to meet the SCR	10.4	-3.2	7.2
SCR coverage ratio	316%	-132%	184%

9.11 Table 9.3 below shows the projected SCR coverage ratios of R&Q Gamma at 31 December 2019, prior to and following the Scheme, on the basis that RQIH has repaid £5m (£4.7m on a Solvency II basis) of its intra-group loans to R&Q Gamma but that R&Q Gamma has not successfully applied for the £5m (also £5m on a Solvency II basis) capital reduction prior to 31 December 2019 (Scenario B).

Table 9.3: R&Q Gamma's SCR coverage ratios at 31 December 2019 in Scenario B (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	3.3	0.6	3.9
Eligible Own Funds to meet the SCR	15.4	-3.2	12.2
SCR coverage ratio	468%	-153%	315%

9.12 As discussed in paragraph 8.70, R&Q Gamma aims to maintain a buffer above its SCR. On the basis that the Solvency II technical provisions (excluding risk margin) for the Transferring Portfolio are £8.4m, that buffer is materially reduced as a result of the Scheme in both Scenario A and B. However, in both scenarios, R&Q Gamma maintains substantial Own Funds in excess of its SCR.

Stress testing of R&Q Gamma

9.13 In addition, the stress testing I have undertaken in Section 8 shows that the likelihood of R&Q Gamma's assets falling below its liabilities over the course of the run-off of the liabilities is remote.

9.14 The ADC would provide protection to the policyholders of R&Q Gamma in the event of such a deterioration in the reserves for the Transferring Portfolio. I am of the opinion that AIEL is sufficiently well capitalised to pay the reinsurance recoveries to R&Q Gamma in the event of a severe deterioration in the reserves for the Transferring Portfolio. In addition, I believe it likely that AIEL would be able to successfully request additional capital from its parent company if necessary. Consequently, I consider the likelihood of AIEL defaulting on its reinsurance obligations to R&Q Gamma following the Scheme to be remote. The rationale for this conclusion is discussed in 8.74 to 8.78.

Conclusion

9.15 Based on the above and the analysis conducted in Section 8, I am of the opinion that R&Q Gamma is sufficiently capitalised to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the Existing R&Q Gamma Portfolio.

9.16 It should be noted that this conclusion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL, in relation to the Transferring Portfolio, which would come into force on the Effective Date.

9.17 It is also predicated on the fact that R&Q Gamma has no plans for further capital extraction, aside from the £5m capital reduction discussed in paragraph 4.25, Regardless, any further capital extraction would require approval from the PRA.

Impact of the Scheme on the security of the transferring policyholders

9.18 The transferring policyholders would lose the security of SCOR UK as a result of the Scheme. However, they would gain the security associated with R&Q Gamma. The coverage of the SCR for R&Q Gamma is expected to higher in percentage terms following the Scheme compared to SCOR UK. However, it has substantially lower Own Funds in absolute terms compared to SCOR UK.

9.19 In addition, although the LPTA would no longer be in place following the Scheme, the transferring policyholders would not lose the security of AIEL as the reinsurer of the Transferring Portfolio due to the ADC which will be in force from the Effective Date.

9.20 On the face of it, transferring from a large insurer to a smaller insurer appears to have an adverse impact on the security of the transferring policyholders. However, my opinion is that it is not a material adverse impact for the following reasons:

- The stress testing I have conducted demonstrates that only in remote scenarios do I consider that R&Q Gamma will not be able to meet its obligations. This opinion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL, in relation to the Transferring Portfolio, which would come into force on the Effective Date.
- As described in paragraphs 9.6 to 9.12, I am of the opinion that R&Q Gamma will be sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the Existing R&Q Gamma Portfolio. This opinion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL, in relation to the Transferring Portfolio, which would come into force on the Effective Date.
- R&Q Gamma will continue to be regulated by the PRA and any further capital extractions from R&Q Gamma would need to be approved by the PRA
- The loss of the reinsurance protection arising from the LPTA is not a material adverse impact as I consider that R&Q Gamma will be able to meet its obligations in all reasonably foreseeable scenarios (this is predicated on the ADC being in place from the Effective Date).

9.21 Both SCOR UK and R&Q Gamma are incorporated in the UK and so are both subject to the same regulations in the event of being wound-up. The transferring policyholders who are direct policyholders of SCOR UK pre-Scheme will become direct policyholders of R&Q Gamma post-Scheme. As a result, the transferring policyholders who are direct policyholders would benefit from the same legal protections in the event of R&Q Gamma being wound-up post-Scheme compared to in the event of SCOR UK being wound-up pre-Scheme.

9.22 Prior to the Scheme, the reinsurance policyholders within the Transferring Portfolio would rank behind the direct policyholders of SCOR UK in the event of a wind up of SCOR UK. Following the Scheme, the reinsurance policyholders of the Transferring Portfolio would rank behind the direct policyholders of both the Transferring Portfolio and of the Existing R&Q Gamma portfolio in the event of a wind up of R&Q Gamma. Whilst this adversely impacts the reinsurance policyholders, I do not consider this to be represent a material adverse impact in the policyholders' security. This is because I am of the opinion that R&Q Gamma will be sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the Existing R&Q Gamma Portfolio and the stress testing I have conducted demonstrates that only in remote scenarios do I consider that R&Q Gamma will not be able to meet its obligations. This opinion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL, in relation to the Transferring Portfolio, which would come into force on the Effective Date.

9.23 The transferring policyholders' rights in respect of the FSCS in the event of the insolvency of R&Q Gamma post-Scheme will be identical to their rights in the event of the insolvency of SCOR UK pre-Scheme. These rights will not change as a result of the Scheme.

9.24 It follows from the preceding paragraphs that, even though the monetary value of the funds that the transferring policyholders will have access to will reduce, my opinion is that I do not consider that there to be a material adverse impact on the transferring policyholders in relation to security, including under insolvency, as a result of the Scheme.

Impact of the Scheme on the security of the policyholders remaining in SCOR UK

9.25 As discussed in paragraph 9.5, SCOR UK's coverage of its SCR is materially unchanged by the Scheme becoming effective.

9.26 In addition, the Scheme will have no material impact on the protections afforded to policyholders remaining in SCOR UK in the event of insolvency of SCOR UK, including access to the FSCS.

9.27 As a result, the policyholders remaining in SCOR UK will not be materially affected by the Scheme in terms of security, including under insolvency.

Impact of the Scheme on the security of the existing policyholders in R&Q Gamma

9.28 In my opinion, the existing policyholders of R&Q Gamma will be impacted by the Scheme. However, I do not consider that the Scheme will have a material adverse impact on the policyholders for the reasons discussed below.

9.29 The existing policyholders of R&Q Gamma will be impacted by the Scheme because very little surplus capital will be injected into R&Q Gamma as a result of the Scheme. Therefore, the capital within R&Q Gamma that is currently available to meet the obligations of the existing policyholders would be reallocated to meet the obligations of both the existing policyholders and the transferring policyholders following the Scheme.

9.30 In addition, due to the nature of the liabilities, the addition of the Transferring Portfolio increases the volatility in R&Q Gamma, although this additional volatility is mitigated to an extent by the ADC.

9.31 Despite this, my opinion is that this does not create a material adverse impact for the following reasons:

- The absolute value of Own Funds increases as a result of the Scheme. In addition to this, the absolute value of the buffer in excess of the SCR increases.
- The stress testing I have conducted demonstrates that only in remote scenarios do I consider that R&Q Gamma will not be able to meet its obligations.

- As described in paragraph 9.15, I am of the opinion that R&Q Gamma will be sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the Existing R&Q Gamma Portfolio.
- The additional volatility is, to an extent, mitigated to an extent by the ADC.
- R&Q Gamma will continue to be regulated by the PRA and any further capital extractions from R&Q Gamma would need to be approved by the PRA.
- This opinion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL in relation to the Transferring Portfolio, which will come into force on the Effective Date.

9.32 The Scheme will also have an impact on the protections afforded to the policyholders currently in R&Q Gamma in the event of insolvency of R&Q Gamma. This is because, after the Scheme, there would be more policyholders who would seek payment of their claims from the funds left within R&Q Gamma in the event of insolvency. This means that there is a higher chance of the existing policyholders' claims not being paid by R&Q Gamma in the event of insolvency. Whilst this adversely impacts the existing R&Q Gamma policyholders, I do not consider this to be represent a material adverse impact to the policyholders' security. This is because, as explained in paragraphs 9.15 to 9.17, I am of the opinion that R&Q Gamma will be sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the Existing R&Q Gamma Portfolio and the stress testing I have conducted demonstrates that only in remote scenarios do I consider that R&Q Gamma will not be able to meet its obligations.

9.33 Prior to the Scheme, the reinsurance policyholders within the Existing R&Q Gamma portfolio would rank behind the direct policyholders of R&Q Gamma in the event of a wind up. Following the Scheme, the reinsurance policyholders of the Existing R&Q Gamma portfolio rank behind the direct policyholders of both the Transferring Portfolio and the Existing R&Q Gamma portfolio. Whilst this adversely impacts the reinsurance policyholders, I do not consider this to be represent a material adverse impact in the policyholders' security. This is because I am of the opinion that R&Q Gamma will be sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the Existing R&Q Gamma Portfolio and the stress testing I have conducted demonstrates that only in remote scenarios do I consider that R&Q Gamma will not be able to meet its obligations.

9.34 As a result, my opinion is that I do not consider that there to be a material adverse impact on the existing policyholders of R&Q Gamma in relation to security, including under insolvency, as a result of the Scheme.

Impact to the Scheme on the SIMIA policyholders who have recently transferred to R&Q Gamma

9.35 The SIMIA policyholders transferred to R&Q Gamma in September 2018 (the "SIMIA Transfer"). They transferred from an insurer that, had it been required to be complaint with the Solvency II capital requirements, would not have had sufficient capital to meet its MCR of £3.3m. They transferred to R&Q Gamma which, at the effective date of the transfer, was projected to have an SCR solvency ratio of 434%.

9.36 In Section 8, I considered the impact on R&Q Gamma's SCR coverage ratio of a number of scenarios concerning (i) whether or not the capital reduction is successful and (ii) whether the technical provisions for the Transferring Portfolio are held on the basis of R&Q Gamma's estimate or on the basis of SCOR UK's estimate. In some scenarios, after the Scheme, R&Q Gamma's SCR coverage ratio is above 434% and in other scenarios, R&Q Gamma's SCR coverage ratio is below 434%. Of the scenarios considered, the scenario which results in the lowest SCR coverage ratio (of 184%) is where the capital reduction is successful and R&Q Gamma's financial strength is considered on the basis of SCOR UK's estimate of the technical provisions for the Transferring Portfolio.

9.37 Whilst, in some scenarios, R&Q Gamma's SCR coverage ratio at the Effective Date of the Scheme is projected to be below the coverage ratio at the effective date of the SIMIA Transfer, my opinion is that this does not create a material adverse impact on the SIMIA policyholders. This is due to the reasons given in paragraphs 9.28 to 9.34 and, in particular, since I am of the opinion that R&Q Gamma will be sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the Existing R&Q Gamma Portfolio and since the stress testing I have conducted demonstrates that only in remote scenarios do I consider that R&Q Gamma will not be able to meet its obligations.

9.38 This opinion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL in relation to the Transferring Portfolio, which will be force by the Effective Date.

10 Other financial considerations

10.1 In this section, I discuss the following items in turn:

- Investment strategy implications
- Implications of the Scheme on ongoing expense levels
- Pension arrangements
- Tax implications
- Liquidity position
- Impact on existing reinsurers
- Impact of new business strategy
- Impact of other transfers.

Investment strategy implications

Investment strategy of SCOR UK

10.2 SCOR UK's investment objective is to generate recurring financial income to ensure it meets its payment obligations in connection with the profile of its reinsurance liabilities and create value for its shareholders, whilst preserving liquidity and capital.

10.3 I understand from SCOR UK that its investment strategy is defined annually as part of the Strategic Asset Allocation. The Strategic Asset Allocation is reviewed and updated annually by the Investment Committee. In addition, I understand from SCOR UK that its approach is as follows:

- Invest primarily in investment grade fixed income securities, debt instruments and equities as appropriate and defined in the Strategic Asset Allocation
- Ensure all concentration and other limits, as defined in SCOR UK's Investment Guidelines, are adhered to on an on-going basis
- All investments outside of guidelines are subject to prior Board approval.

10.4 SCOR UK has policies and limits to manage investment risk and keep its asset allocation in line with its risk tolerance. It sets limits on what types of investments should be invested in and how much should be invested with each counterparty. Its investment committee meets quarterly to review and monitor asset allocation.

10.5 I understand from SCOR UK that asset/liability management is undertaken at a Divisional or Group level. In addition, I understand from SCOR UK that, on a quarterly basis, the Risk and Compliance Committee monitors the Key Risk Indicators in SCOR UK's risk appetite statement. This includes a review of interest rate sensitivity for invested assets and a review of the asset/liability currency matching actions.

10.6 SCOR UK's investments are predominantly in corporate and government bonds. These bonds are highly rated (at 31 December 2018, all the bonds were rated BBB or higher with the majority rated A and higher).

Investment strategy of R&Q Gamma

10.7 R&Q Gamma's investment objective is to match its insurance liabilities whilst adhering to its investment guidelines. Its investment strategy is as follows:

- Invest primarily in marketable, investment grade-rated, short-term and immediate-term securities. Minimal investment will be made in fixed-rate long-term investments
- Adjust asset allocation mix and fixed-income sector weightings consistent with the outlook for markets, business conditions and corporate profitability
- Limit over-concentration of assets in individual issuers
- Exclude investments in commodities, futures, options and venture capital, except as specifically approved in writing by R&Q Gamma or in the form of a structured note.

10.8 I understand from R&Q Gamma that, whilst it was predominantly invested in a mix of bonds and equities at 31 December 2018, it is now invested primarily in bond mutual funds and this will be the investment approach going forwards.

10.9 I understand from R&Q Gamma that the investment managers of the bond mutual funds seek to maintain an average credit rating of BBB, although the credit ratings of the underlying investments will fluctuate.

10.10 Given that R&Q Gamma has long-term liabilities (arising from asbestos, pollution and health hazard claims) and maintains substantial Own Funds in excess of its SCR, it is reasonable for R&Q Gamma to invest in longer term assets, that are subject to greater uncertainty than cash or cash equivalents.

10.11 The intra-group loan to RQIH represented a large proportion of R&Q Gamma's total investments at 31 December 2018 and, in the unlikely event of a default on the loan by RQIH, R&Q Gamma's SCR coverage ratio would be significantly reduced. However, R&Q Gamma is expecting to reduce the loan by £10m (£9.7m on a Solvency II basis) during 2019 and, as a result, the intra-group loan is expected to represent a less significant proportion of R&Q Gamma's total investments at the Effective Date. In addition, even in the event of a default by RQIH, R&Q Gamma would have sufficient Eligible Own Funds to meet its regulatory capital requirements under the Solvency II regime.

Impact on policyholders

10.12 Based on my high level review, aside from R&Q Gamma's intra-group loan to RQIH, the investment strategies of R&Q Gamma and SCOR UK are similar.

10.13 However, R&Q Gamma appears to invest in riskier bonds than SCOR UK does. R&Q Gamma is therefore exposed to more volatility in the value of its investment portfolio than SCOR UK is; however it also has the potential to achieve higher returns.

10.14 In Section 8, I assessed that, in order to reduce the SCR coverage ratio to 100% or below, R&Q Gamma would need to experience a reduction in the value of its investments in the region of 48% under Scenario A and 84% under Scenario B. In addition, in order to reduce assets such that they fall below the liabilities, R&Q Gamma would need to experience a reduction in the value of its investments in the region of 72% under Scenario A and 106% under Scenario B. Given this, my opinion is that I consider R&Q Gamma to have sufficient assets to meet its liabilities in all reasonably foreseeable scenarios.

10.15 I therefore do not consider that moving from being exposed to SCOR UK's investment strategy to being exposed to R&Q Gamma's investment strategy will have a material adverse impact on the transferring policyholders.

10.16 There will be no change to the investment strategy that the policyholders remaining in SCOR UK are exposed to as a result of the Scheme.

10.17 In addition, there will be no change to the investment strategy that the existing policyholders of R&Q Gamma are exposed to as a result of the Scheme.

Implications of the Scheme on ongoing expense levels

10.18 I understand from the R&Q Group that the ongoing expense levels of R&Q Gamma will increase by 48% in the first year following the Scheme. This is because RQCS will provide more services to R&Q Gamma. These expense levels are expected to reduce as the Transferring Portfolio is run-off. However, I understand from R&Q Gamma that these increased expense levels have been allowed for in the financial projections provided to me, including within the calculation of the Solvency II technical provisions.

10.19 In addition, having reviewed the financial projections in the most recent ORSA and having considered the extent to which R&Q Gamma's assets exceed its liabilities, I consider that R&Q Gamma will have sufficient capital to be able to meet the expenses in the event of a longer than expected run-off of its portfolios.

10.20 Therefore, I do not believe that any changes in the expenses of R&Q Gamma as a result of the Scheme will have a material adverse impact to either the transferring policyholders or the existing policyholders of R&Q Gamma.

10.21 I do not anticipate that there will be material changes in expense levels as a result of the Scheme that will create an adverse impact to the policyholders remaining within SCOR UK because of the Transferring Portfolio's immaterial size in the context of SCOR UK.

Pension arrangements

10.22 Neither SCOR UK nor R&Q Gamma are sponsors of a defined benefit pension scheme and, as a result, there are no pension arrangements that are relevant to the Scheme.

Tax implications

10.23 SCOR UK and R&Q Gamma have both informed me that they do not consider that there are likely to be any material tax implications as a result of the Scheme.

10.24 I have taken advice from the tax experts at Grant Thornton who specialise in the insurance sector. They have reviewed the information provided to me and held discussions with SCOR UK and R&Q Gamma and do not believe there to be any material tax implications that affect the Scheme.

Liquidity position

10.25 I have reviewed the asset allocation and investment strategies of both SCOR UK and R&Q Gamma.

SCOR UK

10.26 At 31 December 2018, 2.5% of SCOR UK's total assets on a Solvency II basis were in cash and 35.8% were in corporate and government bonds with an average duration of 3.3 years. As a result, 38.3% of the assets are readily realisable within a short timescale. I understand from SCOR UK that its asset allocation and investment strategy will not change materially as a result of the Scheme.

10.27 I also understand from SCOR UK that it is a member of the SCOR Group's European cash pooling facility. This provides members with immediate access to liquidity. In addition, all reinsurance within the SCOR Group allows for advance cash calls to be made should they be necessary.

10.28 Therefore, I consider SCOR UK to have sufficiently liquid assets to meet liabilities as they fall due.

R&Q Gamma

10.29 I understand from R&Q Gamma that, whilst it was predominantly invested in a mix of bonds and equities at 31 December 2018, its investment strategy going forwards is to invest primarily in bond mutual funds with a small holding of cash. I also understand from R&Q Gamma that its asset allocation and investment strategy will not change materially as a result of the Scheme.

10.30 R&Q Gamma has projected that, at 31 December 2019, 63.6% of its total assets (including both investment assets and non-investment assets) on a Solvency II basis will be invested in bond mutual funds in Scenario A. This percentage is projected to be 57.8% in Scenario B. In addition, R&Q Gamma expects to hold approximately 2% of its total assets in cash in both scenarios.

10.31 The average duration of the bonds within R&Q Gamma's bond mutual funds was 1.9 years at 31 March 2019. I understand from R&Q Gamma that it does not expect the duration of bonds in its bond mutual funds to change materially in the future.

10.32 As a result, a significant proportion of R&Q Gamma's assets are readily realisable within a short timescale.

10.33 Consequently, I consider R&Q Gamma to have sufficiently liquid assets to meet liabilities as they fall due.

Conclusion

10.34 I do not anticipate that the Scheme will create any material adverse impact with respect to liquidity for the transferring policyholders, the policyholders remaining within SCOR UK or the existing policyholders of R&Q Gamma.

Impact on existing reinsurers

Impact on AIEL

10.35 Since the reinsurance arrangements with Armour Risk and Compre have been commuted by SCOR UK, the only existing reinsurer in relation to the Transferring Portfolio is AIEL via the LPTA. Should the Scheme become effective, this LPTA will cease at the Effective Date and AIEL will not make the profit on the reinsurance that it might otherwise have done.

10.36 In addition, AIEL will provide R&Q Gamma with the ADC from the Effective Date and will receive a nominal premium for doing so. AIEL is therefore exposed to the downside reserve risk on the Transferring Portfolio in the event of severe deteriorations in the reserves. However, AIEL would be less exposed to downside reserve risk on the Transferring Portfolio than currently under the LPTA.

10.37 AIEL is a member of the R&Q Group and is aware of the intention to transfer the liabilities from SCOR UK to R&Q Gamma under the Scheme. Consequently, I do not believe that there is a material risk that AIEL will raise any valid objection to the Scheme.

Impact on other reinsurers

10.38 The coverage provided by the existing reinsurers of SCOR UK will not change as a result of the Scheme.

10.39 The coverage provided by the existing reinsurers of R&Q Gamma will not change as a result of the Scheme.

10.40 As a result, my opinion is that the Scheme will have no material adverse impact on the current reinsurers of the Transferring Portfolio, existing reinsurers of the Remaining Portfolio or the existing reinsurers of the Existing R&Q Gamma Portfolio.

Impact of new business strategy

Impact on policyholders remaining within SCOR UK

10.41 SCOR UK has informed me that its new business strategy will not change as a result of the Scheme. It follows that, in my opinion, the Scheme will not have any material adverse impact on the policyholders remaining in SCOR UK in relation to the new business strategy that they are exposed to.

Impact on existing policyholders within R&Q Gamma

10.42 R&Q Gamma does not underwrite new insurance policies and will not do so following the Scheme. R&Q Gamma's business model is to acquire books of non-life insurance that are in run-off and it has informed me that this model will not change following the Scheme. Any further acquisitions are subject to approval from the PRA.

10.43 It follows that, in my opinion, the Scheme will not have any material adverse impact on the existing R&Q Gamma policyholders in relation to the new business strategy that they are exposed to.

Impact on the transferring policyholders

10.44 As indicated above, SCOR UK and R&Q Gamma have different new business strategies. However, I do not envisage that this will have a material adverse impact on the transferring policyholders for the following reasons:

- Both SCOR UK and R&Q Gamma are authorised by the PRA and regulated by the PRA and FCA
- Both SCOR UK and R&Q Gamma are authorised to operate in the way that they do
- Both SCOR UK and R&Q Gamma hold capital to support the risks that they are exposed to. In addition, as concluded in Section 8, I am of the opinion that both companies have sufficient capital to meet policyholder obligations
- As I have concluded in paragraphs 11.35 and 11.40, both R&Q Gamma and SCOR UK have appropriate management frameworks in place to support their respective businesses.

10.45 It follows that, in my opinion, the Scheme will not have any material adverse impact to the transferring policyholders in relation to the new business strategy that they are exposed to.

Impact of other transfers

10.46 I am not aware of any other transfers into or out of either SCOR UK or R&Q Gamma that will affect any of the transferring policyholders, the existing policyholders of R&Q Gamma or the policyholders remaining in SCOR UK.

11 Other non-financial considerations

11.1 In this section, I discuss the following items in turn:

- Regulatory jurisdiction
- Claims handling
- Policy servicing
- Complaints
- ‘Brexit’
- 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 Limited
- Should the Scheme not become effective.

Regulatory jurisdiction

11.2 Both SCOR UK and R&Q Gamma are authorised by the PRA and regulated by the PRA and the FCA. Consequently, there will be no changes in regulatory jurisdiction as a result of the Scheme.

Claims handling

Transferring policyholders

11.3 The transferring policyholders are currently with an insurer for which the management of a run-off book does not form a core element of its business strategy. SCOR UK therefore currently outsources the management to RQCS.

11.4 As a result of the LPTA, RQCS is responsible for the claims handling of the Transferring Portfolio at present. In addition, I understand from R&Q Gamma that RQCS will remain responsible for the claims handling of the Transferring Portfolio following the Scheme. Therefore, I do not anticipate any material adverse changes to the claims handling provided to the transferring policyholders following the Scheme.

Remaining SCOR UK policyholders

11.5 There will be no change in claims handling for the policyholders remaining within SCOR UK.

Existing R&Q Gamma policyholders

11.6 Claims arising from the existing policyholders of R&Q Gamma are handled by RQCS. This will continue to be the case following the Scheme. As a result, I do not envisage a material adverse impact in respect of claims handling for these policyholders.

Policy serving

Transferring policyholders

11.7 As all of the Transferring Portfolio is in run-off, there are very few policy servicing queries that are not claims related.

11.8 Nevertheless, the transferring policyholders are currently with an insurer for which the management of a run-off book does not form a core element of its business strategy. SCOR UK therefore does not have the specialist resources for managing a run-off portfolio of this nature and therefore currently outsources the management to RQCS.

11.9 The administration of the Transferring Portfolio has been migrated to RQCS as a result of the LPTA and the Services Agreement. RQCS currently deals with all policy servicing queries. I understand from R&Q Gamma that RQCS will continue to provide policy servicing following the Scheme. Therefore, I do not anticipate any changes to the policy servicing provided to the transferring policyholders following the Scheme.

Remaining SCOR UK policyholders

11.10 There will be no change in claims handling for the policyholders remaining within SCOR UK.

Existing R&Q Gamma policyholders

11.11 Policy servicing for the existing policyholders of R&Q Gamma is handled by RQCS. This will continue to be the case following the Scheme. As a result, I do not envisage a material adverse impact in respect of policy servicing for these policyholders.

Complaints

Complaint handling responsibilities

11.12 RQCS is currently responsible for complaints handling for the Transferring Portfolio, acting on behalf of SCOR UK as per the Services Agreement. Under the terms of the Services Agreement, any complaints received via SCOR UK or directly to RQCS should be acknowledged by RQCS within five working days of receipt of the complaint by RQCS. However, the ultimate responsibility for complaints handling in relation to the Transferring Portfolio lies with SCOR UK.

11.13 RQCS is currently responsible for complaints handling for the Existing R&Q Gamma Portfolio on behalf of R&Q Gamma and I understand from R&Q Gamma that this will continue to be the case following the Scheme. However, the ultimate responsibility for complaints handling in relation to the Existing R&Q Gamma Portfolio lies with R&Q Gamma.

11.14 Following the Scheme, RQCS will also be responsible for complaints handling for the Transferring Portfolio on behalf of R&Q Gamma. The ultimate responsibility for complaints handling in relation to the Transferring Portfolio will lie with R&Q Gamma.

Complaints handling policies

11.15 I understand from the R&Q Group that both RQCS and R&Q Gamma adopt all applicable FCA requirements in relation to complaints handling. I understand from R&Q that both RQCS and R&Q Gamma are committed to treating all complainants fairly and will uphold a positive complaints culture, ensuring all regulatory standards for complaints handling are adopted.

11.16 I understand from SCOR UK that it adopts all applicable FCA requirements in relation to complaints handling. I further understand from SCOR UK that it is committed to treating all complainants fairly and will uphold a positive complaints culture, ensuring all regulatory standards for complaints handling are adopted.

FOS eligibility

11.17 There will be no change in eligibility for FOS for any policyholders as a result of the Scheme. Consequently, any transferring policyholders who are currently eligible to refer complaints to FOS will continue to be eligible to refer complaints to FOS following the Scheme.

Conclusion

11.18 There will be no change to complaints handling or FOS eligibility for the transferring policyholders.

11.19 There will be no change to complaints handling or FOS eligibility for the policyholders remaining within SCOR UK as a result of the Scheme.

11.20 There will be no change to complaints handling or FOS eligibility for the existing R&Q Gamma policyholders as a result of the Scheme.

11.21 As a result, my opinion is that the Scheme does not create any material adverse impact for any group of policyholders in respect of complaints.

'Brexit'

11.22 On 23 June 2016, the UK voted to leave the EU. On 29 March 2017, the UK officially notified the European Commission of its intention to withdraw from the EU.

11.23 Currently, the prudential regulatory regime in the UK incorporates Solvency II. This is likely to continue to be the case at least until the date when the UK leaves the EU. At the time of writing this report, this is expected to be by 31 October 2019, although it may be sooner. The developments in the regulatory regime in the UK will ultimately be determined by the PRA, the FCA and UK lawmakers. However, what will happen and when it may happen are not yet known.

11.24 Both R&Q Gamma and SCOR UK are subject to the UK regulatory regime. Consequently, anything that changes following Brexit will affect both of them.

11.25 I understand from SCOR UK that it has found no evidence that there are any non-UK EEA policyholders within the Transferring Portfolio. I further understand from SCOR UK that, given the nature of the liabilities within the Transferring Portfolio, it does not believe there to be any non-UK EEA policyholders. Given this, I am of the opinion that it is reasonable to assume that the likelihood of significant numbers of claims being reported from policies covering risks in the EEA outside of the UK is remote

11.26 I have been informed by R&Q Gamma that its preferred option, providing it is allowed following the Brexit negotiations, would be to continue to rely on passporting rights in order to settle any EEA claims outside of the UK.

11.27 Should it become apparent, contrary to my expectation, that there are EEA risks in the Transferring Portfolio and should those passporting rights (or some equivalent of those) be removed, R&Q Gamma will seek to rely on the relevant legal frameworks across the EEA. In that event, R&Q Gamma will seek to liaise with the relevant EEA regulators to ensure it can continue to service policyholders in the EEA. I understand from R&Q Gamma that it expects that, if passporting rights are removed, there will be arrangements made for a transition period by EEA regulators. I note that a number of EEA regulators have already announced such transitional measures.

11.28 Consequently, I do not believe that future changes in the insurance market or the UK regulatory environment resulting from the outcome of the EU referendum will affect the conclusions in my report.

11.29 I will reconsider this in my Supplementary Report in the unlikely event that it becomes apparent that there are EEA policyholders within the Transferring Portfolio or if there are changes to the regulatory outlook following Brexit in the meantime.

Governance and management framework

Transferring Portfolio

11.30 Prior to the Scheme, the day to day management of the Transferring Portfolio is operated by RQCS as a result of the Services Agreement, although SCOR UK remains ultimately responsible for the Transferring Portfolio as the insurer. I understand from R&Q Gamma that RQCS provides management information to SCOR UK on a quarterly basis on claim notifications and movements.

R&Q Gamma

11.31 The R&Q Group has adopted a Unified Group System of Governance. This provides the framework and guidelines within which the solo entities, such as R&Q Gamma, operate in the context of the Group structure whilst meeting its regulatory requirements. As a result of this system of governance, many of the key functions such as Risk Management and Actuarial are shared across the R&Q Group.

11.32 R&Q Gamma retains direct management and decision-making over its primary activities, specifically areas related to strategy, capital, claims strategy, risk, expense control and business planning. R&Q Gamma outsources its claims handling and policyholder administration services to RQCS. As a result, the day to day management of the Transferring Portfolio will largely continue to be operated by RQCS.

11.33 The Board of R&Q Gamma currently comprises four executive Board members and two non-executive Board members. All responsibilities are discharged by the Board, other than those responsibilities of the Audit Committee. The Board is responsible for signing-off the reserves.

11.34 I understand from R&Q Gamma that it is considering introducing an Underwriting/Claims committee in the future.

11.35 I have reviewed R&Q Gamma's management and governance framework and, in my opinion, it is proportionate to the size and complexity of R&Q Gamma's business.

SCOR UK

11.36 SCOR UK's governance framework is aligned closely with the structures and framework established within the SCOR Group. This governance framework is reviewed annually by the Board of SCOR UK.

11.37 The Board comprises a mix of executive directors, internal non-executive directors from within the Property and Casualty Division of the SCOR Group and independent non-executive directors. It has the ultimate authority for ensuring that SCOR UK is managed in accordance with main stakeholder instructions, Board approved strategy and legal and regulatory requirements. Authority lies jointly and severally with the Board collectively and not with any specific individual.

11.38 There are a number of formal committees that report to the Board, namely the:

- Audit Committee
- Investment Committee
- Risk & Compliance Committee
- Management Committee, which has established two sub-committees, the Reserving Sub-Committee and the Canadian Branch Management Committee.

11.39 In addition, there are a number of functions which ultimately report to the Chief Executive Officer. The Internal Audit function reports to the Audit Committee.

11.40 I have reviewed the management and governance framework of SCOR UK and, in my opinion, it is proportionate to the size and complexity of SCOR UK's business.

Impact on policyholders

11.41 I have not identified any material adverse impact to any groups of policyholders in relation to the management and governance framework as a result of the Scheme.

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 Limited

11.42 On 16 August 2019, Mr Justice Snowden declined to exercise his discretion to sanction the proposed insurance Part VII transfer of a £12.9 billion book of in-payment annuities from The Prudential Assurance Company Limited ("Prudential") to Rothesay Life Limited ("Rothesay"). I understand that Prudential and Rothesay have appealed this judgement.

11.43 I have considered the extent to which this ruling is relevant to the Scheme.

11.44 While there are clearly some similarities between the two proposals in that they are both Part VII transfers and have both been preceded by LPTAs, I believe that there are the following significant differences that could reasonably lead the court to come to a different conclusion:

- The transferring policyholders in the Prudential/Rothesay transfer were individuals whereas those transferring from SCOR UK to R&Q Gamma under the Scheme are companies
- Mr Justice Snowden considered that the particular nature of an annuity policy represents an important factor in the exercise of the court's discretion. He noted that the purchase of an annuity was, for many people, one of the most important decisions that they would ever make with the annuity providing the only, or main, source of regular income for their retirement. Furthermore, once an annuity has been purchased, the policyholder cannot switch providers. The consequence, in his view, was that policyholders will be particularly concerned to select a company with a good reputation and financial standing whom they trust. This is clearly not the same situation for companies buying commercial insurance such as that in the Transferring Portfolio where the policyholder can cancel or not renew their policy each year and seek an alternative insurer. Given this, I believe that the policyholders in the Transferring Portfolio are likely to have been less concerned about the reputation, history and financial standing of the insurer at the time they purchased the policy than the Prudential policyholders will have been.
- Mr Justice Snowden considered that various items of Prudential's marketing and policy literature emphasised the financial stability, history and reputation of Prudential and the lifetime nature of the commitment once an annuity was bought from Prudential. When the policies within the Transferring Portfolio were originally purchased, I would not expect it to be on the basis that Anglo-French was promoting the lifelong commitment of their insurance offerings.
- The policyholders were not contracting with SCOR UK at the time the policies were written between 1958 and 1969. SCOR UK assumed the risks in 1990, over 20 years after the last policy was written by Anglo-French. By contrast, the policyholders transferring in the Prudential/Rothesay transfer, bought their policies from Prudential.
- The policies included in the Transferring Portfolio have been in run-off since 1969 and, as a result, the substantial majority of the remaining claims relate to pollution, asbestos and other latent claims.

This is because these types of claims tend to emerge a long time after the expiry of the policies. Having said that, it is worth noting that, when the policies were underwritten, I would not have expected either the underwriters or the policyholders to have been aware that these risks existed and were covered by the policies, and that claims would still be being paid in respect of these policies at this stage. By contrast, both Prudential and the annuity policyholders understood the nature of the annuities when those policies were underwritten.

- While the business in the Transferring Portfolio is long tailed, the remaining mean term of the remaining liabilities at the valuation date is unlikely to be as long as the mean term of a book of annuities such as those in the Prudential/Rothesay transfer.
- The business rationale for the two transfers are different. In the Prudential/Rothesay case, the transfer was not driven by the characteristics of the policies, rather it was part of a de-merger taking place in the Prudential group. However, in the case of the Scheme, the Transferring Portfolio comprises a discrete book of business which SCOR UK regards as non-core, and the proposed transfer is to a company with more experience of and expertise in the nature of the liabilities within the Transferring Portfolio.
- More than a thousand objections were received to the Prudential/Rothesay transfer. In my experience, it is unlikely that a significant number of objections would be received to a transfer of commercial non-life business, such as the Scheme, and it is extremely unlikely that the number of objections received will be similar in magnitude to the number of objections received to the Prudential/Rothesay transfer.

Should the Scheme not become effective

11.45 I have considered the likely effects on the transferring policyholders, the existing policyholders of R&Q Gamma and the policyholders remaining within SCOR UK should the Scheme not become effective.

Impact on transferring policyholders

11.46 Should the Scheme not become effective, the transferring policyholders will remain policyholders of an insurer for which the management of a run-off portfolio is not core to its business strategy. In my opinion, all other things being equal, this is less desirable for them than being policyholders of an insurer for which the management of a run-off portfolio is core to its business strategy.

11.47 As discussed in paragraphs 9.10 to 9.15, I do not believe that the transferring policyholders will be materially disadvantaged as a result of the Scheme in terms of security. Therefore, it is my opinion that the transferring policyholders will not be materially better off should the Scheme not become effective.

11.48 If the Scheme were not to become effective, AIEL would continue to provide 100% reinsurance in respect of the Transferring Portfolio under the existing LPTA and would run-off the existing liabilities until the earliest expiry of those liabilities, the Scheme becoming effective at a subsequent date, the LPTA being commuted or the LPTAs being terminated for one of the reasons described in paragraph 5.40.

11.49 Should the Scheme not become effective, the Services Agreement will remain in place alongside the LPTA and RQCS will continue to provide claims handling, administration services, policy servicing queries and complaints handling in respect of the Transferring Portfolio. I have concluded in paragraphs 11.3 and 11.4, paragraphs 11.7 to 11.10 and paragraph 11.18 that I do not anticipate any material adverse changes to the claims handling, administration services, policy servicing queries and complaints handling provided to the transferring policyholders following the Scheme. Therefore, it is my opinion that the transferring policyholders will not be materially better off in respect of claims handling should the Scheme not become effective.

11.50 There is no change in the regulatory jurisdiction for the Transferring Portfolio whether the Scheme becomes effective or not. As a result, I do not believe the transferring policyholders will be materially better off in respect of regulatory jurisdiction should the Scheme not become effective.

11.51 Any issues that present themselves as a result of Brexit will be the same whether the policyholders have transferred or not. This is because, should the Scheme not become effective, the transferring policyholders would still be part of a UK insurer. As a result, I do not believe the transferring policyholders will be materially better off in respect of Brexit should the Scheme not become effective.

11.52 As discussed in paragraphs 11.30 to 11.41, I have not identified any material adverse impact to the transferring policyholders in relation to the management and governance framework as a result of the Scheme. Therefore, it is my opinion that the transferring policyholders will not be materially better off should the Scheme not become effective.

11.53 It follows from the above that I would not consider the transferring policyholders to be materially better off should the Scheme not become effective.

Impact on existing policyholders of R&Q Gamma

11.54 Should the Scheme not become effective, I understand from R&Q Gamma that it will continue to operate as it has, continuing to pay claims on its existing portfolio and seeking new opportunities to purchase portfolios.

11.55 As discussed in paragraphs 9.28 to 9.34, I do not consider that the existing policyholders of R&Q Gamma will be materially adversely affected as a result of the Scheme. Therefore, it is my opinion that the existing policyholders of R&Q Gamma will not be materially better off should the Scheme not become effective.

Impact on remaining policyholders within SCOR UK

11.56 If the Scheme were not to become effective, there would be no material impact on the policyholders remaining in SCOR UK compared to the current position given the magnitude of the Transferring Portfolio in the context of SCOR UK as a whole.

12 Communication strategy

Policyholder notifications

12.1 The regulations surrounding Part VII transfers require that, unless the Court orders otherwise, all policyholders in all affected companies should be written to in order to inform them of the Scheme. The affected companies may apply for waivers considering, amongst other things, the likely benefits of contacting the policyholders compared with the practicality and costs of doing so.

12.2 R&Q Gamma and SCOR UK are seeking a waiver from this requirement to write to all policyholders and have identified specific groups of policyholders that they intend to notify.

Summary of mailings

12.3 Below is a summary of the policyholders that R&Q Gamma and SCOR UK intend to notify of the Scheme.

12.4 SCOR UK intends to directly notify the 396 policyholders within the Transferring Portfolio for whom contact details are available.

12.5 SCOR UK does not intend to directly notify the policyholders in the Remaining Portfolio.

12.6 R&Q Gamma intends to directly notify the following policyholders within the Existing R&Q Gamma Portfolio:

- All 228 policyholders with policies in the SIMIA portfolio
- Any policyholder or other claimant within the RLGIL portfolio who has an outstanding claim and for whom R&Q Gamma holds relevant contact details.

Waivers

12.7 I understand from SCOR UK that it is seeking a waiver from the requirement to notify all policyholders affected by the Scheme.

12.8 SCOR UK has provided me with the following reasons as to why it believes that it is reasonable to request a waiver from notifying policyholders in the Remaining Portfolio:

- The Transferring Portfolio is immaterial to SCOR UK's business as a whole
- The funds to be transferred will not impact SCOR UK's net assets as they will be deducted from the LPTA premium
- The policyholders of policies within the Remaining Portfolio will not experience changes to their policy terms or claims handling approach due to the Scheme.

12.9 SCOR UK has provided me with the following reasons as to why it believes that it is reasonable to request a waiver from notifying all transferring policyholders:

- The policies within the Transferring Portfolio were underwritten between 1957 and 1969 and SCOR UK does not hold details of these policyholders other than those who have made a claim
- There are no data sources which SCOR UK could use to identify any additional policyholders
- SCOR UK has only received one precautionary claim notification in respect of the Transferring Portfolio in the last ten years and this related to a policyholder that SCOR UK was already aware of due to previously submitted claims. Given this, SCOR UK considers it unlikely that it will receive a claim from a policyholder with no previously submitted claims and hence of whom it is not already aware
- SCOR UK considers that the advertising of the transfer that is being placed will provide transferring policyholders reasonable opportunity to become aware of the Scheme.

12.10 I understand from R&Q Gamma that it is seeking a waiver from the requirement to notify all policyholders affected by the Scheme. In particular, although it is notifying all policyholders within the SIMIA portfolio, I understand from R&Q Gamma that it is seeking a waiver from the requirement to notify those policyholders within the RLGIL portfolio who do not have an open claim.

12.11 R&Q Gamma has provided me with the following reasons as to why it believes that it is reasonable to request a waiver from notifying all policyholders within the RLGIL portfolio:

- Out of 41,241 policyholders, it has only received 57 claim notifications since August 2017, 37 of which relate to one policyholder who is being notified due to other outstanding claims
- R&Q Gamma has estimated that approximately 15,000 policyholders out of a total of 41,241 policyholders are no longer at the address that R&Q Gamma has on record and are untraceable or deceased. I have reviewed this analysis and have challenged it where necessary.
- R&Q Gamma has been provided with a quote by a third party firm which estimated that the additional cost for mailing all policyholders for which contact details are available within its existing portfolio would be approximately £30,000. I understand from R&Q Gamma that it believes that notifying these policyholders would be disproportionate given the estimated costs involved in doing so
- The policyholders of policies within R&Q Gamma's existing portfolio will not experience changes to their policy terms or claims handling approach due to the Scheme.

12.12 I have reviewed the waivers that SCOR UK and R&Q Gamma are seeking and challenged them where necessary. Having done so, I consider that it is proportionate and reasonable for SCOR UK and R&Q Gamma to seek these waivers given the reasons stated above.

Advertising strategy

12.13 Further to the above, regulations surrounding Part VII transfers require that a notice stating that an application has been made in connection with the Scheme must be published in the following publications:

- In the London, Edinburgh and Belfast Gazettes
- In two national newspapers in the UK
- Where an EEA State other than the UK is the state in which the risk is situated for any direct (as opposed to reinsurance) policy that is being transferred, once in each of two national newspapers in that EEA State
- Where an EEA State, other than the UK, is the state in which the establishment of the policyholder to which the policy relates is situated at the date when the contract was entered into for any inwards reinsurance policy that is being transferred, once in one business newspaper which is published or circulated in that EEA State.

12.14 I understand from SCOR UK that it has undertaken an extensive review of available records and that this has determined that the policies within the Transferring Portfolio cover risks located in the UK and United States only. However, it is not possible to guarantee that the portfolio does not contain any policies with risks located in an EEA state other than the UK given the age of the portfolio.

12.15 Given the above, SCOR UK and R&Q Gamma intend on publishing a notice of the application to sanction the Scheme in the following publications:

- once in each of the London, Edinburgh and Belfast Gazettes
- once in each of [The Financial Times (which is circulated internationally) and The Daily Mail and the Sun in the UK]

- once in each of [USA Today, The Wall Street Journal and the New York Times].

12.16 I have reviewed the above advertising strategy and challenged it where necessary. Having done so, I consider it to be proportionate and reasonable with regards to the Scheme and that it is in line with the regulations.

Documentation

12.17 I have reviewed the drafts of the proposed communications material and challenged them where necessary. In my opinion:

- The material is straightforward, provides sufficient information for the policyholders to understand the proposed Scheme and its impact, and details any required actions (where relevant)
- It explains to the policyholders their right to object and the ways in which they can exercise this right
- The access to the available documentation and relevant information is clear.

12.18 In addition to the communications discussed above, all of the material related to the Scheme will be published on a website hosted by the R&Q Group. I have seen a draft of the text to be shown on this website and, in my opinion, it is clear and appropriate.

Broker notifications

12.19 SCOR UK has informed me that it does not intend to directly notify any brokers of the Transferring Portfolio regarding the Scheme.

12.20 I understand from SCOR UK that, owing to the age of the Transferring Portfolio, it does not have details of brokers associated with that portfolio. As discussed in paragraph 12.4, SCOR UK intends to directly contact all transferring policyholders for whom contact details are available. Given this and the advertising plans I consider it reasonable not to contact brokers associated with the Transferring Portfolio.

12.21 Having reviewed the proposed approach to broker notifications and challenged it where necessary, I consider it to be appropriate, proportionate and reasonable.

Reinsurer notifications

12.22 SCOR UK has informed me that it does not intend to directly notify any outwards reinsurers of the Transferring Portfolio regarding the Scheme.

12.23 I understand from SCOR UK that it is seeking a waiver from the requirement to notify all outwards reinsurers of the Transferring Portfolio. SCOR UK has informed me that it believes that all outwards reinsurance contracts relevant to the transferring portfolio have been commuted, with the exception of the LPTA which will be terminated on the Effective Date. As such, SCOR UK believes that there are no third party reinsurers that it is required to contact, however, it acknowledges that there is the possibility that there are some reinsurance contracts relevant to the transferring portfolio of which it is unaware.

12.24 I have been informed by SCOR UK that it does not intend to notify the reinsurers of the Remaining Portfolio about the Scheme. Furthermore, I have been informed by R&Q Gamma that it does not intend to notify the reinsurers of the Existing R&Q Gamma Portfolio about the Scheme.

12.25 There are no statutory requirements to notify reinsurers of the Existing R&Q Gamma Portfolio or the reinsurers of the Remaining Portfolio. In addition, I do not consider that the Scheme will have a material adverse impact on either set of reinsurers and therefore, I consider it to be reasonable that neither the reinsurers of the Existing R&Q Gamma Portfolio nor the reinsurers of the Remaining Portfolio are being notified of the Scheme.

12.26 Having reviewed the proposed approach to reinsurer notifications and challenged it where necessary, I consider it to be appropriate, proportionate and reasonable.

Conclusion

12.27 In reviewing the policyholder, broker and reinsurer notification strategy, I have:

- Held discussions with SCOR UK and R&Q Gamma
- Reviewed information provided to the PRA and FCA setting out the approach to policyholder notifications
- Reviewed the witness statements setting out the policyholder notification strategy
- Reviewed the proposed communications materials
- Reviewed the draft text for the websites
- Challenged the information provided to me where necessary..

12.28 Given the size and implications of the Scheme, I believe that the proposed approach to policyholder, reinsurer and broker notifications is appropriate, proportionate and reasonable.

13 Reliances and limitations

Events following the valuation date

13.1 The conclusions in this report are based on analyses that have been undertaken on data at 31 December 2018.

13.2 SCOR UK and R&Q Gamma have informed me of the following material changes since 31 December 2018. These are the commutations of the Compre and Armour Risk reinsurance arrangements and the change in R&Q Gamma's investment strategy. Where necessary, I have requested data from SCOR UK and R&Q Gamma at 31 December 2018 which allows for these material changes.

13.3 I have been informed by SCOR UK and R&Q Gamma that there have been no other material changes between 31 December 2018 and the date of this report. However, future events could occur between the date of this report and the Effective Date that could change my conclusions. I will provide a Supplementary Report prior to the Court hearing at which the sanction of the Scheme is sought to update the Court on whether there have been any material changes since the issue of this report.

Reliance on other parties

13.4 In developing the conclusions in this report, I have relied on the data and accompanying explanations provided to me by and on behalf of SCOR UK and R&Q Gamma. I have not specifically reviewed the data for accuracy and completeness, but I have reviewed it for reasonableness.

13.5 I have carried out investigations, as detailed in this report, to gain comfort on the appropriateness of the methodology and conclusions for the most significant liabilities and capital requirements.

13.6 For the Transferring Portfolio, my review has not amounted to a full re-estimation of the liabilities for every class of business or a detailed calculation of the capital requirements. Instead, I have also relied on the calculations and documentation provided to me by SCOR UK and R&Q Gamma. I consider this to be reasonable given the experience and professional qualifications of the authors of the reserving and capital documents provide to me by SCOR UK and R&Q Gamma and the testing that I have done. The reviews that I have carried out give no indication of any significant deficiency and I consider that appropriate methodologies have been adopted throughout.

13.7 For SCOR UK, my review has not amounted to a full re-estimation of the liabilities for every class of business or a detailed calculation of the capital requirements. Instead, I have relied upon reserving work and estimation of capital requirements performed by SCOR UK. I consider this to be reasonable given the experience and professional qualifications of the authors of the reserving and capital documents provided to me by SCOR UK, the testing that I have done and the immateriality of the Transferring Portfolio in the context of SCOR UK as a whole. The reviews that I have carried out give no indication of any significant deficiency and I consider that appropriate methodologies have been adopted throughout.

13.8 For R&Q Gamma prior to the Scheme, my review has not amounted to a full re-estimation of the liabilities for every class of business or a detailed calculation of the capital requirements. Instead, I have relied upon reserving work and estimation of capital requirements performed by the R&Q Group. I consider this to be reasonable given the experience and professional qualifications of the authors of the reserving and capital documents provided to me by the R&Q Group and the testing that I have done. The reviews that I have carried out give no indication of any significant deficiency and I consider that appropriate methodologies have been adopted throughout.

13.9 I have also relied on discussions that I have had with the managements of SCOR UK and R&Q Gamma. Where appropriate, I have sought documentation from them to evidence the assertions made to me in those discussions.

Other

13.10 In my judgement, the results and conclusions contained in this report are reasonable given the information made available to me.

13.11 However, there is a limitation upon the accuracy of any estimate of claims reserves in that there is an inherent uncertainty in any estimate of future liabilities. This is due to the fact that the claims will be subject to the outcome of events yet to occur, such as judicial decisions, legislative actions, claim consciousness amongst potential claimants, claims management, claim settlement practices, changes in inflation, and economic decisions. As a result, it should be recognised that future claim emergence will likely deviate, perhaps materially, from any estimate of claims reserves.

13.12 In addition, there is a limitation upon the accuracy of any estimate of capital requirements in that there is an inherent uncertainty in any estimation of future assets and liabilities. It follows that it should be recognised that the actual capital required will likely deviate, perhaps materially from any estimate of the capital requirements.

13.13 The underlying figures in this report are calculated to many decimal places. Consequently, in the presentation of the figures in the various tables, there may be reconciliation differences due to the effect of rounding.

14 Conclusions

14.1 I have considered the Scheme and its likely effects on the transferring policyholders, the policyholders remaining in SCOR UK, and the existing R&Q Gamma policyholders.

14.2 In reaching the conclusions set out below, I have applied the following principles as set out in relevant professional guidance. I have sought to:

- Exercise my judgement in a reasoned and justifiable manner;
- Describe the impact on all classes of beneficiaries (for the purposes of this report, being the transferring policyholders, the policyholders remaining in SCOR UK and the existing policyholders of R&Q Gamma) and reinsurers;
- Indicate how the Scheme might lead to any changes in the material risks to the benefits of the different classes of beneficiaries;
- Assess the impact on all the classes of beneficiaries;
- Indicate the proposed rationale for the Scheme to proceed;
- Include (in summary) the most material information on which my opinion is based
- Describe the rationale for my opinion.

Transferring policyholders

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

14.4 It should be noted that this conclusion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL in relation to the Transferring Portfolio, which will be in force on the Effective Date.

Policyholders remaining in SCOR UK

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

Existing policyholders of R&Q Gamma

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

14.7 It should be noted that this conclusion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL in relation to the Transferring Portfolio, which will be in force on the Effective Date.

Reinsurers

14.8 In addition, I identify no reinsurers that would be materially adversely affected by the Scheme.

Conclusion

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

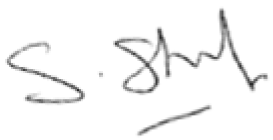
14.10 This conclusion is predicated on the fact that, prior to the Effective Date, R&Q Gamma will put the ADC in place with AIEL in relation to the Transferring Portfolio, which will come into force on the Effective Date. I will confirm whether the ADC has been put in place in the Supplementary Report.

14.11 It is also predicated on the fact that, aside from the capital reduction R&Q Gamma has planned for 2019, there will be no further capital extractions from R&Q Gamma. I note that any capital extractions from R&Q Gamma, including the capital reduction planned for 2019, are subject to approval by the PRA.

14.12 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.

14.13 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court, I have complied with that duty and I will continue to comply with that duty.

14.14 I do however consider it necessary that I review the most recent information, up to the date of the Sanctions Hearing, when this becomes available, before confirming my conclusions and opinions.



Simon Sheaf FIA, FSAI
Partner and Head of General Insurance Actuarial & Risk
Grant Thornton UK LLP

A Information received

Information provided by or on behalf of SCOR UK

- SCOR UK and R&Q Gamma Transfer Agreement
- SCOR Group structure chart
- Financial Statements at 31 December 2018
- Solvency and Financial Condition Report at 31 December 2017 and 31 December 2018
- Solvency II Balance Sheet at 31 December 2018 and projected to 31 December 2019
- Solvency II Own Funds at 31 December 2018
- Risk margin calculation at 31 December 2018
- Analysis of the impact on Solvency II technical provisions of Events Not in Data at 31 December 2017
- Analysis of the impact on Solvency II technical provisions of bound but not incepted business at 31 December 2018
- Analysis of the impact on Solvency II technical provisions of business written after data closure at 31 December 2018
- Quarterly Reporting Templates at 31 December 2018
- Group policy on capital management
- 2019 capital management plan
- Own Risk and Solvency Assessment Background Document 2018
- Updated ORSA projections of the regulatory SCR following the change in LACDT methodology
- Economic Balance Sheet Documentation O&C Division technical provisions
- 2018 Actuarial Function Report
- Loss Portfolio Transfer Agreement between SCOR UK and AIEL
- Claims Handling and Administration Services Agreement between SCOR UK and RQCS
- Quota Share Reinsurance Agreement between SCOR UK and Compre (now commuted)
- Quota Share Reinsurance Agreement between SCOR UK and Armour Risk (now commuted)
- 2019 business plan
- Reinsurance plan for 2019
- Investment guidelines
- P&C Reserving Risk Framework Document
- Global P&C 2018 Reserving Actuarial Report at 31 December 2018
- Quarterly Reserving Committee Meeting packs from 2018
- Precautionary Claims Information at 31 December 2016 and 31 December 2017
- Additional information regarding SCOR UK written business
- Additional information regarding reserves held for specific large claims
- MDU Organigram
- Probability Score Distribution at 31 March 2018

- Individual claims information for specific cases
- MDU Claim Review Report at 29 August 2018
- Actuarial Function Bordereaux at 30 September 2018
- Deferred taxation methodology at 31 December 2018
- CVs of employees of SCOR UK responsible for producing financial information on which my analysis is based

Information provided by or on behalf of the R&Q Group

- R&Q Group structure chart
- Annual Report and Financial Statements at 31 December 2017
- Annual Report and Financial Statements at 31 December 2018
- Profit and Loss Account for the 6 months to 30 June 2018
- Balance sheet at 31 December 2018 and projected to 31 December 2019 with the impact of the Scheme
- Document setting out calculation of Intangible Assets for the Transferring Portfolio
- R&Q Group Board paper setting out the rationale behind the creation of Intangible Assets
- Solvency and Financial Condition Report at 31 December 2018
- Quarterly Reporting Templates at March 2018
- SCR results and Solvency II balance sheets at 31 December 2018, before and after the Scheme, and projected to 31 December 2019, 31 December 2020 and 31 December 2021
- Standard Formula inputs
- R&Q Gamma Actuarial Function Report at 17 April 2019
- AIEL Actuarial Function Report at 16 April 2018
- 2018 Own Risk and Solvency Assessment Report
- Risk Appetite Framework
- Background information on The Solicitors Indemnity Association Limited
- Reserve Review Briefing Note for the Board at 31 December 2018
- AIEL Solvency II technical provisions calculations at 31 December 2018
- Analysis of reinsurance recoveries for specific large losses
- Summary of Reinsurance Placement Limits
- Reserve Review Briefing Note for the Board at 30 June 2018
- Claims Guidelines
- Document setting out calculation of Intangible Assets for the Transferring Portfolio
- R&Q Group Board paper setting out the rationale behind the creation of Intangible Assets
- Scheme of Operations

- Information on specific claims
- CVs of employees of the R&Q Group responsible for producing financial information on which my analysis is based

Information provided by legal advisers

- Draft Scheme document
- Draft Transferor witness statement
- Draft Transferee witness statement
- Draft explanatory circular
- Draft Directions Order
- Claim form (CPR Part 8) to the Court
- Draft letter to claimants
- Draft letter to R&Q Gamma policyholders
- Draft letter to transferring policyholders.

Other

I also relied on information arising from correspondence and discussions with SCOR UK, R&Q Gamma, their legal advisers, and other entities in the corporate groups to which SCOR UK and R&Q Gamma belong.

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, whilst 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.

B Definitions

Adjustment Period	The period between the Calculation Date and the Effective Date
Admissible assets	Assets of an insurance company that are permitted by law to be included in the company's financial statements.
Adverse development cover	A reinsurance contract which protects the insurer once claims reserves exceed a pre-agreed amount.
Asset	Generally, any item of property whether tangible or intangible, that has financial or monetary value.
Attritional claims	Claims which are not considered 'large' claims. Generally, these are claims with relatively low value.
Available capital	Total assets less total liabilities.
Available Own Funds	The portion of own funds that can be used to meet capital requirements after taking account of any restrictions.
Bad debt	A debt that cannot be recovered. Under Solvency II, technical provisions include an allowance for reinsurance bad debt.
Booked reserve	The claims reserve shown in the financial statements.
Brexit	The withdrawal of the United Kingdom from the European Union
Brokerage commission	The money an insurer pays to brokers in exchange for selling insurance business.
Calculation Date	The date five working days prior to the Effective Date
Capital requirements	The level of funds that an insurance or reinsurance undertaking is required to hold.
Claims reserve	Funds held for the payment of future claims.
Counterparty risk	The risk that the counterparty of a contract will not fulfil its contractual obligations.
Credit rating	A measure of the financial security of a company provided by a third party agency.
Direct policyholders	Policyholders of an insurance undertaking who are not themselves insurers or reinsurers.
Effective Date	The date at which the Scheme becomes legally binding.
EU 27	The 27 European Union countries, aside from the UK.
Excess of Loss	This is a type of reinsurance contract whereby cover is provided by the reinsurer above a certain amount, up to a certain limit.
Existing R&Q Gamma Portfolio	The policyholders within R&Q Gamma prior to the Scheme
Expected loss ratio	The expected loss ratio is ratio of losses to premiums expected at the outset of a year.
Facultative reinsurance	A type of reinsurance that is used for one-off transactional deals as opposed to “books” of risks.

Gross	Excluding the effect of reinsurance arrangements. For example, 'gross insurance liabilities' refers to insurance liabilities before taking into account any offsetting reinsurance assets.
Incurred but not enough reported ("IBNER")	Future developments on claims that have already been reported to the insurer.
Incurred but not reported ("IBNR")	Claims that have occurred prior to a particular date but have not yet been reported to the insurer plus future developments on claims that have already been reported to the insurer.
Incurred claims	The sum of the paid and outstanding claims
Independent Expert	The suitably qualified person that produces an independent report on the Scheme, in accordance with FSMA
Internal Model	A bespoke model developed by an insurance or reinsurance undertaking to calculate its Solvency Capital Requirement under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either an Internal Model or the Standard Formula.
Inwards reinsurance	Reinsurance coverage provided by a reinsurance undertaking to other insurance or reinsurance undertakings.
Large claims	Individual claims with a relatively high value which may be modelled at an individual level for reserving and capital modelling.
Liability	A claim against the assets, or legal obligations of a person or organisation, arising out of past or current transactions or actions.
Loss Portfolio Transfer	A reinsurance arrangement in which a reinsurer assumes and accepts an insurer's existing open and future claim liabilities.
MCR coverage ratio	The quantum of assets an insurer has to meet its regulatory Minimum Capital Requirement, expressed as a percentage of its regulatory Minimum Capital Requirement
Minimum Capital Requirement ("MCR")	The lower level of regulatory capital requirement under the Solvency II regime.
Net	Including the effect of reinsurance arrangements. For example, 'net insurance liabilities' refers to insurance liabilities after deducting any offsetting reinsurance assets from the gross insurance liabilities.
Outstanding claims	The estimate of the claims made by the claims handling team of an insurer for claims that have been reported but not yet paid.
Own Funds	The excess of an insurer's admissible assets over its liabilities on a Solvency II basis.
Own Risk and Solvency Assessment ("ORSA")	The insurance or reinsurance undertaking's own assessment of the risks to which it is exposed and its solvency, as required under Solvency II.
Parent	An enterprise that controls another (called the subsidiary) through the ownership of greater than 50 percent of its voting stock.
Part VII transfers	Insurance business transfers which are undertaken under Part VII of Financial Services and Markets Act 2000, as amended ("FSMA"), and are required to be approved by the High Court of England and Wales (or the Court of Sessions in Scotland) under Section 111 of FSMA.

Premium Element Adjustment	A profit-sharing arrangement that SCOR UK has for its insurance of the Medical Defence Union.
Pure IBNR	Claims that have occurred prior to a particular date but have not yet been reported to the insurer. This excludes any future developments on claims that have already been reported to the insurer.
Quota share reinsurance	A type of reinsurance whereby risks are shared in pre-determined proportions between the insurer and reinsurer.
Reinsurance	An arrangement with another insurer or reinsurer whereby risks are shared (or passed on).
Remaining Portfolio	The policyholders that will remain in SCOR UK following the Scheme
Retained Business	A provision for certain liabilities and assets that may not be, or may not be capable of being, transferred on the Effective Date
Reserve strength	A measure of the likelihood that the claims reserve will be sufficient to meet future claims
Retrocession	A type of insurance wherein a reinsurance company takes on part of the risk assumed by another reinsurance company.
Reverse stress testing	An analysis to understand the events and circumstances that would render a company's business model unviable.
Risk Margin	Under Solvency II, insurers must hold a risk margin in excess of their best estimate of liabilities. This risk margin is designed to represent the amount of capital a third party would require to take on the obligations of a given insurance company. It effectively means that if an insurer were, as a result of a shock, to use up all its free surplus and capital, then it would still have sufficient assets to be safely wound-up and transfer its obligations to a third party.
Run-off	A line of insurance business or an insurance undertaking that does not accept new business but continues to provide coverage for claims arising on its policies still in force and that makes payments for claims that have occurred on its policies.
the Scheme	Insurance Business Transfer Scheme of a portfolio of policies from R&Q Gamma to SCOR UK
SCR coverage ratio	The quantum of assets an insurer has to meet its regulatory Solvency Capital Requirement, expressed as a percentage of its regulatory Solvency Capital Requirement
SIMIA Transfer	The Part VII transfer of policyholders from The Solicitors Indemnity Mutual Insurance Association Limited to R&Q Gamma Company Limited which became effective in September 2018
Solvency II	A regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising regulation across all EU and EEA countries.

Solvency II equivalence	A determination by the European Commission that a third country's solvency and prudential regulatory regime is sufficiently similar to Solvency II to confer beneficial treatment in certain areas of the Solvency II regime compared to a third country which is not deemed to be equivalent.
Solvency Capital Requirement ("SCR")	The higher level of regulatory capital requirements under the Solvency II regime.
Standard Formula	A standardised calculation for the Solvency Capital Requirement of an insurance or reinsurance undertaking, as prescribed under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either the Standard Formula or an Internal Model.
Stress and scenario testing	An analysis to test the robustness of a financial quantity by varying a number of underlying assumptions (either one at a time or in various combinations) and observing the resulting change in the quantity of interest.
Subsidiary	An enterprise controlled by another (called the parent) through the ownership of greater than 50 percent of its voting stock.
Survival ratio	The number of years that claims reserves will last for if an amount equal to the average paid claims is paid in each future year
Technical provisions	The insurance liabilities of an insurer, as determined for regulatory purposes. These are calculated as the provisions for the ultimate costs of settling all claims arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for claims arising on unexpired periods of exposure less any premium in respect of the business written that has not yet been received.
Transferring Portfolio	Insurance business underwritten by Anglo-French Ltd from 1958 to 1969.
Unearned premium	Unearned premium is the premium corresponding to the time period remaining on an insurance policy. Unearned premiums are in respect of the unexpired portion of the insurance and appear as a liability on the insurer's balance sheet.

C Abbreviations

ACPR	Autorité de Controle Prudentiel
AIEL	Accredited Insurance (Europe) Limited
AMF	Autorité des marchés financiers
Anglo-French	Anglo French Ltd
APS	Actuarial Professional Standards
BBNI	Bound But Not Incepted
BMA	Bermuda Monetary Authority
E&A	English & American Insurance Company Limited
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ENIDs	Events Not In Data
IFRS	International Financial Reporting Standards
FCA	UK Financial Conduct Authority
FIA	Fellow of the Institute and Faculty of Actuaries
FOS	UK Financial Ombudsman Service
FRC	UK Financial Reporting Council
FSA	UK Financial Services Authority
FSAI	Fellow of the Society of Actuaries in Ireland
FSCS	UK Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
GAAP	Generally Accepted Accounting Principles
Grant Thornton	Grant Thornton UK LLP
GWP	Gross Written Premium
IBNER	Incurred But Not Enough Reported
IBNR	Incurred But Not Reported
IFoA	Institute and Faculty of Actuaries
LACDT	Loss Absorbing Capacity of Deferred Taxes
LPTA	Loss Portfolio Transfer Agreement
LUR	London Underwriting Room

MAT	Marine, Aviation and Transport
MCR	Solvency II Minimum Capital Requirement
MDU	Medical Defence Union
MGA	Managing General Agent
NIHL	Noise Induced Hearing Loss
OFSI	Office of the Supervisor of Financial Institutions
ORSA	Own Risk and Solvency Assessment
PEA	Premium Element Adjustment
PRA	UK Prudential Regulation Authority
R&Q Gamma	R&Q Gamma Company Limited
R&Q Group	The corporate group of which Randall & Quilter Investment Holdings Ltd is the parent company.
RLM	The Royal London Mutual Insurance Society Limited
RLGIL	The Royal London General Insurance Limited
RQCS	R&Q Central Services Limited
SCOR UK	SCOR UK Company Limited
SCOR Group	The corporate group of which SCOR SE is the parent company.
SCR	Solvency II Solvency Capital Requirement
SIMIA	Solicitors Indemnity Mutual Insurance
SUP 18	Chapter 18 of the Supervision Manual from the FCA handbook
TAS	Technical Actuarial Standard
the Court	the High Court of England & Wales
the Scheme	Insurance Business Transfer Scheme of a portfolio of policies from SCOR UK to R&Q Gamma
UK	United Kingdom
USP	Undertaking Specific Parameter

D Checklist against PRA's Statement of Policy and SUP18

The table below cross references the relevant sections of this report to the requirements for the Scheme Report, as set out in the Statement of Policy produced by the PRA in April 2015, namely "The Prudential Regulation Authority's approach to insurance business transfers".

It also cross references the relevant sections of this report to 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. These requirements are identical to those set out in the PRA's Statement of Policy. However, please note that the paragraph references in the table below are to the PRA Statement of Policy rather than to SUP18.

Reference to the PRA's approach to business transfers	Reference to relevant section within this report
2.30 The Scheme report should comply with the applicable rules on expert evidence and contain the following information:	
(1) who appointed the independent expert and who is bearing the costs of that appointment;	Paragraphs 1.3 and 1.5
(2) confirmation that the independent expert has been approved or nominated by the PRA;	Paragraph 1.4
(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	Paragraphs 1.25 to 1.28 and Appendix E
(4) whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence and details of any such interest;	Paragraphs 1.29 and 1.30
(5) the scope of the report;	Section 3
(6) the purpose of the Scheme;	Paragraph 2.2 and paragraphs 5.1 to 5.3
(7) a summary of the terms of the Scheme in so far as they are relevant to the report;	Paragraphs 5.44 to 5.55
(8) what documents, report and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided;	Appendix A and paragraph 3.16
(9) the extent to which the independent expert has relied on:	
(a) information provided by others; and	Section 13
(b) the judgement of others;	Section 13

(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	Section 13 and throughout the report.
(11) Their opinion of the likely effects of the Scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:	
(a) transferring policyholders;	Section 14, paragraphs 2.16 to 2.18 and paragraphs 2.38 to 2.39
(b) policyholders of the transferor whose contracts will not be transferred; and	Section 14, paragraph 2.19 and paragraphs 2.38 to 2.39
(c) policyholders of the transferee;	Section 14, paragraphs 2.20 to2.25 and paragraphs 2.38 to 2.39
(12) Their opinion on the likely effect of the Scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the Scheme;	Section 14, paragraphs 2.34 to 2.37 and paragraphs 2.38 to 2.39
(13) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' considerations of the Scheme; and	Paragraphs 3.7, 3.9 and 3.10
(14) for each opinion that the independent expert expresses in the report, an outline of their reasons.	Throughout the report
2.32 The summary of the terms of the Scheme should include:	
(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the Scheme; and	Section 5
(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	There are no guarantees or additional reinsurance that will cover the transferred business. Paragraph 5.7 discusses the internal and external reinsurance of the business of the transferor that will not be transferred.
2.33 The independent expert's opinion of the likely effects of the Scheme on policyholders should:	
(1) include a comparison of the likely effects if the Scheme is or is not implemented;	The likely effects if the Scheme is implemented are discussed throughout the report and summarised in Sections 2 and 14. An assessment of the likely effects should the Scheme not be implemented is discussed in paragraphs 11.45 to 11.56

(2) state whether they considered alternative arrangements and, if so, what;	Paragraph 3.9
(3) where different groups of policyholders are likely to be affected differently by the Scheme, including comments on those differences they consider to be material to the policyholders; and	Sections 7 to 12
(4) include their views on:	
(a) the effect of the Scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;	Section 9
(b) the likely effects of the Scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect:	Investment management: paragraphs 10.2 to 10.17. New business strategy: paragraphs 10.41 to 10.45. Claims handling, complaints handling and policy administration: paragraphs 11.3 to 11.21. Expense levels: paragraphs 10.18 to 10.21. Valuation bases: Sections 7 and 8.
(i) the security of policyholders' contractual rights;	Section 9
(ii) levels of service provided to the policyholders; or	Expense levels: paragraphs 10.18 to 10.21
(iii) for the long-term insurance business, the reasonable expectations of policyholders; and	Not applicable to the Scheme – the Scheme does not involve long term insurance business
(c) the cost and tax effects of the Scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	Cost implications: paragraphs 10.18 to 10.21. Tax implications: paragraphs 10.23 and 10.24.
2.36 For a scheme involving long-term insurance business, the report should:	
(1) describe the effect of the Scheme on the nature and value of any rights of policyholders to participate in profits:	N/A
(2) if any such rights will be diluted by the Scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value	N/A

of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	
(3) describe the likely effect of the Scheme on the approach used to determine:	
(a) the amount of any non-guaranteed benefits such as bonuses and surrender values; and	N/A
(b) the levels of any discretionary charges;	N/A
(4) describe what safeguards are provide by the Scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;	N/A
(5) include the independent expert's overall assessment of the likely effects of the Scheme on the reasonable expectations of long-term insurance business policyholders;	N/A
(6) state whether the independent expert is satisfied that for each firm, the Scheme is equitable to all classes and generations of its policyholders; and	N/A
(7) state whether, in the independent expert's opinion, for each relevant firm the Scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holders) to ensure that the Scheme operates as presented.	N/A

E My experience

My professional experience is set out below:

- I have worked in or consulted to the general insurance industry for more than 25 years.
- I am a Partner in Grant Thornton and lead Grant Thornton's provision of actuarial and risk services to the general insurance sector.
- I have fulfilled the role of Independent Expert for several Part VII Transfers and Section 13 Transfers of insurance liabilities, with my other transaction experience including acting as Scheme Actuary for several schemes of arrangements; independent expert assignments; and due diligence for mergers and acquisitions.
- I am currently fulfilling the role of Independent Expert for a transfer of non-life insurance liabilities between two UK insurance companies under Part VII of FSMA in the UK
- In addition, the table below sets out the Part VII Transfers and Section 13 Transfers on which I have acted as the Independent Expert or Independent Actuary.

Transfer	Transfer Type	Date sanctioned
Aviva Insurance Limited to Aviva Insurance Ireland DAC	Part VII	January 2019
CNA Insurance Company Limited to CNA Insurance Company Europe) S.A.	Part VII	December 2018
Zurich Insurance plc to Catalina Insurance Ireland DAC	Section 13	October 2018
Zurich Insurance plc to East West Insurance Company Limited	Section 13	March 2018
Congregational & General Insurance plc to International Insurance Company of Hannover SE	Part VII	November 2017
Colbourne Insurance Company Limited to NRG Victory Reinsurance Limited	Part VII	July 2017
Guardian Assurance Limited to R&Q Insurance (Malta) Limited	Part VII	September 2016
Harworth Insurance Company Limited to Royal & Sun Alliance plc	Part VII	August 2014

- I have substantial reserving experience for an extensive variety of classes of business, including personal and commercial lines, and for a very wide range of companies.
- My other experience in the general insurance sector includes: producing skilled persons reports under s166 of FSMA 2000; Solvency II including all three pillars; design and construction of capital models; provision of strategic advice; design and implementation of management information systems; rating of portfolios and individual risks; reviews of rating adequacy; development of pricing models; and review and design of reinsurance programmes.
- In 2010, I set up an actuarial team for Quinn Insurance Limited (Under Administration) ("Quinn"). Between 2010 and 2012, I acted as the de facto Chief Actuary and Chief Underwriting Officer for Quinn.
- Prior to joining Grant Thornton in 2006, I was the Chief Actuary for Travelers Insurance Company Limited in the UK and Ireland.
- Before that, I was a senior consultant in the general insurance division of Towers Perrin.

- I hold a Chief Actuary (Non-life with Lloyd's) Practising Certificate and a Lloyd's Syndicates Practising Certificate. I have previously also held an Irish Signing Actuary Practising Certificate and been recognised as a Responsible Actuary by the financial regulator in Liechtenstein.

- My professional experience includes terms on the Institute and Faculty of Actuaries' Council, Management Board, General Insurance Board, Education Board, General Insurance Reserving Oversight Committee, General Insurance Education and CPD Committee (including a term as chairman), and Education Committee.

F Extract from Engagement Letter

Terms of engagement between R&Q Gamma Company Limited, SCOR UK Company Limited and Grant Thornton UK LLP

Acting as the Independent Expert on the proposed Part VII Transfer from SCOR UK Company Limited to R&Q Gamma Company Limited

We write to acknowledge your instructions to act in the above matter and set out below our understanding of the work that you wish us to perform and the terms on which we shall undertake it.

Our instructions

You have asked us to provide an Independent Expert to report on the proposed insurance business transfer scheme ("the Scheme") to transfer business from SCOR UK Company Limited ("SCOR") to R&Q Gamma Company Limited ("R&Q Gamma"). The Independent Expert's report will be prepared in accordance with and for the purposes set out in Part VII of the Financial Services and Markets Act 2000 ("FSMA") and for no other purpose.

As part of this assignment, the Independent Expert will produce the following reports:

- the main Independent Expert report prior to the Directions Hearing
- the summary report prior to the Directions Hearing
- the supplemental report prior to the Sanctions Hearing.

The Independent Expert's analysis and formal reports will follow the relevant FSMA requirements and associated supplemental guidance. His reports will consider the Scheme as a whole and its effect on the policyholders of SCOR and R&Q Gamma. In particular, it will include, but not be limited to, an opinion on:

- the impact of the Scheme on the different groups of policyholders affected by the scheme, namely:
  - the transferring policyholders
  - the policyholders with R&Q Gamma prior to the transfer
  - the policyholders remaining with SCOR.
- the adequacy of any safeguards in the Scheme intended to protect the interests of the affected policyholders
- the fairness of any mechanism implemented at the same time as the Scheme, but not included in the Scheme, intended to improve the security of any policyholders affected by the Scheme
- the matters required by applicable provisions of the PRA's Policy Statement PS7/15, Chapter 18 of the supervision manual in the FCA's Handbook and the FCA's guidance FG18/4.
- any other information required to be included by the FSMA and any guidance issued by the PRA or the FCA.

Any changes to the scope of the assignment should be by mutual agreement and confirmed in writing.

Data reliance and limitations

In performing this assignment, the Independent Expert will rely on data and information provided by you, other third party experts such as actuaries and auditors, and industry sources of data. He will not audit or verify this data and information. If the underlying data or information is inaccurate or incomplete, the results of his analysis may likewise be inaccurate or incomplete.

The Independent Expert's ability to carry out this assignment will depend on a number of key factors:

- that the relevant and appropriate information is readily available
- access to the relevant personnel of both SCOR and R&Q Gamma for the purposes of interview and discussion
- access to the authors of third party reports for the purposes of interview
- agreement of third parties to his reliance on their reports for the purpose of forming his independent expert opinion.

Duty to the Court

The Independent Expert's report will be addressed to the Court and will include, inter alia, the following matters:

- an express statement that the Independent Expert understands his duty to the Court and that he has complied with and will continue to comply with that duty
- a summary of the matters dealt with in the report together with the reasons for those opinions
- a statement setting out the substance of all material facts and instructions that the Independent Expert has received (whether written or oral), which are material to the opinions expressed in his report or upon which those opinions are based.

grantthornton.co.uk