

EXPLANATORY CIRCULAR

RELATING TO THE PROPOSED TRANSFER OF INSURANCE BUSINESS

by

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE ASSOCIATION LIMITED

to

R&Q GAMMA COMPANY LIMITED

UNDER PART VII OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

INTRODUCTION

The United Kingdom Mutual Steam Ship Assurance Association Limited (**Transferor**) is transferring to R&Q Gamma Company Limited (**Transferee**) certain rights and liabilities of the Transferor under or by virtue of insurance of non-EEA risks underwritten by the Transferor, or by another party and subsequently transferred to the Transferor, between 1 January 1935 and 20 February 2001. Such risks are transferred only insofar as they relate to liabilities to seamen and any other persons for death, disease or personal injury (including mesothelioma, asbestosis, lung and other cancers and hearing loss) arising as a result of exposures to hazardous material, conditions or other risk factors during the period prior to 20 February 2001 (**Transferring Risks**). The transfer of the Transferring Risks (**Transfer**) will be effected using a mechanism called an insurance business transfer scheme. This is a statutory mechanism provided for under Part VII of the Financial Services and Markets Act 2000 (the **Act**). The business to be transferred (**Transferring Business**) comprises all the Transferring Risks and associated assets and liabilities. The effect of the proposed transfer is that affected policies will become split between the Transferor and the Transferee, with the non-occupational disease liabilities remaining with the Transferor.

The Transferor and the Transferee are both UK insurance companies, authorised by the Prudential Regulation Authority (**PRA**) and regulated by both the PRA and the Financial Conduct Authority (**FCA**).

The Transferring Risks are reinsured by Accredited Insurance (Europe) Limited (which was previously known as R&Q Insurance (Malta) Limited) (**Accredited**), an insurance company in the same group as the Transferee. This reinsurance is triggered at the attachment point of USD 95,000,000. Further information about this reinsurance arrangement and about the reinsurance that will replace it from the Effective Date is given at page 3 of this Circular.

Further information about the Transferring Business, the reasons for the transfer and the effect of the transfer are given at pages 3 to 5 of this Circular. A summary of the terms of the insurance business transfer scheme which will govern the transfer (**Scheme**) is at Appendix 1.

A report on the terms of the Scheme has been prepared by Charl Cronje of Lane Clark & Peacock LLP (**Independent Expert**). Further information about the Independent Expert and his report is given at pages 5 and 6 of this Circular. A summary of the terms of the report is at Appendix 2.

As with all insurance business transfer schemes, Court approval is required before the transfer can proceed. The Transferor and the Transferee have made an application to Court to approve the Scheme which is expected to be heard on Wednesday 1st December 2021. The Court will consider the Independent Expert's report, reports prepared by the FCA and PRA, and any representations made by affected parties.

Information about the hearing and your right to attend, and how to raise any concerns or objections you have at or before the hearing, is given at pages 6 and 7.

You may contact us for further information by telephone (between 9am and 5pm London time Monday to Friday) or email us or write to us at:

Randall & Quilter Investment Holdings Ltd.
71 Fenchurch Street,
London EC3M 4BS,
Ref: Jacqui Rayner
email: jacqui.rayner@rqih.com
telephone: + 44 (0)20 7977 4835

Business to be transferred

The business to be transferred comprises rights and liabilities of the Transferor under or by virtue of insurance of non-EEA risks underwritten by the Transferor, or by another party and subsequently transferred to the Transferor, between 1 January 1935 and 20 February 2001. Such risks are only transferred insofar as they relate to liabilities to seamen and any other persons for death, disease or personal injury (including mesothelioma, asbestosis, lung and other cancers and hearing loss) arising as a result of exposures to hazardous material, conditions or other risk factors during the period prior to 20 February 2001.

The Transferring Risks include business originally underwritten by The United Kingdom Mutual Steam Ship Assurance (Bermuda) Limited (**UKB**) or The United Kingdom Mutual Steam Ship Assurance (London) Limited (**UKL**) and transferred to the Transferor under a Part VII Transfer and a Bermuda scheme of arrangement in February 2013 (in the case of UKB) and a Part VII Transfer in December 2020 (in the case of UKL).

Reason for the transfer

The Transferor wishes to dispose of the Transferring Business to eradicate the historical losses comprised in the Transferring Business, which are unpredictable in nature, so that these will not impact the Transferor's current membership. As the Transferor does not typically manage run-off business, it is anticipated that the Transferee, whose core business is the acquisition and administration of run-off business, will have resources better suited to managing the Transferring Business.

The Transferor forms part of a regulatory group with UK P&I Club N.V. (**UKNV**), UKL and UKB, of which the Transferor is the lead company (**Transferor Group**). The transfer to be effected by the Scheme is part of a series of insurance business transfers being carried out by the Transferor Group, including:

- The transfer of the whole of UKL's business to the Transferor pursuant to Part VII of the Act, which became effective at noon Greenwich Mean Time on 30 December 2020 (**UKL Transfer**);
- The transfer of the Transferor's business relating to risks in the European Economic Area (including business acquired from UKL under the UKL Transfer) (**EEA Business**) to UKNV, which became effective at noon Greenwich Mean Time on 31 December 2020 (**UKE Transfer**), which was effected to address the fact that UKE no longer had the necessary authorisation to carry on that business following Brexit;
- The proposed transfer of occupational disease business from UKNV to Accredited, a Maltese insurer in the same group as the Transferee (**EEA Transfer**).

The EEA Transfer will be effected by a portfolio transfer under Dutch law, since UKNV is incorporated and authorised in the Netherlands.

Reinsurance cover with Accredited, pooling agreement and NAIC Trust

The Transferring Business (and the EEA Business) is currently reinsured by Accredited under an adverse development cover reinsurance agreement between the Transferor, UKNV and Accredited (**Existing ADC**). The Existing ADC provides cover for losses incurred from 12 noon GMT on 20 February 2019 above the attachment point of USD 95,000,000 up to the policy limit of USD 50,000,000.

Although upon completion of the Transfer, the Transferring Business will lose the protection of the Existing ADC, it will instead benefit from a new reinsurance arrangement between the Transferee and Accredited (**Replacement ADC**). The Replacement ADC will provide cover for losses incurred from the Effective Date above the attachment point which is currently expected to be GBP 47,900,000, up to the policy limit of GBP 55,000,000 (and will therefore cover losses between GBP 47,900,000 and GBP 102,900,000). The Replacement ADC will be entered into before the hearing of the application to sanction the Scheme. The Replacement ADC will provide protection in the event that claims relating to the Transferring Business come in at a higher level than expected.

Claims handling in respect of the Transferring Risks has been outsourced by the Transferor to R&Q Central Services Limited (**RQCS**), a company in the same corporate group as the Transferee, since February 2019. RQCS will continue to handle claims arising from the Transferring Risks following completion of the Transfer.

The Transferor is part of an international group of P&I clubs (**International Group**) which is made up of twenty-three associations which are parties to an agreement (**Pooling Agreement**) to share losses for eligible P&I claims (**Pool Claims**) above the amount of each club's individual retention of USD10 million. The Transferor and the other International Group associations reinsure certain of these pooled risks above each club's USD10 million retention with a reinsurance vehicle set up by the International Group, and purchase collective reinsurance from the external reinsurance market (**External Reinsurance**).

It is not intended that any rights or obligations under the Pooling Agreement, or the International Group's reinsurance arrangements, will transfer to the Transferee under the Scheme. Given that the Transferor retains the first USD10 million of any claim before the protection afforded by the Pooling Agreement is triggered, which is far in excess of the value of any individual claim typically made in respect of the Transferring Business, and given that the level at which the other reinsurance arrangements respond is higher still, the protection would not be triggered by a claim forming part of the Transferring Business in any event.

The Transferring Business is also reinsured with UKB. The benefit of this reinsurance will not be transferred under the Transfer. Instead, the Transferee will receive cash and securities of a value exceeding the sum expected to be needed to pay all future claims relating to the Transferring Business in full, before taking account of the reinsurance with UKB.

Cash and securities in that amount, as well as cash and securities covering the liabilities of the EEA Business, less a claims float held by RQCS, are currently held by the Transferor in a segregated account (**Segregated Account**). Funds in the Segregated Account are invested in accordance with investment guidelines agreed between the Transferor and Transferee, and may only be used for limited purposes, including the funding of the claims float used by RQCS to pay claims arising out of the Transferring Business (**Claims Float**). The Transferor is able to make withdrawals from the Segregated Account, other than for the purposes of funding the Claims Float, but must refund such amounts plus the amount of any investment income that would have been earned on them in the Segregated Account on or prior to completion of the Transfer. 95% of the funds in the Segregated Account at the Effective Date, together with 95% of the funds in the Claims Float (the remaining 5% in each case being funds relating to the EEA Business) will be transferred to the Transferee on the Effective Date. The Scheme contains a post-Effective Date mechanism to address the possibility of the balance in the Segregated Account on the Effective Date differing from the balance that should have been in the account on that date, had the account been operated in accordance with the terms agreed between the Transferee and the Transferor. In that event, the amount transferred to the Transferee on the Effective Date will have been either too low or too high, and an adjusting payment will be made by the Transferor (if the payment was too low) or the Transferee (if the payment was too high).

Certain policyholders of the Transferor whose policies are transferring under the Scheme and

which are located in the United States may currently have the benefit of a trust fund maintained in accordance with the requirements of the International Insurers Department of the US National Association of Insurance Commissioners (**NAIC Trust**). Although such policyholders will no longer have the benefit of the NAIC Trust as a result of the Scheme, given the Independent Expert's conclusions on the financial strength of the Transferee, it is highly unlikely that these policyholders would ever need to have recourse to this trust, and the Independent Expert has concluded that the relevant policyholders will not be adversely impacted by the Scheme as a result of the loss of the NAIC Trust.

Effect of the Transfer

A summary of the Scheme, the legal document which sets out the terms on which the Transfer will take effect, is provided at Appendix 1 to this Circular.

If the Transfer proceeds, the Transferee will replace the Transferor as insurer for all Transferring Risks.

All other rights and obligations a person has under their policy with the Transferor insofar as they relate to Transferring Risks will remain the same, but following the Transfer will be exercisable against or owed to the Transferee alone. Valid claims will continue to be paid, although the party liable to make payment will be the Transferee, rather than the Transferor.

95% of the funds standing to the credit of the Segregated Account (being 100% of funds relating to the Transferring Business) will transfer to the Transferee. This is equivalent to the parties' estimate of the sums required to meet all claims relating to the Transferring Business. For the avoidance of doubt, the remaining 5% of the funds in the Segregated Account do not relate to the Transferring Business.

As mentioned above, the Transferor has outsourced the claims management in respect of the Transferring Risks to RQCS. RQCS will continue to be responsible for claims management following the Transfer.

The Independent Expert

The Independent Expert, Charl Cronje of Lane Clark & Peacock LLP, is a Fellow of the Institute and Faculty of Actuaries and is a holder of a Chief Actuary (non-life with Lloyd's) practising certificate. Charl Cronje has acted as an independent expert in relation to two previous insurance business transfers under UK legislation and has been peer reviewer on a number of other insurance business transfers under UK legislation. His appointment and the form of his report have been approved by the PRA (in consultation with the FCA).

The Independent Expert has an overriding duty of responsibility to the Court, and not to the parties involved in the Transfer, and is independent of the parties to the Scheme.

The Independent Expert's Report

The Independent Expert's report must be impartial and based on a thorough scrutiny of the Scheme and the businesses of the Transferor and the Transferee. The Transferor and the Transferee have each provided the Independent Expert with access to key staff and any information he has requested, both private and public.

In his report, the Independent Expert has considered the likely effect of the Scheme on policyholders, including whether the Scheme will result in material detriment to any policyholders affected by the Scheme, relative to their current situation.

In summary, the Independent Expert's report concludes that:

- (a) the security provided to the policyholders of the Transferor who are not transferring, the policyholders transferring to the Transferee or the existing policyholders of the Transferee will not be materially adversely impacted by the proposed transfer;
- (b) he does not expect any material adverse impact on the service standards for policyholders of the Transferor who are not transferring, the policyholders transferring to the Transferee or the existing policyholders of the Transferee following the proposed transfer; and
- (c) the reinsurers of the Transferor who provide cover for the Transferring Business will not be materially adversely affected by the proposed transfer.

A full copy of the Independent Expert's report will be provided free of charge on request to the contact details given on page 1 of this Circular or can be downloaded at <http://www.rqih.com/news/the-united-kingdom-mutual-steam-ship-assurance-association-limited-part-vii-transfer/>. A summary of the report prepared by the Independent Expert is at Appendix 2 to this Circular.

The Independent Expert will submit a supplemental report shortly before the Court hearing explaining whether there have been any relevant developments since his initial report and if so whether they affect his conclusions.

Where and when will the Court hearing take place?

The Court hearing is scheduled to take place on Wednesday 1st December 2021 at the High Court – Business and Property Courts of England and Wales, The Rolls Building, 7 Rolls Buildings, Fetter Lane, London EC4A 1NL. Formal notice of the hearing is at Appendix 3 to this Circular.

Due to the COVID 19 pandemic it is possible that the hearing may take place virtually, and that no one will attend in person. The position will be confirmed on the website <http://www.rqih.com/news/the-united-kingdom-mutual-steam-ship-assurance-association-limited-part-vii-transfer/> prior to the hearing.

Who can attend?

Any person may attend the hearing, although as noted above it may be that attendance will be virtual, rather than in person. Policyholders, and any other party who believes they may be adversely affected by the Scheme, are entitled to be heard at the hearing and to raise objections to the Scheme by stating how they may be adversely affected. Further details of what to do if you wish to raise objections at the hearing are given in the "Next Steps" section below.

When will the Transfer take effect?

If approved by the Court and subject to certain funds specified in the Scheme being transferred by the Transferor to the Transferee, it is expected that that the Transfer will become effective at 23:59 (London time) on the date falling five business days after the hearing of the application (the **Effective Date**).

Next Steps

We hope this document provides you with the information to allow you to understand what is proposed, and answer any questions that you may have. If you do have any questions, you

can contact us using the contact details on page 2 of this Circular.

If you do not think you are adversely affected and have no objections to the Scheme you do not have to do anything.

However, if you consider you may be adversely affected by the Scheme or you object to the Scheme or if you need any further information, then please let us know. You can call us between 9am and 5pm Monday to Friday, email us or write to us at the contact details provided on page 2 of this Circular.

If you have an objection to the proposals or if you believe you may be adversely affected as a result of the Scheme, you can also attend (in person or by a legal representative with advocacy rights), and make representations at the Court hearing. If you intend to do so, you are requested (though are not required) to notify Bryan Cave Leighton Paisner LLP, the solicitors acting for the Transferor and the Transferee, of your intention and the reasons why you consider you may be adversely affected by the Scheme. You should contact them by writing to Bryan Cave Leighton Paisner LLP (Reference GQUI/LJAC), Governor's House, 5 Laurence Pountney Hill, London EC4R 0BR, United Kingdom as soon as possible and ideally before Wednesday 24th November 2021. This will allow us to keep you informed of any changes to the hearing date and where possible address your concerns.

If you do not give the requested notice you will still be entitled to attend and make representations at the hearing, or to instruct someone to appear and make representations on your behalf.

If you would rather make representations in writing, these will be drawn to the attention of the PRA and the FCA prior to the hearing, and will be submitted to the Court at the hearing. You are requested to send any written representations to Bryan Cave Leighton Paisner LLP at the address and contact details given in the preceding paragraph before the hearing, and ideally by Wednesday 24th November 2021.

We will keep a careful record of all the objections and representations received and will include these in the evidence to be considered by the Court at the hearing.

Contact details

You can call us, email us or write to us at the contact details given on page 2 of this Circular.

You may also contact the PRA or FCA at the following address:

Prudential Regulation Authority
Bank of England
20 Moorgate
London
EC2R 6DA
Ref: The Insurance Risk and Transactions Team

Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS
Ref: Transfers of Business Team / Authorisations

Appendix 1: Summary of the Scheme

This summary sets out the principal provisions of the Scheme. Unless otherwise defined in this summary, capitalised terms used in this summary have the meanings given to them in this Circular.

It is anticipated that, if sanctioned by the Court and subject to certain funds specified in the Scheme being transferred by the Transferor, the Scheme will take effect on the Effective Date.

The Transferring Business is defined in the Scheme and, in summary, comprises:

1. the Transferring Risks and the rights and liabilities obligations and powers of the Transferor under or by virtue of the Transferring Risks with the exception of the Excluded Claims;
2. all activities carried out in connection with, and for the purposes of, the Transferring Risks;
3. 95% of all the Transferor's right, title and interest to the amounts standing to the credit of the Segregated Account and the Claims Float on the Effective Date;
4. all rights and title of the Transferor to all documents, files and other records, whether in physical or electronic form, relating to the Transferring Business which are in the possession or under the control of the Transferor (**Records**).

The Transferring Risks exclude (1) any regulatory fines and penalties incurred by the Transferor (other than pursuant to any insurance provided by the Transferor) due to any act or omission by or on behalf of the Transferor prior to 27 February 2020; and (2) any exemplary or punitive damages incurred by the Transferor (other than pursuant to any insurance provided by the Transferor) due to any act or omission by or on behalf of the Transferor prior to 27 February 2020. The Transferor and the Transferee do not believe that there are any such liabilities.

On the Effective Date:

1. The Transferee will assume the Transferor's rights and obligations arising under the Transferring Business.
2. The liabilities of the Transferor, so far as they relate to the Transferring Risks, will be transferred to and become liabilities of the Transferee and will cease to be liabilities of the Transferor. This will include liabilities arising under each Transferring Risk, whether that policy is governed by English law or the law of another jurisdiction.
3. The Transferor will transfer 95% of the cash and securities standing to the Segregated Account.
4. The Transferor's right, title and interest in the 95% of the Claims Float will transfer to the Transferee.
5. The Records will become the property of the Transferee.

There will be no change in the terms and conditions of the Transferring Risks.

The Scheme provides for the unlikely contingency that certain liabilities or assets may not be, or may not be capable of being, transferred on the Effective Date (**Retained Risks**). Retained Risks will transfer subject to the terms of the Scheme if and when the impediment to transfer is removed. In the meantime, the Transferee will be under an obligation to indemnify the Transferor in respect of any losses or liabilities arising out of the Retained Risks, and to perform the Transferor's obligations in respect of the Retained Risks. The Transferor will procure that RQCS continues to handle claims and collect recoveries in respect of the Retained Risks on the same basis, including as to obligations to report to the Transferor, as it did before the Scheme became effective. It is not however anticipated that there will be any Retained Risks.

Following the Effective Date:

1. The Transferor must account to the Transferee for all sums or benefits received after the Effective Date in respect of the Transferring Business.
2. Any proceedings for the resolution of a dispute or claim brought against or by the Transferor, and any complaint or claim to any ombudsman, in each case relating to the Transferring Business (**Proceedings**) will:
 - (a) If commenced before the Effective Date, be continued by or against the Transferee;
 - (b) If commenced after the Effective Date, be commenced against or by the Transferee.
3. Any order or judgment made in any Proceedings against the Transferor which remains outstanding at the Effective Date or which is made after the Effective Date will be deemed to have been made and will be enforceable against the Transferee.
4. Where proceedings against the Transferor are ongoing at the Effective Date in a jurisdiction outside the UK, or commenced in such a jurisdiction after the Effective Date, the Transferee will have the authority to conduct these proceedings on behalf of the Transferor.

The Transferee may, with the consent of the Transferor, agree to any modification of or addition to the Scheme or any further condition or provision in the Scheme which the Court may approve or impose. In the case of an amendment affecting the substance of the Scheme, the consent of the PRA having consulted the FCA will also be required. The PRA and FCA must be notified of any application to modify the Scheme after the Effective Date.

The Scheme will be governed by and construed in accordance with English law.

Appendix 2: Summary of the Independent Expert's Report

*Summary Report of the Independent Expert on the
proposed transfer of insurance business from*

***The United Kingdom Mutual Steam Ship
Assurance Association Limited***

to

R&Q Gamma Company Limited

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

For the High Court of Justice of England and Wales

27 July 2021

Prepared by
Charl Cronje FIA
LCP



*The United Kingdom Mutual Steam Ship Assurance Association Limited
to R&Q Gamma Company Limited
Transfer of insurance business
Summary of the Independent Expert's Scheme Report for the
High Court of Justice of England and Wales*

1. The Proposed Transfer

The firms involved

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

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

The Transferring Business

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

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

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

Based on its computerised policyholder records, UKC has identified 2,089 policyholders who have or could potentially have a claim. The true number of policyholders is likely to be higher, but it is not practical to identify every policyholder all the way back to 1935. Approximately 70% of these policyholders (1,492) have liabilities which will form part of the Transferring Business.

OD liabilities relating to cover outside of the period 1 January 1935 and 20 February 2001 will remain the

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

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

Effective Date

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

The nature of the OD liabilities

Most OD claims arise from seafarers being exposed to asbestos on ships. It can take 40 years or more before symptoms of asbestos-related diseases emerge. Such diseases are often fatal, which means that compensation awards can be significant. Given the long latency period of these diseases, claims are expected to continue to emerge for many years into the future. This means that claims experience is volatile and there is a high degree of uncertainty in the valuation of the Transferring Business.

Reinsurance

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

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

On the Effective Date of the Proposed Transfer, the existing ADC in respect of the Transferring Business will terminate and R&Q Gamma will enter into a new ADC reinsurance arrangement with AIEL (the new ADC). This reinsurance will be in respect of the Transferring Business only, ie excluding the EEA risks. The new ADC will attach at £47.9m (\$65.4m based on an exchange rate of £1 = \$1.36) with a limit of £55.0m (\$75.1m). AIEL will therefore cover losses between £47.9m and £102.9m (\$65.4m to \$140.4m).

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

Claims handling

In anticipation of the Proposed Transfer, the claims handling of the Transferring Business has already moved to R&Q Central Services Limited, another entity within the R&Q group. Following the Proposed Transfer, claims handling will continue to be performed by R&Q Central Services Limited (RQCS) on behalf of R&Q Gamma. As part of the agreement between UKC and R&Q Gamma, UKC's main claims handler for the OD liabilities moved across to RQCS. This arrangement provides policyholders with continuity of service in respect of claims handling.

2. My role as Independent Expert

In order to proceed, the Proposed Transfer will need to be approved by the High Court of Justice of England and Wales (the Court). To assess the Proposed Transfer, the Court requires a Scheme Report to be prepared by a suitably qualified independent person, the Independent Expert (IE).

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

I am a Fellow of the Institute and Faculty of Actuaries (IFoA) and am a holder of Chief Actuary (non-Life with Lloyd's) practising certificate. I am a Partner in the Insurance Consulting practice at LCP and have experience in a wide range of areas of general insurance actuarial work.

As IE, my overall role is to assess whether:

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

3. Summary of my conclusions

To assess the effect of Proposed Transfer, I have considered it from four perspectives:

1. **“Non-transferring Policyholders”, which includes both:**
 - a. **Policyholders who will have no part of their policy transferred and who will remain with UKC after the Proposed Transfer; and**
 - b. **Policyholders whose policies will be split between UKC and R&Q Gamma as a result of the Proposed Transfer. For these policyholders, I consider only the non-OD component of the benefit to be “non-transferring”.**
 - I have concluded that the security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer.
 - I have concluded that no material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.
2. **“Transferring Policyholders”, defined as UKC policyholders who have potential exposure to OD claims through UKC between 1 January 1935 and 20 February 2001 and whose OD liabilities will transfer to R&Q Gamma as a result of the Proposed Transfer. When I refer to Transferring Policyholders I am referring to the OD component of the policies only.**
 - I have concluded that the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.
 - I have concluded that no material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.
3. **“Existing R&Q Gamma Policyholders”, ie policyholders of R&Q Gamma immediately prior to the Proposed Transfer, who will remain with R&Q Gamma after the Proposed Transfer.**
 - I have concluded that the security provided to Existing R&Q Gamma Policyholders will not be materially adversely affected by the Proposed Transfer.
 - I have concluded that no material impact on service standards is expected for Existing R&Q Gamma Policyholders following the Proposed Transfer.

4. Reinsurers of UKC covering the Transferring Business

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

4. The IE's Scheme Report

This is a summary of my full Scheme Report, "Scheme Report of the Independent Expert on the proposed transfer of insurance business from The United Kingdom Mutual Steam Ship Assurance Association Limited to R&Q Gamma Company Limited in accordance with Part VII of the Financial Services and Markets Act 2000".

A copy of the full Scheme Report is available for download free of charge on the UK P&I and R&Q websites.

I will also prepare a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions on the Proposed Transfer, based on any new material or issues that arise.

5. Non-transferring Policyholders

In my opinion, the security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for UKC are appropriate, and UKC has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for UKC is projected to increase from 243% to 247% as a result of the Proposed Transfer.
- Further, UKC is expected to remain very well capitalised throughout the projected period to February 2024.
- I am satisfied that UKC is expected to remain well capitalised under a range of adverse scenarios. In more extreme adverse scenarios, such as UKC's reverse stress test, I am satisfied that Non-transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.

In my opinion, no material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.

Summary rationale:

- UKC is not planning any material changes to how the business is carried out. In particular, there

are no plans to change how Non-transferring Policyholders are serviced post-transfer.

6. Transferring Policyholders

In my opinion, the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for the Transferring Business in R&Q Gamma are appropriate, and R&Q Gamma has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for Transferring Policyholders is expected to decrease from 243% (UKC pre-transfer) to 173% (R&Q Gamma post-transfer) as a result of the Proposed Transfer. I do not consider the security provided to Transferring Policyholders to be materially adversely affected by this decrease as R&Q Gamma will still be well capitalised.
- Further, R&Q Gamma's SCR coverage ratio is projected to increase to levels similar to UKC's pre-transfer coverage ratio (ie in the region of 230%) by December 2024.
- R&Q Gamma will have reinsurance (the new ADC) with AIEL, an A-minus rated European insurer in the R&Q Group. This cover provides 100% reinsurance protection in the event of a deterioration in the valuation of the OD liabilities up to \$72m (ie even if the gross reserves for the Transferring Business were \$72m higher, this would all be recoverable from AIEL).
- I have been provided with evidence that AIEL is very well capitalised and would remain well capitalised under a range of adverse scenarios relating to the Transferring Business and under a range of adverse sensitivity tests on the wider portfolio. In more extreme scenarios, AIEL remains sufficiently capitalised.
- I am satisfied that R&Q Gamma is expected to remain well capitalised under a range of adverse scenarios in relation to both the Transferring Business and its other business. In more extreme adverse scenarios, where R&Q Gamma's SCR coverage ratio would fall below 100%, I am satisfied that the likelihood of such scenarios is sufficiently remote such that Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.

- In the event of the Proposed Transfer not going ahead, UKC's existing ADC with AIEL would be commuted and Transferring Policyholders would no longer benefit from protection in the event of a deterioration in the valuation of the OD liabilities, ie Transferring Policyholders will only benefit from ADC reinsurance protection if the Proposed Transfer does go ahead.
- Although UKC's estimate of the reserves is currently higher than that of R&Q Gamma, UKC's estimates do not yet take into account the 2020 revisions to the UK Asbestos Working Party (AWP) model – this is likely to reduce UKC's estimate. R&Q Gamma have taken the 2020 AWP model into account.
- In respect of the OD liabilities, Transferring Policyholders will lose the potential benefits of UKC being able to make supplementary calls. However, the Transferring Policyholders will benefit from the new ADC. Therefore, the probability of R&Q Gamma requiring additional capital in order to pay claims in full is remote.
- In respect of the OD liabilities, Transferring Policyholders in the US will lose the potential benefits of UKC's US trust fund. However, these policyholders would only be adversely impacted in the event that R&Q Gamma was unable to pay claims. I consider the likelihood of this to be remote.
- Although the OD liabilities are very uncertain, R&Q Gamma is not actively writing new business so the level of risk is expected to fall over time. In contrast, UKC continues to write new business each year which exposes UKC to significant ongoing and new risks from a variety of sources.
- R&Q Gamma is a UK entity so the Transferring Policyholders will continue to be regulated in the UK following the Proposed Transfer. I do not expect the rights of policyholders in respect of access to the FSCS or FOS to change as a result of the Proposed Transfer.

In my opinion, no material impact on service standards is expected for these policyholders following the Proposed Transfer.

Summary rationale:

- The claims handling of the Transferring Business is already being managed by R&Q Central Services Limited, another entity in the R&Q group. R&Q Gamma has confirmed that this will continue to be the case following the Proposed Transfer, which provides continuity of service to policyholders.

7. Existing R&Q Gamma Policyholders

In my opinion, the security provided to Existing R&Q Gamma Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for R&Q Gamma are appropriate, and R&Q Gamma has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for R&Q Gamma Policyholders is expected to decrease from 407% to 173% as a result of the Proposed Transfer. I do not consider the security provided to Existing R&Q Gamma Policyholders to be materially adversely affected by this decrease as R&Q Gamma will still be well capitalised. Further, R&Q Gamma's own funds will increase from £16m to £38m as a result of the Proposed Transfer, so Existing R&Q Gamma Policyholders will have access to a significantly larger capital base.
- On the face of it, the decrease in SCR coverage ratio for Existing R&Q Gamma Policyholders from 407% to 173% would appear to be a significant fall in capital strength. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 173% coverage ratio therefore equates to a remote probability of insolvency (much lower than 0.5%). Since the probability of insolvency is already remote at 173%, the difference in capital coverage ratios of 173% and 407% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Further, R&Q Gamma is projected to remain well capitalised throughout the projected period to December 2024.
- The new ADC with AIEL provides protection in the event of a deterioration in the valuation of the Transferring Business. Therefore, the reserves in respect of the Existing R&Q Gamma Policyholders are protected from deteriorations in the reserves of the Transferring Business. Indeed, since the reserves will be significantly higher following the Proposed Transfer, there is potential for deteriorations in the existing R&Q Gamma portfolios to be absorbed by the much larger pool of reserves for the Transferring Business

- I am satisfied that R&Q Gamma is expected to remain well capitalised under a range of adverse scenarios in relation to both the Transferring Business and its other business. In more extreme adverse scenarios, where R&Q Gamma's SCR coverage ratio would fall below 100%, I am satisfied that the likelihood of such scenarios is sufficiently remote such that Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.

In my opinion, no material impact on service standards is expected for Existing R&Q Gamma Policyholders following the Proposed Transfer.

Summary rationale:

- R&Q Gamma is not planning any material changes to how its existing business is carried out. In particular, there are no plans to change how Existing R&Q Gamma Policyholders are serviced following the Proposed Transfer.

8. Reinsurers

In my opinion, reinsurers of UKC who provide cover for the Transferring Business will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- AIEL provides the existing ADC to UKC. On the Effective Date of the Proposed Transfer, the existing ADC in respect of the Transferring Business will terminate and the new ADC will commence. The new ADC will attach at a lower level than the existing ADC and with a higher limit (relative to the attachment point). The new ADC therefore provides greater protection to the Transferring Business than the existing ADC. AIEL will receive an additional reinsurance premium from R&Q Gamma to compensate for this new arrangement.
- I have been provided with evidence that AIEL is well capitalised and would remain well capitalised under a range of adverse scenarios relating to the Transferring Business. I am therefore satisfied that AIEL is not materially adversely affected by the Proposed Transfer. Further, AIEL is part of the R&Q Group and has been party to the discussions and agreement with UKC in relation to the Proposed Transfer.
- UKC has a 90% quota share (QS) reinsurance arrangement with its subsidiary, UKB. This reinsurance covers both the OD and non-OD liabilities within UKC. Following the Proposed Transfer, the OD liabilities will no longer be liabilities of UKC and therefore will no longer be covered by the QS reinsurance with UKB. UKB will no longer be liable for recoveries in respect of the OD liabilities and so I am satisfied that UKB

is not materially adversely affected by the Proposed Transfer. Further, UKB is part of the UK P&I Club and, as such, has been party to the discussions and agreement with R&Q in relation to the Proposed Transfer.

- UKC is a member of the International Group of P&I Clubs (the International Group), which provides cover for individual losses in excess of \$10m. R&Q Gamma will not benefit from this reinsurance following the Proposed Transfer. This is very unlikely to affect the level of security provided to the Transferring Policyholders because individual OD claims are significantly smaller than \$10m (the largest OD claim to date is \$2m).

9. Impact of COVID-19 on the Proposed Transfer

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

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

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

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

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

die of COVID-19 and if mesothelioma is deemed to be a material contributor to such deaths.

R&Q Gamma has confirmed that, for the Transferring Business, there have been no notified claims to date where the claim is known to be related to COVID-19. Given that there have been no claims to date this is not expected to be a material source of claims.

Even if some of the potential impacts above were to materialise, the impact on the reserves for the Transferring Business would be unlikely to be material relative to the reserving scenarios presented in my full Scheme Report. These scenarios include consideration of increases in claim frequency and severity.

Although the impact of the pandemic is uncertain, in my view the impact on the Transferring Business is limited relative to the overall uncertainty in these liabilities.

UKC and R&Q Gamma have informed me that there are no operational issues arising from COVID-19 that are impacting or expected to impact policyholders.

In my opinion, the COVID-19 pandemic does not materially change my overall conclusions.

I will provide an update on the potential impacts of COVID-19 in my Supplementary Report.

10. Further information and next steps

Further details on my conclusions, and other supporting information, are set out in my full Scheme Report.

I will be reviewing these conclusions and preparing a Supplementary Report before the Court considers its final approval of the Proposed Transfer at the Sanctions Hearing. The purpose of the Supplementary Report is to confirm and/or update my conclusions based on any new material or issues that arise.



Charl Cronje

Fellow of the Institute and Faculty of Actuaries

27 July 2021

Professional standards

Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 200: Insurance, and Actuarial Profession Standard X2: Review of Actuarial Work.

The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with The United Kingdom Mutual Steam Ship Assurance Association Limited and R&Q Gamma Company Limited. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Summary Report, which is our work, has been prepared for the purpose of summarising the full Scheme Report accompanying the application to the Court in respect of the insurance business transfer scheme described in that report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Scheme Report and this Summary Report are not suitable for any other purpose.

A copy of the Summary Report and the Scheme Report will be sent to the Prudential Regulatory Authority, the Financial Conduct Authority and the full Scheme Report will accompany the Scheme application to the High Court.

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

This Summary Report has been prepared under the same scope and limitations set out in the Scheme Report. In the event of any real or perceived conflict between this Summary Report and the Scheme Report, the Scheme Report shall prevail.

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Appendix 3: Legal notice

IN THE HIGH COURT OF JUSTICE

CR-2021-001163

BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES

COMPANIES COURT (ChD)

IN THE MATTER OF

**THE UNITED KINGDOM MUTUAL STEAM SHIP
ASSURANCE ASSOCIATION LIMITED**

-and-

IN THE MATTER OF

R&Q GAMMA COMPANY LIMITED

-and-

IN THE MATTER OF

**PART VII OF THE FINANCIAL SERVICES AND
MARKETS ACT 2000**

**TRANSFER OF INSURANCE BUSINESS
UNDERWRITTEN BY THE UNITED KINGDOM
MUTUAL STEAM SHIP ASSURANCE
ASSOCIATION LIMITED**

NOTICE IS HEREBY GIVEN that, by application dated 23 July 2021, The United Kingdom Mutual Steam Ship Assurance Association Limited (the **Transferor**) and R&Q Gamma Company Limited (the **Transferee**) (together the **Applicants**), applied to the High Court of Justice of England and Wales for, amongst other things, an order under Section 111(1) of the Financial Services and Markets Act 2000 (the **Act**) sanctioning an insurance business transfer scheme (the **Scheme**) providing for the transfer of insurance business by the Transferor to the Transferee and for an order making provision under Section 112 of the Act.

The business included in the proposed transfer comprises rights and liabilities of the Transferor under or by virtue of insurance of non-EEA risks underwritten by the Transferor, or by another party and subsequently transferred to the Transferor, between 1 January 1935 and 20 February 2001 insofar as such risks relate to claims relating to liabilities to seamen and any other persons for death, disease or personal injury (including mesothelioma, asbestosis, lung and other cancers and hearing loss) arising as a result of exposures to hazardous material, conditions or other risk factors during the period prior to 20 February 2001.

Copies of a report on the terms of the Scheme prepared by an independent expert in accordance with section 109 of the Act (the **Scheme Report**) and copies of a statement setting out the terms of the Scheme and containing a summary of the Scheme Report may be obtained, free of charge, by contacting:

Randall & Quilter Investment Holdings Ltd.

71 Fenchurch Street

London EC3M 4BS

Ref: Jacqui Rayner

email: jacqui.rayner@rqih.com

telephone: + 44 (0)20 7977 4835.

or may be downloaded from the website <http://www.rqih.com/news/the-united-kingdom-mutual-steam-ship-assurance-association-limited-part-vii-transfer/>

Anyone who has any concerns or objections regarding the proposed transfer or who requires any further information regarding the transfer should also contact the above address and reference or appear in Court or both.

The application will be heard on Wednesday 1st December 2021 before a Judge of the High Court - Business and Property Courts of England and Wales at The Rolls Building, 7 Rolls Buildings, Fetter Lane, London, EC4A 1NL, United Kingdom. The Act provides that any person (including an employee of the Transferor or the Transferee) who alleges that he or she may be adversely affected by the carrying out of the Scheme is entitled to:

1. make representations in writing;
2. appear at the hearing and make representations in person; or
3. instruct a barrister or solicitor advocate to appear at the hearing and make representations on his/her behalf.

If you intend to appear at the hearing in person, or to instruct someone to appear on your behalf, you are requested (though not required) to give notice of your intention to do so in writing, setting out the reasons why you believe you may be adversely affected.

You are requested to send such notice, or if you are not intending to appear in person or by your legal representative, any written representations that you may have, to:

Bryan Cave Leighton Paisner LLP

Governor's House

5 Laurence Pountney Hill

London, EC4R 0BR

(ref: LJAC/GQUI/2039998.000003).

Please provide such notice or such written representations by close of business on Wednesday 24th November 2021. If you do not give the requested notice you will still be entitled to attend and make representations at the hearing or to instruct someone to appear and make representations on your behalf.

Due to the COVID 19 pandemic it is possible that the hearing may be virtual and no one will be attending in person. The position will be confirmed on the website <http://www.rjih.com/news/the-united-kingdom-mutual-steam-ship-assurance-association-limited-part-vii-transfer/> prior to the hearing.

If the Scheme is sanctioned by the Court, it will result in the transfer of all the contracts, property, assets and liabilities of the Transferor within the scope of the Scheme to the Transferee, notwithstanding that a person would otherwise be entitled to:

1. terminate, modify, acquire or claim an interest or right; or
2. treat an interest or right as terminated or modified,

as a result of the transfer of business effected by the Scheme. Any such entitlement will only be enforceable to the extent the order of the Court makes provision to that effect.

Bryan Cave Leighton Paisner LLP, Governor's House, 5 Laurence Pountney Hill, London, EC4R 0BR

Ref: LJAC/GQUI/2039998.000003

Solicitors to the Applicants