Supplementary Report of the Independent Expert on the proposed transfer of insurance business from

The United Kingdom Mutual Steam Ship Assurance Association Limited
to
R&Q Gamma Company Limited

in accordance with Part VII of the Financial Services and Markets Act 2000

For the High Court of Justice of England and Wales

19 November 2021

Prepared by

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LCP

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1. Executive summary

1.1. The Proposed Transfer

The firms involved

The United Kingdom Mutual Steam Ship Assurance Association Limited (UKC) is part of the UK P&I Club (the Club). The Club provides marine protection and indemnity insurance to its members in respect of third-party liabilities and expenses arising from owning and operating ships.

R&Q Gamma Company Limited (R&Q Gamma) is a subsidiary of Randall & Quilter Investment Holdings Limited (RQIH), the parent company of the R&Q Group. R&Q Gamma manages the run-off of several non-life insurance portfolios. It does not currently sell new insurance business.

The Transferring Business

UKC provides marine protection and indemnity insurance, which provides cover for a range of incidents including pollution, crew and other personal injury, collisions, cargo liabilities, property damage and wreck removal. Personal injury to crew members includes occupational diseases (OD), ie conditions suffered by crew members as a result of their exposure to harmful substances or activities at work. For example, most OD claims arise from seafarers being exposed to asbestos, which is associated with several diseases including mesothelioma, asbestosis, and various cancers.

It is proposed that the OD liabilities in respect of cover provided by UKC between 1 January 1935 and 20 February 2001 (the Transferring Business) will transfer to R&Q Gamma (the Proposed Transfer, the Scheme). This means that the affected policies will become split between UKC and R&Q Gamma, with the non-OD liabilities remaining with UKC.

The cover provided by UKC relates to contracts of general insurance under "Liability of ships" business only. This includes personal injury to crew members.

All rights and obligations of UKC relating to the Transferring Business will also be transferred to R&Q Gamma.

Based on its computerised policyholder records, UKC has identified 2,089 policyholders who have or could potentially have a claim. The true number of policyholders is likely to be higher, but it is not practical to identify every policyholder all the way back to 1935. Approximately 71% of the 2,089 policyholders (1,492) have liabilities which will form part of the Transferring Business.

OD liabilities relating to cover outside of the period 1 January 1935 and 20 February 2001 will remain the responsibility of UKC. OD claims relating to periods of service which fall partly within and partly outside the period 1 January 1935 and 20 February 2001 will be split between R&Q Gamma and UKC in proportion to the relevant periods of service.

OD liabilities in relation to risks located within the European Economic Area (EEA) are outside the scope of the Proposed Transfer. UKC transferred these liabilities to UK P&I Club N.V. (UKNV) in a Part VII transfer completed in December 2020. UKNV is another entity in the UK P&I Club, established in 2019 to enable the Club to continue to operate throughout the EU following Brexit. Although the EEA risks were transferred to UKNV, these risks are 100% reinsured back to UKC via a 100% quota share.

It is proposed that, separately from the Proposed Transfer, but connected to the agreement between UKC and the R&Q Group, the EEA liabilities will transfer from UKNV to Accredited Insurance (Europe) Limited (AIEL), another insurer within the R&Q Group. The OD liabilities in respect of EEA risks represent a relatively small (c.5%) proportion of the total OD liabilities originally in UKC.

Effective Date

The Effective Date (the date when the Proposed Transfer is expected to occur) will be 8 December 2021, shortly after the Sanctions Hearing which is scheduled for 1 December 2021.

The nature of the OD liabilities

Most OD claims arise from seafarers being exposed to asbestos on ships. It can take 40 years or more before symptoms of asbestos-related diseases emerge. Such diseases are often fatal, which means that compensation awards can be significant. Given the long latency period of these diseases, claims are expected to continue to emerge for many years into the future.

Reinsurance

In preparation for the Proposed Transfer, in February 2020 UKC entered into a reinsurance arrangement with Accredited Insurance (Europe) Limited (AIEL), another insurer within the R&Q Group. Under this reinsurance arrangement, AIEL provides adverse development cover (the existing ADC), which gives UKC protection in the event of a deterioration in the valuation of the OD liabilities.

Under the existing ADC, AIEL covers losses from February 2019 in excess of \$95m up to a limit of \$50m (ie losses between \$95m and \$145m). This reinsurance relates to both the non-EEA risks (ie the Transferring Business) and the EEA risks (subject to a separate transfer). UKC's estimate of the OD liabilities in respect of EEA risks is around \$5m on a gross undiscounted basis, which represents a relatively small (c.5%) proportion of the total OD liabilities. As noted above, although the EEA risks were transferred to UKNV, these risks are 100% reinsured back to UKC via a 100% quota share.

On the Effective Date of the Proposed Transfer, the existing ADC in respect of the Transferring Business will terminate and R&Q Gamma will enter into a new ADC reinsurance arrangement with AIEL (the new ADC). This reinsurance will be in respect of the Transferring Business only, ie excluding the EEA risks. The new ADC will attach at £47.3m (\$64.6m based on an exchange rate of £1 = \$1.36) with a limit of £55.0m (\$75.1m). AIEL will therefore cover losses between £47.3m and £102.3m (\$64.6m to \$139.6m).

No other reinsurance held by UKC will be transferring to R&Q Gamma as part of the Proposed Transfer.

Claims handling

In anticipation of the Proposed Transfer, the claims handling of the Transferring Business has already moved to R&Q Central Services Limited, another entity within the R&Q group. Following the Proposed Transfer, claims handling will continue to be performed by R&Q Central Services Limited (RQCS) on behalf of R&Q Gamma.

1.2. My role as Independent Expert

UKC and R&Q Gamma have jointly appointed me to act as the Independent Expert (IE) for the Proposed Transfer. The Prudential Regulation Authority (PRA), in consultation with the Financial Conduct Authority (FCA), has approved my appointment.

As IE, my overall role is to assess whether:

- The security provided to policyholders of UKC and R&Q Gamma will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards experienced by policyholders.
- Any reinsurer of UKC covering the Transferring Business will be materially adversely affected by the Proposed Transfer.

I provided my Scheme Report for the Proposed Transfer (dated 27 July 2021) ahead of the Directions Hearing, which was held on 30 July 2021.

The purpose of this Supplementary Report is to confirm and/or update the conclusions of the Scheme Report, based on any material new developments in the intervening period, ahead of the Sanctions Hearing. This Supplementary Report should be read in conjunction with the Scheme Report.

1.3. Summary of developments since the Scheme Report

The main activities in relation to the Proposed Transfer since the Scheme Report was issued on 27 July 2021 have been as follows:

Proposed Transfer

- The Scheme Report and other associated scheme documents were presented to the High Court at the Directions Hearing on 30 July 2021, where approval was received to start notifications in line with the communications plan.

Reserving

- UKC has provided final audited provisions as at 20 February 2021.
- UKC has also estimated the impact that the updated Asbestos Working Party (AWP) model would have on the valuation of its OD liabilities. The updated model has been used by UKC in its forward-looking projections. This is discussed further in section 4.
- R&Q Gamma has updated its reserve estimates for Existing R&Q Gamma Policyholders based on data as at 30 June 2021.

Capital

- UKC and R&Q Gamma have updated their analysis of projected SCR coverage ratios based on more recent data. This is discussed further in section 5.
- The projected SCR coverage ratios (the ratio of an insurer's available capital to the amount of capital that must be held in order to meet regulatory capital requirements) immediately pre- and post- the Proposed Transfer based on the updated projections are as follows:
  - For Non-transferring Policyholders, the SCR coverage ratio is projected to increase from 233% to 239%.
  - For Transferring Policyholders, the SCR coverage ratio is projected to decrease from 233% to 170%.
  - For Existing R&Q Gamma Policyholders, the SCR coverage ratio is projected to decrease from 389% to 170%.
- The table below includes a comparison to the ratios from my Scheme Report:

	SCR coverage ratios in Scheme Report			Updated SCR coverage ratios		
	Day 0	Day 1	Movement due to Transfer	Day 0	Day 1	Movement due to Transfer
Non-transferring Policyholders	243%	247%	4%	233%	239%	5%
Transferring Policyholders	243%	173%	(70%)	233%	170%	(63%)
Existing R&Q Gamma Policyholders	407%	173%	(234%)	389%	170%	(220%)

I do not consider the updated SCR coverage ratios, and movements from Day 0 to Day 1, to be materially different to those set out in my Scheme Report and, as such, the changes in these figures have not changed my overall opinion.

Policyholder communications and other

- UKC and R&Q Gamma have communicated with policyholders and placed notices in all planned publications in line with the communication plan agreed with the High Court at the Directions Hearing.
- As at 12 November 2021, R&Q Gamma had received 222 responses as a result of the communication with policyholders, none of which relate to objections to the Proposed Transfer. Policyholder responses to communications and objections are discussed further in section 7.

1.4. Additional considerations for the Supplementary Report

In reaching my conclusions in this Supplementary Report, I have considered the following new information that has become available since the Scheme Report was issued on 27 July 2021:

- The full AWP paper detailing the updated model and assumptions behind the latest market estimate;
- UKC's assessment of the impact of the updated AWP model on the valuation of its OD liabilities;
- Updated GAAP provisions as at 20 February 2021 for UKC.
- Updated SCR coverage ratio and balance sheet projections ;
- Confirmed level of capital contribution into R&Q Gamma;
- Updated Capital Management Plan;
- Updated impact on the SII balance sheets of UKC and R&Q Gamma immediately pre- and post- the Proposed Transfer;
- Final confirmation of the reinsurance arrangement between R&Q Gamma and AIEL;
- An update on the impact of COVID-19 on policyholders;
- An update on the planned approach to maintaining an employers' liability register; and
- Queries or objections related to the Proposed Transfer raised by stakeholders.

1.5. Summary of my conclusions

My overall conclusions are unchanged from those set out in my Scheme Report.

In forming my conclusions, I have considered the effect of the Proposed Transfer on the following four parties:

- "Non-transferring Policyholders", which includes both:
  - Policyholders who will have no part of their policy transferred and who will remain with UKC after the Proposed Transfer; and
  - Policyholders whose policies will be split between UKC and R&Q Gamma as a result of the Proposed Transfer. For these policyholders, I consider only the non-OD component of the benefit to be "non-transferring".
- "Transferring Policyholders", defined as UKC policyholders who have potential exposure to occupational diseases arising from liabilities to crew incurred between 1 January 1935 and 20 February 2001 and whose OD liabilities will transfer to R&Q Gamma as a result of the Proposed Transfer. When I refer to Transferring Policyholders in this report I am referring to the OD component of the policies only. Although only part of the policy is transferring, I refer to this group of policyholders as Transferring Policyholders throughout the report for ease of reference.
- "Existing R&Q Gamma Policyholders", ie policyholders of R&Q Gamma immediately prior to the Proposed Transfer, who will remain with R&Q Gamma after the Proposed Transfer.
- Reinsurers of UKC covering the Transferring Business.

For the avoidance of doubt, members of UKC between 1 January 1935 and 20 February 2001 are considered to be both Transferring and Non-Transferring Policyholders as the OD element of their policy transfers to R&Q Gamma, whilst the non-OD element remains with UKC.

I have considered the impact of the Proposed Transfer on all potential Claimants (current and potential future third party claimants who make a claim against a policyholder) and Beneficiaries (policyholders and claimants who make a claim against a policyholder).

Non-transferring Policyholders

At the Effective Date of the Proposed Transfer, UKC have identified 2,089 Non-transferring Policyholders (71% of these are also considered to be Transferring Policyholders as the OD part of each policy would transfer to R&Q Gamma). The Non-transferring Business represents 93% of UKC's projected GAAP technical provisions as at the Effective Date.

I have concluded that the security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that no material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for UKC are appropriate, and UKC has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for UKC is projected to increase from 233% to 239% as a result of the Proposed Transfer.
- Further, UKC is expected to remain very well capitalised throughout the projected period to February 2024.
- I am satisfied that UKC is expected to remain well capitalised under a range of adverse scenarios (as outlined in my Scheme Report). In more extreme adverse scenarios, such as UKC's reverse stress test, I am satisfied that Non-transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer. I am satisfied that I can still draw upon these scenarios to inform my conclusions on account of the relatively small changes in the updated SCR coverage ratios presented here compared to the Scheme Report.
- UKC is not planning any material changes to how the business is carried out. In particular, there are no plans to change how Non-transferring Policyholders are serviced post-transfer.

Transferring Policyholders

UKC have identified 1,492 Transferring Policyholders (all of which are also considered to be Non-transferring Policyholders as the non-OD part of each policy would remain with UKC), which represents 71% of UKC's projected pre-transfer business by number of policyholders. The Transferring Business represents 7% of UKC's projected GAAP technical provisions as at the Effective Date.

I have concluded that the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that no material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for the Transferring Business in R&Q Gamma are appropriate, and R&Q Gamma has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for Transferring Policyholders is expected to decrease from 233% (UKC pre-transfer) to 170% (R&Q Gamma post-transfer) as a result of the Proposed Transfer. I do not consider the security provided to Transferring Policyholders to be materially adversely affected by this decrease as R&Q Gamma will still be well capitalised.
- Further, R&Q Gamma's SCR coverage ratio is projected to increase to levels similar to UKC's pre-transfer coverage ratio by December 2024 (226% compared to UKC's pre-transfer coverage ratio of 233%).
- R&Q Gamma will have reinsurance (the new ADC) with AIEL, a European insurer in the R&Q Group, rated A-minus by A.M. Best. This cover provides 100% reinsurance protection in the event of a deterioration in the valuation of the OD liabilities up to $71m (ie even if the gross reserves for the Transferring Business were $71m higher, this would all be recoverable from AIEL).
- I have been provided with evidence that AIEL is well capitalised and is expected to remain either sufficiently or well capitalised under a range of adverse scenarios relating to the Transferring Business and under a range of adverse sensitivity tests on the wider portfolio. While more extreme scenarios relating to the reserves for the Transferring Business may lead to AIEL being insufficiently capitalised, I consider such scenarios to be highly unlikely. Further, I have considered non-financial risks, such as conduct risk, that may arise from such adverse scenarios and am satisfied that Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- I am satisfied that R&Q Gamma is expected to remain well capitalised under a range of adverse scenarios in relation to both the Transferring Business and its other business (as outlined in my Scheme Report). In more extreme adverse scenarios, where R&Q Gamma's SCR coverage ratio would fall below 100%, I am satisfied that the likelihood of such scenarios is sufficiently remote such that Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- In the event of the Proposed Transfer not going ahead, UKC's existing ADC with AIEL would be commuted and Transferring Policyholders would no longer benefit from protection in the event of a deterioration in the valuation of the OD liabilities, ie Transferring Policyholders will only benefit from ADC reinsurance protection if the Proposed Transfer does go ahead.
- In respect of the OD liabilities, Transferring Policyholders will lose the potential benefits of UKC being able to make supplementary calls. However, the Transferring Policyholders will benefit from the new ADC. Therefore the probability of R&Q Gamma requiring additional capital in order to pay claims in full is remote.
- In respect of the OD liabilities, Transferring Policyholders in the US will lose the potential benefits of UKC's US trust fund. However, these policyholders would only be adversely impacted in the event that R&Q Gamma was unable to pay claims. I consider the likelihood of this to be remote. Further, the size of the trust fund is small relative to the total reserves for UKC.
- Although the OD liabilities are very uncertain, R&Q Gamma is not actively writing new business so the level of risk is expected to fall over time. In contrast, UKC continues to write new business each year which exposes UKC to significant ongoing and new risks from a variety of sources.

- R&Q Gamma is a UK entity so the Transferring Policyholders will continue to be covered by an insurer regulated in the UK following the Proposed Transfer. I do not expect the rights of policyholders in respect of access to the FSCS or FOS to change as a result of the Proposed Transfer.
- The claims handling of the Transferring Business is already being managed by R&Q Central Services Limited, another entity in the R&Q group. R&Q Gamma has confirmed that this will continue to be the case following the Proposed Transfer, which provides continuity of service to policyholders.

Policyholders whose policies will be split between UKC and R&Q Gamma are considered to be both Transferring Policyholders and Non-Transferring Policyholders. I have concluded that these policyholders are not materially adversely affected in respect of either the Transferring Business or the Non-transferring Business. I am therefore satisfied that this group of policyholders are not materially adversely affected by the Proposed Transfer.

Existing R&Q Gamma Policyholders

At the Effective Date of the Proposed Transfer, there are projected to be 41,840 Existing R&Q Gamma Policyholders, which represent 97% of R&Q Gamma's projected post-transfer business by number of policyholders and 10% of the projected GAAP provisions.

I have concluded that the security provided to Existing R&Q Gamma Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that no material impact on service standards is expected for Existing R&Q Gamma Policyholders following the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for R&Q Gamma are appropriate, and R&Q Gamma has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for R&Q Gamma Policyholders is expected to decrease from 389% to 170% as a result of the Proposed Transfer. I do not consider the security provided to Existing R&Q Gamma Policyholders to be materially adversely affected by this decrease as R&Q Gamma will still be well capitalised. Further, R&Q Gamma's own funds will increase from £15m to £37m as a result of the Proposed Transfer, so Existing R&Q Gamma Policyholders will have access to a significantly larger capital base.
- On the face of it, the decrease in SCR coverage ratio for Existing R&Q Gamma Policyholders from 389% to 170% would appear to be a significant reduction. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 170% coverage ratio therefore equates to a remote probability of insolvency (much lower than 0.5%). Since the probability of insolvency is already remote at 170%, the difference in capital coverage ratios of 170% and 389% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Further, R&Q Gamma is projected to remain at least well capitalised throughout the projected period to December 2024.
- The new ADC with AIEL provides protection in the event of a deterioration in the valuation of the reserves relating to the Transferring Business. Therefore, the reserves in respect of the Existing R&Q Gamma Policyholders are protected from deteriorations in the reserves of the Transferring Business. Indeed, since the reserves will be significantly higher following the Proposed Transfer, there is potential for deteriorations in the existing R&Q Gamma portfolios to be absorbed by the much larger pool of reserves for the Transferring Business.
- I am satisfied that R&Q Gamma is expected to remain well capitalised under a range of adverse scenarios in relation to both the Transferring Business and its other business (as outlined in my Scheme Report). In more extreme adverse scenarios, where R&Q Gamma's SCR coverage ratio would fall below 100%, I am satisfied that the likelihood of such scenarios is sufficiently remote such that Existing R&Q Gamma Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- R&Q Gamma is not planning any material changes to how its existing business is carried out. In particular, there are no plans to change how Existing R&Q Gamma Policyholders are serviced following the Proposed Transfer.

Reinsurers

I have considered the position of reinsurers of UKC who provide cover for the Transferring Business.

I have concluded that reinsurers of UKC who provide cover for the Transferring Business will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- AIEL provides the existing ADC to UKC. On the Effective Date of the Proposed Transfer, the existing ADC in respect of the Transferring Business will terminate and the new ADC will commence. The new ADC will attach at a lower level than the existing ADC and with a higher limit (relative to the attachment point). The new ADC therefore provides greater protection to the Transferring Business than the existing ADC. AIEL will receive an additional reinsurance premium from R&Q Gamma to compensate for this new arrangement.
- I have been provided with evidence that AIEL is well capitalised and would remain sufficiently or well capitalised under a range of adverse scenarios relating to the Transferring Business. I am therefore satisfied that AIEL is not materially adversely affected by the Proposed Transfer. Further, AIEL is part of the R&Q Group and has been party to the discussions and agreement with UKC in relation to the Proposed Transfer.
- UKC has a 90% quota share (QS) reinsurance arrangement with its subsidiary, UKB. This reinsurance covers both the OD and non-OD liabilities within UKC. Following the Proposed Transfer, the OD liabilities will no longer be liabilities of UKC and therefore will no longer be covered by the QS reinsurance with UKB. UKB will no longer be liable for recoveries in respect of the OD liabilities and so I am satisfied that UKB is not materially adversely affected by the Proposed Transfer. Further, UKB is part of the UK P&I Club and I have confirmed with the involved parties that UKB has been party to the discussions and agreement with R&Q in relation to the Proposed Transfer.
- UKC is a member of the International Group of P&I Clubs (the International Group), whose pooling arrangement provides cover for individual losses in excess of $10m. R&Q Gamma will not benefit from this reinsurance following the Proposed Transfer. This is very unlikely to affect the level of security provided to the Transferring Policyholders because individual OD claims are significantly smaller than $10m (UKC's largest OD claim to date is $2m).

1.6. Impact of COVID-19 on the Proposed Transfer

The most recent policy years for UKC are impacted by the COVID-19 pandemic. The uncertainty around the impact of COVID-19 is expected to continue until the Effective Date of the Proposed Transfer and beyond.

In respect of the Proposed Transfer, COVID-19 will mainly impact the remaining business in UKC. Key impacts on the remaining business include:

- Reduced premium income for UKC as a result of premium returns due to ships being laid-up.
- Adverse claims experience for UKC, driven by cruise claims and other costs such as quarantine and diversion expenses.
- Higher costs of reinsurance following the pandemic due to the adverse claims experience.
- Volatility in asset values and continued economic uncertainty.
- Increased operational risks due to staff working remotely for extended periods of time during the COVID-19 lockdowns.

As discussed in my Scheme Report, the Transferring Business is less likely to be affected by COVID-19 because it relates to policies sold prior to 2001. However, potential impacts on the Transferring Business include:

- Possible increase in claims costs due to reduced access to healthcare, given the strain on health systems caused by the pandemic.
- Possible increase or decrease in costs if new treatments are developed as a consequence of medical advances made through the research and development of COVID-19 vaccines.
- Possible delays in diagnoses, claims reporting and settlement, which could increase or decrease costs.
- A potential acceleration in claims if sufferers of an occupational disease such as mesothelioma die of COVID-19 and if mesothelioma is deemed to be a material contributor to such deaths.

The existing business in R&Q Gamma is also unlikely to be materially affected by COVID-19 as R&Q Gamma is a run-off provider and the reserves relate to policies sold many years prior to the pandemic. The Anglo-French portfolio has some exposure to asbestos-related claims and therefore the potential impacts listed above could also affect R&Q Gamma's existing business.

UKC and R&Q Gamma have informed me that there are no operational issues arising from COVID-19 that are impacting or expected to impact policyholders. They have re-confirmed for this Supplementary Report that there have been no claims notified to date or any noticeable difference in OD claims due to COVID-19 and, based on my investigations, I do not expect this to be a material source of future claims.

In my opinion, the COVID-19 pandemic does not change my overall conclusions as set out in section 1.

2. Introduction

2.1. Background

Part VII, Section 109 of the Financial Services and Markets Act 2000 (FSMA) requires that a scheme report (the Scheme Report) must accompany an application to the High Court of Justice of England and Wales (the High Court) to approve an insurance business transfer scheme (Part VII transfer).

The Scheme Report should be produced by a suitably qualified independent person (the Independent Expert or IE) who has been nominated or approved by the Prudential Regulation Authority (PRA) having consulted with the Financial Conduct Authority (FCA). The Scheme Report should address the question of whether any policyholders or reinsurers impacted by the insurance business transfer are adversely affected to a material extent.

In my role as Independent Expert, I prepared a Scheme Report for the Proposed Transfer. This was issued on 27 July 2021 and was presented to the High Court on 30 July 2021. In the Scheme Report I stated that, ahead of the Sanctions Hearing for the Proposed Transfer, I would prepare a Supplementary Report (this report), covering any relevant matters which have arisen since the date of the Scheme Report. In particular, I have considered whether any developments since the Scheme Report cause my conclusions in the Scheme Report to change.

2.2. Scope of this Supplementary Report

This Supplementary Report must be read in conjunction with the Scheme Report as the Supplementary Report alone does not contain the full details of the work I have performed in considering the Proposed Transfer. Reading the Supplementary Report in isolation may be misleading.

In combination with the Scheme Report, this Supplementary Report complies with the professional actuarial guidance and standards set out in section 2.5. All terms used in the Supplementary Report are as defined in the Scheme Report.

The use of “I”, “me” and “my” in this report generally refers to work carried out by me or by the team operating under my direct supervision. However, when it is used in reference to an opinion it is mine and mine alone.

For presentational purposes some GBP amounts in this report have been converted to USD at an exchange rate of £1 = USD1.36, consistent with the rate applied in my Scheme Report.

2.3. Use of this Supplementary Report

This Supplementary Report has been produced by Charl Cronje FIA of LCP under the terms of our written agreements with UKC and R&Q Gamma. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Supplementary Report has been prepared for the purpose of accompanying the application to the High Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Supplementary Report is not suitable for any other purpose. The Supplementary Report must be read in conjunction with the Scheme Report of 27 July 2021.

A copy of the Supplementary Report will be sent to the PRA and the FCA and will be filed with the High Court as part of the evidence supporting the application to sanction the Scheme.

This report is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Supplementary Report for any other purpose other than that set out above.

2.4. Reliances

I have based my work on the data and other information made available to me by UKC and R&Q Gamma. Appendix 1 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of UKC and R&Q Gamma and their advisors.

My additional analysis for the Supplementary Report is based on data from two separate dates:

- For UKC, I have used data as at 20 February 2021. This is the latest set of year-end accounts available at the time of preparing this report.
- For R&Q Gamma, I have used data as at 31 December 2020. This is the latest set of year-end accounts available at the time of preparing this report.
- For R&Q Gamma I have also used updated projections based on data as at 30 June 2021.

I have received all of the information that I have requested for the purposes of the production of my report. In this respect:

- UKC and R&Q Gamma will submit witness statements to the High Court stating that all information provided to me by UKC and R&Q Gamma is correct and complete in all material aspects to the best of their knowledge, information and belief.
- Each of UKC and R&Q Gamma has provided a data accuracy statement confirming that the data and information provided to me regarding the Proposed Transfer is accurate and complete.
- UKC and R&Q Gamma have provided attestations that there have been no material adverse changes to the financial position of UKC or R&Q Gamma since that information was provided to me.
- UKC and R&Q Gamma have read this Supplementary Report and each has agreed that it is correct in terms of all factual elements of the Proposed Transfer.
- I have conducted basic checks on the data provided to me for internal consistency and reasonableness.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the integrity of the information provided for the purpose of this report.

The conclusions in my report take no account of any information that I have not received, or of any inaccuracies in the information provided to me.

In section 2.5 of my Scheme Report, I explained that I have taken into account advice provided to R&Q Gamma by its legal advisers regarding the legal validity of the Scheme including:

- Whether it is legally possible to split the cover provided under a policy between UKC and R&Q Gamma as per the Proposed Transfer;
- Any legal implications, risks and impacts on policyholders;
- How claims are allocated if the exposure period for a claim falls partly within and partly outside the period 1 January 1935 and 20 February 2001; and
- The recognition of the Scheme in US courts.

I have not considered it necessary to take any third-party legal advice on any aspects of the Proposed Transfer.

R&Q Gamma has confirmed that it has received no other specific legal advice relevant to my role as IE for the Proposed Transfer.

Figures in this report may be subject to small rounding differences and so totals within the tables may not equal the sum of the rounded components.

2.5. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for scheme reports set out by the PRA in their Statement of Policy, the FCA guidance to their approach to review of Part VII transfers issued in May 2018 and by the PRA Rulebook and the FCA Handbook. I have also considered the additional PRA guidance in the Consultation Paper issued in July 2021 and the proposed changes to the FCA guidance issued in July 2021.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 200: Insurance (TAS 200) issued by the Financial Reporting Council (FRC). The FRC is responsible for setting technical actuarial standards in the UK.

I have considered The Actuaries' Code as issued by the IFoA while producing this report.

This report has been subject to independent peer review prior to its publication, in line with Actuarial Professional Standard X2: Review of Actuarial Work (APS X2) as issued by the IFoA. This peer review has been undertaken by another Partner at LCP. The peer reviewer was not involved in the production of the report. They have appropriate experience and expertise to act as peer reviewer of this report.

2.6. Materiality

The FRC considers that matters are material if they could, individually or collectively, influence the decisions to be taken by users of the actuarial information. It accepts that an assessment of the materiality is a matter of reasonable judgement that requires consideration of the users and the context.

I have applied this concept of materiality in planning, performing and reporting the work described in this Supplementary Report. In particular, I have applied this concept of materiality when using my professional judgement to determine the risks of material misstatement or omission and to determine the nature and extent of my work.

In complying with the reporting requirements of TAS 100, I have made judgements on the level of information to include in this Scheme Report. For example, to make the report easier to read, I have not included all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments.

2.7. Definition of "materially adverse"

In order to determine whether the Proposed Transfer will have a "materially adverse" impact on any group of policyholders, it has been necessary for me to exercise my judgement in the light of the information that I have reviewed.

The Proposed Transfer will affect different policyholders in different ways and, for any one group of policyholders, there may be some effects of the Proposed Transfer that are positive, and others that are adverse. When assessing whether the Proposed Transfer will have a "materially adverse" impact, I have considered the aggregate impact of these different effects on each group of policyholders.

In the Court of Appeal judgment in the Prudential v Rothesay case, the judge commented on the word 'material' and drew the distinction between 'real' and 'fanciful' risks and that the Court should address the former rather than the latter. I have borne this distinction in mind when reaching my conclusions as to whether any set of policyholders is materially adversely affected. Throughout this report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether policyholders are materially adversely affected or otherwise.

3. My approach as IE and conclusions

My approach to assessing the Proposed Transfer, as set out in the Scheme Report, has been to perform five steps analysing evidence provided by UKC and R&Q Gamma to support the Proposed Transfer.

My approach for the Supplementary Report has been to revisit each of these five steps and to consider whether any of the updated analysis or information available now would cause me to change my conclusions in that report.

The five steps and my considerations are detailed in the sections as follows:

- Step 1: Assessing the provisions of UKC and R&Q Gamma – considered in section 4.
- Step 2: Assessing the capital positions of UKC and R&Q Gamma – considered in section 5.
- Step 3: Assessing overall policyholder security – considered in section 6.
- Step 4: Assessing policyholder communications – considered in section 7.
- Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders – considered in section 8.

A list of all information considered is included in Appendix 1. Further details on my approach as IE are set out in section 4 of the Scheme Report.

4. Reserving considerations

As IE, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for all relevant policyholders, that is: Transferring and Non-transferring UKC Policyholders and Existing R&Q Gamma Policyholders; and
- whether any aspects of the reserving may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 5 of the Scheme Report, based on data and provisions as at:

- 20 February 2020 for UKC; and
- 31 December 2020 for R&Q Gamma.

In this Supplementary Report, I have also considered the following:

- Updated data, GAAP and SII provisions as at 20 February 2021 for UKC;
- Updated data and SII provisions as at 30 June 2021 for R&Q Gamma.
- UKC's assessment of the impact on the AWP 2020 projections on the valuation of the OD liabilities, based on data as at 20 February 2021;

UKC and R&Q Gamma have each confirmed that the approach and basis for calculating the IFRS technical provisions and Solvency II technical provisions has not changed since the Scheme Report.

4.1. UKC provisions (GAAP)

The following table shows the level of booked provisions as at 20 February 2021 (the latest available figures at the time of my writing of my Supplementary report and an update from the figures as at 20 February 2020 in my Scheme Report) for UKC, split between the Non-transferring and Transferring Business.

UKC – Summary of GAAP booked provisions at 20 February 2021

<table>
<tr><th>$m</th><th>Liabilities</th><th>Gross of reinsurance</th><th>Net of external reinsurance</th><th>Net of intragroup reinsurance</th></tr>
<tr><td rowspan="2">Non-transferring</td><td>Non-OD liabilities</td><td>1,169.2</td><td>768.9</td><td>65.8</td></tr>
<tr><td>OD liabilities (EEA risks)</td><td>4.3</td><td>3.7</td><td>0.4</td></tr>
<tr><td>Transferring</td><td>OD liabilities (non-EEA risks)</td><td>82.6</td><td>70.5</td><td>7.0</td></tr>
<tr><td colspan="2">Total UKC</td><td>1,256.1</td><td>843.1</td><td>73.2</td></tr>
</table>

Source: UKC.
The provisions are made up of the earned claims reserves (to cover incidents that have already occurred) and unearned premium reserves (to cover future incidents)

The EEA risks were transferred to UKNV in a Part VII transfer completed in December 2020. However, these risks are 100% reinsured back to UKC via a 100% quota share. As a result, these risks are still included in UKC's booked provisions, as set out in the table above.

The provisions for Transferring Business represent 7% of UKC's total gross claims provisions as at 20 February 2021. Most of the external reinsurance recoveries relate to the Non-Transferring Business. For the Transferring Business, the provisions incorporate allowance for around $12m of recoveries from the existing ADC reinsurance. Since the OD liabilities will emerge over many years, ADC recoveries are not expected to be paid until around 2040. This is because, as at 20 February 2021, there have only been payments of $8.6m compared to the existing ADC attachment point of $95m. This means that a further $86.4m payments are needed before recoveries will start to be due from the existing ADC.

Total gross of reinsurance provisions increased by $301.5m between 20 February 2020 and 20 February 2021. The key movements over the period were:

- The very largest claims in the P&I industry are shared between the International Group Clubs through the Pooling mechanism (IG Pool). The cost of these claims has grown substantially in recent years.
- There has been an increase in Non-OD liabilities of $296.8m following a number of large losses over the 2020 year (including COVID related claims). The total claims cost for the financial year was also affected by some unusually large and late deteriorations on a handful of claims from prior policy years. Much of this movement was attributable to IG Pool claims.
- OD liabilities also increased by $4.7m driven by recent increases in the average cost per claim following the update to the Ogden discount rate and the wider trend of more cycles of costly immunotherapy treatment per mesothelioma sufferer (on a net of reinsurance basis, the OD liabilities have decreased).

4.2. Reserving estimates for the Transferring Business

The Transferring Business is subject to a high degree of uncertainty and there is a wide range of reasonable best estimate reserves. The security of policyholders before and after the transfer depends on both the reserve strength and level of capital held by UKC and R&Q Gamma. As such, this section on reserving estimates for the Transferring Business should be considered in conjunction with the capital considerations in section 5.

The following table sets out UKC's best estimate of the undiscounted claims reserves for the Transferring Business as at 20 February 2021, the latest available audited figures at the time of my writing of this Supplementary Report. These are updated figures from those in my Scheme Report which were as at 20 February 2020. The figures below exclude the reserves in respect of EEA risks, which have transferred to UKNV. The EEA risks represent around 5% of the total OD liabilities originally in UKC.

UKC – undiscounted claims reserves for the Transferring Business as at 20 February 2021

$m	Undiscounted gross claims reserves	Undiscounted reserves, net of existing ADC
US mesothelioma	22.0	
US other	11.4	
Non-US mesothelioma	62.0	
Non-US other	6.2	
Total UKC	**101.7**	**82.4**

I have reviewed UKC's reserving report as at 20 February 2021, which sets out estimates of the reserves for the OD liabilities, as well as the underlying methodology and assumptions. UKC's methodology is based on work performed by the UK Asbestos Working Party (AWP) in 2009. This approach is common across the UK insurance market when reserving OD liabilities.

The AWP released an updated insurance market estimate based on work performed in 2020. The AWP's summary note sets out the key changes in between the 2009 and 2020 model. I have reviewed this note, their more detailed paper and UKC's updated estimates based on the 2020 model. The impact of the change from the 2009 to 2020 model on UKC's OD liabilities is set out in the following table:

UKC – undiscounted gross claims reserves for the Transferring Business as at 20 February 2021

$m	Based on 2009 AWP model	Based on 2020 AWP model	Change
US mesothelioma	22.0	17.9	(4.2)
US other	11.4	11.2	(0.2)
Non-US mesothelioma	62.0	49.5	(12.5)
Non-US other	6.2	6.1	(0.1)
Total UKC	**101.7**	**84.6**	**(17.0)**

After allowing for the 2020 changes to the AWP model, this leads to a 17% reduction in total liabilities ($101.7m to $84.6m) and a 20% reduction in respect of mesothelioma liabilities ($84.1m to $67.4m). The reduction in UKC's liabilities is around half of the percentage reduction in the AWP's market estimate. I expected UKC's estimates to reduce by a smaller percentage than the total AWP market estimate given the difference in exposure and the fact that UKC has updated key frequency and average cost per claim assumptions each year based on historical experience to date.

Having discussed with UKC, I understand the main drivers of the difference in size of reduction are as follows:

- UKC were already using a lower “propensity to claim” assumption than that reflected in AWP’s central estimates. As such, moving to the new 2020 model and assumption meant a less material reduction in UKC’s assumed propensity to claim compared to the AWP;
- While using the 2009 AWP model as the base, UKC had adjusted the model to better reflect its own exposure profile (UKC believes it has earlier average exposure to asbestos than is typical in the wider statistics used by the AWP). UKC’s underlying exposure means that under the new model, the reduction in reported claim numbers in the medium to long-term is lower than implied by the AWP’s analysis; and
- UKC has been updating the expected number of claims and the average cost per claim assumptions each year based on experience to date.

These updated reserves are the basis of UKC’s pre- and post-Transfer projections.

The following table sets out R&Q Gamma’s best estimate of the of the gross undiscounted claims reserves for the Transferring business as at 31 December 2020.

R&Q Gamma – undiscounted claims reserves for the Transferring Business as at 31 December 2020

$m	Undiscounted gross claims reserves
US mesothelioma	18.9
US other	10.0
Non-US mesothelioma	34.6
Non-US other	5.1
Total UKC	**68.6**

R&Q Gamma’s estimate of the reserves for US claims is broadly comparable to UKC’s, after updating to the 2020 AWP model. However, R&Q Gamma’s estimate of the reserves for non-US mesothelioma claims ($34.6m) is around 30% lower than UKC’s estimate ($49.5m). This is driven by UKC using higher assumptions for the initial frequency and average cost per claim, partially offset by R&Q Gamma using a higher inflation assumption. Differences in assumptions such as these are not unexpected given the significant uncertainty in the level of exposure and the development of mesothelioma claims over a long time horizon.

Overall, R&Q’s estimate of the total reserves ($68.6m) is around 19% lower than UKC’s estimate updated for the 2020 AWP model ($84.6m). In line with my conclusions in the Scheme Report, I believe both estimates are within the range of reasonable best estimates. R&Q commissioned a reserve review from an external actuarial consultant, based on data as at 31 December 2020, which presented a best estimate of $56m and a reasonable range of reserves from $50m to $96m. Both R&Q Gamma’s estimate, and UKC’s estimate after reflecting the 2020 AWP model, sit comfortably within this range.

My opinion on the reasonableness of the reserving estimates

In my opinion R&Q Gamma's estimates are within the range of reasonable best estimates.

UKC has based future projections on the updated AWP model, reflecting the intention to move to a lower level of reserves than those booked at 20 February 2021. In my opinion these estimates are also within the range of reasonable best estimates.

UKC's booked estimates as at 20 February 2021 do not reflect the latest findings of the AWP. Given the limited time to fully consider the impact of the AWP's results in their year-end analysis and the fact that the full paper had not been published at that time, UKC booked the higher estimate implied by their use of the 2009 AWP model. I believe this is a reasonable approach to take given the significant uncertainty setting reserves for such volatile and long-tailed liabilities, however it does contain some prudence.

Impact of the difference between the UKC and the R&Q Gamma estimates

The difference between the UKC and the R&Q Gamma estimates means that the Transferring Policyholders will transfer to an insurer which is holding lower reserves for the Transferring Business. All else being equal, this would appear 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:

- On the Effective Date of the Proposed Transfer, the existing ADC in respect of the Transferring Business will terminate and R&Q Gamma will enter into a new ADC reinsurance arrangement with AIEL. This reinsurance will be in respect of the Transferring Business only, ie excluding the EEA risks. This new ADC reinsurance will attach at £47.3m ($64.6m) with a limit of £55.0m ($75.1m). AIEL will therefore cover losses between $64.6m and $139.6m. R&Q Gamma's total gross reserves are $68.6m, so the reinsurance reserve is $4.0m and the new ADC reinsurance will provide cover up to a further $71m of losses in the event that future claims are higher than expected.
- I previously considered the impact of a range of adverse scenarios on the Transferring Business, based on projections prepared by R&Q Gamma, in my Scheme Report. These included scenarios already being considered by R&Q Gamma and, in addition, a number of further scenarios that I specified. On the basis that R&Q's updated projections are not materially different from that presented in my Scheme Report, I have only considered updates to one scenario ie based on UKC's latest reserve estimates. These scenarios demonstrate that the new ADC reinsurance provides protection to policyholders in the event of a deterioration in R&Q Gamma's reserves. I have also considered the impact from a capital perspective in section 5.2 of this report.

4.3. Reserving scenarios

In my Scheme Report, I considered a number of adverse scenarios on the reserves for the Transferring Business intended to represent a range of possible deteriorations that may occur over the ultimate time horizon (ie the full period over which claims are expected), including both moderate and extreme scenarios.

On the basis that R&Q Gamma's updated reserves and SII balance sheet projections have not changed materially from when my Scheme Report was finalised, I consider that the scenario results included in my Scheme Report remain appropriate.

I have considered two additional scenarios for my Supplementary Report to reflect the updates to UKC's estimate of the reserves .

I have also considered a further scenario based on the full 2020 AWP paper, issued in September 2021. The most extreme scenario presented in the paper is based on an alternative model for population deaths, the GLM Age-Birth model, and applying high, ie more pessimistic, assumptions for each of the number of deaths, the propensity to claim and the average cost. This results in a total market estimate of £11,022m, compared to the AWP central estimate of £4,376m. This extreme scenario represents a c.150% increase in claims cost relative to the central estimate. I have therefore also considered a scenario where R&Q Gamma's estimate of the reserves increases by 150% (scenario 3 in the table below).

The following table summarises the results of these scenarios and the impact on the reserves gross and net of reinsurance. These scenarios were specified and reviewed for reasonableness by me but the calculations have been performed by R&Q Gamma.

R&Q Gamma – impact of adverse reserving scenarios for the Transferring Business

$m	Gross reserve	Gross impact	Net reserve	Net impact
Base	**68.6**		**64.6**	
1. UKC's 20 Feb 2021 estimate of the reserves*	101.7	+33.1	64.6	0.0
2. UKC's latest estimate of the reserves (after allowance for the 2020 changes to the AWP model)	84.6	+16.0	64.6	0.0
3. R&Q Gamma's estimate of the reserves + 150% increase (ie reserves multiplied by 2.5)	171.5	+102.9	96.4	+31.0

** ie without any allowance for the 2020 changes to the AWP model*

As shown in the table above, the new ADC reinsurance provides significant protection in the event of a deterioration in R&Q Gamma's gross reserves. Under UKC's higher estimate of the reserves as booked in its 20 February 2021 financial statements, the reinsurance means there is still no impact on the net reserves.

Scenario 3 illustrates the potential impact of the most extreme scenario presented in the AWP paper. In this scenario, the gross reserves deteriorate by $102.9m, resulting in the exhaustion of the new ADC reinsurance and a $31.0m net deterioration above the limit of the ADC. Even in this scenario, R&Q Gamma is still able to pay the claims in full, as shown in section 5.3.

4.4. Overall conclusion: reserving considerations

I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that the Non-transferring Policyholders, Transferring Policyholders and the Existing R&Q Gamma Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

5. Capital considerations

As IE, my overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for both UKC and R&Q Gamma;
- whether there are expected to be any material adverse changes in the strength of capital protection for any group of policyholders (I have assessed this by comparing the projected SCR coverage ratios pre- and post-the Proposed Transfer); and
- whether any other aspects of the capital considerations may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 6 of the Scheme Report.

In this Supplementary Report, I have also considered the following:

- Updated SCR coverage ratio and balance sheet projections, based on data as at 20 February 2021 for UKC and as at 30 June 2021 for R&Q Gamma.
- Confirmed level of capital contribution into R&Q Gamma.

5.1. Projected SCR coverage ratios for UKC and R&Q Gamma

For the purposes of this report and the Scheme Report, I describe a company as having “sufficient capital” if the SCR coverage ratio is between 100% and 150%. I describe a company as “well capitalised” if the SCR coverage ratio is between 150% and 200% and “very well capitalised” if the SCR coverage ratio is in excess of 200%.

Since providing my Scheme Report, UKC and R&Q Gamma have updated their analyses of projected SCR coverage ratios based on more recent data. As such, the coverage ratios quoted in this report have changed since those included in the Scheme Report.

Projected SCR coverage ratios immediately before and after the Proposed Transfer

The table below sets out the projected SCR and coverage ratios, as prepared by UKC and R&Q Gamma, immediately before and after the Proposed Transfer.

Projections before and after the Proposed Transfer	Own Funds	SCR	Own Funds less SCR	SCR coverage ratio	Movement in SCR coverage ratio
Day 0 – before Transfer					
UKC \$m	536.3	230.0	306.3	233%	
R&Q Gamma £m	14.7	3.8	10.9	389%	
Day 1 – after-Transfer					
UKC \$m	549.5	230.4	319.1	239%	5%
R&Q Gamma £m (without £25m capital injection)*	*11.9*	*21.7*	*(9.8)*	*55%*	*(335%)*
R&Q Gamma £m (with £25m capital injection)	36.9	21.7	15.2	170%	(220%)

Source: UKC and R&Q Gamma

The Effective Date will be 8 December 2021. UKC has provided the projected SCR and coverage ratios immediately before and after the Proposed Transfer based on its year-end date of 20 February 2022. The projections as at 20 February 2022 are expected to approximately reflect the impact of the Proposed Transfer as at the Effective Date.

UKC has quantified the expected movements in the Own Funds and SCR between December 2021 and February 2022 and has estimated that the SCR coverage ratio would be circa 7% lower as at the Effective Date compared to 20 February 2022.

The marginal impact of the transfer of the OD liabilities is not expected to be materially different between December 2021 and February 2022 and the value of the OD liabilities is not expected to change materially between December 2021 and February 2022 given their long-tailed nature.

R&Q Gamma's projected SCR and coverage ratios are based on its year end-date of 31 December 2021. As for UKC, this date is close to the Effective Date of the Proposed Transfer and the projections are not expected to be materially different as at the Effective Date. For R&Q Gamma, I have shown the coverage ratios with and without the £25m capital injection from the R&Q group, to illustrate the impact this has on the financial security of R&Q Gamma.

For the avoidance of doubt, although the capital contribution from the R&Q group will be paid into R&Q Gamma no later than one week prior to the Sanctions Hearing, the day 0 figures above do not include this capital contribution.

I am comfortable that UKC's 20 February 2022 projected figures and R&Q Gamma's 31 December 2021 projected figures materially reflect the expected capital positions immediately before and after the Proposed Transfer as at the Effective Date.

In summary:

- **Non-transferring Policyholders:** the SCR coverage ratio of the Non-transferring Business is projected to increase from 233% to 239%.
- **Transferring Policyholders:** The SCR coverage ratio for liabilities transferring from UKC to R&Q Gamma is projected to decrease from 233% to 170%. However, R&Q Gamma is still projected to be well capitalised (as defined in Section 5.1) immediately after the Proposed Transfer.
- **Existing R&Q Gamma Policyholders:** the SCR coverage ratio for Existing R&Q Gamma policyholders is projected to decrease from 389% to 170% after the Proposed Transfer. R&Q Gamma is very well capitalised prior to the Proposed Transfer, with own funds in excess of the SCR of £10.9m ($14.9m). After the Proposed Transfer, whilst the SCR coverage ratio is projected to fall, the excess own funds over the SCR will increase from £10.9m to £15.2m ($14.9m to $20.7m).

  On the face of it, the decrease in SCR coverage ratio for Existing R&Q Gamma Policyholders from 389% to 170% would appear to be a significant fall in capital strength. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 170% coverage ratio therefore equates to a remote probability of insolvency (much less than 0.5%). The difference in capital coverage ratios of 170% and 389% does not, in my opinion, equate to a material difference in the probability of insolvency.

  In my opinion, therefore, existing R&Q Gamma Policyholders are not materially adversely affected by the Proposed Transfer.

Based on this analysis, both UKC and R&Q Gamma are projected to remain either well capitalised or very well capitalised both immediately pre- and post- Transfer. Therefore, I do not expect the changes in SCR coverage ratios immediately pre- and post- the Proposed Transfer to lead to any material adverse changes in the strength of capital protection for any group of policyholders.

Projected SCR coverage ratios for a number of years after the Proposed Transfer

R&Q Gamma has provided projections for the SCR coverage ratio for a number of years after the Proposed Transfer.

Immediately following the Proposed Transfer, R&Q Gamma's SCR coverage ratio is expected to be 170%. The SCR coverage ratio is then projected to increase each year for the following 3 years, reflecting the ongoing run-off of the OD liabilities. R&Q Gamma is expected to be well capitalised immediately after the Proposed Transfer and to be well capitalised or very well capitalised throughout the remainder of the projection period (as defined in section 5.1).

In practice, R&Q Gamma's average coverage ratios may be higher or lower than these projections depending on the claims and other experience of R&Q Gamma. R&Q Gamma will routinely monitor the capital and projected capital position in line with its capital management policy – this could also lead to the coverage ratios being higher or lower than projected.

As discussed in section 6.8 of my Scheme Report, I also reviewed UKC's projected SCR coverage ratios over its financial planning horizon within its ORSA. This showed that its SCR coverage ratio is projected to remain at a similar level over the full period to February 2024.

5.2. The planned capital structure for R&Q Gamma

In section 6.9 of my Scheme report, I explained that R&Q Group would make a capital contribution to R&Q Gamma no later than one week prior to the Sanctions Hearing.

I explained that the final capital contribution may vary (ie could be higher or lower than £25m) depending on R&Q Gamma's experience up to the Effective Date. For example, if the reserves deteriorate then, all else being equal, more capital would be required to maintain the same level of capital strength. I stated that the R&Q Group would contribute sufficient capital to R&Q Gamma to ensure a solvency ratio of at least 173% upon Transfer and that I would review this as part of my Supplementary Report.

I have now reviewed the proposed capital contribution of £25m. This results in a projected post-Transfer solvency ratio of 170%. Although this is lower than the original planned 173%, it is in line with R&Q Gamma's updated Capital Management Plan and it has not changed my opinion that policyholders are not materially adversely affected as a result of the Transfer.

R&Q Gamma's updated Capital Management Plan was approved by the board in September 2021. The target solvency capital requirement coverage ratio immediately following the transfer of a new portfolio is a minimum of 170%, increasing to a minimum of 190% in subsequent years. I am satisfied that the projected coverage ratios for R&Q Gamma are in line with the updated Capital Management Plan.

5.3. SCR scenario analysis

In section 6.10 of my Scheme Report, I considered the impact of a range of adverse scenarios on the Transferring Business, based on projections prepared by R&Q Gamma. These included scenarios consistent with those already considered by R&Q Gamma in its ORSA and, in addition, a number of further scenarios on the reserves that I specified.

The purpose of the scenario analysis is to assess whether R&Q Gamma can withstand plausible adverse experience and whether, under these circumstances, it still provides appropriate security to all policyholders.

Having reviewed the updated SII balance sheets and SCR coverage ratios, I consider the results from scenarios included in the Scheme report to remain a fair reflection of the sensitivity of results and the security of policyholders. I have considered one additional scenario for my Supplementary report to reflect the material reduction to UKC's estimate of the reserves following the update based on the new AWP model. This scenario and other scenarios previously performed demonstrate that R&Q Gamma remains well capitalised or sufficiently capitalised in the event of a deterioration in R&Q Gamma's reserves.

The following table summarises the additional scenarios that I have considered in my Supplementary Report.

R&Q Gamma – impact of adverse reserving scenario for the Transferring Business on SCR coverage ratios

$m	SCR	Own Funds	SCR coverage ratio	Impact on coverage ratio
Base	**29.7**	**50.4**	**170%**	
1. UKC's latest estimate of the reserves (ie $84.6m after allowance for the changes to the AWP model)	31.1	49.2	158%	-12%
2. R&Q Gamma's estimate of the reserves + 150% increase (ie reserves multiplied by 2.5)	42.2	-3.7	-9%*	-179%

*explained below.

As shown in the table above and in section 4.3, the new ADC reinsurance provides significant protection in the event of a deterioration in R&Q Gamma's gross reserves. R&Q Gamma remains well capitalised in both the event that R&Q's reserves deteriorate to UKC's original estimate or to its latest estimate ie after allowing for the 2020 changes made to the AWP model.

Under scenario 2, R&Q Gamma's coverage ratio would fall to -9%. This means that R&Q Gamma's liabilities of $201m would exceed its assets of $197m and it would need to find additional capital to meet its regulatory requirements. However, these liabilities include a risk margin of $27m. R&Q Gamma's assets would continue to exceed its gross best estimate technical provisions of $168m, meaning R&Q Gamma would continue to be able to pay claims in full even under this extreme scenario.

In addition to the financial security of R&Q Gamma, I have also considered other risks, including conduct risk, that may arise from such adverse scenarios. For example, an increase in the reserves could lead to a worsening of policyholder experience if, for example, there is increased pressure on claims handlers to try to reduce claim payments. There could also be an increased risk of disputes with AIEL as the reinsurer in the event of a significant deterioration in the reserves. In my opinion, and based on my understanding of the customer service arrangements pre- and post-transfer, this risk will not be materially different following the Proposed Transfer. As a result, I am therefore satisfied that policyholders are not materially adversely affected by the Proposed Transfer in this respect.

5.4. Financial strength of AIEL

The table below sets out the updated projected SCR and coverage ratio for AIEL immediately after the Proposed Transfer. By way of comparison, I have also shown the equivalent figures from my Scheme Report.

Projected AIEL financial strength immediately after the Proposed Transfer

	Updated projections $m	Original Scheme Report $m
Total assets	475.4	485.2
Total liabilities	383.2	392.0
Excess of assets over liabilities	92.3	93.2
SCR	69.3	59.9
Total eligible own funds to meet the SCR	121.1	123.2
SCR coverage ratio	**175%**	**206%**

AIEL's updated SCR coverage ratio immediately after the Proposed Transfer is 175%, ie lower than the previous projection set out in my Scheme Report of 206%. As such, AIEL is no longer considered very well capitalised (ie with an SCR coverage ratio in excess of 200%) but is now well capitalised (SCR coverage ratio in the range 150% to 200%). The SCR coverage ratio of 206% was based on the 2021 plan set at 2020 year end. This projection has now been updated based on data as at 30 June 2021, which resulted in an increase in SCR from $59.9m to $69.3m and broadly no change in the total eligible own funds. Overall, this leads to a reduction in the SCR coverage ratio to 175%.

The drivers of the reduction in SCR coverage ratio are as follows:

- The initial plan included an allowance for a certain volume of business acquisitions expected to occur during 2021. This has been updated to reflect actual acquisitions in 2021, leading to an 8% decrease in the coverage ratio. This is because the actual portfolios acquired differed from the initial assumption by class and size. The largest legacy portfolio acquired (around £17m reserves) was a mixed book of predominantly property and motor business, which resulted in less diversification benefit than assumed in the initial plan.
- An increase in the forecasted growth for AIEL's program business, which is significantly reinsured, leading to an 8% decrease in coverage ratio because of the increased reinsurance credit risk to AIEL.
- An increase in market risk following a shift in the asset mix, with AIEL now holding investments of higher durations and slightly lower credit quality. This contributed to a 7% reduction in the coverage ratio.

- An increase in operational risk because of the above effects, leading to a 7% reduction in the coverage ratio.
- A decrease in the projected retained earnings relative to the original plan, causing a 2% reduction in the coverage ratio.

On the face of it, the lower SCR coverage ratio implies a reduction in AIEL's financial strength. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 175% (or 206%) coverage ratio therefore equates to a remote probability of insolvency (much lower than 0.5%). Since the probability of insolvency is already remote, the difference in capital coverage ratios of 175% and 206% does not, in my opinion, equate to a material difference in the probability of insolvency.

For my Scheme Report, I was provided with evidence that AIEL would remain well capitalised under a range of adverse scenarios relating to the Transferring Business and other sensitivity tests relating to the wider portfolio. The updated SCR coverage ratio of 175% does not materially impact my initial conclusions from the results of these scenario and sensitivity tests.

AIEL's existing business consists of run-off legacy business and program management business. Business written through its cover-holders included motor, surety, liability and after-the-event business in the United Kingdom, Republic of Ireland, Italy, Greece, Spain and the Netherlands. This book of business is reinsured through the use of Quota Share, Excess of Loss and Stop Loss reinsurance through reinsurers with at least an A- rating. AIEL's technical provisions predominantly fall into the motor vehicle liability, general liability, workers' compensation and other motor Solvency II lines of business.

The Transferring Business may be somewhat correlated with the existing asbestos-related risks of AIEL. However, the Transferring Business would be relatively uncorrelated with other parts of AIEL's existing business.

I am therefore comfortable that the probability of AIEL defaulting is remote. My key reasons are:

- AIEL is an A- rated insurer.
- AIEL is projected to be well capitalised following the Proposed Transfer.
- AIEL is expected to remain sufficiently or well capitalised under a range of adverse scenarios relating to the Transferring Business and under a range of adverse sensitivity tests on the wider portfolio. While more extreme scenarios relating to the reserves for the Transferring Business may lead to AIEL being insufficiently capitalised, I consider such scenarios to be highly unlikely.

5.5. Overall conclusion: Capital considerations

I am satisfied that my conclusions related to capital remain unchanged from the Scheme Report. In summary:

- **The projected capital requirements have been calculated materially appropriately for both UKC and R&Q Gamma.**
- **Following the Proposed Transfer I do not expect there to be any materially adverse changes in the strength of capital protection for any group of policyholders.**

6. Policyholder security

As IE, my overall assessments related to policyholder security are:

- whether the likelihood of valid policyholder claims being paid is maintained following the Proposed Transfer for Non-transferring and Transferring UKC Policyholders and Existing R&Q Gamma Policyholders.
- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 7 of the Scheme Report.

In this Supplementary Report, I have also considered the following:

- Updated projected balance sheets of UKC and R&Q Gamma immediately pre- and post- the Proposed Transfer.
- Final confirmation of the reinsurance arrangement between R&Q Gamma and AIEL.

6.1. Updated impact on the balance sheets of UKC and R&Q Gamma

I have updated the analysis set out in section 7.1 of the Scheme Report to reflect UKC and R&Q Gamma's latest projections. This updated analysis is based on projected balance sheets immediately pre- and post- the Proposed Transfer, on the anticipated Effective Date.

Solvency II balance sheets of UKC and R&Q Gamma: Projections as at 20 February 2022 and 31 December 2021 respectively

Converted $m	Pre-Transfer		Post-Transfer		Movement due to Proposed Transfer	
	UKC	R&Q Gamma	UKC	R&Q Gamma	UKC	R&Q Gamma
Participations	318.4	0.0	327.8	0.0	9.4	0.0
Investments	79.9	21.8	73.5	121.9	(6.4)	100.1
Intra-Group loans	0.0	5.8	0.0	5.8	0.0	0.0
Reinsurance recoverables	1,150.2	0.0	1,085.0	7.4	(65.3)	7.4
Cash	56.0	0.3	56.0	1.6	0.0	1.4
Other assets	59.9	0.1	59.9	0.1	0.0	0.0
Total assets	**1,664.4**	**27.9**	**1,602.1**	**136.8**	**(62.3)**	**108.9**
Technical provisions	1,229.8	7.8	1,154.4	81.2	(75.3)	73.4
Other Liabilities	13.4	0.0	13.4	5.2	0.0	5.2
Total liabilities	**1,243.1**	**7.8**	**1,167.8**	**86.4**	**(75.3)**	**78.6**
Tier 1 basic own funds	421.3	20.1	434.3	50.4	13.0	30.3
Tier 2 ancillary own funds	115.0	0.0	115.2	0.0	0.2	0.0
Tier 3 own funds	0.0	0.0	0.0	0.0	0.0	0.0
Total capital	**536.3**	**20.1**	**549.5**	**50.4**	**13.2**	**30.3**

Source: UKC, R&Q Gamma. R&Q Gamma figures converted assuming £1 = USD1.36

The table above shows simplified Solvency II balance sheets for UKC and R&Q Gamma pre- and post- the Proposed Transfer. The impact of the transfer is that $75.3m or around 6% of UKC's total Solvency II liabilities are expected to be transferred out of UKC.

Whilst there have been movements in certain balance sheet items from the version presented in my Scheme Report, the monetary impact of the transfer on UKC and R&Q Gamma is materially the same. Where relevant, we have highlighted these changes in the summary below.

Key movements – UKC

The key movements in the balance sheet for UKC are as follows:

- $9.4m increase in participations due to an increase in the value of UKB driven by:
  - the value of the liabilities transferred being higher than the assets transferred (ie the price agreed with R&Q); and
  - a fall in the risk margin ($3.1m decrease) due to the SCR now being expected to run off more quickly following the transfer of the long-tailed OD liabilities.
- $6.4m decrease in investments, which forms a portion of the assets being transferred to R&Q Gamma. A total of $68m is expected to be transferred to R&Q Gamma, the majority of which will come from UKB to recognise the decrease in quota share reinsurance recoverables due to UKC following the Proposed Transfer.
- $65.3m decrease in reinsurance recoverables driven by the 90% quota share with UKB (the OD liabilities are reinsured by the quota share with UKB and these liabilities will no longer be covered following the Proposed Transfer). This compares to a larger decrease of $72.5m stated in my Scheme Report, a difference of $7.3m. This reflects the reduction in gross reserves for OD liabilities and therefore less anticipated reinsurance recoveries.
- $75.3m decrease in technical provisions due to the OD liabilities being transferred out of UKC following the Proposed Transfer. This compares to a larger decrease of $82.7m stated in my Scheme Report, a difference of $7.4m, again following the reduction in gross reserves for OD liabilities.

Overall UKC's capital increases by $13.2m (compared to $12.5m in my Scheme Report). This is driven by the reductions in the risk margins for UKC and UKB, as well as the expected value of the OD liabilities on a discounted Solvency II basis being higher than the assets transferred to R&Q Gamma.

Key movements – R&Q Gamma

The key movements in the balance sheet for R&Q Gamma are as follows:

- $100.1m increase in investments is driven by the assets expected to be transferred from UKC and UKB ($68m) and the $34m (£25m) capital contribution from the R&Q Group, partially offset by the reinsurance premium paid to AIEL ($4m).
- $7.4m increase in reinsurance recoverables, which is R&Q Gamma's best estimate of the amount recoverable under the new ADC reinsurance with AIEL.
- $73.4m increase in technical provisions as a result of the OD liabilities being transferred from UKC. This increase is lower than the decrease in UKC's technical provisions because, as discussed in section 4.3, R&Q Gamma have a lower reserve estimate on the OD liabilities than UKC. The difference is smaller than that shown in my Scheme Report since UKC's technical provisions as at 20 February 2022 reflect the 2020 changes made to the AWP model, bridging some of the gap to R&Q Gamma's reserve estimate of the OD liabilities.
- $5.2m increase in other liabilities as a result of a tax charge.

Overall R&Q Gamma's capital increases by $30.3m (compared to $29.6m in my Scheme Report), driven by the $34m (£25m) capital contribution by the R&Q Group into R&Q Gamma.

For the avoidance of doubt, although the capital contribution from the R&Q Group will be paid into R&Q Gamma no later than one week prior to the Sanctions Hearing, the pre-transfer figures above do not include this capital contribution.

6.2. Updated reinsurance arrangements with AIEL

Reinsurance – New ADC arrangement post-transfer

As discussed in section 7.4 of my Scheme Report, on the Effective Date of the Proposed Transfer, the existing ADC in respect of the Transferring Business will terminate and R&Q Gamma will enter into a new ADC reinsurance arrangement with AIEL. This reinsurance will be in respect of the Transferring Business only, ie excluding the EEA risks. I explained in my Scheme Report that the new ADC reinsurance contract between R&Q Gamma and AIEL was still draft, with the final attachment level to be confirmed following any movements in paid claims.

I have now reviewed the final agreed ADC reinsurance contract between R&Q Gamma and AIEL. The reinsurance will attach at £47.3m ($64.6m) - the draft contract outlined in my Scheme Report attached at £47.9m - with a limit of £55.0m ($75.1m) - the same as in the Scheme Report. AIEL will therefore cover losses between £47.3m and £102.3m ($64.6m to $139.6m).

Conclusion on reinsurance – AIEL

AIEL is a member of the R&Q Group and is fully aware of the Proposed Transfer. Indeed, AIEL has actively been involved in the discussions with UKC around the Proposed Transfer. As a result of the new ADC reinsurance arrangement with R&Q Gamma, AIEL will receive additional premium of £3.2m to compensate for the lower attachment point and higher limit.

AIEL's SCR coverage ratio is expected to decrease from 194% to 175% as a result of the Proposed Transfer. AIEL is therefore expected to remain well capitalised following the proposed Transfer. Whilst the updated Day 1 SCR coverage ratio is lower than that stated in my Scheme Report (175% versus 206%), the reasons for this are well understood. The probability of insolvency is already remote at 175% and so the difference in capital coverage ratios of 175% and 206% does not, in my opinion, equate to a material difference in the probability of insolvency.

I am therefore satisfied that AIEL continues not to be materially adversely affected by the Proposed Transfer.

As discussed in sections 4.4 and 5.2, I am also satisfied that the new ADC reinsurance with AIEL provides both Transferring Policyholders and Existing R&Q Gamma Policyholders with sufficient protection such that they are not materially adversely affected by the Proposed Transfer.

6.3. Overall conclusion: Policyholder security

Based on the analysis set out above, I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that policyholders will not be materially adversely affected by the Proposed Transfer.

7. Policyholder communications

As IE, my overall assessments related to policyholder communications are:

- the appropriateness of UKC and R&Q Gamma's communication strategy to inform policyholders of the Proposed Transfer.
- whether the policyholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them.

These assessments were considered in section 8 of the Scheme Report.

In this Supplementary Report, I have also considered the following:

- Policyholder responses to UKC and R&Q Gamma's communications; and
- Policyholder objections to the Proposed Transfer.

7.1. Policyholder responses to UKC and R&Q Gamma's communications

UKC and R&Q Gamma have confirmed that communications with policyholders have been carried out in line with the communications plan agreed with the High Court at the Directions Hearing on 30 July 2021. In total, communications were sent to 2,730 policyholders. Communication packs were issued on 23 August 2021.

As at 12 November 2021, which was the latest available data prior to finalising this Supplementary Report, UKC and R&Q Gamma had received 222 policyholder responses. The reasons for the contact are summarised in the following table:

Reason	Number of responses	% of notifications sent
General enquiry	13	0.5%
Returns	209	7.7%
Objection	0	0.0%
Complaint	0	0.0%
Technical enquiry	0	0.0%
Other	0	0.0%
Total	**222**	**8.1%**

The only policyholder responses received have related to general enquiries on the policies and returns of communication packs where the policyholder was not at the address held. I am satisfied with the categorisation of responses as set out in the table above. More detail on the returns is set out below. Based on a sample review of the queries, I am satisfied that responses, and subsequent actions, to these have been provided in an appropriate and timely manner.

Returns

As at 12 November 2021, 209 communication packs had been returned because the policyholder was not at the address held. UKC and R&Q Gamma have attempted to locate alternative contact details for these policyholders. As a result of these efforts, potential new addresses have been identified for 121 policyholders and communication packs have been reissued. Of the 121 communications that have been reissued, 7 have since been returned again.

UKC and R&Q Gamma have been unable to contact 92 policyholders, either because tracing efforts have been unsuccessful in identifying an alternative address (64 policyholders) or because the relevant company has been dissolved or liquidated (28 policyholders).

The majority of the 64 policyholders for whom UKC and R&Q Gamma have been unable to identify an alternative address are UKC policyholders (51 returns or 2.8% of the 1843 letters issued) or R&Q Gamma Anglo French policyholders (11 returns or 3.2% of the 348 letters issued). It is not surprising that it has not been possible to contact some policyholders from these groups as these typically relate to policies sold many years ago. In the case of Anglo French, policies were sold between 1958 and 1969. In total, the 64 policyholders represent only 2.3% of the total number of communication packs issued. Based on this analysis, in my opinion, the level of returns does not give me any cause for concern.

UKC and R&Q Gamma have been reissuing communication packs to policyholders on an ongoing basis after receiving returns, with packs typically reissued by the following Friday the week after they were received. Over 85% of the returns to date were received by 4 October 2021 and, where an alternative address was found, communication packs for these returns were reissued on or before 15 October 2021. This means that, in my opinion, the vast majority of policyholders who have received reissued letters will have had sufficient time to consider the information and raise queries or objections.

Based on the above analysis, I am satisfied that UKC and R&Q Gamma have made reasonable efforts to trace and notify policyholders where the original communications had been returned. In the case of those 64 policyholders that UKC and R&Q Gamma have been unable to reach directly, such policyholders may have access to information from the wider communications, including the notices placed in newspapers and on the company websites. Further, in the event that a transferring policyholder who has not been contacted presents a claim, I am satisfied that there are processes in place to ensure claimants are directed to R&Q Gamma as the insurer.

Although it has not been possible to contact some policyholders directly, I am satisfied that this does not affect my overall conclusions in respect of the Proposed Transfer.

7.2. Policyholder objections to the Proposed Transfer

To date, no policyholder objections have been received.

7.3. Overall conclusion: Policyholder communications

The communications have been carried out in line with the communications plan agreed with the High Court at the Directions Hearing on 30 July 2021. I have not identified any objections or complaints that have caused me to change my overall conclusions related to the Proposed Transfer. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded the communications strategy will ensure adequate coverage of affected parties.

I have also concluded that the planned communication is sufficiently clear for policyholders to understand the effects of the Proposed Transfer and that UKC and R&Q Gamma have sufficient resources to deal with any objections, enquiries or complaints received following the Part VII communication exercise.

8. Customer service and other considerations

The assessments related to the customer service and other considerations were considered in section 9 of the Scheme Report.

8.1. Customer service

As explained in section 9.1 of my Scheme Report, the Transferor maintains an employer's liability register on which it includes details of vessels insured by it and employer's liability claims made on or after 20 February 2011 under policies issued by it. This approach varies slightly from the requirements of the FCA's rules, and the Transferor has obtained a waiver from the FCA which modifies the rules they apply to the Transferor accordingly.

As required by the FCA, the Transferee will be maintaining a register on the same basis relating to employers' liability risks within the Transferring Risks following the Effective Date. It will also seek a waiver from the FCA permitting it to adopt the same approach as is currently adopted by the Transferor in relation to the Transferring Risks, to take effect on the Effective Date. As a result, the ability of employees to identify the insurer liable to indemnify their employer in respect of employers' liability claims will not be affected by the Scheme.

There have been no changes related to customer service since my analysis included in the Scheme Report. In particular, it remains the case that RQCS have been performing all claims handling for the current UKC OD liabilities since March 2020 and will continue to do so following the Proposed Transfer. As part of the agreement between UKC and R&Q Gamma, UKC's main claims handler for the OD liabilities moved across to RQCS. This arrangement provides policyholders with continuity of service in respect of claims handling.

Further, in my Scheme Report I reviewed the services agreements between UKC and RQCS and between R&Q Gamma and RQCS. Following the Proposed Transfer:

- Oversight of claims handling will be provided by R&Q Gamma instead of UKC. Under the current arrangement with UKC, RQCS will refer all claims in excess of $100,000 to UKC and AIEL as the reinsurer. In all such claims reported to date, both UKC and AIEL have accepted the claims reserve proposed by RQCS. The same threshold of $100,000 will apply following the Proposed Transfer, but claims will be referred to R&Q Gamma instead of UKC.
- Any complaints in respect of the services provided by RQCS will be notified to R&Q Gamma instead of UKC. In both cases, the respective claims policies specify that a complaint should be acknowledged within 5 working days and that a full response must be provided to the complainant within 20 working days. There have been no complaints received to date in respect of RQCS's handling of the OD liabilities.

As such, I do not expect that policyholders will receive a materially different level of customer service following the Proposed Transfer.

In respect of policyholder administration and claims handling, ie the policyholder experience, my conclusions from the Scheme Report remain unchanged.

8.2. Conduct risk

In the context of the Transferring Policyholders, the aspects of conduct risk that I have considered are those related to claims settlement and ongoing servicing of policies.

I have reviewed the conduct risk policies of UKC and R&Q Gamma. In particular, I have considered whether there are any conduct risks that could be materially different following the Proposed Transfer. These considerations primarily focus on Transferring Policyholders and the potential conduct risks in respect of R&Q Gamma as the Transferee.

R&Q Gamma's conduct risk policies are set at the group level and apply to all companies within the R&Q Group. R&Q defines conduct risk as "the risk that the conduct of an entity causes poor outcomes for customers".

The R&Q Group's conduct risk policy is focused on ensuring the following consumer outcomes:

- Corporate culture – Consumers can be confident that they are dealing with a firm where the fair treatment of customers is central to the corporate culture.
- Design and marketing – Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.

- Clear information – Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
- Advice – Where consumers receive advice, the advice is suitable and takes account of their circumstances.
- Products and services – Consumers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect.
- Post sale barriers – Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

In the context of the Proposed Transfer, I consider the key relevant outcomes above to be "Corporate culture", "Clear information", "Products and services" and "Post sale barriers."

In addition to the policy statements set out above, the R&Q Group's approach to conduct risk is outlined by the following principles:

- Treating customers fairly – to "always act honestly, fairly and professionally in accordance with the best interests of their customers".
- Proportionality – oversight measures should be proportionate to the nature and complexity of products as appropriate, and will be reviewed as the business develops.
- Testing – to perform annual reviews of complaints relating to products and analysis of premium, claims and business retention information.
- Product monitoring and review – to review its products on an annual basis.

The R&Q Group has procedures in place to ensure that business in conducted in accordance with its conduct risk policies. This includes:

- Training for all relevant staff, including conduct risk awareness and continuous professional development.
- Review of the training records for all staff by the R&Q Human Resources Department.
- Review of the complaints register, which contains details of all complaints received, R&Q Gamma's responses and the outcome of each complaint.
- Management information provided to the board to enable the prompt identification, investigation and remediation of any issues.

I have reviewed R&Q Gamma's conduct risk policies and am satisfied that these are in line with market practice and that appropriate procedures are in place for mitigating conduct risks. Further, in reaching my conclusions in respect of conduct risk I also note the following:

- As part of the agreement between UKC and R&Q Gamma, UKC's main claims handler for the OD liabilities moved across to RQCS. There have been no complaints received to date in respect of RQCS's handling of the OD claims since March 2020.
- The R&Q Group is a specialist provider of run-off solutions for legacy books of business and has significant experience in managing run-off liabilities. R&Q Gamma itself has previously completed two Part VII transfers and a number of other Part VII transfers have been completed to entities in the wider R&Q Group.
- UK P&I and R&Q Gamma are both regulated by the Financial Conduct Authority (FCA) on conduct matters and I would not expect the conduct regulation to change for policyholders due to the Proposed Transfer.

I am therefore satisfied that Transferring Policyholders are not materially adversely affected by conduct risk aspects of the Proposed Transfer.

8.3. Impact on liquidity position

Given limited movements in the updated projected balance sheets for UKC and R&Q Gamma immediately pre- and post- the Proposed Transfer provided to me for my Supplementary Report, I anticipate no material adverse impacts on the liquidity position for any group of policyholders as a consequence of the Proposed Transfer.

UKC does not expect any material cashflow risk given liquidity is available from premium income from new business. Similarly, R&Q Gamma does not expect any material cashflow risk given it monitors liquidity risk as part of its ORSA process; invests mainly in government bonds and corporate bonds which are normally readily convertible into cash; and can also recall funds from the R&Q Group to cover any short-term deficit.

8.4. Overall conclusion: Customer service and other considerations

Since the Scheme Report, there have been no material changes to the Proposed Transfer that affect my analysis on customer service and other aspects of the Proposed Transfer. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that no material impact on service standards (or any other considerations within this section of the report and section 9 of the Scheme Report) is expected following the Proposed Transfer.

9. Conclusions and Statement of Truth

9.1. Conclusion

I have considered the Proposed Transfer and its likely effects on the Non-transferring Policyholders, the Transferring Policyholders, the Existing R&Q Gamma Policyholders and the transferring reinsurers.

In reaching the conclusions set out below, I have applied the principles as set out in relevant professional guidance, being the Technical Actuarial Standards (TASs) TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance.

I have concluded that:

- The security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.
- The security provided to Transferring Policyholders is unlikely to be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.
- The security provided to Existing R&Q Gamma Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Existing R&Q Gamma Policyholders following the Proposed Transfer.
- Reinsurers of UKC who provide cover for the transferring business will not be materially adversely affected by the Proposed Transfer.

9.2. IE duty and declaration

My duty to the High Court overrides any obligation to those from whom I have received instructions or paid for this Report. I confirm that I have complied with that duty.

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 I have expressed represent my true and complete professional opinions on the matters to which they refer.

I confirm that I am aware of the requirements applicable to experts in Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Guidance for the Instruction of Experts in Civil Claims 2014. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I have understood and complied with my duty to the Court.

Charl Cronje FIA
Partner

19 November 2021

Professional standards

Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 200: Insurance.

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Appendix 1 – Summary of data provided

The following is a list of the key data items I have requested and received in assessing the Proposed Transfer for the purpose of this Supplementary Report. I continue to also rely on all data items received that are listed in Appendix 4 of the Scheme Report. All data I have requested has been provided to me. Each of UKC and R&Q Gamma has provided a data accuracy statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

- Draft High Court and regulatory documents prepared by UKC and R&Q Gamma for the Proposed Transfer, including:
  - UKC second witness statement (dated 18 November 2021)
  - R&Q Gamma second witness statement (dated 18 November 2021)
  - Sanction order (dated 18 November 2021)
- Responses and objections from stakeholders to the Proposed Transfer
  - Summary of the communications received from policyholders (as of 12 November 2021)
  - Number of objections received to date and a summary of the nature of the objections (as of 12 November 2021)
- Documents relating to provisions and reserving processes, including:
  - UKC actuarial reserving report (as at 20 February 2021)
  - UKC occupational disease reserving report (as at 20 February 2021)
  - UKC report on the impact of the AWP 2020 model update (based on data as at 20 February 2021)
  - R&Q Gamma summary of reserves for the existing business (as at 30 June 2021)
  - Reserving scenarios for R&Q Gamma post-transfer
- Documents relating to capital and related processes, including:
  - Projections of future balance sheets and capital requirements at the point of the proposed transfer for UKC and R&Q Gamma
  - Projections of future balance sheets and capital requirements up to 31 December 2024 for R&Q Gamma
  - Capital scenarios for R&Q Gamma post-transfer
- Other evidence prepared by UKC and R&Q Gamma to support the Proposed Transfer, including:
  - Draft memorandum on the US Trust Fund
  - The final signed ADC reinsurance contract between R&Q Gamma and AIEL (dated 17 November 2021)
- Data accuracy statement
  - UKC and R&Q Gamma have provided a data accuracy statement confirming that the data provided to me regarding the Proposed Transfer are accurate and complete.
  - UKC and R&Q Gamma have read this IE Scheme Report and each has confirmed that it is correct in terms of all factual elements of the Proposed Transfer.

At LCP, our experts provide clear, concise advice focused on your needs. We use innovative technology to give you real time insight & control. Our experts work in pensions, investment, insurance, energy and employee benefits.

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