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

19 February 2020

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1 Introduction

1.1 SCOR UK Company Limited (“SCOR UK”) and R&Q Gamma Company Limited (“R&Q Gamma”) have jointly nominated Simon Sheaf ("I" or "me") of Grant Thornton UK LLP ("Grant Thornton", "we" or "us") to act as the Independent Expert for the proposed insurance business transfer of part of the insurance business of SCOR UK to R&Q Gamma ("the Scheme"). The Scheme is intended to be effected on 5 March 2020 ("the Effective Date").

Scope of this report

1.2 I prepared a report addressed to the High Court of Justice, England and Wales (“the Court”) dated 5 November 2019 and entitled “Report by Simon Sheaf FIA FSAI, Independent Expert, on the Proposed Transfer of a Portfolio of Policies from SCOR UK Company Limited to R&Q Gamma Company Limited” (“the Report”). The Report sets out my considerations as to the likely effects of the proposed Scheme on the policyholders of SCOR UK and R&Q Gamma. This included my assessment as to whether the Scheme will result in material detriment to any policyholders affected by the Scheme relative to their current situation.

1.3 The conclusions within the Report were based on financial information as at 31 December 2018 and other information available to me when I prepared the Report. Since submitting the Report to the Court, I have been provided with more recent information. A list of the additional information that I have been provided with is contained within Appendix A.

1.4 This report (“the Supplementary Report”) provides an update to the conclusions I set out in the Report in light of this additional information. It also considers any other changes that have occurred since the Report was submitted and provides an update to the conclusions set out in the Report in light of those changes. In addition, this report also provides my opinion on the communications received in respect of the Scheme from policyholders and other interested parties of SCOR UK and R&Q Gamma.

1.5 I am not aware of any further matters not discussed in this report that have the potential to change the conclusions in the Report.

Layout of this report

1.6 This report is structured as follows:

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

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

Independence

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

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

Use of this report

1.9 This Supplementary Report should be read in conjunction with the Report as reading this report in isolation may be misleading. In particular, this report has an analogous scope and is subject to the same reliances and limitations and restrictions on distribution and use as the Report. All abbreviations and technical terms used in this Supplementary Report have the same meaning as in the Report.

1.10 This report is provided for the use of the Court, the SCOR UK Board, the R&Q Gamma Board, SCOR UK's policyholders, R&Q Gamma's policyholders, the PRA, the FCA and any other relevant regulator for the sole purpose of considering the impact of the Scheme on the affected policyholders.

1.11 Copies of the final version of this report may be made available for inspection by policyholders and copies may be provided to any person requesting the same in accordance with legal requirements. The final version of this report may also be made available on websites hosted by or on behalf of R&Q Gamma in connection with the Scheme.

1.12 However, notwithstanding the above, Grant Thornton does not accept any liability to any party other than SCOR UK, R&Q Gamma and the Court who chooses to act on the basis of any of the reports we have issued in connection with the Scheme.

1.13 Judgements about the conclusions drawn in this report should only be made after considering the report in its entirety as any part or parts read in isolation may be misleading.

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

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

Professional Guidance

1.17 As an Independent Expert reporting to the Court, I am required to act in accordance with Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Guidance for the Instruction of Experts in Civil Claims. Accordingly, this report is prepared for the assistance of the Court and I confirm that I understand my duty to the Court and have complied with that duty.

1.18 This report has been prepared under the terms of the Statement of Policy produced by the PRA in April 2015, namely "The Prudential Regulation Authority's approach to insurance business transfers" and the guidance set out in Chapter 18 of the Supervision Manual ("SUP18") contained in the FCA Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. In addition, this report has been prepared in accordance with the FCA's guidance paper entitled "The FCA's approach to the review of Part VII insurance business transfers".

1.19 In my opinion, this report has been produced in line with the requirements of the Technical Actuarial Standards ("TASs") issued by the Financial Reporting Council ("FRC"). In particular, this report has been prepared in accordance with TAS 100: Principles of Technical Actuarial Work and TAS 200: Insurance.

1.20 This report has also been produced in line with the requirements of APS X3: The Actuary as an Expert in Legal Proceedings produced by the IFoA.

1.21 In addition, this report has been internally peer reviewed in line with the requirements of APS X2: Review of Actuarial Work, issued by the IFoA.

Statement of truth

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

2 Executive Summary

My approach

2.1 In preparing this report, I have considered relevant events and experience since completing the Report and their impact on the conclusions set out in the Report. In particular, I have sought to:

- Understand changes to SCOR UK and R&Q Gamma since the Report, both financial and non-financial
- Understand the impact of changes in the external environment on SCOR UK and R&Q Gamma
- Consider the implications of these changes on the level of security provided to the affected policyholders
- Consider the potential impact of changes since the Report on levels of customer service
- Consider the changes in other factors that might affect policyholders since the Report
- Consider the implication of changes since the Report on reinsurers.

2.2 Since the Report was issued, I have been provided with balance sheet information based on figures as at 30 September 2019 for each of SCOR UK and R&Q Gamma. In addition, I have held discussions with SCOR UK and R&Q Gamma and have been provided with confirmation from them of the changes in respect of financial and non-financial factors relating to SCOR UK and R&Q Gamma.

2.3 I have also considered the correspondence with policyholders of SCOR UK and R&Q Gamma that has taken place in connection with the Scheme and the responses received up to 18 February 2020.

Findings

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

Policyholder security

Transferring policyholders

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

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

2.7 In the Report this conclusion was predicated on the fact that, prior to the Effective Date, R&Q Gamma would put the ADC in place with AIEL as discussed in paragraph 1.20 of the Report. As set out in paragraph 3.3 of this report, the ADC has been signed by the Boards of both R&Q Gamma and AIEL. It will come into force on the Effective Date, providing the Scheme is sanctioned. As the Scheme cannot become effective unless the ADC is in place, I have no longer predicated my conclusion on the ADC coming into effect.

Policyholders remaining in SCOR UK

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

Existing policyholders of R&Q Gamma

2.9 In my opinion, the existing policyholders of R&Q Gamma will be impacted by the Scheme. However, my opinion is that the existing policyholders of R&Q Gamma will not be materially adversely impacted and this is discussed in the paragraphs below.

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

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

2.12 In addition, the existing reinsurance policyholders of R&Q Gamma currently rank below the direct policyholders of R&Q Gamma in the event of an insolvency. Following the Scheme, the existing reinsurance policyholders of R&Q Gamma would rank below both the direct policyholders of R&Q Gamma and the direct policyholders in the Transferring Portfolio. This means that there is a higher chance of the existing reinsurance policyholders' claims not being paid by R&Q Gamma in the event of insolvency.

2.13 Whilst the points discussed in paragraphs 2.10 to 2.12 adversely impact the existing policyholders of R&Q Gamma, I do not consider this to be represent a material adverse impact in the policyholders' security because I consider that R&Q Gamma will have a sufficient level of capital to meet policyholder obligations following the Scheme.

2.14 In the Report this conclusion was predicated on the fact that, prior to the Effective Date, R&Q Gamma would put the ADC in place with AIEL as discussed in paragraph 1.20 of the Report. As set out in paragraph 3.3 of this report, the ADC has been signed by the Boards of both R&Q Gamma and AIEL. It will come into force on the Effective Date, providing the Scheme is sanctioned. As the Scheme cannot become effective unless the ADC is in place, I have no longer predicated my conclusion on the ADC coming into effect.

Levels of service

2.15 The transferring policyholders are currently with an insurer for which the management of a run-off book does not form a core element of its business strategy. SCOR UK therefore does not have the specialist resources for managing a run-off portfolio of this nature and therefore currently outsources the management to RQCS. By comparison, the management of run-off portfolios is a core element of R&Q Gamma's strategy.

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

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

2.18 Therefore, I do not anticipate any material changes to the level of service provided to any of the groups of policyholders following the Scheme. This is discussed in Section 8 of this report.

Other financial and non-financial considerations

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

2.20 The other financial factors that I have considered are:

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

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

- Regulatory regime
- Complaints
- Brexit
- Management and governance framework
- The judgement of Mr Justice Snowden in relation to the proposed transfer of insurance business from Prudential Assurance Company Limited to Rothesay Life Limited
- Recognition of the Scheme in the US.

Impact on reinsurers

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

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

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

Conclusion

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

2.26 In paragraph 2.39 of the Report this conclusion was predicated on the fact that, prior to the Effective Date, R&Q Gamma would put the ADC in place with AIEL as discussed in paragraph 1.20 of the Report.

As set out in paragraph 3.3 of this report, the ADC has been signed by the Boards of both R&Q Gamma and AIEL. It will come into force on the Effective Date, providing the Scheme is sanctioned. As the Scheme cannot become effective unless the ADC is in place, I have no longer predicated my conclusion on the ADC coming into effect.

3 Business developments

SCOR UK

3.1 I understand from SCOR UK that there have been no material changes in its business since the Report was issued.

R&Q Gamma

ADC

3.2 As discussed in paragraph 1.20 of the Report, an ADC was to be put in place between R&Q Gamma and AIEL to provide protection to R&Q Gamma in respect of downside risks relating to the Transferring Portfolio.

3.3 The ADC has been signed by the Boards of both R&Q Gamma and AIEL. It will come into force on the Effective Date, providing the Scheme is sanctioned.

3.4 The ADC will provide R&Q Gamma with protection if the losses in respect of the Transferring Portfolio that are paid following the Scheme exceed a certain attachment point. The attachment point in the ADC has been changed since the Report. It has now been set at £9.55m as agreed by both R&Q Gamma and AIEL. The implications of the ADC being in place are discussed in my stress testing in Section 5.

3.5 As specified in the Scheme document, the Scheme will not proceed unless the ADC has been entered into and will be in effect on the Effective Date.

Intra-group loans

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

3.7 I understand from R&Q Gamma that it is in the process of reducing its intra-group loan to RQIH.

3.8 I understand that RQIH repaid £5.0m of the intra-group loan to R&Q Gamma by 30 September 2019 and therefore at 30 September 2019, the outstanding value of the loan was £9.2m on a UK GAAP basis and £9.0m on a Solvency II basis.

Capital extraction

3.9 As discussed in paragraph 4.25 of the Report, during 2019, R&Q Gamma planned to action a capital reduction for a further £5.0m (also £5.0m on a Solvency II basis) which would have been implemented by way of a loan waiver. In order to do so, approval would have been required from the PRA for the capital reduction.

3.10 I understand from R&Q Gamma that it decided not to apply for this capital extraction in 2019. I further understand from R&Q Gamma that it will not now apply for this capital extraction prior to the Scheme becoming effective. I also understand from R&Q Gamma that it will discuss the capital extraction further with the PRA later in 2020 and that the capital extraction will be dependent on how the business continues to perform following the Scheme. As discussed in paragraph 6.26 of the Report, for insurers that are in run-off, any capital extraction requires approval from the PRA.

3.11 As R&Q Gamma is still considering a capital extraction, I have continued to consider Scenario A (the scenario where R&Q Gamma distributes £5m of capital) from the Report. This is a more conservative position than will be the case at the Effective Date.

Other developments

3.12 I understand from R&Q Gamma that there have been no other material changes in its business since the Report was issued.

Regulatory developments

Brexit

3.13 At the time of writing the Report, it was expected that the UK would have left the EU by 31 October 2019. The withdrawal of the UK from the EU took place on 31 January 2020 and has now entered a transition period until 31 December 2020 while the EU and UK negotiate additional arrangements.

3.14 As at the time of writing this report, nothing has been decided on the future relationship of the UK with the EU following Brexit.

3.15 I discuss the impact of Brexit in Section 8 of this report.

Other developments

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

4 Claims reserves

Process for setting reserves

4.1 I understand from SCOR UK that there have been no changes to the process surrounding the calculation and setting of reserves for SCOR UK since the Report.

4.2 I understand from R&Q Gamma that there have been no changes to the process surrounding the calculation and setting of reserves for R&Q Gamma since the Report.

Reserve strength of the Transferring Portfolio

Claims reserves

4.3 Neither SCOR UK nor R&Q Gamma has undertaken an actuarial reserve review in respect of the Transferring Portfolio since those that I was provided with for the Report. As a result, both SCOR UK and R&Q Gamma have maintained their estimates of the ultimate cost of claims in original currency in respect of the Transferring Portfolio in line with those that I set out in the Report.

4.4 The claims reserves estimated by each of R&Q Gamma and SCOR UK, as displayed in Table 7.3 of the Report have been reduced by the paid claims between 31 December 2018 and 30 September 2019.

4.5 I understand from AIEL that it commissioned an external actuarial review of all of its reserves, including the Transferring Portfolio, as at 30 September 2019. I have been provided with the report produced by the external actuarial consultant. The Transferring Portfolio is a small component of AIEL and as a result is only discussed to a limited extent within that report. I have reviewed the CVs of the individuals who were responsible for the analysis. Based on these, I am satisfied that they are sufficiently experienced individuals conducting the reserving analysis. The results of this analysis were materially consistent with the results of the analysis performed by the R&Q Group as at 31 December 2018 (0.3% difference in the claims reserves).]

4.6 I understand from SCOR UK that, as the Transferring Portfolio is fully reinsured and is expected to transfer within the next few months, it does not expect to undertake another actuarial review in respect of the Transferring Portfolio.

4.7 The table below sets out the actuarial best estimate of the reserves of the Transferring Portfolio as estimated by each of SCOR UK and R&Q Gamma as at 31 December 2018 as shown in table 7.3 of the Report.

Table 4.1: Actuarial best estimate of reserves of the Transferring Portfolio at 31 December 2018 (£m)

	SCOR UK estimate	R&Q Gamma estimate	Difference
Actuarial Best Estimate	8.7	5.7	3.0

4.8 The table below shows the booked claims reserves for SCOR UK and the R&Q Group as at each of 31 December 2018 and 30 September 2019.

Table 4.2: Booked claims reserves of the Transferring Portfolio at each of 31 December 2018 and 30 September 2019 (£m)

	SCOR UK			R&Q Group		
£m	**31 December 2018**	**30 September 2019**	**Difference**	**31 December 2018**	**30 September 2019**	**Difference**
Booked Reserve	7.6	7.6	-0.1	5.7	5.6	-0.1

4.9 As can be seen from table 4.2 above, the total reserves of the Transferring Portfolio have reduced since the Report. This is as a result of claims paid in the period.

4.10 As mentioned in paragraph 4.4, the approach adopted by both SCOR UK and R&Q Gamma to updating the reserves in respect of the Transferring Portfolio as at 30 September 2019 is a roll forward.

4.11 In order to satisfy myself that it is appropriate to maintain the ultimate claims from the most recent reserve review, I have performed a number of analyses. In particular, I have considered:

- The IBNR-outstanding ratio for the R&Q Group's booked reserve is now 131% compared to 130% at 31 December 2018
- The IBNR-outstanding ratio for SCOR UK's booked reserve is now 213% compared to 223% at 31 December 2018
- The survival ratio for the R&Q Group's booked reserve is now 12.9 years compared to 13.5 years at 31 December 2018
- The survival ratio for SCOR UK's booked reserve is now 19.6 years compared to 20 years at 31 December 2018
- The reserving analysis conducted by the external firm of actuaries for AIEL as at 30 September 2019

4.12 As a result of the above, I have no reason to change my conclusions in respect of the reserve strength of the Transferring Portfolio.

Solvency II Technical Provisions

4.13 The table below shows the Solvency II Technical Provisions for SCOR UK and the R&Q Group as at each of 31 December 2018 and 30 September 2019.

Table 4.3: Solvency II Technical Provisions for the Transferring Portfolio at each of 31 December 2018 and 30 September 2019

	SCOR UK			R&Q Group		
£m	**31 December 2018**	**30 September 2019**	**Difference**	**31 December 2018**	**30 September 2019**	**Difference**
Solvency II Technical Provisions	8.4	9.0	0.6	4.8	5.2	0.4

4.14 As can be seen from the above, the Solvency II Technical Provisions for both SCOR UK and the R&Q Group have increased between 31 December 2018 and 30 September 2019. This is because there was a shift in the yield curve used to discount the Technical Provisions between 31 December 2018 and 30 September 2019. As a result, the credit for discounting was lower at 30 September 2019 than it was at 31 December 2018.

4.15 It can also be seen from the table above that the difference between SCOR UK's estimate and the R&Q Group's estimate of the Solvency II Technical Provisions has increased slightly from £3.6m to £3.8m.

4.16 I have no reason to change the conclusions in respect of the Solvency II Technical Provisions for the Transferring Portfolio. This is because:

- The processes for each of SCOR UK and the R&Q Group have not changed between 31 December 2018 and 30 September 2019
- The increases in the Solvency II Technical Provisions for each of SCOR UK and the R&Q Group are broadly consistent in percentage terms since the movements for both parties are driven by the shift in the yield curve.

Impact of alternative Solvency II Technical Provisions

4.17 Given the differences between SCOR UK and R&Q Gamma's estimates of the claims reserves and Solvency II Technical Provisions, and the uncertainty surrounding those reserves, I have considered the impact of using SCOR UK's estimate on the capital position of R&Q Gamma in Section 5 in the same manner that I did in the Report.

Reserve strength of the Remaining Portfolio

4.18 SCOR UK produces a reserving report on an annual basis and as such the latest reserving report in respect of the Remaining Portfolio is as at 31 December 2018, which I was provided with for the Report.

4.19 I have been provided with the latest reserves for the Remaining Portfolio as at 30 September 2019. The booked reserves, net of reinsurance, have reduced from £335.3m as at 31 December 2018 to £284.8m as at 30 September 2019.

4.20 The Solvency II Technical Provisions, net of reinsurance, for the Remaining Portfolio have reduced from £245.3m as at 31 December 2018 to £213.0m as at 30 September 2019.

4.21 I understand from SCOR UK that the main reason for the reduction on both bases is because claim settlements have proceeded at a faster pace than new losses have occurred for the Remaining Portfolio.

4.22 I have received confirmation that the process for setting reserves within SCOR UK has not changed materially since the Report. Given this, I have not sought to undertake any further analysis in respect of the reserve strength of the Remaining Portfolio.

4.23 As a result, I have no reason to change the conclusions contained within the Report with respect to the reserve strength of SCOR UK.

4.24 Additionally, SCOR UK has used the same approach to calculate Solvency II Technical Provisions as described in the Report, and as a result I consider the Solvency II Technical Provisions for the Remaining Portfolio as at 30 September 2019 to be reasonable.

Reserve strength of the Existing R&Q Gamma Portfolio

4.25 R&Q Gamma has performed an additional analysis of the claims reserves as at 30 September 2019 for the Existing R&Q Gamma Portfolio. The table below sets out the outstanding claims reserves (including IBNR), net of reinsurance, for the Existing R&Q Gamma Portfolio as at 31 December 2018 and 30 September 2019.

Table 4.4: Outstanding claims reserves of the Existing R&Q Gamma Portfolio at 31 December 2018 and 30 September 2019

	31 December 2018		30 September 2019	
£m	**RLGIL Portfolio**	**SIMIA Portfolio**	**RLGIL Portfolio**	**SIMIA Portfolio**
Outstanding claims reserve	0.4	4.0	0.4	2.2

4.26 The above table shows that the outstanding claims reserves for the RLGIL Portfolio have been maintained at the same level. There has been limited claim movement for the RLGIL Portfolio gross of reinsurance, and almost no claim movement net of reinsurance.

4.27 In addition, it can be seen from the above table, that the net of reinsurance reserves for the SIMIA Portfolio have reduced by £1.8m between 31 December 2018 and 30 September 2019. This is principally due to claims being paid during the year. The claims that have been paid were in line with the case estimates that were held in respect of those losses. The incurred claims have remained constant between 31 December 2018 and 30 September 2019.

4.28 The gross IBNR-to-outstanding ratio, for the SIMIA Portfolio has increased from 43% as at 31 December 2018 to 84% as at 30 September 2019.

4.29 In respect of the SIMIA Portfolio, I understand from R&Q Gamma that indemnity costs for the two SIMIA claims that make up the bulk of the reserves have been agreed since 30 September 2019, with final expenses to be agreed. I further understand from R&Q Gamma that the aggregate settlements (indemnity plus expenses) are expected to be in line with the held reserves (including IBNR) in respect of these losses. I understand from R&Q Gamma that the payment of these claims is expected to reduce the outstanding claims reserves of SIMIA to approximately £0.1m.

4.30 I have received confirmation that the process for setting reserves within R&Q Gamma has not changed materially since the Report and will not change following the Scheme.

4.31 As a result, I have no reason to change the conclusions contained within the Report with respect to the reserve strength of R&Q Gamma.

Conclusions

4.32 As a result of the above, I have no reason to change my conclusions in respect of the reserve strength of SCOR UK and R&Q Gamma prior to the Scheme or after the Scheme as set out in paragraphs 7.9 to 7.24 of the Report.

5 Capital requirements

SCOR UK

Capital strategy

5.1 I understand from SCOR UK that there has been no change in its capital strategy as set out in paragraphs 8.10 to 8.12 of the Report.

Solvency II balance sheet

5.2 I have repeated below Table 8.1 of the Report, which showed the simplified Solvency II balance sheet for SCOR UK before and after the Scheme, as at 31 December 2018 on the basis that the Scheme had become effective at 31 December 2018.

Table 5.1: SCOR UK Solvency II balance sheets at 31 December 2018 (£m)

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

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

5.4 The table below shows the simplified Solvency II balance sheet for SCOR UK before and after the Scheme as at 30 September 2019 on the basis that the Scheme had become effective at 30 September 2019.

Table 5.2: SCOR UK Solvency II balance sheets at 30 September 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Cash	43.4	0.0	43.4
Investments	381.9	-8.8	373.1
Ceded technical provisions	601.1	-8.1	593.0
Other assets	109.8		109.8
Total assets:	**1,136.2**	**-16.9**	**1,119.4**
Liabilities:			
Gross technical provisions (excl. risk margin)	798.6	-9.0	789.7
Risk margin	15.5		15.5
Other liabilities	184.2	-8.8	175.5
Total liabilities:	**998.3**	**-17.7**	**980.6**
Excess of assets over liabilities	137.9	0.8	138.7
Adjustments	24.0	0.0	24.0
Eligible Own Funds	**161.9**	**0.8**	**162.7**
Solvency Capital Requirement (SCR)	**98.4**	**-0.2**	**98.2**

5.5 The total assets for SCOR UK have not materially changed between 31 December 2018 and 30 September 2019. This reflects the largely stable cashflow position and minimal change in ceded reserves. The total liabilities are also largely unchanged reflecting a decrease in the gross Solvency II Technical Provisions offset by an increase in other liabilities.

Accounting balance sheet

5.6 I have repeated below Table 8.2 of the Report, which showed the simplified IFRS accounting balance sheets for SCOR UK before the Scheme and after the Scheme as at 31 December 2018.

Table 5.3: SCOR UK IFRS balance sheets at 31 December 2018 (£m)

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

5.7 The table below shows the IFRS balance sheets for SCOR UK before the Scheme and after the Scheme as at 30 September 2019.

Table 5.4: SCOR UK IFRS balance sheets at 30 September 2019 (£m)

	Before Scheme	Impact of Scheme	After Scheme
Assets:			
Cash	43.4	0.0	43.4
Investments	421.2	-8.8	412.5
Reinsurers' share of reserves	788.0	-7.6	780.5
Other assets	295.0	0.0	295.0
Total assets	**1,547.7**	**-16.3**	**1,531.4**
Liabilities:			
Financial debt	30.4	0.0	30.4
Contract liabilities	1,072.9	-7.6	1,065.3
Other liabilities	295.1	-8.8	286.3
Total liabilities	**1,398.4**	**-16.3**	**1,382.0**
Capital and reserves	**149.4**	**0.0**	**149.4**

5.8 As can be seen from tables 5.3 and 5.4 above, there was a decrease in total assets between 31 December 2018 and 30 September 2019, reflecting the payment of reinsurance recoveries. The same is true for liabilities with a decrease in gross reserves reflecting claims settling faster than new losses are incurred over this period. Capital and reserves have increased due to an increase in retained earnings, with no dividend paid during the period.

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

Regulatory capital requirements

SCR coverage at 31 December 2018

5.10 I have repeated below Table 8.3 of the Report which showed the SCR coverage ratios of SCOR UK at 31 December 2018, both before and after the Scheme, on the basis that the Scheme had become effective at that date.

Table 5.5: SCR coverage ratios at 31 December 2018 (£m)

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

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

SCR coverage at 30 September 2019

5.12 The table below shows the SCR coverage ratios of SCOR UK at 30 September 2019, both before and after the scheme, on the basis that the Scheme had become effective at that date.

Table 5.6: SCR coverage ratios at 30 September 2019 (£m)

	Before the Scheme	Impact of the Scheme	After the Scheme
SCR	98.4	-0.2	98.2
Eligible Own Funds to meet the SCR	161.9	0.8	162.7
SCR coverage ratio	164.4%	1.2%	165.7%

5.13 I understand from SCOR UK that it calculates its SCR annually as at 31 December unless there is a significant change in its risk profile during the year. During 2019, I understand from SCOR UK that it has not experienced a significant change in risk profile and therefore the SCR before the Scheme at 30 September 2019 is the same as the SCR before the Scheme at 31 December 2018.

5.14 The impact of the Scheme is expected to be broadly similar at 30 September 2019 compared to 31 December 2018.

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

5.16 I understand from SCOR UK that, in addition to the change discussed in paragraph 8.26 of the Report, it is in discussions with the PRA about a change to the approach it takes in respect of the loss absorbing capacity of deferred taxes ("LACDT") to reflect changes in the Solvency II regulations in respect of the LACDT that came into force in early 2020. I understand that the LACDT is likely to reduce as a result of this change in approach and therefore the SCR is likely to increase. At the time of writing the Report I conducted an analysis (discussed in paragraph 8.27 of the Report) which showed that, even if a lower LACDT was applied, SCOR UK would still hold significant Eligible Own Funds in excess of its SCR. Given that the SCR at 30 September 2019 is the same as that at 31 December 2018 and the Own Funds has increased slightly, this conclusion still holds.

SCR coverage projected to 31 December 2019

5.17 I understand from SCOR UK that it has not calculated its projected SCR and Own Funds at the Effective Date since it does not expect them to change materially from what is shown in the table below. Given my understanding of SCOR UK's business and the changes since the Report, I am satisfied this is appropriate.

5.18 In Table 8.4 of the Report, I showed the SCR coverage ratios of SCOR UK projected to 31 December 2019, both before and after the Scheme. SCOR UK has updated this projection as part of its 2019 ORSA. The results of this are shown in the table below

Table 5.7: SCR coverage ratios at 31 December 2019 (£m)

	Before the Scheme	Impact of the Scheme	After the Scheme
SCR	93.8	-0.2	93.6
Eligible Own Funds to meet the SCR	163.4	0.3	163.7
SCR coverage ratio	174.2%	0.7%	174.9%

5.19 As discussed in paragraph 8.34 of the Report, the primary reason for the reduction in the SCR from £98.4m at 31 December 2018 to £93.8m at 31 December 2019 is due to SCOR UK's business plans for 2019 and 2020 and, in particular, its Brexit arrangements. Renewals of SCOR UK's business in the 27 member countries of the EU aside from the UK ("EU 27") are being written by SCOR Europe SE from January 2019. Therefore, SCOR UK's premium income is anticipated to reduce during 2019 and 2020. This reduces the non-life premium and reserve risk in SCOR UK's calculation of its SCR and hence reduces the SCR at 31 December 2019.

Conclusions

5.20 There are no changes described in paragraphs 5.2 to 5.19 that gives me reason to repeat the stress tests conducted in paragraphs 8.36 to 8.55 of the Report or to change my conclusion contained in paragraph 8.58 of the Report regarding the strength of the capital base of SCOR UK.

ORSA

5.21 I have been provided with a copy of the document outlining SCOR UK's most recent ORSA ("ORSA Document"). The document is dated 6 November 2019 and has been approved by SCOR UK's Board. This represents SCOR UK's forward-looking assessment of its risk profile and regulatory and economic capital requirements.

Stress tests within the ORSA report

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

5.23 The vast majority of the stress tests undertaken would not reduce SCOR UK's SCR coverage ratio below 100%. For stress tests where the SCR coverage ratio would reduce below 100%, SCOR UK's assets would still be in excess of its liabilities.

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

R&Q Gamma

Capital strategy

5.25 I understand from R&Q Gamma that there has been no change in its capital strategy as set out in paragraphs 8.70 and 8.71 of the Report.

Adverse development cover for the Transferring Portfolio from AIEL

5.26 As discussed in paragraphs 3.2 to 3.5, the ADC with AIEL has been signed and will come into force on the Effective Date.

5.27 At 30 September 2019, AIEL was holding excess assets above liabilities of £77.4m, Eligible Solvency II Own Funds of £42.0m and a SCR coverage ratio of 164%. At 31 December 2018, AIEL's Eligible Solvency II Own Funds were £51.7m and its SCR coverage ratio was 211%. The reduction in the coverage ratio is as a result of the following:

- An increase in the net technical provisions for the live underwriting side of its business
- Expenses exceeding investment income

5.28 Although AIEL's SCR coverage ratio has reduced, it still has substantial Own Funds in comparison to its SCR.

5.29 AIEL continues to be A- rated by A.M. Best.

5.30 I have no reason to change my opinion in paragraph 8.78 of the Report that I believe it is likely that AIEL would be able to successfully request additional capital from its parent company if required.

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

Capital extraction

5.32 As discussed in paragraph 4.25 of the Report, during 2019, R&Q Gamma planned to action a £5.0m capital reduction (also £5.0m on a Solvency II basis) which was to be implemented by way of a loan waiver. In order to do so, approval would have been required from the PRA for the capital reduction.

5.33 I understand from R&Q Gamma that it decided not to apply for this capital extraction during 2019. I further understand from R&Q Gamma that it will not apply for this capital extraction prior to the Scheme becoming effective. I also understand from R&Q Gamma that it will discuss the capital extraction further with the PRA later in 2020 and that the capital extraction will be dependent on how the business continues to perform following the Scheme. As discussed in paragraph 6.26 of the Report, for insurers that are in run-off, any capital extraction requires approval from the PRA.

5.34 As R&Q Gamma is still considering a capital extraction, I have continued to consider Scenario A from the Report. This is a more conservative position than will be the case at the Effective Date.

Solvency II balance sheet

5.35 I have repeated below Table 8.5 of the Report, which showed the simplified Solvency II balance sheets for R&Q Gamma at 31 December 2018, both before and after the Scheme, on the basis that the Scheme had become effective at 31 December 2018 and that the Compre and Armour Risk reinsurance arrangements had been commuted by 31 December 2018.

Table 5.8: R&Q Gamma Solvency II balance sheets as at 31 December 2018 (£m)

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

5.36 The table below shows the simplified Solvency II balance sheet for R&Q Gamma before the Scheme and after the Scheme as at 30 September 2019 on the basis that the Scheme had become effective as at 30 September 2019. As discussed in paragraph 1.19 of the Report the reinsurance arrangements with Compre and Armour Risk were commuted in early 2019. Therefore, all the financial information for 30 September 2019 and onwards is already on the basis that these reinsurance arrangements have been commuted.

Table 5.9: R&Q Gamma Solvency II balance sheets as at 30 September 2019 (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
Assets:			
Intra-group loans	9.0	0.0	9.0
Cash	1.3	5.6	6.9
Other investments	8.1	0.0	8.1
Ceded technical provisions	0.8	0.0	0.8
Other assets	0.4	0.0	0.4
Total assets:	**19.6**	**5.6**	**25.2**
Liabilities:			
Gross technical provisions (excl. risk margin)	3.4	5.2	8.6
Risk margin	0.3	0.4	0.6
Other liabilities	0.7	0.0	0.7
Total liabilities:	**4.4**	**5.6**	**10.0**
Excess of assets over liabilities	15.2	0.0	15.2
Adjustments	0.0	0.0	0.0
Eligible Own Funds:	**15.2**	**0.1**	**15.3**
Solvency Capital Requirement (SCR)	**3.3**	**0.0**	**3.3**

5.37 As can be seen from the tables above, the assets have seen a £5m reduction through the repayment of the intra-group loan between 31 December 2018 and 30 September 2019 as discussed in paragraph 3.8.

5.38 The liabilities have reduced between 31 December 2018 and 30 September 2019 because claims have been paid in the period as discussed in Section 4.

5.39 The Eligible Own Funds for R&Q Gamma has increased slightly between 31 December 2018 and 30 September 2019 prior to the Scheme. This is principally because claims have been paid which has reduced the Risk Margin.

5.40 R&Q Gamma has also liquidated £3.9m of its equities, of which £2.8m has been invested into bonds with the remainder increasing its cash position by £1.1m between 31 December 2018 and 30 September 2019.

5.41 The reasons for the movement in the SCR following the Scheme are discussed in paragraphs 5.49 and 5.50.

Accounting balance sheet

5.42 I have repeated below Table 8.6 of the Report, the simplified GAAP accounting balance sheets for R&Q Gamma at 31 December 2018, both before and after the Scheme on the basis that the Scheme had become effective at 31 December 2018 and that the Compre and Armour Risk reinsurance arrangements had been commuted by 31 December 2018.

Table 5.10: R&Q Gamma GAAP balance sheets as at 31 December 2018 (£m)

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

5.43 The table below shows the simplified GAAP accounting balance sheets for R&Q Gamma at 30 September 2019, both before and after the Scheme on the basis that the Scheme had become effective at 30 September 2019.

Table 5.11: R&Q Gamma GAAP balance sheets as at 30 September 2019 (£m)

Reserve	Before the Scheme	Impact of Scheme	After the Scheme
Assets:			
Intangible assets	0.5	1.2	1.7
Intra-group loans	9.2	-	9.2
Other investments	8.1	-	8.1
Reinsurers' share of reserves	0.8	-	0.8
Cash	1.3	5.6	6.9
Other assets	0.2	-	0.2
Total Assets:	**20.1**	**6.8**	**27.0**
Liabilities:			0.0
Claims reserves	3.4	5.6	9.0
Other liabilities	0.7	0.2	0.9
Total Liabilities:	**4.1**	**5.8**	**9.9**
Capital and reserves	**16.1**	**1.0**	**17.1**

5.44 It can be seen from the tables above that, prior to the Scheme, the capital and reserves on a UKGAAP basis are broadly unchanged between 31 December 2018 and 30 September 2019, with claims being paid using cash redeemed from investments.

5.45 The movement as a result of the Scheme is consistent with that shown in the Report. At both 31 December 2018 and 30 September 2019, there is an increase of £1.0m in capital and reserves as a result of the intangible asset created as discussed in paragraph 8.90 of the Report.

Regulatory capital requirements

5.46 This section is structured as follows:

- Paragraphs 5.47 to 5.52 set out the SCR coverage ratios for R&Q Gamma as at 31 December 2018 and 30 September 2019, detailing the reasons for the movements between those dates
- Paragraphs 5.53 and 5.54 set out R&Q Gamma's projection of its SCR coverage ratio to the Effective Date using its own estimate of the Solvency II Technical Provisions
- Paragraphs 5.55 to 5.91 set out my testing of the resilience of R&Q Gamma's capital base under various scenarios

5.47 I have repeated below Table 8.8 of the Report which showed the actual SCR coverage ratio of R&Q Gamma at 31 December 2018 and the hypothetical SCR coverage ratio on the basis that the Scheme had become effective at 31 December 2018 along with the impact of the Scheme. The table also assumed that the commutations of SCOR UK's reinsurance contracts with Compre and Armour were effective prior to 31 December 2018.

Table 5.12: SCR coverage ratios for R&Q Gamma as at the 31 December 2018 (£m)

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

5.48 The table below shows the SCR coverage ratio of R&Q Gamma at 30 September 2019 and the hypothetical SCR coverage ratio on the basis that the Scheme had become effective at 30 September 2019 along with the impact of the Scheme.

Table 5.13: SCR coverage ratios for R&Q Gamma as at 30 September 2019 (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	3.3	0.0	3.3
Eligible Own Funds to meet the SCR	15.2	0.1	15.3
SCR coverage ratio	462%	2%	464%

5.49 The SCR prior to Scheme has not changed between 31 December 2018 and 30 September 2019. As discussed in paragraph 8.108 of the Report, R&Q Gamma is not permitted to have an SCR that is below its Absolute Minimum Capital Requirement ("AMCR") of €3.7m (£3.3m using exchange rates at 30 September 2019).

5.50 At 31 December 2018, the inclusion of the Transferring Portfolio was sufficient to increase R&Q Gamma's SCR above the AMCR. However, as at 30 September 2019, the inclusion of the Transferring Portfolio does not increase the SCR above the AMCR. This is because of the divestment of equities and the repayment of £5m of the intra-group loans.

5.51 As was shown in table 5.9, the Eligible Own Funds is not expected to change materially as a result of the Scheme.

5.52 It can also be seen from the table above that R&Q Gamma has significant Own Funds in excess of the SCR both before and after the Scheme.

SCR coverage projected to the Effective Date

5.53 The table below sets out the impact of the Scheme on R&Q Gamma's SCR coverage ratio at the Effective Date.

Table 5.14: SCR coverage ratios for R&Q Gamma as at Effective Date (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	3.2	0.0	3.2
Eligible Own Funds to meet the SCR	15.3	-0.2	15.1
SCR coverage ratio	486%	-7%	479%

5.54 It can be seen from the table above that R&Q Gamma is expected to have significant Own Funds in excess of the SCR both before and after the Scheme at the Effective Date. There is a small reduction in Own Funds as a result of the Scheme in the projections to the Effective Date because R&Q Gamma has included some expenses to be charged to the profit and loss account in 2020.

Testing

5.55 In the Report I considered two different scenarios in respect of R&Q Gamma's capital planning:

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

5.56 In addition, I analysed both the scenarios above on the basis that SCOR UK's estimate of the Solvency II Technical Provisions was used instead of R&Q Gamma's estimate.

5.57 I have been provided with the updated analogous scenarios for the purposes of my analysis in respect of this report. However, both Scenarios A and B have been simplified as RQIH has already repaid £5m of the intra-group loans, as shown in tables 5.9 and 5.11.

5.58 The most prudent scenario I considered in my report was Scenario A using SCOR UK's estimate in respect of the Transferring Portfolio.

5.59 I have repeated Table 8.13 of the Report below.

Table 5.15: SCR coverage ratios at 31 December 2019 in Scenario A using SCOR UK's estimate of the Solvency II technical provisions (excluding risk margin) for the Transferring Portfolio (£m)

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

5.60 The table below shows the updated projected position at the Effective Date in Scenario A using SCOR UK's estimate of the best estimate Solvency II technical provisions for the Transferring Portfolio.

Table 5.16: SCR coverage ratios at Effective Date in Scenario A using SCOR UK's estimate of the Solvency II technical provisions (excluding risk margin) for the Transferring Portfolio (£m)

	Before the Scheme	Impact of Scheme	After the Scheme
SCR	3.2	0.8	4.0
Eligible Own Funds to meet the SCR	10.1	-4.1	6.1
SCR coverage ratio	320%	-168%	152%

5.61 The table above continues to show that, even in Scenario A using SCOR UK's estimate of the Solvency II technical provisions, R&Q Gamma is expected to remain sufficiently well capitalised following the Scheme and has a coverage ratio in excess of its capital target.

5.62 The above tables also show that the coverage ratio projected to the Effective Date following the Scheme has reduced. This is as a result of a change of the US yield curve as discussed in paragraph 4.14. This leads to higher best estimate Solvency II Technical Provisions projected to the Effective Date, which in turn leads to a reduction in Own Funds.

Stress testing

5.63 Given the movements in the coverage ratio as set out in the paragraphs above, I have revisited the stress testing that I conducted in the Report. I have continued to focus my stress testing on Scenario A using SCOR UK's estimate of the Solvency II technical provisions, since this is the more prudent of the two scenarios. For all of the testing below, it should be noted that under Scenario B, R&Q Gamma has £5m additional Own Funds, with only a minor increase in the SCR. As a result, under Scenario B, R&Q Gamma is more resilient to adverse changes than under Scenario A.

5.64 It should also be noted that, once the Scheme has become effective, R&Q Gamma will only consider distributing capital upon consideration of the actual position at that point. In addition, any distribution of capital will require approval from the PRA.

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

- Deterioration in the best estimate technical provisions for the Transferring Portfolio and the impact on R&Q Gamma in the event of a default by AIEL
- Deterioration in the gross best estimate technical provisions for the Existing R&Q Portfolio
- Deterioration in the value of R&Q Gamma's investment portfolio
- Default of the intra-group loan by RQIH
- A combination of a deterioration in R&Q Gamma's total gross best estimate technical provisions and default of the intra-group loan by RQIH
- A combination of a deterioration in R&Q Gamma's total gross best estimate technical provisions and a deterioration in the value of R&Q Gamma's investment portfolio

5.66 In line with the Report, the words used to set out the likelihoods of the potential events are designed to have the following meanings:

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

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

5.67 This stress test considers a deterioration in R&Q Gamma's best estimate technical provisions for the Transferring Portfolio at 31 March 2020, following the Scheme.

5.68 In Scenario A, R&Q Gamma would need to experience a loss of Own Funds of £6.1m in order to reduce assets such that they are below the liabilities.

5.69 A 10% deterioration in the gross best estimate technical provisions would result in a deterioration from £8.68m to £9.55m and hence a loss of Own Funds of £0.87m. Such a deterioration is foreseeable but would not significantly impair R&Q Gamma's solvency (in Scenario A, the SCR coverage ratio would fall from 152% to around 130%). In addition, due to the ADC, larger deteriorations would not impair R&Q Gamma's solvency any more than this unless AIEL was to default on its reinsurance.

5.70 I have therefore considered a scenario where there is both a 100% deterioration in the gross best estimate technical provisions (increasing the technical provisions from £8.7m to £17.4m) and a default by AIEL. Such a scenario would result in a loss of Own Funds to R&Q Gamma of up to £8.7m, depending on the extent to which R&Q Gamma could recover from AIEL in the event of AIEL's insolvency.

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

- Such a deterioration in the technical provisions could be caused by increases in claim severity, claim frequency, a strengthening of the US Dollar against Sterling, a downward movement in the US Dollar yield curve or a combination of these.
- The type of scenario that would see a 100% deterioration in the gross best estimate technical provisions for the Transferring Portfolio would be if the average cost per year on asbestos claims were to increase from $0.5m to $1.4m.
- Alternatively, the type of scenario that would see a 100% deterioration in the gross best estimate technical provisions for the Transferring Portfolio would be, for example, a 25% strengthening of the US Dollar against Sterling coupled with a 50% deterioration due to claims frequency and severity.
  - Whilst, looking back over the past 10 years, the Dollar has strengthened considerably against Sterling (£1=$1.6 in 2010 compared to around £1=$1.3currently), given that at the time of the projections Sterling was weak against the Dollar, I consider a further strengthening of a magnitude that would result in such an extreme reserve deterioration for R&Q Gamma to be unlikely.
  - The type of scenario that would see a 60% deterioration in the gross best estimate technical provisions for the Transferring Portfolio would be if the average cost per year on asbestos claims were to increase from $0.5m to $1.1m.

- R&Q Gamma undertook a detailed review of the technical provisions for the Transferring Portfolio as at 31 December 2018 in order to understand the risks that are inherent. I reviewed this estimation at the time of writing the Report and provided my conclusions in paragraph 7.128 of the Report. I concluded that R&Q Gamma's estimate lies within a reasonable range of reserves. Given the limited movement on this portfolio in the intervening period, I have no reason to change this conclusion
- The stress test has been performed on the basis that the technical provisions for the Transferring Portfolio are £8.7m at 31 March 2020 (i.e. SCOR UK's estimate). This already represents a 70% deterioration from R&Q Gamma's estimate. Furthermore, as explained in paragraph 7.114 of the Report, I am of the opinion that SCOR UK's reserve estimate includes an element of prudence.
- As discussed in paragraph 8.74 of the Report, given the financial strength of AIEL, I consider it unlikely that AIEL will require support from RQIH. In addition, given the likely support of AIEL by the R&Q Group discussed in paragraph 8.72 to 8.78 of the Report, I consider the likelihood that AIEL defaults and R&Q Gamma doesn't receive the recoveries from the ADC to be remote.
- In the event of a default by AIEL, the loss of Own Funds for R&Q Gamma from this scenario would be, at most, £8.7m. A loss of £8.7m would result in R&Q Gamma's assets falling below its liabilities. However, the loss of Own Funds would likely be less than £8.7m due to the recovery of some of the losses in the event of AIEL's default (it is a commonly used assumption that, even if a reinsurer default, 50% of the losses are recovered, in which case R&Q Gamma's would receive £4.4m of recoveries). Whilst, in Scenario A, this would result in R&Q Gamma's SCR coverage ratio falling below 100%, its assets would still exceed its liabilities (its Own Funds would fall from £6.1m to £0.9m).

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

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

5.73 This stress test considers a deterioration in R&Q Gamma's gross best estimate technical provisions for the Existing R&Q Portfolio at 31 March 2020, following the Scheme. For prudence, I have assumed that deteriorations in the gross best estimate technical provisions for the Existing R&Q Gamma Portfolio would not lead to further reinsurance recoveries.

5.74 R&Q Gamma's gross best estimate technical provisions projected to 31 December 2019 for the Existing R&Q Gamma Portfolio are £2.9m under Scenario A.

5.75 In Scenario A, R&Q Gamma would need to experience a deterioration of 210% (£6.1m) of its gross technical provisions for the Existing R&Q Gamma Portfolio in order to reduce its assets below its liabilities.

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

- R&Q Gamma has undertaken a detailed review of the technical provisions for the Existing R&Q Gamma Portfolio in order to understand the risks that are inherent. I have reviewed this estimation and provided my conclusions in paragraph 7.80 of the Report where I have concluded that R&Q Gamma's estimate lies within a reasonable range of reserves.
- R&Q Gamma has estimated that, in order to experience a £6.1m deterioration in the reserves for the SIMIA portfolio, in excess of six claims would need to deteriorate by more than £2m above the primary reinsurance layer. I consider this to be unlikely since the SIMIA policies were on a claims made basis and hence all claims have been notified. Therefore, any reserve deteriorations on the SIMIA book would be in relation to deteriorations on known claims for which I consider deteriorations

of this magnitude to be unlikely. In addition, the SIMIA book has been in run-off since 2010 and therefore, given the maturity of the portfolio, I consider it very unlikely that such severe deteriorations could occur on so many claims.

- As discussed in paragraph 4.29, indemnity costs in respect of the two large claims in the SIMIA Portfolio that made up the bulk of the reserves at 30 September 2019 have been agreed since 30 September 2019. Payment of these claims is expected to be made either by the Effective Date or shortly following it, after which the claims reserves will be approximately £0.1m.
- R&Q Gamma has estimated that, in order to experience a £6.1m deterioration, the average cost of NIHL claims in the RLGIL portfolio would need to increase from £2.3k to £142k.
- Alternatively, in order to experience a £6.1m deterioration, R&Q Gamma would need to experience in the region of 700 unreported abuse claims, assuming that the total amount of each abuse claim is £100k (note that R&Q Gamma takes a maximum share of 8.7% of the overall claim amount). I have been informed by R&Q Gamma that the largest claim seen by the R&Q Gamma claims team is for £80k (of which R&Q Gamma's share was approximately £7k).
- Whilst the £6.1m deterioration could be made up of a combination of these scenarios, the deteriorations on the SIMIA and RLGIL claims would still need to be very extreme.

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

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

5.78 The projected investments held by R&Q Gamma at 31 March 2020 (on a hypothetical basis following the Scheme) amount to £8.8m under Scenario A. In order to reduce assets such that they fall below the liabilities, R&Q Gamma would need to experience a reduction in the value of its investments in the region of 71% in Scenario A.

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

- R&Q Gamma is currently invested solely in corporate bonds and it has informed me that it expects this to continue to be the case following the Scheme
- I understand from R&Q Gamma that its bond investments are managed by third-party investment managers who are regulated by the FCA. I further understand from R&Q Gamma that these managers are engaged to invest in bond portfolios which generate consistent and stable returns for R&Q Gamma in line with its investment guidelines.
- At 30 September 2019, the majority of these debt instruments had credit ratings between AAA and B with a small proportion of unrated debt instruments. I consider that R&Q Gamma will hold a similar proportion of assets in highly rated debt instruments following the Scheme since I have been informed by R&Q Gamma that the investment strategy will not change.
- Whilst highly rated debt instruments can and do lose value over the short term due to changes in interest rates and credit spreads, they are generally quite stable in the medium and long term, especially if the debt instruments are held to maturity
- In general, I understand from R&Q Gamma that it seeks to hold bonds to maturity to reduce the volatility of investment returns. I have been further informed by R&Q Gamma that it seeks to ensure that it is well matched for all material currencies at all times; that the matching position is frequently monitored and that it is reported to the Board on a quarterly basis at a minimum, and any material mismatches addressed as soon as they become evident. The average duration of R&Q Gamma's

bonds was 2.0 years at 30 September 2019 and cash realisations are available within twenty working days to settle liabilities as they fall due. I consider that this investment approach will enable R&Q Gamma to hold its bonds to maturity where possible.

- I have also reviewed a stress test performed by R&Q Gamma in its latest ORSA. R&Q Gamma assessed that, as at 31 December 2018, there was a 0.1% likelihood of a default of 50% of its investment assets over a three year time horizon. As discussed in paragraph 5.96, I consider this stress test to be reasonable. As a result, I consider the likelihood of a default of 71% of R&Q Gamma's current investment assets over that time horizon to be lower than 0.1%.

5.80 Based on this and my experience, my opinion is that I consider that R&Q Gamma will have sufficient assets to meet its liabilities in all reasonably foreseeable scenarios in relation to a reduction in the value of its investment portfolio.

Default of the intra-group loan by RQIH

5.81 The projected intra-group loan to RQIH at 31 March 2020 is £4.0m under Scenario A.

5.82 If RQIH defaulted on its repayment of the remaining intra-group loan, assuming a recovery rate of 50%, the projected SCR coverage ratio at 31 December 2019 would fall to 103% of the SCR under Scenario A. Even in a scenario where RQIH defaulted on its repayment of the remaining intra-group loan and R&Q Gamma was not able to recover any of the asset, R&Q Gamma would still have £2.1m of assets in excess of its liabilities in Scenario A.

5.83 There has been no change in the credit rating of RQIH since the Report. I therefore continue to consider the likelihood of a default of the intra-group loan to be remote.

5.84 Furthermore, even if there is a default, R&Q Gamma will still have sufficient assets to meet its liabilities.

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

5.85 In order for R&Q Gamma's assets to fall below its liabilities as a result of a combination of a deterioration in the gross best estimate technical provisions and default of the intra-group loan by RQIH, it would require a loss of £6.1m across a combination of the two in Scenario A. There are any number of combinations that could achieve this so, in my testing, I have considered the following scenarios as a sample of those available:

- Scenario 1:
  - Default of the intra-group loan assuming that R&Q Gamma is able to recover 50% of the asset
  - A deterioration in the technical provisions for the Transferring Portfolio which is capped on a net basis at £0.87m due to the ADC
  - A 110% deterioration in the gross technical provisions for the Existing R&Q Gamma Portfolio, assuming that no additional reinsurance recoveries can be made
- Scenario 2:
  - Default of the intra-group loan assuming that R&Q Gamma is not able to recover any of the asset
  - A deterioration in the technical provisions for the Transferring Portfolio which is capped on a net basis at £0.87m due to the ADC
  - A 45% deterioration in the gross technical provisions for the Existing R&Q Gamma Portfolio, assuming that no additional reinsurance recoveries can be made

5.86 I consider the likelihood of either of these scenarios occurring to be remote. In reaching this conclusion I have considered the following:

- Since this stress test has been performed on the basis set out in paragraph 5.63, I have already allowed for a significant deterioration in the Solvency II technical provisions for the Transferring Portfolio from R&Q Gamma's estimate by basing my base case on SCOR UK's estimate. Furthermore, as explained in paragraph 7.114 of the Report, I am of the opinion that SCOR UK's technical provisions include an element of prudence.
- In each scenario, all three components of the stress would need to occur simultaneously or close to each other so that R&Q Gamma was unable to recover its financial position
- The stress assumes that AIEL would not default on its reinsurance obligations under the ADC. Given the financial security of AIEL and the support of RQIH, as discussed in paragraphs 8.74 to 8.78 of the Report, I consider the likelihood of a default by AIEL to be remote. I have considered the defaults of AIEL (and RQIH as the parent) in other stress tests and have therefore assumed that AIEL does not default for the purpose of this test.
- Given the financial security of RQIH which is discussed in paragraph 8.76 of the Report, I consider the likelihood of a default of the intra-group loan to be remote
- R&Q Gamma has undertaken a detailed review of the claims reserves for the Transferring Portfolio in order to understand the risks that are inherent. I have reviewed this estimation and provided my conclusions in paragraph 7.128 of the Report where I have concluded that R&Q Gamma's estimate lies within a reasonable range of reserves.
- R&Q Gamma has undertaken a detailed review of the claims reserves for the Existing R&Q Gamma Portfolio in order to understand the risks that are inherent. I have reviewed this estimation and provided my conclusions in paragraph 7.80 of the Report where I have concluded that R&Q Gamma's estimate lies within a reasonable range of reserves.

5.87 It follows that I consider the likelihood that R&Q Gamma will have insufficient capital to pay claims to its policyholders as they fall due in Scenario A as a result of a combination of a deterioration in the gross best estimate technical provisions and default of the intra-group loan by RQIH to be remote,

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

5.88 In order for R&Q Gamma's assets to fall below its liabilities as a result of a combination of a deterioration in the gross best estimate technical provisions and a deterioration in the value of R&Q Gamma's investment portfolio, it would require a loss of £6.1m across a combination of the two in Scenario A. There are any number of combinations that could achieve this so, in my testing, I have considered the following scenarios as a sample of those available:

- Scenario 1:
  - A deterioration in the technical provisions for the Transferring Portfolio which is capped on a net basis at £0.87m due to the ADC
  - A 45% deterioration in the gross technical provisions for the Existing R&Q Gamma Portfolio, assuming that no additional reinsurance recoveries can be made
  - A reduction in the value of its investments in the region of 45%

- Scenario 2:
  - A deterioration in the technical provisions for the Transferring Portfolio which is capped on a net basis at £0.87m due to the ADC
  - A 30% deterioration in the gross technical provisions for the Existing R&Q Gamma Portfolio, assuming that no additional reinsurance recoveries can be made
  - A reduction in the value of its investments in the region of 50%

5.89 I consider the likelihood of either of these scenarios occurring to be remote. In reaching this conclusion I have considered the following:

- Since this stress test has been performed on the basis set out in paragraph 5.63, I have already allowed for a significant deterioration in the Solvency II technical provisions for the Transferring Portfolio from R&Q Gamma's estimate by basing my base case on SCOR UK's estimate . Furthermore, as explained in paragraph 7.114 of the Report, I am of the opinion that SCOR UK's technical provisions include an element of prudence.
- In each scenario, all three components of the stress would need to occur simultaneously or close to each other so that R&Q Gamma was unable to recover its financial position
- The stress assumes that AIEL would not default on its reinsurance obligations under the ADC. Given the financial security of AIEL and the support of RQIH, as discussed in paragraphs 8.74 to 8.78 of the Report, I consider the likelihood of a default by AIEL to be remote.
- R&Q Gamma is currently invested solely in corporate bonds and it has informed me that it expects this to continue to be the case following the Scheme. At 30 September 2019, the majority of these debt instruments had credit ratings between AAA and B with a small proportion of unrated debt instruments. I consider that R&Q Gamma will hold a similar proportion of assets in highly rated debt instruments following the Scheme since I have been informed by R&Q Gamma that the investment strategy will not change. Whilst highly rated debt instruments can and do lose value over the short term due to changes in interest rates and credit spreads, they are generally quite stable in the medium and long term, especially if held to maturity.
- R&Q Gamma has undertaken a detailed review of the claims reserves for the Transferring Portfolio in order to understand the risks that are inherent. I have reviewed this estimation and provided my conclusions in paragraph 7.128 of the Report where I have concluded that R&Q Gamma's estimate lies within a reasonable range of reserves.
- R&Q Gamma has undertaken a detailed review of the claims reserves for the Existing R&Q Gamma Portfolio in order to understand the risks that are inherent. I have reviewed this estimation and provided my conclusions in paragraph 7.80 of the Report where I have concluded that R&Q Gamma's estimate lies within a reasonable range of reserves.

5.90 It follows that I consider the likelihood that that R&Q Gamma will have insufficient capital to pay claims to its policyholders as they fall due in Scenario A as a result of a combination of a deterioration in the gross best estimate technical provisions and a deterioration in the value of R&Q Gamma's investment portfolio to be remote,

Stress testing – conclusion

5.91 The stress testing shown in paragraphs 5.63 to 5.89 above continues to demonstrate that I consider the likelihood of R&Q Gamma's assets falling beneath its liabilities to be remote.

Conclusions

5.92 There are no changes described in paragraphs 5.25 to 5.91 that give me reason to change my conclusion contained in paragraph 8.162 of the Report regarding the strength of the capital base of R&Q Gamma.

ORSA

5.93 I have been provided with a copy of the report outlining R&Q Gamma's most recent ORSA. The document is dated 29 August 2019 and has been approved by R&Q Gamma's Board. This represents R&Q Gamma's forward-looking assessment of its risk profile and capital requirements.

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

Stress tests within the ORSA report

5.95 The ORSA projects that the coverage of R&Q Gamma's SCR will be maintained above its target set out in its Risk Appetite Framework for the period from 31 December 2018 to 31 December 2021. I have reviewed the process by which R&Q Gamma has projected the coverage of its SCR and consider it to be reasonable. It follows that I consider the projected coverage of the SCR to be reasonable.

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

6 Policyholder security

Impact of the Scheme on the security of the transferring policyholders

6.1 Based on the information I have seen since the Report was issued, I have no reason to change the conclusions set out in paragraphs 9.18 to 9.24 of the Report in respect of the security of the transferring policyholders. In reaching this conclusion, I have considered the following:

- Following the Scheme, R&Q Gamma is expected to have substantial Own Funds in excess of its SCR as shown in tables 5.12, 5.13 and 5.14
- As discussed in paragraph 5.91, I have reached similar conclusions in respect of my own stress testing
- The ADC in respect of the Transferring Portfolio has been signed and will come into force on the Effective Date, providing the Scheme is sanctioned.
- R&Q Gamma will continue to be regulated by the PRA and any capital extractions would need to be approved by the PRA.

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

6.2 Based on the information I have seen since the Report was issued, I have no reason to change the conclusions set out in paragraphs 9.25 to 9.27 of the Report in respect of the security of the policyholders remaining in SCOR UK.

6.3 This is because, as discussed in paragraphs 5.10 to 5.17, SCOR UK's coverage of its SCR is materially unchanged by the Scheme becoming effective.

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

6.4 Based on the information I have seen since the Report was issued, I have no reason to change the conclusions set out in paragraphs 9.28 to 9.38 of the Report in respect of the security of the existing policyholders in R&Q Gamma. In reaching this conclusion, I have considered the following:

- Following the Scheme, R&Q Gamma is expected to have substantial Own Funds in excess of its SCR as shown in tables 5.12, 5.13 and 5.14
- As discussed in paragraph 5.91, I have reached similar conclusions in respect of my own stress testing
- The ADC in respect of the Transferring Portfolio has been signed and will come into force on the Effective Date, providing the Scheme is sanctioned.
- R&Q Gamma will continue to be regulated by the PRA and any capital extractions would need to be approved by the PRA.

7 Other financial considerations

7.1 I considered the following financial aspects in Section 10 of the Report

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

7.2 Based on my discussions with SCOR UK and R&Q Gamma, I understand that there have been no changes since the Report with respect to any of the other financial aspects listed above that would give me reason to change the conclusions contained in the Report.

8 Other non-financial considerations

8.1 I considered the following non-financial aspects in Section 11 of the Report

- Regulatory jurisdiction
- Claims handling
- Policy servicing
- Complaints
- ‘Brexit’
- Governance and management framework
- Ruling of Mr Justice Snowden on the proposed Part VII transfer of a book of in-payment annuities from The Prudential Assurance Company Limited to Rothesay Life Limited
- Should the Scheme not become effective

8.2 I discuss the impact of Brexit in paragraphs 8.4 to 8.6 below.

8.3 Based on my discussions with SCOR UK and R&Q Gamma, I understand that there have been no changes with respect to the other above non-financial aspects since the Report that would give me reason to change the conclusions contained in the Report with respect to these aspects.

Brexit

8.4 As discussed in paragraphs 3.13 and 3.14, the UK withdrew from the EU on 31 January 2020 but nothing has been decided on the future relationship with the EU.

8.5 As discussed in paragraph 11.25 of the Report, SCOR UK had found no evidence of non-UK EEA policyholders within the Transferring Portfolio. Since the Report, I understand from SCOR UK and R&Q Gamma that they have still found no evidence of non-UK EEA policyholders within the Transferring Portfolio.

8.6 Therefore, there have not been any changes in relation to Brexit that give me reason to change the conclusions in the Report.

Recognition of the Scheme in the US

8.7 The Transferring Portfolio predominantly relates to US business and there is the potential that the Scheme might not be recognised in the US.

8.8 I understand from R&Q Gamma and SCOR UK that they have received legal advice on this matter. I have seen a copy of this advice which concludes “*…it is likely that, if properly presented to a US court, such court would enforce the sanctioned Scheme.”*

8.9 If, in the event, a US court were to refuse to recognise the transfer, and allow a policyholder to enforce a judgment against SCOR UK's assets in the US, Clause 6.1 of the Scheme obliges R&Q Gamma to reimburse SCOR UK for the amount paid.

8.10 As a result of the above, I consider it likely that the Scheme will be recognised in the US. Furthermore, I do not believe that there would be a material adverse impact for the transferring policyholders even if the Scheme is not recognised in the US.

8.11 If the Scheme is not recognised in the US, SCOR UK would be temporarily exposed to some additional gross liability. However, Clause 6.1 of the Scheme mitigates this and there would therefore be no additional net exposure for the Remaining Portfolio. Therefore, I do not believe that the remaining policyholders will be materially adversely affected if the Scheme is not recognised in the US.

8.12 If the Scheme is not recognised in the US, R&Q Gamma's exposure to the Portfolio remains the same because of Clause 6.1 of the Scheme and there would therefore be no material impact on the Existing R&Q Gamma Portfolio.

9 Considerations of the communication process and objections

Policyholder and third-party communications

9.1 I understand from SCOR UK and R&Q Gamma that the approach to policyholder notifications set out in the Report proceeded as planned. The advertisements were placed in accordance with the Directions Order and the policyholder communications were undertaken as planned, subject to some minor amendments for practical reasons. As a result, I am satisfied that the communications exercise was appropriate.

Transferring Portfolio

9.2 In respect of the Transferring Portfolio, I understand from R&Q Gamma that, as of 18 February 2020, there had been 42 communications to policyholders and third parties that had been returned to R&Q Gamma. I further understand from R&Q Gamma that it has successfully reissued 28 of these letters. I further understand from R&Q Gamma that the remaining 13 companies have either dissolved or R&Q Gamma has been unable to find an alternative address.

Existing R&Q Gamma Portfolio

9.3 In respect of the Existing R&Q Gamma Portfolio, I understand from R&Q Gamma that, as of 18 February 2020, there had been 58 communications to policyholders and claimants that had been returned. I understand from R&Q Gamma that it sought to trace contact details for these policyholders and claimants and has successfully delivered 49 of these. I further understand from R&Q Gamma that the remaining 9 companies have been dissolved.

Policyholder correspondence

9.4 At 18 February 2020, I understand from SCOR UK and R&Q Gamma that there were:

- no objections to the Scheme from policyholders
- 19 enquiries from policyholders and claimants which SCOR UK and R&Q Gamma have responded to or are in the process of responding to. These enquiries relate to requests for more information on the affected policies

Reinsurer communication

9.5 As set out in paragraphs 12.22 to 12.26 of the Report, no reinsurers were contacted in relation to the Scheme.

10 Conclusions

10.1 I have further considered the effect of the proposed Scheme on the transferring policyholders, the policyholders remaining in SCOR UK and the existing policyholders of R&Q Gamma. I confirm that the substance of my overall opinion and conclusions as set out in paragraphs 14.3 to 14.7 of the Report are unchanged. My conclusions are set out in the following paragraphs.

10.2 In the Report my conclusions were predicated on the fact that, prior to the Effective Date, R&Q Gamma would put the ADC in place with AIEL as discussed in paragraph 1.20 of the Report. As set out in paragraph 3.3 of this report, the ADC has been signed by the Boards of both R&Q Gamma and AIEL. It will come into force on the Effective Date, providing the Scheme is sanctioned. As the Scheme cannot become effective unless the ADC is in place, I have no longer predicated my conclusion on the ADC coming into effect.

Transferring policyholders

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

Policyholders remaining in SCOR UK

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

Existing policyholders of R&Q Gamma

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

Reinsurers

10.6 In addition, I identify no reinsurers that would be materially adversely affected by the Scheme.

Conclusion

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

Simon Sheaf FIA, FSAI

Partner and Head of General Insurance Actuarial & Risk

Grant Thornton UK LLP

A Additional information received

Information provided by or on behalf of R&Q Gamma

- Summarised claims data for the Transferring Portfolio as at 30 September 2019
- Paid and incurred claim movements at a summarised level for the Transferring Portfolio between 31 December 2018 and 30 September 2019
- Yield curve and payment patterns of transferring book
- SCR and MCR capital projections for R&Q Gamma
- Solvency II balance sheet projections for R&Q Gamma
- Simplified GAAP balance sheet as at 30 September 2019
- 2018 ORSA report
- Brexit update of transfer
- Executed ADC
- AM Best financial strength rating information for R&Q Gamma and AIEL
- Information on the movements in claims for the RLGIL Portfolio and the SIMIA Portfolio
- Information on claims developments since 31 December 2019 for the RLGIL Portfolio and the SIMIA Portfolio
- Information on communications received from policyholders

Information provided by or on behalf of SCOR UK

- SCR and MCR standard formula calculations as at 30 September 2019
- Projected SCR and MCR standard formula calculations as at 31 December 2019
- IFRS balance sheet as at 30 September 2019
- Solvency II balance sheet as at 30 September 2019
- IFRS reserves at 30 September 2019
- Solvency II reserves at 30 September 2019
- ORSA Background Document, Board-approved November 2019
- SCOR UK Board Solvency monitoring report, November 2019

Information provided by legal advisers

- Draft Transferee second witness statement
- Draft Transferor second witness statement
- Draft US legal opinion on the enforcement of the Part VII transfer

Other

I also relied on information arising from correspondence and discussions with SCOR UK, R&Q Gamma and their legal advisers.

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

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

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