

Supplementary Report on the proposed insurance business transfer from The Solicitors Indemnity Mutual Insurance Association Limited to R&Q Gamma Company Limited

Introduction

1. Section 109 of the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012 ('FSMA') requires that a scheme report must accompany an application to the High Court of England and Wales ('the Court') to approve an insurance business transfer scheme.
2. My report (the 'Scheme Report') on the proposed insurance business transfer (the 'Transfer') from The Solicitors Indemnity Mutual Insurance Association Limited ('SIMIA') to R&Q Gamma Company Limited ('R&Q Gamma') entitled 'Report on the proposed business transfer from The Solicitors Indemnity Mutual Insurance Association Limited to R&Q Gamma Company Limited' dated 24 May 2018 was submitted in evidence to the Court.
3. The purpose of this document (the 'Supplementary Report') is to briefly document for the Court any developments since the date of the Scheme Report and outline the additional information I have considered to be able to do this. In particular, I have considered whether any of the developments since the Scheme Report have been sufficiently different from my expectations for my conclusions as presented in the Scheme Report to change.
4. The Supplementary Report must be read in conjunction with the Scheme Report in order to be taken in its proper context. It represents an addition to the Scheme Report and does not contain the full background to the Transfer as contained within that document. Therefore considering the Supplementary Report in isolation may be misleading. All terms used in the Supplementary Report are as defined in the Scheme Report. In combination with the Scheme Report, it complies with the actuarial guidance and standards set out in sections 1.27 to 1.31 of the Scheme Report. In line with the Scheme Report (section 3.11), the work documented in this Supplementary Report has been peer reviewed by a suitably qualified person (an Actuary within my own firm who has considerable experience working in capital modelling and reserving in the London Market) and so complies with Actuarial Standard of Practice X2.
5. I note in particular the reliance and limitations described in Section 1 and Section 9 of the Scheme Report, as these apply equally to the Supplementary Report. In particular, the parties that may have access to this Supplementary Report and those who may place reliance on this Supplementary Report, and the extent to which they may do so, are identical to those described in the Scheme Report.

Updated information considered

6. I have based my findings in this Supplementary Report on the following information supplied by SIMIA and R&Q Gamma, together with the information used in preparing the Scheme Report:
 - ▶ R&Q Gamma's Annual Report and Financial Statements for the year ended 31 December 2017
 - ▶ SIMIA's Directors' Report and Financial Statements for the year ended 31 December 2017
 - ▶ Reserve Review reports for R&Q Gamma and RQIM as at 31 December 2017

- ▶ RQIH's Annual Report and Financial Statements for the year ended 31 December 2017
- ▶ RQIM's Solvency and Financial Condition Report for the year ended 31 December 2017
- ▶ R&Q Gamma's Solvency and Financial Condition Report for the year ended 31 December 2017
- ▶ RQIM's roll-forward analysis of SIMIA from 31 December 2017 to 30 June 2018
- ▶ Updates from R&Q Gamma and SIMIA in relation to the key claims activity from 1 January 2018 to 31 May 2018

7. My assessment of the information received has been supplemented by discussions with staff from R&Q Gamma and SIMIA.

Developments since the issue of the Scheme Report

8. The information presented in the Scheme Report was based on various analysis that had been carried out on data as at different points in time (typically 30 June 2017). In this section I describe the main changes from that information to the updated information described above.
9. Table 1 below shows the changes in the balance sheet positions of R&Q Gamma and SIMIA as at 31 December 2017 compared to my analysis at the time of the Scheme Report. I have then shown how these changes affect the estimated position immediately post the Transfer in Table 2.

Table 1: Change in balance sheet positions of R&Q Gamma and SIMIA (£000s)

Pre-Transfer position	R&Q Gamma			SIMIA		
	Scheme Report Jun 2017	Update Dec 2017	Change	Scheme Report May 2017	Update Dec 2017	Change
	[A]	[B]	[C]	[D]	[E]	[F]
Investments and cash	573	567	(6)	7,396	7,237	(159)
Recoveries from reinsurers	704	634	(70)	2,437*	2,438**	1
Recoveries from LPT				5,116*	4,398**	(718)
Debtors arising out of insurance and reinsurance operations	91	115	24	971	704	(267)
Group Loans	14,375	14,295	(80)			
Other Assets	0	28	28	469	9	(460)
Total Assets	15,743	15,639	(104)	16,389	14,785	(1,604)
Technical Provisions	1,191	1,175	(16)	7,553	6,836	(717)
Creditor - LPT deferred premium				4,780	4,634	(146)
Creditors arising out of insurance and reinsurance operations	0	0	0	971	704	(267)
Other creditors including taxation and accruals and deferred income	325	127	(198)	62	121	59
Total Liabilities	1,516	1,302	(214)	13,366	12,295	(1,071)
Free Reserves	14,227	14,337	110	3,023	2,491	(532)

Notes

Column [A] shows the GAAP balance sheet from the management account of R&Q Gamma as at 30 June 2017.
Column [B] shows the GAAP balance sheet from the annual report of R&Q Gamma as at 31 December 2017.

Column [D] shows the GAAP balance sheet from the management account of SIMIA as at 31 May 2017, which was the latest account available at the time of the Scheme Report and was used to approximate the position as at 30 June 2017, except for the technical provision figures marked with * as explained below.

*The figures for the technical provisions have been updated to those estimated by RQIM as at 30 June 2017 to reflect the reduction of reserves between May and June, as discussed in section 6.11 of the Scheme Report.

Column [E] shows the GAAP balance sheet from the annual report of SIMIA as at 31 December 2017, except where it is stated otherwise.

**The figures for the split between recoveries from reinsurers and recoveries from the LPT have been estimated by RQIM as at 31 December 2017 as these figures are not available from SIMIA's balance sheet.

Table 2: Change in estimated positions following the Transfer for both R&Q Gamma and SIMIA (£000s)

Post-Transfer position	R&Q Gamma			SIMIA		
	Scheme Report Jun 2017	Update Dec 2017	Change	Scheme Report June 2017	Update Dec 2017	Change
	[G]	[H]	[I]	[J]	[K]	[L]
Investments and cash	8,914	10,072	1,158	2,616	2,603	(13)
Recoveries from reinsurers	3,141	3,072	(69)	0	0	0
Recoveries from LPT				0	0	0
Debtors arising out of insurance and reinsurance operations	91	115	24	0	0	0
Group Loans	14,375	14,295	(80)			
Other Assets	0	28	28	469	9	(460)
Total Assets	26,521	27,582	1,061	3,085	2,611	(474)
Technical Provisions	8,744	8,011	(733)	0	0	0
Creditor - LPT deferred premium				0	0	0
Creditors arising out of insurance and reinsurance operations	971	704	(267)	0	0	0
Other creditors including taxation and accruals and deferred income	325	127	(198)	62	121	59
Total Liabilities	10,040	8,842	(1,198)	62	121	59
Free Reserves	16,481	18,740	2,259	3,023	2,491	(532)

Notes

Column [G] and [J] show the balance sheets of R&Q Gamma and SIMIA as at 30 June 2017 after the Transfer on the basis that the Transfer was effected on that date, as shown in the Scheme Report.

Column [H] and [K] show the updated balance sheets of R&Q Gamma and SIMIA as at 31 December 2017 after the Transfer on the basis that the Transfer was effected on that date.

R&Q Gamma

- As part of the work I carried out when producing the Scheme Report, I performed a review of the reserving work performed by R&Q Gamma's actuaries. As described in section 6 of the Scheme Report, I used my wider market knowledge derived from similar projects to benchmark the appropriateness of the methods and assumptions used by R&Q Gamma. The financial statements and reserve review reports I have reviewed show reserve estimates and key claims movements up to 31 December 2017. I have also reviewed an update from R&Q Gamma's management on the key claims activity over the five month period up to 31 May 2018.
- Table 1 above shows that the balance sheet position of R&Q Gamma remained relatively unchanged between 30 June 2017 and 31 December 2017 with only a small increase in free reserves.
- Table 2 shows that the free reserves of R&Q Gamma post Transfer have increased by £2.3m. This improves the position for R&Q Gamma compared to my initial report and as a result the policyholders involved in the Transfer are not adversely affected by these changes. This is largely driven by the following movements:

- ▶ A £1.2m increase in investment and cash driven by an increase in the LPT premiums in the segregated account, due to late recoveries from the third party reinsurers, which will be transferred to R&Q Gamma upon the termination of the reinsurance arrangement between SIMIA and RQIM on the Transfer date.
 - ▶ A £0.7m reduction in gross technical provisions driven by the reduction in SIMIA's gross technical provisions from May 2017 to December 2017, which will be transferred to R&Q Gamma, as explained in paragraph 19.
13. There have been no other significant balance sheet changes for R&Q Gamma in respect of other assets and liabilities.
 14. As part of my review, I have considered updates to the potentially large public liability claim mentioned in paragraph 2.14 of the Scheme Report. The outcome of this claim remains uncertain and is expected to be resolved through a court case in Q3 2018. Around £0.2m has been incurred in defence costs in relation to this claim since June 2017. I consider the existing amount of reserves set for this claim reasonable.
 15. There is nothing in the information I have reviewed that leads me to change my conclusions in the Scheme Report. My conclusion is that R&Q Gamma's claims reserves as at 31 December 2017 are set on a reasonable basis and the information provided to me on activity up to 31 May 2018 does not lead me to change this conclusion.

SIMIA

16. As part of the work I carried out when producing the Scheme Report, I performed a review of the reserving work performed by RQIM and their external advisors on the SIMIA reserves. Following the commencement of the reinsurance contract between RQIM and SIMIA, RQIM has treated SIMIA as one of their owned entities for reserving and capital modelling purposes. As described in section 6 of the Scheme Report, I used my wider market knowledge derived from similar projects to benchmark the appropriateness of the methods and assumptions used by RQIM and their external advisors. I have reviewed the financial statements and reserve review reports produced in relation to SIMIA as at 31 December 2017. In addition, I have received an update from SIMIA's management on the key claims activity over the five month period up to 31 May 2018 and a roll-forward analysis of SIMIA from 31 December 2017 to 30 June 2018 performed by RQIM.
17. Table 1 above shows that the balance sheet position of SIMIA deteriorated slightly between 31 May 2017 and 31 December 2017 with free reserves decreasing by £0.5m. This is driven by a reduction in 'Other Assets' compared to the position as at 31 May 2017, which resulted from a £0.5m write off in relation to a supplementary call announced in September 2016. This is made up of premiums due from firms who have been liquidated or have ceased trading, as well as those who have not yet paid.
18. Table 2 shows that the estimated position for SIMIA post Transfer follows these changes in the balance sheet with the free reserves reducing by £0.5m.
19. There has also been a £0.7m reduction in SIMIA's gross technical provisions with a matching change in the anticipated recoveries from the LPT between June and December 2017. This is primarily driven by a release of £0.5m of Pure IBNR following an update to RQIM's reserve estimates during Q3 2018. RQIM are now holding Pure IBNR for two new potential losses instead of

three (see paragraph 6.21 of the Scheme Report for more details). I consider this approach to be reasonable.

20. There is nothing in the information I have reviewed which leads me to change my conclusions in the Scheme Report. My conclusion is that SIMIA's claims reserves as at 31 December 2017 are set on a reasonable basis and the information provided to me on activity up to 31 May 2018 does not lead me to change this conclusion.

Expected impact of the Transfer

21. The expected impact of the Transfer on SIMIA and R&Q Gamma was shown in table 5 (page 34) in the main Scheme Report. Following the developments since 30 June 2017, my opinion is unchanged as the updated financial positions of SIMIA and R&Q Gamma do not affect my conclusion on the Transfer.
22. Since the Scheme Report, I have considered the balance sheet strength of RQIH in more detail given that RQIH is the borrowing party of the intercompany loan between RQIH and R&Q Gamma, which forms the majority of the assets on R&Q Gamma's balance sheet. I have reviewed RQIH's financial statements for the year ended 31 December 2017 and based on the ratio of equity to net reserves, I believe that RQIH is well capitalised and as a result my overall opinion of the Transfer is unchanged.

Policyholder representations

23. I am not aware of any issues or objections raised by any policyholders following the communications from R&Q Gamma and SIMIA that affect my conclusion on the Transfer.

Variation of Permission

24. Since the Scheme Report, R&Q Gamma has had its variation of permission application accepted by the Prudential Regulation Authority ('PRA') and will now be able to accept the proposed Transfer from SIMIA.

Effect of the UK's decision to leave the European Union ('Brexit')

25. In paragraphs 8.38 to 8.41 of the Scheme Report I discussed the potential uncertainty due to the UK's vote to leave the European Union in the referendum in June 2016, and the possible implications of this for the Transfer.
26. The uncertainty around the operating environment for insurers and around market volatility remains unchanged.
27. I am not aware of any developments relating to Brexit which lead me to change my conclusions in the Scheme Report.

Impact of other Part VII Transfers into R&Q Gamma

28. As mentioned in paragraphs 8.42 to 8.43 of the Scheme Report, R&Q Gamma is in the process of entering into another Part VII Transfer agreement with Anglo French Pool ("AFP"). I understand that based on the current timelines, it remains highly unlikely that the AFP transfer would be completed before the Transfer Date. I understand that the directions hearing for the AFP transfer is scheduled

to take place after the sanctions hearing for the Transfer between R&Q Gamma and SIMIA. Therefore, my conclusions from the Scheme Report will not be impacted by the AFP transfer.

Other issues

29. Following the Transfer an agreement may potentially be entered into between R&Q Gamma and R&Q Malta to pay R&Q Malta additional amounts to reflect the favourable claims experience seen under the LPTA. The resulting financial position of R&Q Gamma will be consistent with the business plan submitted as part of the R&Q Gamma variation of permission application. I do not expect that this will affect any policyholders involved in the Transfer as R&Q Gamma will continue to be well capitalised.
30. I am not aware of any other issues arising since the Scheme Report which require comment in this Supplementary Report or which lead me to change my conclusions stated in the Scheme Report.

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