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

For the High Court of Justice of England and Wales

27 July 2021

Prepared by

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LCP

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1. Executive summary

1.1. The Proposed Transfer

The firms involved

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

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

The Transferring Business

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

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

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

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

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

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

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

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

Effective Date

The Effective Date (the date when the Proposed Transfer is expected to occur) will be 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 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.

1.2. My role as Independent Expert

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

As IE, my overall role is to assess whether:

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

This report is my Scheme Report for the Proposed Transfer. 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 in this report, based on any new material or issues that arise.

1.3. Summary of my conclusions

I have set out below my summary conclusions, considering the effect of the Proposed Transfer on the following four parties:

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

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

In drawing my conclusions, I have considered the impact of the Proposed Transfer on all underlying Claimants and Beneficiaries (these terms are defined in Section 4). As well as UKC's members, this also includes third party Claimants such as crew members who have already made a claim against UKC, as well as crew members who may make a claim in future.

Non-transferring Policyholders

At the Effective Date of the Proposed Transfer, UKC have identified 2,089 Non-transferring Policyholders (about 70% of these are also considered to be Transferring Policyholders as the OD part of each policy would transfer to R&Q Gamma). The Non-transferring Business represents 91% of UKC's projected IFRS technical provisions as at the Effective Date.

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

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for UKC are appropriate, and UKC has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for UKC is projected to increase from 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.
- UKC is not planning any material changes to how the business is carried out. In particular, there are no plans to change how Non-transferring Policyholders are serviced post-transfer.

Transferring Policyholders

UKC have identified 1,492 Transferring Policyholders (all of which are also considered to be Non-transferring Policyholders as the non-OD part of each policy would remain with UKC), which represents 71% of UKC's projected pre-transfer business by number of policyholders. The Transferring Business represents 9% of UKC's projected GAAP technical provisions as at the Effective Date.

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

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for the Transferring Business in R&Q Gamma are appropriate, and R&Q Gamma has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for Transferring Policyholders is expected to decrease from 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 is expected to 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 relating to the reserves for the Transferring Business, 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.
- The claims handling of the Transferring Business is already being managed by R&Q Central Services Limited, another entity in the R&Q group. R&Q Gamma has confirmed that this will continue to be the case following the Proposed Transfer, which provides continuity of service to policyholders.

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

Existing R&Q Gamma Policyholders

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

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

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for R&Q Gamma are appropriate, and R&Q Gamma has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for R&Q Gamma Policyholders is expected to decrease from 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 reduction. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 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 Existing R&Q Gamma Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- R&Q Gamma is not planning any material changes to how its existing business is carried out. In particular, there are no plans to change how Existing R&Q Gamma Policyholders are serviced following the Proposed Transfer.

Reinsurers

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

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

Summary rationale:

- AIEL provides the existing ADC to UKC. On the Effective Date of the Proposed Transfer, the existing ADC in respect of the Transferring Business will terminate and the new ADC will commence. The new ADC will attach at a lower level than the existing ADC and with a higher limit (relative to the attachment point). The new ADC therefore provides greater protection to the Transferring Business than the existing ADC. AIEL will receive an additional reinsurance premium from R&Q Gamma to compensate for this new arrangement.
- I have been provided with evidence that AIEL is well capitalised and would remain 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).

1.4. Impact of COVID-19 on the Proposed Transfer

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

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

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

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 section 5.6. 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 as set out in section 1.3.

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

1.5. Next steps

The remainder of this report sets out my conclusions and other supporting information in more detail.

I will be reviewing these conclusions and preparing 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 based on any new material or issues that arise.

Specific issues that I have highlighted in this report which require further review include:

- Considering the latest position on COVID-19.
- The AWP's upcoming paper setting out the full details of their updated market estimates for asbestos liabilities, including details of the change in basis compared to the 2009 projections. I will also consider performing additional reserve stresses based on any relevant potential future scenarios outlined by the AWP.
- UKC's estimate of the reserves for the OD liabilities based on the 2020 AWP projections.
- Any findings from the audits of UKC's 20 February 2021 accounts.
- Any policyholder objections received.
- An update on R&Q Gamma's Capital Management Plan, which is due for Board approval in June 2021.
- Confirmation of the amount and timing of the capital contribution from the R&Q Group to R&Q Gamma, which will be a condition to the Proposed Transfer.
- Final confirmation of the reinsurance arrangement between R&Q Gamma and AIEL, including the full contract details for the new ADC and the exact attachment point and limit.
- Confirmation of R&Q Gamma's approach to maintaining an employers' liability register.

2. Introduction

2.1. Background

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

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

This report is the Scheme Report for the Proposed Transfer. 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 in this report, based on any new material or issues that arise.

2.2. Independent Expert appointment

My appointment

UKC and R&Q Gamma have jointly appointed me to act as the IE for the Proposed Transfer. The PRA, in consultation with the FCA, has approved my appointment. R&Q Gamma will bear the costs associated with the production of my report. I understand that no costs or expenses of the Proposed Transfer will be borne by policyholders.

My experience

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. I have experience in a wide range of areas of general insurance actuarial work including reserving, capital, pricing and transactions.

I have acted as the IE on three previous Part VII transfers and have been peer reviewer on a number of other insurance Part VII transfers.

Appendix 3 contains my CV with further details of my experience.

Independence statement

I confirm that I, Charl Cronje, and all members of the LCP team assisting me in my IE role are independent from the parties of the transfer and that I am able to act as your IE.

I confirm that neither I, nor any of the team, have any direct or indirect interests in the UK P&I Club or R&Q Gamma Company Limited ("the firms"), either personally or via LCP.

In particular:

- Neither I, nor any member of the team, is a shareholder in the firms or subsidiaries nor a member of any pension scheme under the management of any of these entities.
- Neither I, nor any member of the team, hold any insurance policies issued by the firms or any subsidiaries.
- LCP has not previously performed any work for the firms.

LCP provides actuarial and investment advice to the trustees of the Thomas Miller DB Pension Scheme and the trustees of the Thomas Miller DC Pension Scheme, as well as to Thomas Miller. There is no intersection between Thomas Miller's services for the UK P&I Club and LCP's work for Thomas Miller.

LCP has acted as Independent Actuary (IA) on a Section 13 transfer involving an entity in the R&Q group (not R&Q Gamma Company Limited). A Section 13 transfer is Ireland's equivalent of a Part VII transfer.

LCP provides advice to the International Group of P&I Clubs, of which the UK P&I Club is a member.

I do not consider that these engagements affect my ability to act as IE on the Proposed Transfer.

2.3. Scope of this Scheme Report

Appendix 4 contains an extract from my terms of reference, which defines the scope of my work in relation to the Proposed Transfer. The actual work performed is in line with this agreed scope.

This Scheme Report considers the effect of the Proposed Transfer upon the policyholders of UKC and R&Q Gamma, and reinsurers of the Transferring Business. It contains a description of the Proposed Transfer, the methodology I have used to analyse the Proposed Transfer, the opinions I have formed, and reasons why I have formed those opinions.

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

For presentational purposes some GBP amounts in this report have been converted to USD at an exchange rate of £1 = USD1.36.

2.4. Use of this Scheme Report

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

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

A copy of the Scheme Report will be sent to the PRA and the FCA and will accompany the Scheme application to the High Court.

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

2.5. Reliances

I have based my work on the data and other information made available to me by UKC and R&Q Gamma. Appendix 4 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of UKC, R&Q Gamma and their advisors.

My analysis is based on data from two separate dates:

- For UKC, I have used data as at 20 February 2020. This is the latest set of year-end accounts available at the time of preparing this report. At the time of preparing this report, the audits for the 20 February 2021 accounts for UKC are near completion and in the process of being finalised. I will consider any findings from the audits in my Supplementary Report.
- For R&Q Gamma, I have used data as at 31 December 2020.

Prior to the Sanctions Hearing for the Proposed Transfer, I will prepare a Supplementary Report to confirm and/or update my conclusions in this report, based on any new material or issues that arise, and based on updated data where appropriate.

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

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

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

I have taken into account advice provided to R&Q Gamma by its legal advisers regarding the legal validity of the Scheme including:

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

I have taken into account this legal advice provided to R&Q Gamma, which includes reference to previous Part VII transfers where policies have been split between two insurers. I have set out further detail on the splitting of policies in section 9.2.

The legal advice on the recognition of the Scheme in US courts is the advice received by R&Q Gamma in respect of a previous Part VII transfer to R&Q Gamma in March 2020. R&Q Gamma's legal advisors have confirmed that the advice provided is not scheme specific and I am not aware of anything that has changed since the date of this advice to invalidate the analysis.

R&Q Gamma's legal advisors have also considered the recognition of the scheme in jurisdictions outside of the US and the UK. The Proposed Transfer must be approved by the High Court of Justice in England and Wales, but, in theory, there is a risk that a court in another jurisdiction might not recognise the Proposed Transfer. In such an instance, it is possible that UKC, as the original insurance provider, might instead be pursued to pay a claim. To the best of UKC's knowledge, policies have always been written under English law. Given that the Proposed Transfer is subject to approval under English law, I consider the risk of non-recognition abroad to be remote. The majority of the OD claims to date have been from the UK and US. Further, as set out in the legal scheme document, R&Q Gamma has committed not to assert that the Proposed Transfer is ineffective under any jurisdiction. R&Q Gamma will also provide an indemnity to UKC for any claims that are asserted against UKC. Given that policyholders OD claims will be being paid by R&Q Gamma, I consider it unlikely that any jurisdiction would dispute the Proposed Transfer.

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

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

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

2.6. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for scheme reports set out by the PRA in their Statement of Policy, the FCA guidance to their approach to review of Part VII transfers issued in May 2018 and by the PRA Rulebook and the FCA Handbook.

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

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

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

2.7. Materiality

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

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

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

2.8. Definition of "materially adverse"

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

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

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

3. Outline of Proposed Transfer

3.1. The firms involved

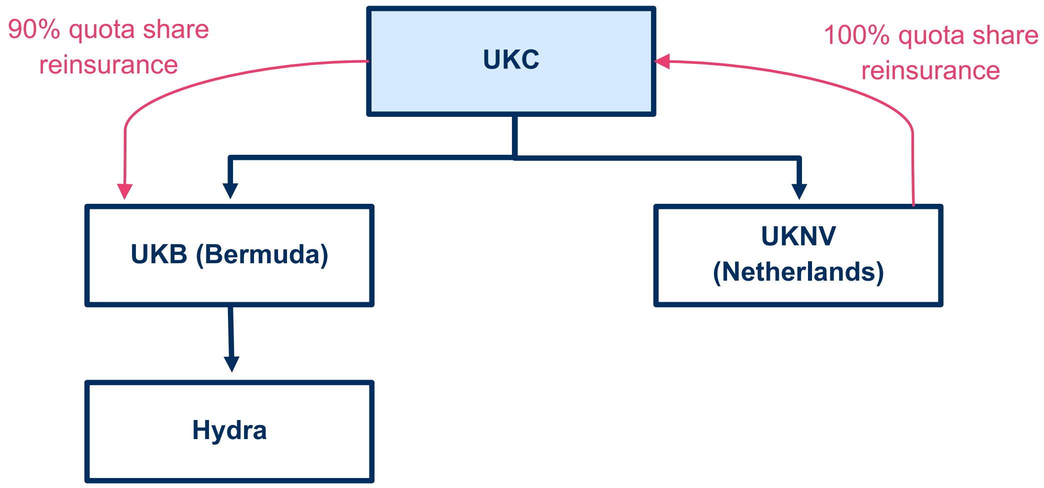
The United Kingdom Mutual Steam Ship Assurance Association Limited (UKC)

The UK P&I Club (the Club) is a non-life mutual insurance company incorporated in England and Wales on 18 February 1886, authorised by the PRA and regulated by the PRA and the FCA. 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.

The United Kingdom Mutual Steam Ship Assurance Association Limited (UKC) is part of the UK P&I Club, together with three other insurance entities:

- The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited (UKB), which reinsures 90% of UKC’s business (net of external reinsurances).
- UK P&I Club N.V. (UKNV), which was established in 2019 to enable the Club to continue to operate throughout the EU following Brexit. UKC provides 100% quota share reinsurance to UKNV.
- The UK P&I Club’s cell of Hydra Insurance Company Limited (Hydra) – The Club is a member of the International Group of P&I Clubs, which has its own reinsurance captive, a segregated cell company in Bermuda. The Club owns 100% of its own Hydra cell.

The diagram below illustrates the corporate structure of the Club.



The day-to-day running of the Club is managed by companies within the Thomas Miller Group (Thomas Miller), a management and professional services group.

The Proposed Transfer relates to policyholders of UKC only. Therefore, the figures presented throughout this report are on a solo entity basis for UKC, as opposed to a group basis.

R&Q Gamma Company Limited (R&Q Gamma)

R&Q Gamma is a non-life insurance company incorporated in England and Wales on 24 October 1977, authorised by the PRA and regulated by the PRA and the FCA. It is a subsidiary of Randall & Quilter Investment Holdings Limited (RQIH), the parent company of the R&Q Group. Formerly known as The Royal London General Insurance Company Limited (RLGIL), it was acquired by the R&Q Group in December 2016 from The Royal London Mutual Insurance Society Limited (RLM).

The R&Q Group was formed in 1991 as a specialist provider of run-off solutions and program management. The Group has a history of acquiring legacy books of non-life insurance business to free the original insurance provider of the costs and constraints of handling the legacy business.

R&Q Gamma manages the run-off of three insurance portfolios:

- Existing business acquired in December 2016 – non-life insurance business assumed when the R&Q group acquired R&Q Gamma in December 2016. This business was underwritten between 1984 and 1999 by RLGIL and other entities in the RLM group. This portfolio consists of household, accident and health, employers' liability and public liability business.
- SIMIA Solicitors Professional Indemnity business – transferred to R&Q Gamma in September 2018 from Solicitors Indemnity Mutual Insurance Association Limited (SIMIA). This business was underwritten by SIMIA until 2010 and covered solicitors based in England and Wales.
- Anglo French US liability insurance – transferred to R&Q Gamma in March 2020 from SCOR UK Company Limited (SCOR UK). This US liability business was underwritten by Anglo French Ltd from 1958 to 1969. SCOR UK assumed these risks in 1990.

R&Q Gamma does not currently sell new insurance business.

3.2. Description of the Proposed Transfer

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.

The cover provided by UKC relates to contracts of general insurance under "Liability of ships" business only. This includes personal injury to crew members. UKC is also authorised to write other classes of business. However, to the best of UKC's knowledge they have never written any such classes. Any other classes would also not be expected to cover OD claims.

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 back to 1971, 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 the 2,089 policyholders (1,492) have liabilities which will form part of the Transferring Business. A breakdown by country of all identified policyholders who have held a policy since 1998 is set out in Appendix 5. This breakdown is provided for 1998 & post policyholders only as the policyholder address data is less reliable going back to 1971.

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. These liabilities transferred to UKNV in a Part VII transfer completed in December 2020. It is proposed that, separately from the Proposed Transfer, but connected to the agreement between UKC and the R&Q Group, the EEA liabilities will transfer from UKNV to Accredited Insurance (Europe) Limited (AIEL), another insurer within the R&Q Group. The OD liabilities in respect of EEA risks represent a relatively small (c.5%) proportion of the total OD liabilities originally in UKC.

Effective Date

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

Reinsurance

Reinsurance is an arrangement with another insurer (the "reinsurer") to share or pass on risks. Reinsurance contracts may be underwritten by an external reinsurer or by a reinsurance entity in the same group.

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.

Reinsurance – existing ADC

Under the existing ADC between UKC and AIEL, 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 (previously transferred from UKC to UKNV). The OD liabilities in respect of EEA risks represent a relatively small (c.5%) proportion of the total OD liabilities.

The existing ADC is in respect of the OD liabilities only so does not cover Non-transferring Policyholders.

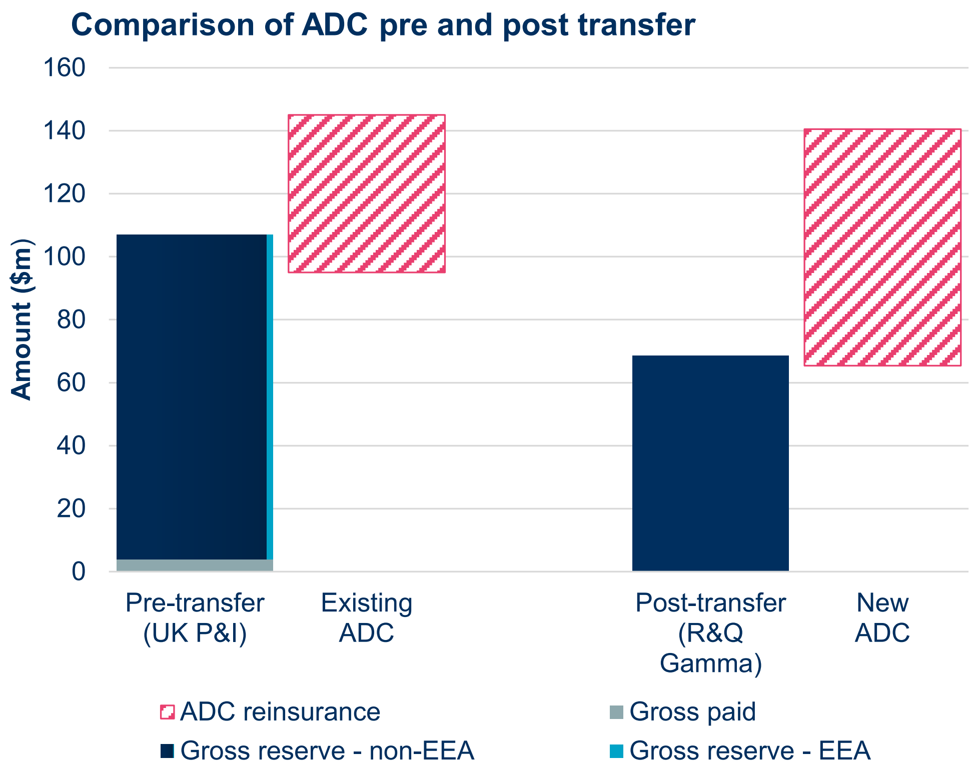
Reinsurance – new ADC

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. This new ADC reinsurance will attach at £47.9m ($65.4m) with a limit of £55.0m ($75.1m). AIEL will therefore cover losses between £47.9m and £102.9m ($65.4m to $140.4m).

Following the Proposed Transfer, the EEA risks, which are in UKNV, will continue to be covered by the existing ADC, but the attachment point and limit will be scaled down to 5% of the current levels.

Graphical illustration of the ADC reinsurance arrangements pre and post transfer

The chart below illustrates the ADC reinsurance arrangements before and after the Proposed Transfer.



Note: The pre-transfer and post-transfer gross reserve estimates in this chart are not measured on a like-for-like basis. In my opinion, the post-transfer estimate of R&Q Gamma is more suitable than UK P&I's pre-transfer estimate. More detail on the reserving estimates for the Transferring Business is set out in section 5.5.

The new ADC for the Transferring Business is specified in pounds sterling, but the figures in the above chart have been converted to US Dollars for the purposes of comparison to the existing ADC. Although the upper limit of the new ADC ($140.4m) is lower than that of the existing ADC ($145.0m), Transferring Policyholders are not materially adversely affected because:

- The new ADC does not cover the EEA risks, as these liabilities are not transferring to R&Q Gamma. These risks account for $5.2m or 5% of UKC's estimate of the gross reserves.
- As at 20 February 2020, $3.9m of payments had already been made by UKC under the existing ADC. We expect a further c.$4.3m payments to have been made by the Effective Date of the Proposed Transfer.

Taking these above factors into account means that the upper limit of the ADC reinsurance will effectively be higher, relative to the best estimate, following the Proposed Transfer. Further, the likelihood of the OD liabilities deteriorating to the extent of breaching the upper limit is remote. I am therefore satisfied that Transferring Policyholders are not materially adversely affected by the change in the ADC reinsurance arrangements.

Reinsurance – other arrangements

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

In particular, UKC has the following other reinsurance, which will not be transferring to R&Q Gamma as part of the Proposed Transfer and which will cease to cover the Transferring Business following the Proposed Transfer:

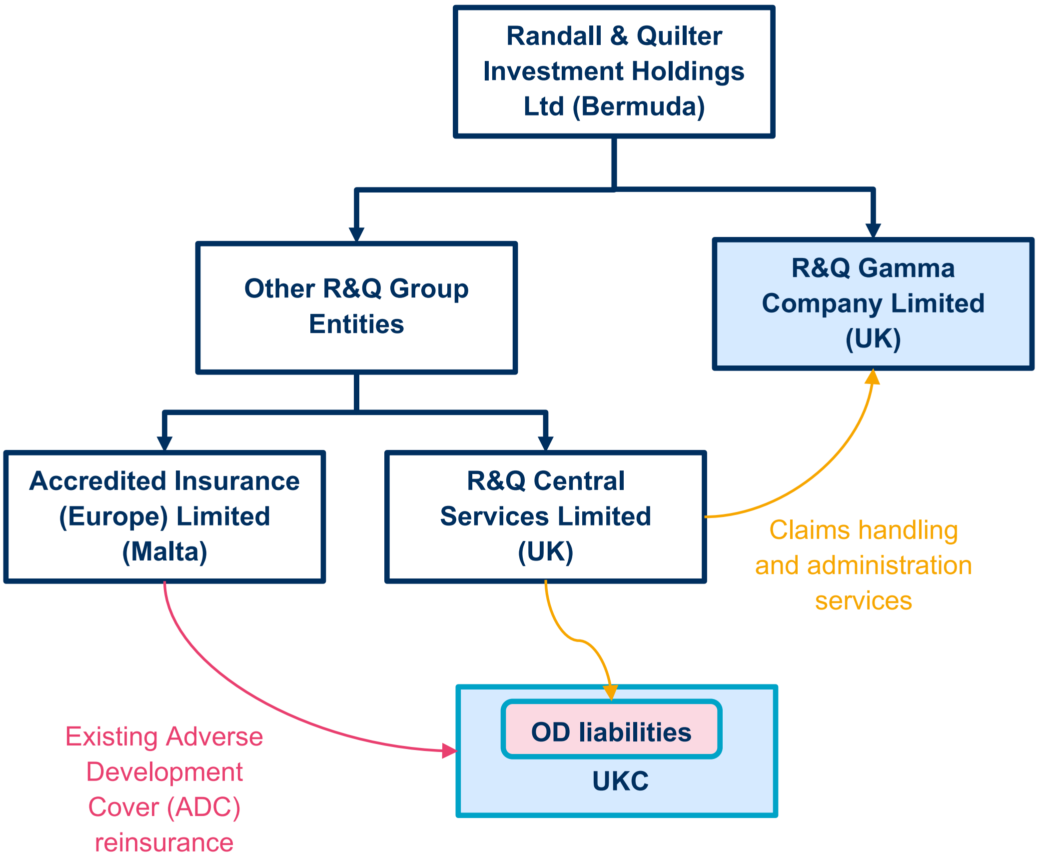
- UKC has a 90% quota share (QS) reinsurance arrangement with its subsidiary, UKB. This reinsurance covers both the OD and non-OD liabilities within UKC. This quota share reinsurance with UKB operates after the existing ADC reinsurance with AIEL. The reinsurance with UKB will be cancelled in respect of the Transferring Business following the Proposed Transfer. 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. UKB is part of the UK P&I Club and is aware of the Proposed Transfer, so I do not believe there is a material risk that UKB will raise any valid objections 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).

Claims handling

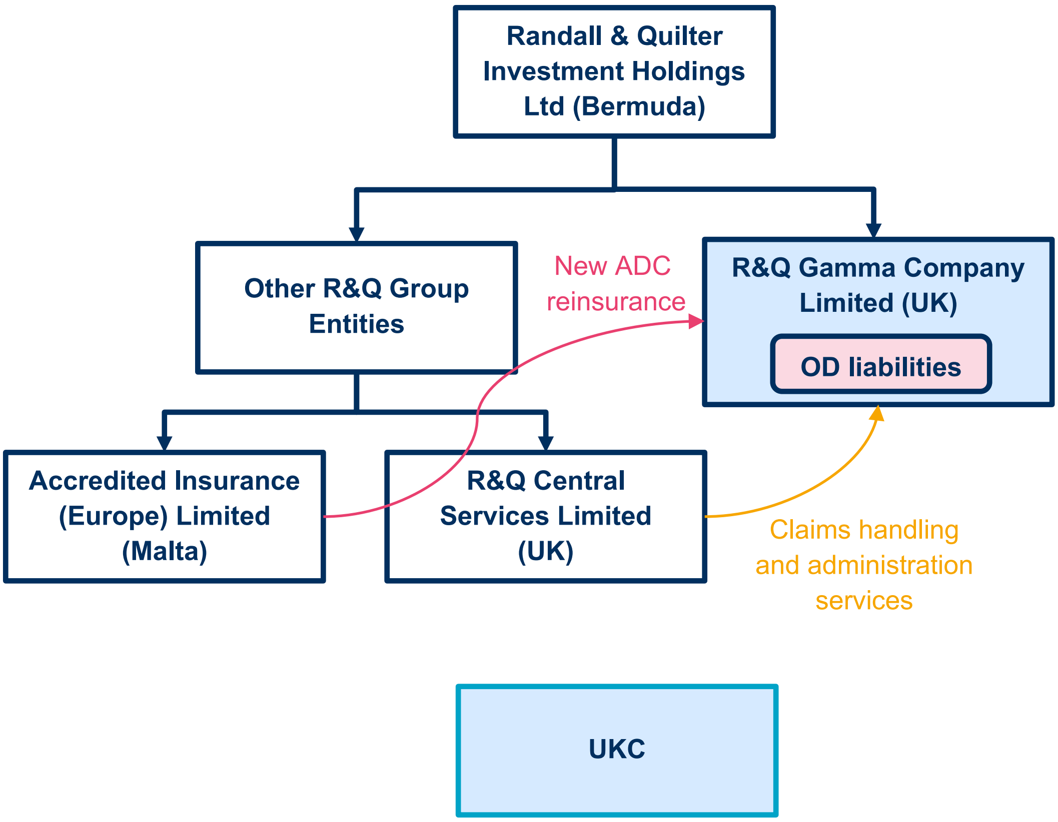
In anticipation of the Proposed Transfer, the claims handling of the Transferring Business has already moved to R&Q Central Services Limited, another entity within the R&Q group. Following the Proposed Transfer, claims handling will continue to be performed by R&Q Central Services Limited (RQCS) on behalf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

Simplified graphical illustration of the Proposed Transfer

The diagram below illustrates, in simplified form, the structure of the entities **prior to** the Proposed Transfer.



The diagram below illustrates the structure of the entities **following** the Proposed Transfer.



3.3. Purpose of the Proposed Transfer

The OD liabilities represent around 9% of UKC's gross provisions on a UK GAAP basis.

UKC is proposing to rationalise its business by transferring the OD liabilities arising from exposure occurring between 1 January 1935 and 20 February 2001.

The Proposed Transfer will provide finality to UKC in respect of its exposure to these liabilities.

The R&Q Group is a specialist provider of run-off solutions for legacy books of business. The group has significant experience in managing run-off liabilities. Through the Proposed Transfer, R&Q aims to manage the run-off of the OD liabilities.

3.4. Alternative options considered

UKC considered a number of alternative options for transferring the risk associated with the OD liabilities, including Part VII transfer proposals from other run-off providers as well as other solutions such as a loss portfolio transfer (LPT). A LPT is a form of reinsurance in which an insurer cedes policies that have already incurred losses to a reinsurer. However, under a LPT, in contrast to a Part VII transfer, UKC would remain legally liable for the OD claims and therefore this solution would not provide the finality that UKC desired.

UKC and R&Q Gamma have held discussions in relation to the transfer of these liabilities over a number of years. UKC and R&Q Gamma concluded that the Proposed Transfer was the best way of achieving each of their objectives.

3.5. Key dependencies

The key dependencies of the Proposed Transfer are as follows:

- High Court approval is required for the Proposed Transfer – the Directions Hearing is scheduled for 30 July 2021 and the Sanctions Hearing is scheduled for 1 December 2021. The High Court will take into account whether the PRA and FCA have any objections to the Proposed Transfer.
- Any objections raised by policyholders after the Directions Hearing – I will comment on these (if any exist) in my Supplementary Report.

In the event of the Proposed Transfer not going ahead, policies would remain with UKC and the existing ADC with AIEL would be commuted. The Transferring Policyholders would no longer benefit from protection in the event of a deterioration in the valuation of the OD liabilities. The claims handling with RQCS would also be terminated and UKC would resume responsibility for handling the OD liabilities, as was the case prior to the agreement with R&Q. UKC has confirmed that it has sufficient resource and expertise within its claims handling function to recommence its handling of the OD claims.

4. My approach as IE

Overall role

As IE, my overall role is to assess whether:

- The security provided to policyholders of UKC or 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.

The four key affected parties

To make these assessments, I have considered the effect of the Proposed Transfer on the following four parties:

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

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

I understand that current and potential future third party claimants ("Claimants") who make a claim against a policyholder, which would be covered by the policy, are also considered to be policyholders by the FCA and PRA, as are all potential beneficiaries of these policies ("Beneficiaries"). In drawing my conclusions, I have considered the impact of the Proposed Transfer on all potential Beneficiaries and Claimants, for example the underlying crew members of UKC policyholders. This includes crew members who have already made a claim against UKC, as well as crew members who may make a claim in future.

Five-step approach to analysing the Proposed Transfer

My approach to assessing the Proposed Transfer has been to perform the following five steps analysing evidence provided by UKC and R&Q Gamma to support the Proposed Transfer:

Step 1: Assessing the provisions of UKC and R&Q Gamma

The first important form of security that an insurer provides to policyholders is the level of provisions. Provisions are based on an estimate of the amount of money the insurer will need to pay policyholders' claims and to cover the other costs associated with running the insurer.

Therefore, I have assessed the appropriateness of the provisions included on UKC's balance sheet and the approach to be used for the calculation of provisions for both UKC and R&Q Gamma pre- and post-transfer. Details of this step are set out in section 5.

Step 2: Assessing the capital positions of UKC and R&Q Gamma

In addition to the level of provisions, insurers hold capital designed to withstand more extreme levels of claims. The level of capital held is the second important form of security provided to policyholders.

For both UKC and R&Q Gamma, the level of capital required is set under the European Solvency II standard. A key regulatory solvency metric is the Solvency Capital Requirement. This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie a 1 in 200 probability adverse outcome).

I have assessed the appropriateness of the projected capital requirements of UKC and R&Q Gamma. Details of this step are set out in section 6.

Step 3: Assessing overall policyholder security

Under this step, I have considered the level of provisions and capital (from steps 1 and 2) in the context of the assets held by each of UKC and R&Q Gamma and other forms of security such as compensation schemes.

For this analysis, I have considered the current balance sheets of UKC and R&Q Gamma as well as the post transfer pro-forma balance sheets for each of UKC and R&Q Gamma. Details of this step are set out in section 7.

Step 4: Assessing policyholder communications

I have assessed the appropriateness of UKC's communication strategy to inform policyholders and other stakeholders of the Proposed Transfer. The key focus of my assessment was whether the policyholders and other stakeholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them. Details of this step are set out in section 8.

Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders

I have considered how the level of customer service provided to policyholders could change following the Proposed Transfer. I have also considered a range of other factors that might affect policyholders, such as ongoing expense levels and tax implications. Details of this step are set out section 9.

5. Reserving considerations

5.1. Introduction to insurance reserving

For an insurance firm, the primary purpose of reserving is to assess the provisions that need to be set in order to pay policyholders' claims and to cover the other costs associated with running an insurer.

Depending on how they are set, the provisions may be on a "best estimate" basis (with no deliberate optimism or pessimism) or include a "margin for prudence" (additional provisions to cover higher than expected claims). This is sometimes referred to as a "management margin". Where the provisions include a margin for prudence, this is typically designed to cover claims that are moderately higher than expected rather than more extreme levels of claims. A best estimate basis may indicate a single point estimate of the provisions, but practically there often exists a range of estimates that could be justified as a best estimate.

In addition to any margin for prudence, the insurer would nearly always hold additional capital designed to withstand more adverse levels of claims. My considerations related to capital for the Proposed Transfer are set out in section 6.

Introduction to reserving bases

Insurers use a range of different reserving bases (ie different measures of the provisions), for different purposes.

For example, financial accounting standards require the provisions to be calculated in particular ways, and an insurer may also use a different basis for internal management accounts. Solvency regulations required provisions to be calculated in yet another way.

For the Proposed Transfer, I have considered the provisions under two reserving bases, which are each relevant for different purposes, namely:

- UK Generally Accepted Accounting Principles ("GAAP") / International Financial Reporting Standards ("IFRS") – these are the accounting standards used to set the provisions underlying the published financial accounts of UKC and R&Q Gamma. GAAP/IFRS provisions are relevant for policyholders as they are used as a reference point when setting provisions to cover future claims and other costs.
- Regulatory technical provisions (or "Solvency II technical provisions") – these are calculated in line with the European Solvency II regulations that came into effect in the UK from 1 January 2016. These provisions are relevant for policyholders as they are the basis for calculating the capital required and assessing solvency for both UKC and R&Q Gamma.

5.2. My considerations relating to reserving

As IE, my overall assessments related to reserving are:

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

To make these assessments, I have considered the following areas:

- Appropriateness of provisions for UKC and R&Q Gamma (section 5.5);
- Key uncertainties when setting the provisions (section 5.8);
- Current UKC and R&Q Gamma reserving process and governance (section 5.9); and
- Future reserving approach and governance (section 5.10).

Within these areas, I have also considered any expected differences in the reserving approach between UKC and R&Q Gamma to understand how this may affect policyholders.

Further details on each of these considerations are set out below, and I have stated my overall conclusion related to reserving in section 5.11.

Approach to my review

I have reviewed a number of documents provided by UKC and R&Q Gamma relating to the setting of provisions, including the reserving process and governance. I have had meetings with UKC and R&Q Gamma to discuss the information provided and any questions I have had on the reserving approach. A list of the key data and documentation is provided in Appendix 4.

I have considered the appropriateness of the following:

- Booked provisions for UKC as at 20 February 2020;
- Booked provisions for R&Q Gamma as at 30 September 2020;
- Calculation approach for the transferring OD liabilities;
- Solvency II technical provisions for UKC; and
- Solvency II technical provisions for R&Q Gamma.

5.3. UKC provisions (GAAP)

The following table shows the level of booked provisions as at 20 February 2020 (the latest available figures at the time of my writing of my report) for UKC, split between the Non-transferring and Transferring Business. For the purposes of this table, I have shown the figures including the impact of the existing ADC reinsurance arrangement with AIEL (although the arrangement was finalised after 20 February 2020).

UKC – Summary of GAAP booked provisions at 20 February 2020

$m	Gross of reinsurance	Net of external reinsurance	Net of intragroup reinsurance
Non-OD liabilities	872.4	729.8	63.0
OD liabilities (EEA risks)	4.1	3.8	0.4
OD liabilities (non-EEA risks)	78.1	71.7	7.2
Total UKC	**954.6**	**805.3**	**70.6**

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

The provisions for Transferring Business represent 9% of UKC's total gross claims provisions as at 20 February 2020. The provisions incorporate allowance for around $7m of recoveries from the existing ADC reinsurance. Since the OD liabilities will emerge over many years, ADC recoveries are not expected to be paid until 2043. Most of the external reinsurance recoveries relate to the Non-Transferring Business.

UKC - reserving for non-OD liabilities

UKC outsources the reserving for the non-OD liabilities to an external actuarial consultancy. Detailed reserving analyses are carried out at Q2 (August) and Q4 (February), with analyses of actual experience versus expected experience performed on a quarterly basis. As part of this reserving work, the consultancy holds discussions with Thomas Miller staff.

For the non-OD liabilities, standard actuarial techniques are used including Development Factor Model (DFM) and Bornhuetter-Ferguson (BF) methods.

For reserving purposes, UKC splits non-pool claims into seven classes: Cargo, Cruise Curtailment, Casualty, Illness, Injury, Charterers and Other Covers. Pool claims are split into the different layers to allow for UKC's percentage share of each layer.

In my opinion, UKC's reserving approach is reasonable and in line with market practice.

The reserving for the non-OD liabilities will continue to be performed by the external actuarial consultancy following the Proposed Transfer.

UKC - reserving for OD liabilities

Thomas Miller's internal actuarial team performs the reserving for the OD liabilities, on an annual basis. More detail on UKC's reserves for the OD liabilities is set out later in this section.

5.4. R&Q Gamma provisions for existing business (GAAP)

The table below shows the level of booked provisions as at 30 September 2020 (the latest available figures at the time of my writing of my report) for R&Q Gamma. The reserves for the existing R&Q Gamma business are relatively small compared to the transferring OD liabilities.

R&Q Gamma – Summary of GAAP booked provisions at 30 September 2020

$m	Gross of reinsurance	Net of external reinsurance
Total R&Q Gamma	**8.5**	**8.4**

Source: R&Q Gamma.
The provisions are made up of the earned claims reserves (there is no UPR as all business is earned)

R&Q Gamma outsources the reserving to the R&Q Group actuarial team. The reserving is performed on a quarterly basis, including analyses of actual experience versus expected experience. In determining the reserves, discussions are held with R&Q Gamma's senior management, claims and reinsurance teams.

For reserving purposes, R&Q Gamma splits the business into the three portfolios it has acquired: RLGIL, SIMIA and Anglo French. RLGIL is split further into five subclasses and Anglo French is split into six subclasses.

The claims IBNR has been estimated by R&Q Group's actuarial team using a combination of historical claims experience and expert judgement. The gross reserves consist of £3.5m of outstanding claims reserves and £4.9m of IBNR. This gives a ratio of IBNR to outstanding claims reserve of 139%. In my experience, this is a relatively high level of IBNR given the age of the portfolios. However, the reserves are relatively low which means that experience may be volatile.

In my opinion, R&Q Gamma's reserving approach is reasonable and in line with market practice.

The R&Q Gamma reserving will continue to be performed by R&Q Group's actuarial team following the Proposed Transfer.

5.5. Reserving estimates for the Transferring Business

The Transferring Business is subject to a high degree of uncertainty and there is a wide range of reasonable actuarial best estimates. The security of policyholders before and after the transfer depends on both the reserve strength and level of capital held by UKC and R&Q Gamma. As such, this section on reserving estimates for the Transferring Business should be considered in conjunction with the capital considerations in section 6.

I have been provided with the actuarial reviews undertaken by UKC and R&Q Gamma in respect of the OD liabilities.

The following table sets out UKC's actuarial best estimate of the undiscounted claims reserves for the Transferring Business as at 20 February 2020, the latest available figures at the time of my writing of this report. The figures below exclude the reserves in respect of EEA risks, which have since transferred to UKNV. The EEA risks represent around 5% of the total OD liabilities originally in UKC.

UKC – Undiscounted claims reserves for the Transferring Business as at 20 February 2020

$m	Undiscounted gross claims reserves	Undiscounted reserves, net of existing ADC
US mesothelioma	21.2	
US other	12.8	
Non-US mesothelioma	56.9	
Non-US other	7.0	
Total UKC	**97.9**	**86.5**

I have reviewed UKC's reserving report as at 20 February 2020, which sets out estimates of the reserves for the OD liabilities, as well as the underlying methodology and assumptions. UKC's methodology is based on work performed by the UK Asbestos Working Party (AWP). This approach is common across the UK insurance market when reserving OD liabilities.

The AWP is a source of expertise within the actuarial profession on matters relating to UK asbestos-related diseases. The AWP has performed extensive work based on UK market data to estimate the total claims cost of UK asbestos-related claims. The AWP work provides market benchmarks for actuaries having to estimate the reserves relating to asbestos-related claims.

Most of UKC's reserves relate to mesothelioma claims, which is the key area of uncertainty. The AWP model is based on UK asbestos-related claims. The majority (over 70%) of UKC's non-US claims to date are UK claims and UKC has applied the AWP model to estimate all future non-US mesothelioma claims. In my opinion this is a reasonable approach, although there is limited data with which to validate this assumption. Although asbestos is fully banned in the UK, it is still used in countries around the world, which means there is significant uncertainty in the development of future mesothelioma claims outside the UK.

UKC has also applied the UK AWP model to project future mesothelioma claims in the US. Information on US exposure is limited compared to the UK due to the lower number of claims. UKC believes that exposure in the US ceased before the UK. However, there is limited data with which to validate this assumption and there is significant uncertainty in the development of future US mesothelioma claims.

I note that UKC's estimates are based on work performed by the AWP in 2009. The AWP recently released an updated insurance market estimate based on work performed in 2020. The 2020 AWP model suggests a significantly lower future cost of UK mesothelioma claims than the 2009 AWP model. Note that a full detailed report from the AWP explaining the change in their model and future scenarios is not yet available. However, what is available is a summary note on the updated market estimate and several scenarios to help explain the key changes compared to the 2009 model. UKC is currently undertaking work to calculate the impact of this updated AWP estimate and expects to reduce its reserves off the back of this. I will review UKC's updated estimates as well as the full AWP report in my Supplementary Report.

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

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

$m	Undiscounted gross claims reserves	Undiscounted reserves, net of new ADC
US mesothelioma	18.9	
US other	10.0	
Non-US mesothelioma	34.6	
Non-US other	5.1	
Total R&Q Gamma	**68.6**	**65.4**

R&Q Gamma's figures above are not directly comparable to UKC's figures in the previous table due to differences in the timing of the reviews, which are approximately ten months apart. However, since occupational disease liabilities are long-term and the reserves are paid out relatively slowly, this difference in timing only accounts for around $3m in total (ie UKC's reserves would be around $3m lower as at 31 December 2020).

I have reviewed R&Q Gamma's reserves as at 31 December 2020, including R&Q Gamma's selected methodology and assumptions. R&Q Gamma is applying a similar approach to UKC to estimate the non-US liabilities, based on work performed by the AWP. Consistent with UKC's approach, R&Q Gamma has applied the UK AWP model to estimate all future non-US mesothelioma claims.

The main difference from UKC's approach is that R&Q Gamma is using the 2020 AWP model for their projections of the non-US liabilities. The 2020 AWP model suggests a significantly lower future cost of UK mesothelioma claims than the 2009 AWP model.

The 2020 AWP work estimated that the cost of UK mesothelioma-related claims between 2020 and 2050 could be around £4.2bn. This is £3.1bn less than the estimate of £7.3bn for the same period in the 2009 AWP model, ie a reduction of around 40%. The main drivers of this reduction are as follows:

- A faster run-off of deaths implied by the most recent UK Health and Safety Executive (HSE) model. The HSE is the UK's national regulator for workplace health and safety.
- Reduced propensity of mesothelioma sufferers to make an insurance claim; and
- Lower average costs due to reduced court inflation on special damages.

R&Q Gamma's estimate of the reserves for non-US mesothelioma claims ($34.6m) is around 40% lower than UKC's estimate ($56.9m). This is driven by the difference between the 2009 and 2020 AWP models. As noted above, I will review the full AWP report when it becomes available to ensure the AWP report remains appropriate for the purposes of my opinion.

For US claims, R&Q's estimates of the future claims are based on benchmarks provided by an external actuarial consultant. These benchmark projections are based on the Manville Curve, a forecast of asbestos claims arising from the Manville Trust, one of the largest and earliest entities to be hit with high volume asbestos litigation in the US. This curve is often used to help project future asbestos claims for individual companies in the US.

R&Q Gamma's estimate of the reserves for US claims is lower than UKC's reserves. The main reasons for this are as follows:

- A faster run-off of future asbestos-related claims than assumed by UKC; and
- Lower assumed future claims inflation (R&Q assume future US claims inflation of 2% pa whereas UKC assume future US claims inflation of 3.5% pa for mesothelioma claims and 2.5% pa for non-mesothelioma claims).

UKC's claims inflation assumptions were based on estimates from the 2009 AWP model. As set out in the 2020 AWP update, expected court inflation has decreased since 2009. However, UKC has not reduced these inflation assumptions accordingly, noting that there may therefore be an element of prudence in this assumption. UKC assumes the same inflation rates for US claims as for non-US claims.

R&Q Gamma has used a lower US claims inflation assumption of 2% pa. The rationale for this lower assumption is as follows:

- There has been a significant increase in the claim deductibles over time. For example, in the 1960s the average deductible was c.$10,000 but this increased to c.$30,000 in the 1970s. The deductible is the amount paid by the policyholder before the insurer will start to pay a claim. Increases in the deductible therefore reduce the amount payable by the insurer, offsetting the impact of claims inflation over time.
- Between 1995 and 2020 the observed ACPC inflation for mesothelioma claims has been 0.8% pa for the US. The selected assumption is therefore higher than past data suggests.

Due to the long-tailed nature of the OD liabilities, the claims inflation assumptions will apply for many years into the future and there is a high degree of uncertainty. In my opinion, both UKC and R&Q Gamma's inflation assumptions are within the range of reasonable best estimates.

As part of the work in advance of the Proposed Transfer, R&Q Gamma commissioned a reserve review from an external actuarial consultant, based on data as at 31 December 2020. The external report provided best estimate gross undiscounted reserves of $56.1m. It also presented a range of alternative scenarios, giving a range of reserves from $50m to $96m. R&Q Gamma's gross reserve of $68.6m sits broadly in the middle of this range, while UKC's sits towards the upper end of the range.

My opinion on the reasonableness of the reserving estimates

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

In my opinion, UKC's estimates are also within the range of reasonable best estimates. However, UKC's estimates do not yet take into account the latest version of the AWP projection and, as a result, are in my opinion toward the higher end of the range of reasonable best estimates.

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

The difference between the UKC and the R&Q Gamma estimates means that the Transferring Policyholders will transfer to an insurer which is holding lower reserves for the Transferring Business. All else being equal, this would appear to have an adverse impact on the security of the Transferring Policyholders. However, I do not consider the adverse impact to be material for the following reasons:

- On the Effective Date of the Proposed Transfer, the existing ADC in respect of the Transferring Business will terminate and R&Q Gamma will enter into a new ADC reinsurance arrangement with AIEL. This reinsurance will be in respect of the Transferring Business only, ie excluding the EEA risks. This new ADC reinsurance will attach at £47.9m ($65.4m) with a limit of £55.0m ($75.1m). AIEL will therefore cover losses between $65.4m and $140.4m. R&Q Gamma's total gross reserves are $68.6m, so the reinsurance reserve is $3.2m and the new ADC reinsurance will provide cover up to a further $71.9m of losses in the event that future claims are higher than expected.
- I have considered the impact of a range of adverse scenarios on the Transferring Business, based on projections prepared by R&Q Gamma. These include scenarios already being considered by R&Q Gamma and, in addition, a number of further scenarios that I have specified. The scenarios considered are described below. These scenarios demonstrate that the new ADC reinsurance provides protection to policyholders in the event of a deterioration in R&Q Gamma's reserves. I have also considered the impact from a capital perspective in section 6.10 of this report.

5.6. Reserving scenarios

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

It is also possible that there could be favourable scenarios, eg a shorter tail of future claims than expected. However, I have not considered such scenarios in detail as these would not adversely impact the security of the policyholders.

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

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

$m	Gross reserve	Gross impact	Net reserve	Net impact
Base	**68.6**		**65.4**	
1. Emergence of claims from a new country	73.3	+4.8	65.4	0.0
2. 50% increase in the number of mesothelioma claims (ie 50% increase in claim frequency) across the whole time period	88.0	+19.4	65.4	0.0
3. 50% increase in average claim sizes for mesothelioma (ie 50% increase in claim severity) across the whole time period	88.0	+19.4	65.4	0.0
4. 1% pa increase in future claims inflation	73.5	+5.6	65.4	0.0
5. UKC's current* estimate of the reserves	97.0	+28.4	65.4	0.0
6. UKC's current* estimate of the reserves + 50% increase	145.5	+76.9	70.4	+5.1
7. Scenarios 2, 3 and 4 combined	127.0	+58.4	65.4	0.0

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

As shown in the table above, the new ADC reinsurance provides significant protection in the event of a deterioration in R&Q Gamma's gross reserves. Under UKC's current higher estimate of the reserves, the new ADC reinsurance means there is no impact on the net reserves (scenario 5).

The new ADC reinsurance provides cover up to gross reserves of $140.4m. Even a 50% increase on top of UKC's higher estimate of the gross reserves would only result in a $5.1m increase in the net reserves (scenario 6).

5.7. Approach for setting Solvency II technical provisions

I have reviewed the approach taken by UKC and R&Q Gamma to convert the booked GAAP provisions into Solvency II technical provisions (TPs). I have not sought to re-perform the calculation of the TPs or to perform detailed checking of the calculations performed by UKC and R&Q Gamma. Instead, I have focused on the appropriateness of the approach and the reasonableness of the results.

I have focused my review on the areas which, in my experience, are of greatest relevance to an independent reviewer. This included Events Not in the Data (ENIDs), the Risk Margin and treatment of reinsurance.

ENIDs

UKC and R&Q Gamma make an allowance for ENIDs within the TPs as the data used to calculate the best estimate does not typically include experience from rare events. ENIDs are not a material component of the TPs.

UKC's ENID load as at 20 February 2020 is around 3% of the total gross best estimate claims provisions.

R&Q Gamma's ENID load as at 31 December 2020 is around 1% of total gross best estimate claims provisions. The loading will continue to be around 1% following the Proposed Transfer.

In my experience, I consider these loadings to be broadly in line with those typically held by other insurers writing similar lines of business.

Risk margin

The risk margin within the TPs under Solvency II represents the amount in addition to the best estimate that a third-party insurer would require to take over the insurance obligations.

UKC's risk margin as at 20 February 2020 is approximately 2% of the best estimate gross technical provisions.

R&Q Gamma's risk margin as at 31 December 2020 is around 18% of the best estimate gross technical provisions. Following the Proposed Transfer, R&Q Gamma's risk margin is projected to be around 15% of best estimate gross technical provisions.

R&Q Gamma's higher risk margin reflects the much longer average duration of its liabilities. All else being equal, a longer duration will result in a higher risk margin to reflect the increased risk. Since almost all of R&Q Gamma's liabilities relate to long-tailed claims, including occupational disease claims, the risk margin is relatively high as a proportion of the gross best estimate.

UKC's risk margin is much lower as a proportion of the gross best estimate because the majority of UKC's liabilities relate to shorter-tailed claims and the occupational disease reserves are a relatively small element of the total gross provisions. LCP's market review of Solvency II reporting as at 2019 year-end, based on 100 non-life insurers in the UK and the ROI, showed that UKC's 2% risk margin is around the 25th percentile for the MAT line of business, and so is in line with other insurers writing similar business.

Treatment of reinsurance

On a GAAP basis, R&Q Gamma's estimate of the undiscounted reserves for reinsurance recoveries is $3.2m, based on the gross reserve of $68.6m and subtracting the new ADC attachment point of $65.4m.

For the Solvency II TPs, R&Q Gamma calculates the best estimate reinsurance recovery based on an assumed distribution of gross losses. This distribution reflects the fact that in some favourable scenarios, the gross reserves would reduce and no reinsurance recoveries would be triggered at all. In adverse scenarios, the gross reserves would increase and there may be much higher recoveries from the new ADC reinsurance.

Based on R&Q's gross distribution for the Transferring Business, the mean undiscounted recovery from the new ADC reinsurance is $9.9m. This is higher than the reinsurance reserve on a GAAP basis.

I consider R&Q Gamma's approach to be appropriate for the purposes of calculating the Solvency II TPs.

Conclusion on Solvency II technical provisions

In my opinion, the approaches used by UKC and R&Q Gamma to calculate the Solvency II TPs are appropriate.

5.8. Key uncertainties when setting provisions

The ultimate costs of settling general insurance claims are subject to uncertainty in terms of both the frequency (ie how many valid claims there will be) and severity (ie the cost of settling each claim) including exposure to inflation in claim amounts over time. Therefore, there are uncertainties when setting the corresponding provisions.

Key uncertainties – UKC remaining business

Key reserving uncertainties, specific to the remaining business in UKC are as follows:

- The latest policy years have been impacted by the COVID-19 pandemic. The direct impacts of the pandemic on the reserves include claims from cruise ships as well as costs arising from quarantine expenses, diversion expenses, illness and death of seamen. The full impact of the pandemic is not yet clear.
- The impact of individual large losses. For example, UKC is the insurer of the Ever Given, which recently grounded in the Suez Canal. Claims arising from the disruption are likely to run into the hundreds of millions, although any excess above $10m will be shared with other P&I Clubs in the International Group.
- The impact of claims arising from other P&I Clubs in the International Group Pool.

UKC's reinsurance arrangements help mitigate the impact of some of these key uncertainties. UKC also holds a management margin within the GAAP technical provisions.

Key uncertainties – Transferring Business

Key reserving uncertainties, specific to the Transferring Business are as follows:

- The liabilities relate to policies which were on risk between 1935 and 2001. Given how long ago these exposures occurred, there is limited data available with which to accurately assess UKC's exposure to asbestos. It can take 40 years or more before symptoms of asbestos-related diseases emerge, which means there is significant uncertainty in the frequency and severity of future claims.
- Given the long-term nature of the liabilities, the reserves are sensitive to increases in inflation.
- The majority of claims to date are from Europe and the US. In the 1970s, crews from countries including the Philippines and India became much more prevalent. No claims have been reported from these countries to date. Claims are considered less likely to occur due to lower life expectancies, lack of general awareness and a higher cost barrier to accessing medical expertise. However, there remains potential for future claims to emerge from these countries.
- There is potential for increases in average claim costs, for example due to a new court award or the emergence of an expensive new treatment.

Key uncertainties – Existing R&Q Gamma business

Key reserving uncertainties, specific to the existing business in R&Q Gamma, are as follows:

- The Anglo French portfolio has exposure to asbestos-related claims. As is the case for the Transferring Business, such claims can take many years to emerge, which means there is significant uncertainty in the frequency and average size of future claims. The downside risk on this portfolio is mitigated to an extent by a separate ADC reinsurance arrangement provided by AIEL, which R&Q Gamma will continue to benefit from following the Proposed Transfer. This provides protection in the event of a significant deterioration in the reserves for the Anglo-French portfolio.
- The RLGIL portfolio contains exposure to abuse claims via the football league 1986 to 1988 policy years. These claims have emerged relatively recently and there is limited claims experience to date. This means there is uncertainty in the frequency and average size of such claims.
- The existing portfolios in R&Q Gamma are relatively small ($8.5m gross reserves as at 30 September 2020) and are therefore more subject to volatility on individual claims than would be the case for a larger portfolio.
- As for the Transferring Business, a new court award or legislative change could have a significant impact on the reserves for the existing business in R&Q Gamma.

5.9. Current reserving process and governance

UKC – reserving process and governance

The UKC reserves are calculated by an external actuarial consultancy. The calculations are performed using ResQ, an industry-leading insurance reserving tool. This will be unchanged following the Proposed Transfer.

Although the reserving is outsourced externally, Thomas Miller provides review and challenge of the external estimates. This includes performing an internal analysis of actual vs expected experience to confirm that the proposed results are in line with claims movements since the last review.

The reserves are discussed and signed-off by the UKC Reserving Committee, which consists of the key management personnel including the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the Chief Actuary (CA), as well as representatives from the Finance and Actuarial functions. The external consultants will also usually attend the Reserving Committee to discuss the work carried out.

Actions from the Reserving Committee and any changes recommended are recorded in the minutes and circulated to attendees.

R&Q Gamma – reserving process and governance

The R&Q Gamma reserves are calculated by R&Q Group's actuarial team.

Following the Proposed Transfer, I understand that the R&Q Group will continue to provide the reserving for the existing business as well as for the Transferring Business.

R&Q Gamma's reserves are subject to several layers of internal review which take place on a quarterly basis. This includes peer review of reserving methodology and assumptions within the reserving team, review by the R&Q Group Chief Actuary and sign-off by the Board.

I understand that R&Q Gamma intends to perform external actuarial reviews on a regular basis to provide challenge to the internal reserving process.

5.10. Future reserving approach and governance

UKC has confirmed that it plans to continue to use the same approach to reserving for the Non-transferring Business after the Effective Date of the Proposed Transfer.

R&Q Gamma has confirmed that it plans to use the same approach to reserving for the existing business following the Proposed Transfer. The reserving for the Transferring Business will also be performed by R&Q Group's actuarial team.

UKC and R&Q Gamma have both informed me that they do not expect any changes to the governance process for reserving.

5.11. Overall conclusion: reserving considerations

I set out below my overall conclusions related to reserving. These reserving considerations should not be considered in isolation. For example, the overall level of protection for policyholders also depends on the level of capital held, and a range of other considerations. My overall conclusions on the Proposed Transfer are set out in section 10.

Non-transferring Policyholders UKC

I have concluded that the Non-transferring Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- The calculation of provisions has been performed using techniques and approaches appropriate for the classes of business written by UKC.
- The transferring OD liabilities are relatively small compared to UKC's total provisions and so the Proposed Transfer will have a limited impact.
- UKC has confirmed that there is no change expected to the reserving process and governance post-transfer.

Transferring Policyholders

I have concluded that the Transferring Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- R&Q Gamma's calculation of provisions for the Transferring Business has been performed using appropriate techniques and is within the range of reasonable best estimates.
- On the Effective Date of the Proposed Transfer, R&Q Gamma will enter into a new ADC reinsurance arrangement with AIEL. The new ADC reinsurance will attach at a lower level than the existing ADC reinsurance and with a higher limit (relative to the attachment point).
- The new ADC reinsurance would cover the difference between R&Q Gamma's current best estimate of reserves and UKC's current best estimate of reserves.
- I have considered a range of adverse reserving scenarios, under which the new ADC reinsurance continues to provide protection to policyholders.
- I consider the chance of AIEL defaulting on reinsurance payments to R&Q Gamma to be remote. Nonetheless, in my considerations around capital (section 6.10), I have considered a scenario in which AIEL defaults and in which the reserves also deteriorate significantly. In this scenario, R&Q Gamma is still able to pay the claims in full.
- R&Q Gamma has confirmed that the future reserving process and governance for R&Q Gamma will be materially unchanged post-transfer.

Existing R&Q Gamma Policyholders

I have concluded that the Existing R&Q Gamma Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- The calculation of provisions for R&Q Gamma has been performed using techniques and approaches appropriate for the portfolios within R&Q Gamma.
- As described above, the new ADC reinsurance arrangement with AIEL provides R&Q Gamma with protection in the event of a deterioration in the reserves for the Transferring Business. There remains the potential for reserve deteriorations within the existing R&Q Gamma portfolios, but this would also be the case without the Proposed Transfer. 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.
- R&Q Gamma has confirmed that the future reserving process and governance for R&Q Gamma will be materially unchanged post-transfer.

6. Capital considerations

6.1. Introduction to insurance capital setting

A key reason why insurers hold capital is to withstand adverse or extreme levels of claims and other losses. The capital is held in excess of the provisions for policyholders' claims and for the other costs associated with running an insurer.

A key metric under solvency regulations is the Solvency Capital Requirement (SCR). This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie, a 1 in 200 probability adverse outcome). Firms are required to hold capital equal to at least 100% of the SCR.

An insurer's SCR coverage ratio is calculated as the available capital in excess of provisions divided by the SCR. This is a measure of capital strength, with a higher ratio indicating there is more capital available per £ or $ of capital required. The SCR coverage ratio does not capture all aspects of policyholder protection, but a higher coverage ratio indicates more protection, all else being equal. Under Solvency II, the level of available capital is referred to as "own funds".

I consider the SCR coverage ratio an appropriate measure to consider as part of my assessment of policyholder security before and after the transfer for the following reasons:

- I consider the SCR to be a suitable measure for the overall risks of UKC. Given the limitations in the standard formula discussed in section 6.7, I consider the SCR to be a conservative measure of the risks of R&Q Gamma;
- The SCR coverage ratio is an objective measure of the financial strength of an insurer that can be compared on a consistent basis at two points in time; and
- The SCR is a risk-based metric that is disclosed to both regulators and the public.

My assessment of the capital considerations regarding policyholder security is also supported by consideration of capital beyond a "one-year" view (section 6.4) and a review of the impact of a range of adverse scenarios on each of UKC and R&Q Gamma (section 6.10).

Definition of "well capitalised" and "very well capitalised"

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

6.2. My considerations related to capital

As IE, my overall assessments related to capital are:

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

To make these assessments, I have considered the following areas:

- UKC and R&Q Gamma's approach to calculating capital requirements (section 6.4);
- Capital requirements beyond a "one-year" view (section 6.4);
- The capital policy for each of UKC and R&Q Gamma (section 6.6);
- SCR appropriateness for UKC and R&Q Gamma (section 6.7);
- Projected SCR coverage ratios as at the Effective Date (section 6.8);
- The planned capital structures for UKC and R&Q Gamma (section 6.9); and
- The SCR under stressed scenarios (section 6.10).

6.3. Approach to my review

I have reviewed a number of documents provided by UKC and R&Q Gamma relating to the calculation of capital requirements and projected coverage ratios. A list of the key data and documentation reviewed is provided in Appendix 4.

6.4. Calculating capital requirements

For both UKC and R&Q Gamma, the level of capital required is set in line with the European Solvency II standard.

Under Solvency II, there are three ways in which the SCR can be calculated:

- Standard formula: under this approach, the SCR is set using a prescribed calculation and parameters, as specified in the Solvency II regulations. Within the standard formula framework, insurers can use undertaking-specific parameters (USPs) to tailor specific aspects of the parameterisation of the calculation to better reflect their risk profile.
- Internal model: under this approach, the SCR is set using the insurer's own internal capital model. The internal model is developed and parameterised by the insurer to reflect their specific business.
- Partial internal model: under this approach, the SCR is set using a combination of the standard formula and the insurer's own internal capital model. Some aspects of the SCR are calculated using the internal model, and the remainder is calculated using the standard formula.

The choice of approach is made by the insurer. However, an insurer needs to obtain regulatory approval in order to use USPs, an internal model or a partial internal model to calculate its SCR. An insurer does not need approval to calculate its SCR using the standard formula without USPs but does need to complete its own assessment of the appropriateness of the standard formula for this purpose.

How each firm calculates its SCR

UKC uses a partial internal model to calculate its SCR.

R&Q Gamma uses the standard formula without USPs to calculate its SCR.

Capital requirements beyond a "one-year" view

The SCR is a "one-year" view of risk as it focuses on risks that insurers face over the next 12 months, applicable to all future liabilities. I have also considered a longer term view of risk, by considering a range of scenarios to illustrate the risks to which R&Q Gamma is exposed over a longer time horizon. The scenarios are set out in section 6.10, including scenarios that consider an extreme reserve deterioration and default of AIEL.

Minimum Capital Requirement

In addition to the SCR, another key measure of capital under Solvency II is the Minimum Capital Requirement (MCR).

The MCR is a simpler calculation than the SCR, using a formula based on volumes of premiums and Solvency II technical provisions.

For non-life insurers, the MCR is between 25% and 45% of the SCR, subject to a minimum of £3.3m (€3.7m) or £2.3m (€2.5m) depending on the business written. This minimum typically only bites for the smallest insurers.

Firms need to hold capital equal to at least 100% of the greater of the SCR and the MCR. The purpose of the MCR is to ensure that firms are holding at least a minimum level of capital. Breaching the MCR will result in more intensive regulatory intervention than would be the case for a breach of the SCR.

The MCR coverage ratio is calculated as the available capital in excess of provisions divided by the MCR.

Both UKC and R&Q Gamma are projected to be very well capitalised on this measure with MCR coverage ratios of:

- c.800% and 478% respectively immediately Pre-Transfer
- c.800% and 691% respectively immediately Post-Transfer
- at least 800% and 700% respectively throughout the period to February and December 2024.

For both UKC and R&Q Gamma, both Pre-Transfer and Post-Transfer, the SCR is higher than the MCR. Therefore, I have not considered the MCR further as part of my assessment of capital considerations, and my primary focus is on the SCR.

6.5. Components of capital requirements

The key components of the SCR for both UKC and R&Q Gamma are:

- Market risk: the risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this includes the risk of falls in the value of investment assets that are being held to make future claims payments.
- Underwriting risk: the risk that the value of insurance claims proves to be higher than expected. This includes the risk of an increase in claims and uncertainties related to existing liabilities included on the balance sheet (reserving risk). For UKC, this also includes the risk of experience being worse than planned for business that will be earned or written over the following year (premium risk).
- Counterparty default risk: the risk of defaults or downgrades by counterparties that either owe the insurer money or hold money on its behalf. For example, this includes the risk of the failure of a reinsurer.
- Operational risk: the risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would include the risk of fraud or IT failure.

For both UKC and R&Q Gamma, the most material component of the SCR is market risk. For the liabilities being transferred, the only element of underwriting risk is reserving risk, which is the risk of an increase in claims and uncertainties related to the existing liabilities included on the balance sheet. There is no premium risk for the transferring liabilities as no new business is being written or earned over the following year.

UKC and R&Q Gamma have provided SCR projections which contain the SCR risk components. I have summarised the key risks as a percentage of the total SCR, both pre-transfer and post-transfer, below. The figures shown for UKC are projections as at 20 February 2022. The figures shown for R&Q Gamma are projections as at 31 December 2021.

UKC: Projected breakdown of SCR risk components pre- and post- Proposed Transfer

Risk components $m	Pre-transfer		Post-transfer	
Market risk	193.9	*76%*	198.1	*78%*
Counterparty default risk	71.8	*28%*	70.0	*27%*
Underwriting risk	11.4	*4%*	11.1	*4%*
Diversification	(49.6)	*(19%)*	(48.8)	*(19%)*
Operational risk	27.5	*11%*	25.1	*10%*
SCR	**255.0**	***100%***	**255.5**	***100%***

Source: UKC

R&Q Gamma: Projected breakdown of SCR risk components pre- and post- Proposed Transfer

Risk components £m	Pre-transfer		Post-transfer	
Market risk	3.1	*80%*	13.7	*63%*
Counterparty default risk	0.0	*1%*	0.3	*1%*
Underwriting risk	1.4	*37%*	11.7	*54%*
Diversification	(0.8)	*(22%)*	(5.4)	*(25%)*
Operational risk	0.1	*4%*	1.5	*7%*
SCR	**3.9**	***100%***	**21.8**	***100%***

Source: R&Q Gamma

The most material component of the SCR for UKC is market risk, which represents 76% and 78% of the total SCR pre- and post- transfer respectively. Counterparty default risk is also a material contributor to UKC's SCR, representing 28% and 27% of the SCR pre- and post- transfer respectively. This is largely on account of UKC's intra-club reinsurance.

UKC's SCR is expected to increase slightly from $255.0m to $255.5m following the Proposed Transfer. This is driven by an increase in market risk. As the parent company of UKB, UKC has a market risk charge on the value of UKB. The increase in market risk is due to an increase in the value of UKB driven by:

- the value of the liabilities transferred being higher than the assets transferred (ie the price agreed with R&Q); and
- a fall in the risk margin due to the SCR now being expected to run off more quickly following the transfer of the long-tailed OD liabilities.

This increase in market risk outweighs the reductions in counterparty default risk, underwriting risk and operational risk for UKC following the Proposed Transfer.

For R&Q Gamma, the most material component of the SCR is also market risk, which represents 80% and 63% of the SCR pre- and post- transfer respectively. Underwriting risk is also a material contributor to the SCR, representing 37% of the SCR pre-transfer and 54% of the SCR post- transfer. The increase post-transfer is driven by the reserve risk associated with the liabilities being transferred.

6.6. Capital policy for each of UKC and R&Q Gamma

I have reviewed R&Q Gamma's capital management plan and UKC's Own Solvency Needs Assessment ("OSNA") within its ORSA.

R&Q Gamma's policy is to hold a target level of capital of 125% of its Solvency II SCR, which I would consider to be sufficient capital as described in section 6.1. This target has been determined to reflect the nature, scope and complexity of its risk profile, which currently consists of run-off portfolios that are considered to be significantly developed with limited volatility in the underlying liabilities.

For new portfolios being transferred into R&Q Gamma, the target level of capital immediately following the transfer is 200% of the SCR. This target level of capital is higher than the overall risk appetite of 125% as it takes into account any uncertainties relating to the on-boarding of a new portfolio.

The projected SCR coverage ratio immediately after the Proposed Transfer is 173%. This is above the overall risk appetite of 125% but lower than the specific 200% risk appetite that applies after on-boarding a new portfolio.

R&Q Gamma has actively considered a strategy to limit the volatility of its risk profile, including the purchase of the new ADC reinsurance as set out in section 1.1 and an investment strategy of high quality fixed income securities. R&Q Gamma therefore considers that the coverage ratio of 173% immediately after the Proposed Transfer is appropriate. The R&Q Gamma Board will review this updated plan as part of the Capital Management Plan process, which is due for Board approval in June 2021. I will provide an update on this in my Supplementary Report.

UKC has a risk appetite statement to hold a buffer in excess of its regulatory capital requirement. Based on projections to 20 February 2021 in UKC's ORSA, this buffer equated to an additional $214m of capital over and above the SII SCR of $255m, ie a target solvency coverage ratio of at least 184%.

Based on the projections in section 6.8, both UKC and R&Q Gamma are expected to remain above their respective overall risk appetites throughout the projection period (noting the lower risk appetite coverage ratio for R&Q Gamma discussed above).

6.7. SCR appropriateness for UKC and R&Q Gamma

For R&Q Gamma, I have considered SCR appropriateness by considering two aspects:

- reviewing R&Q Gamma's documentation of its standard formula SCR calculations and process to satisfy myself that the calculations are being performed in line with the Solvency II Delegated Regulations; and
- reviewing R&Q Gamma's assessment of the appropriateness of using the standard formula for the purposes of setting the SCR.

My review identified an area where R&Q Gamma's approach to calculating the SCR is different from what I would expect based on my interpretation of the Solvency II regulations (further details are set out later in this section). I have discussed these with R&Q Gamma to understand the rationale for and materiality of the approach taken, and R&Q Gamma has since updated its SCR calculations. As a result, I am satisfied that the SCR is being calculated materially in line with the Solvency II Delegated Regulations.

For UKC I have considered SCR appropriateness by considering the robustness of the internal model validation that has been performed.

R&Q Gamma - appropriateness of the standard formula

R&Q Gamma has reviewed the appropriateness of the standard formula for the purpose of calculating the SCR in its SCR report as at July 2020. The review concluded that the standard formula is "not inappropriate" given the risk profile of R&Q Gamma, ie where there are limitations, they are not material. There are some risks that R&Q Gamma has identified which are not captured within the standard formula. These are Strategic risks and Reputational risks, which R&Q Gamma considers to be best managed through internal controls and governance.

R&Q Gamma has also assessed that the standard formula continues to be "not inappropriate" for the liabilities transferring from UKC following the Proposed Transfer.

I have reviewed the standard formula assessment provided by R&Q Gamma and I am satisfied that it supports the conclusion that the standard formula is "not inappropriate" for R&Q Gamma. Although there are limitations to the standard formula given R&Q Gamma's risk profile, I believe that overall the standard formula results in a conservative estimate of the SCR for R&Q Gamma. In particular:

- On the one hand, the standard formula reserve volatility factor of 11% is based on marine liabilities for an average insurer and has therefore not been calibrated specifically for occupational disease liabilities. Occupational disease liabilities are highly uncertain and on an ultimate time horizon are likely to be more volatile than other marine reserve liabilities.
- On the other hand, the volatility of the Transferring Business in R&Q Gamma is significantly reduced by the new ADC reinsurance, which provides protection in the event of a deterioration in the gross reserves. The standard formula does not give credit for this reduction in volatility due to the ADC reinsurance.
- In my opinion, the overall impact of these two offsetting factors is that, all else being equal, the standard formula provides a more conservative measure of risk than would otherwise be the case.

Further, in section 6.10 I have considered the impact of assuming a higher reserve volatility factor of 20%, which is the highest volatility factor for any class of business under the standard formula. Even under this much higher volatility factor, R&Q Gamma retains sufficient capital (as defined in section 6.1).

I therefore concluded that the standard formula results in a conservative measure of capital for R&Q Gamma.

R&Q Gamma - review of SCR calculation process

I have reviewed R&Q Gamma's documentation of its approach to determining the SCR using the standard formula.

R&Q Gamma's Actuarial Function utilises the "Igloo Standard Formula" which is licensed by Willis Towers Watson (WTW). R&Q Gamma considers that its use of externally supported software from a recognised and established organisation ensures the robustness of the SCR.

R&Q Gamma originally proposed to allocate the transferring OD liabilities under the Proposed Transfer to the Workers Compensation Solvency II class of business, which falls under the Health module of the Standard Formula. As part of my review of the appropriateness of the standard formula SCR, I queried the rationale for R&Q Gamma allocating the liabilities to the Health module. Based on my experience in the market and my interpretation of the Solvency II regulations, I consider the Marine, Aviation and Transport (MAT) Solvency II line of business to be the appropriate allocation given the nature of the underlying liabilities, rather than the Health module. Based on our discussions, R&Q Gamma has now updated its SCR calculation to allocate the transferring OD liabilities to the Marine, Aviation and Transport (MAT) Solvency II line of business, which is in line with my expectations.

R&Q Gamma follows a robust process for the calculation, review and validation of the SCR which involves the initial calculations being carried out by the Capital Actuary, the Head of Capital reviewing the inputs and results and an additional level of review being provided by the Group Chief Actuary.

My conversations with R&Q Gamma regarding the appropriate treatment of OD liabilities in the standard formula, and the robust process followed by R&Q Gamma in calculating its SCR, provide me with the evidence required to support my conclusion that the standard formula SCR for R&Q Gamma has been calculated correctly.

UKC - appropriateness of partial internal model

UKC uses its partial internal model to replace the underwriting risk element of the standard formula. UKC's partial internal model for underwriting risk has been specifically designed by UKC to reflect the risk profile of the business. UKC uses a partial internal model, rather than the standard formula, to more accurately reflect the non-proportional reinsurance arrangements it has in place and to allow for the weak correlation between the OD reserves and the other "normal" (excluding OD) claims reserves.

The model is subject to regular detailed validation within UKC as well as regular review by senior individuals on UKC's Managers' Risk Committee, in line with UKC's Internal Model Validation Policy. The model is also independently validated by PwC under the instruction of UKC's Internal Audit Function. A number of minor issues were raised and resolved as part of the primary model validation activities carried out during the year to February 2020. Good progress has also been made in resolving the "amber" rated issues raised by PwC in the previous year. The findings from this year's Internal Audit Independent Validation work are not yet available, but PwC have not indicated that they will be raising any substantial issues.

As at February 2020, based on the Internal Audit Function's findings and UKC's own internal validation work, UKC concluded that:

- the model is suitable for general business decisions; and
- the SCR is calculated in line with applicable regulations and is not materially misstated.

UKC has also assessed the reasonableness of the Partial Internal Model SCR result and the appropriateness of the scope of the Partial Internal Model in its assessment of the appropriateness of SCR. The partial internal model replaces the underwriting risk element of the standard formula. UKC notes that there are other areas of prudence in the standard formula that mean the SCR results are likely to be overstated, including counterparty default risk. However, these are not currently sufficiently material for UKC to consider extending the scope of the partial internal model.

I have reviewed the partial internal model validation carried out. I have concluded that the internal model provides an appropriate basis for calculating the SCR for UKC.

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

Projected SCR coverage ratios immediately before and after the Proposed Transfer

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

The Effective Date of the Proposed Transfer is expected to occur shortly after the Sanctions Hearing which is scheduled for 1 December 2021. UKC has provided the projected SCR and coverage ratios immediately before and after the Proposed Transfer based on its year-end date of 20 February 2022. The projections as at 20 February 2022 are expected to approximately reflect the impact of the Proposed Transfer as at the Effective Date. The marginal impact of the transfer of the OD liabilities is not expected to be materially different between December 2021 and February 2022 and the value of the OD liabilities is not expected to change materially between December 2021 and February 2022 given their long-tailed nature.

UKC has considered the expected movements in the Own Funds and SCR between December 2021 and February 2022. UKC has estimated that the SCR coverage ratio would be circa 5% lower as at the Effective Date compared to 20 February 2022.

R&Q Gamma's projected SCR and coverage ratios are based on its year end-date of 31 December 2021. As for UKC, this date is close to the Effective Date of the Proposed Transfer and the projections are not expected to be materially different as at the Effective Date.

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

Projections before and after the Proposed Transfer	Own Funds	SCR	Own Funds less SCR	SCR coverage ratio	Movement in coverage ratio
Day 0 – before Transfer					
UKC $m	618.6	255.0	363.7	243%	
R&Q Gamma £m	16.0	3.9	12.0	407%	
Day 1 – after-Transfer					
UKC $m	631.1	255.5	375.6	247%	4%
R&Q Gamma £m	37.6	21.8	15.8	173%	(234%)

Source: UKC and R&Q Gamma

In summary:

- Non-transferring Policyholders: the SCR coverage ratio of the Non-transferring Business is projected to increase from 243% to 247%.
- Transferring Policyholders: The SCR coverage ratio for liabilities transferring from UKC to R&Q Gamma is projected to decrease from 243% to 173%. However, R&Q Gamma is still projected to be well capitalised (as defined in Section 6.1) immediately after the Proposed Transfer.

  Further, the 243% SCR coverage ratio for UKC is on a solo entity basis. On a group basis for the UK P&I Club, the coverage ratio is lower (c.200%). On this basis, the reduction in coverage ratio for Transferring Policyholders is much lower.
- Existing R&Q Gamma Policyholders: the SCR coverage ratio for Existing R&Q Gamma policyholders is projected to decrease from 407% to 173% after the Proposed Transfer. R&Q Gamma is very well capitalised prior to the Proposed Transfer, with own funds in excess of the SCR of $12.0m. After the Proposed Transfer, whilst the SCR coverage ratio is projected to fall, the excess own funds over the SCR will increase from $12.0m to $15.8m.
- 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 less than 0.5%). 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.

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

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

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

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

Immediately following the Proposed Transfer, R&Q Gamma's SCR coverage ratio is expected to be 173%. The SCR coverage ratio is then projected to increase each year for the following 3 years, reflecting the ongoing run-off of the OD liabilities. R&Q Gamma is expected to be well capitalised immediately after the Proposed Transfer and to be well capitalised or very well capitalised throughout the remainder of the projection period (as defined in section 6.1).

I have also reviewed UKC's projected SCR coverage ratios over its financial planning horizon within its ORSA. UKC's SCR coverage ratio immediately after the Proposed Transfer is projected to be 247%. The forward-looking projections in UKC's ORSA show that its SCR coverage ratio is projected to remain at a similar level to this over the full period to February 2024.

In practice, R&Q Gamma's average coverage ratios may be higher or lower than these projections depending on the claims and other experience of R&Q Gamma. R&Q Gamma will routinely monitor the capital and projected capital position in line with its capital management policy (considered in section 6.6 above) – this could also lead to the coverage ratios being higher or lower than projected.

6.9. The planned capital structures for UKC and R&Q Gamma

UKC

Based on data as at 20 February 2020, 80% of UKC's own funds were classified as unrestricted tier 1, ie the highest quality, and 20% of UKC's own funds were classified as tier 2. The proportions of tier 1 and tier 2 capital are expected to remain broadly constant under the capital projections as at 20 February 2022 both immediately before and after the Proposed Transfer.

UKC's tier 2 capital relates to its ability to make unlimited calls for supplementary premium from its Members. When these supplementary calls were to be received, they would then become tier 1 capital. Under Solvency II regulations, the amount of these tier 2 funds that are eligible to cover the SCR is limited to 50% of the SCR, ie $127.5m immediately before the Proposed Transfer.

In practice, as far as possible, UKC seeks to provide certainty over the insurance costs borne by its Members and therefore would only make calls for supplementary premium in extreme circumstances such as being unable to meet its regulatory capital requirements. Without this tier 2 capital, UKC's own funds immediately before the Proposed Transfer would fall from $618.6m to $491.2m and its SCR coverage ratio would fall from 243% to 193%.

R&Q Gamma

Based on data as at 31 December 2020, 100% of R&Q Gamma's own funds were classified as unrestricted tier 1. This is projected to continue to be the case for a number of years after the Proposed transfer. R&Q Gamma's available capital immediately after the Proposed Transfer includes a £25m capital contribution from the R&Q Group in order to achieve the desired solvency coverage ratio.

This capital contribution will be paid into R&Q Gamma no later than one week prior to the Sanctions Hearing. If for any reason the capital was no longer available to R&Q Gamma, the Proposed Transfer would not go ahead.

The final capital contribution may vary (ie could be higher or lower than £25m) depending on R&Q Gamma's experience up to the Effective Date. For example, if the reserves deteriorate then, all else being equal, more capital would be required to maintain the same level of capital strength. The R&Q Group will contribute sufficient capital to R&Q Gamma to ensure a solvency ratio of at least 173% upon Transfer (the same ratio as is currently projected for R&Q Gamma post transfer and upon which my analysis has been based). I will review the final proposed capital contribution in my Supplementary Report.

6.10. SCR scenario analysis

I have considered the impact of a range of adverse scenarios on the Transferring Business, based on projections prepared by R&Q Gamma. These include scenarios consistent with those already considered by R&Q Gamma in its ORSA and, in addition, a number of further scenarios on the reserves that I have specified. The scenarios considered in relation to the reserves are described in section 5.6. These scenarios demonstrate that R&Q Gamma remains well capitalised or sufficiently capitalised in the event of a deterioration in R&Q Gamma's reserves.

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

It is also possible that there could be favourable scenarios, as discussed in my assessment of the appropriateness of provisions in section 5.6. However, I have not considered such scenarios in detail as these have not been necessary in order to form my opinion regarding the Proposed Transfer.

The scenarios include a "reverse stress test" – reverse stress tests are scenarios that, by design, consider potential events that could lead to insolvency of an insurer.

The following tables summarise the adverse scenarios that I have considered. These scenarios are intended to represent a range of possible deteriorations that may occur over the ultimate time horizon, including both moderate and extreme scenarios. All of the reserving scenarios were specified and reviewed for reasonableness by me but the calculations have been performed by R&Q Gamma. The capital scenarios include scenarios from R&Q Gamma's ORSA (scenarios 9 to 12) as well as scenarios specified by me (scenarios 8, 13 and 14).

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

$m	SCR	Own Funds	SCR coverage ratio	Impact on coverage ratio
Base	**29.7**	**51.4**	**173%**	
1. Emergence of claims from a new country	30.3	51.1	168%	-4%
2. 50% increase in the number of mesothelioma claims (ie 50% increase in claim frequency)	31.4	50.8	162%	-11%
3. 50% increase in average claim sizes for mesothelioma (ie 50% increase in claim severity)	31.4	50.8	162%	-11%
4. 1% pa increase in future claims inflation	30.3	51.5	170%	-2%
5. UKC's estimate of the reserves	31.9	51.1	160%	-13%
6. UKC's estimate of the reserves + 50% increase	35.8	31.7	88%	-84%
7. Scenarios 2, 3 and 4 combined	34.0	48.9	144%	-29%

As shown in the table above and in section 5.6, the new ADC reinsurance provides significant protection in the event of a deterioration in R&Q Gamma's gross reserves. R&Q Gamma remains well capitalised (as defined in section 6.1) under each of the first five adverse reserving scenarios. Even under a combination of scenarios 2, 3 and 4, R&Q Gamma retains sufficient capital (as defined in section 6.1).

Scenario 6 is the most extreme reserving scenario considered. Under this scenario, R&Q Gamma's capital coverage ratio would fall below 100% (to 88%). This means that R&Q Gamma would still have sufficient funds to pay claims but would need to find additional capital to meet regulatory requirements and its own risk appetite. However, I consider the likelihood of this scenario to be remote as UKC's estimate of the reserves is, in my opinion, towards the upper end of the range of reasonable best estimates and also does not yet take into account the change in the AWP model, and this scenario assumes a 50% reserve deterioration on top of this estimate.

R&Q Gamma – impact of other adverse scenarios on SCR coverage ratios

	SCR coverage ratio		Impact on SCR coverage ratio	
	Dec 2021	Dec 2024	Dec 2021	Dec 2024
Base	**173%**	**232%**		
8. Increase in volatility parameter from 11% to 20%	115%		-58%	
9. Reserve deterioration (frequency), default in reinsurance assets and a cyber event	119%	153%	-53%	-79%
10. Reserve deterioration (severity), decline in bond valuations and data breach	121%	180%	-52%	-52%
11. Reserve deterioration (frequency and severity), liquidity constraints and a cyber event	134%	192%	-39%	-40%
12. Reverse stress test	95%	176%	-78%	-56%
13. Immediately following the transfer, 50% increase in claim frequency and 50% increase in average claim size for mesothelioma claims, as well as a default of AIEL with a 50% loss given default.	44%		-129%	
14. Immediately following the transfer, 50% increase in claim frequency and 50% increase in average claim size for mesothelioma claims, as well as a default of AIEL with a 100% loss given default.	-46%*		-219%	

*explained below.

Scenario 8 considers the impact of assuming a higher reserve volatility factor of 20% given the limitations in the standard formula calibration for these liabilities (compared to 11% for marine liabilities in the base scenario). Even under this higher volatility factor, R&Q Gamma retains sufficient capital (as defined in section 6.1).

Under the adverse capital scenarios 9, 10 and 11, R&Q Gamma continues to have sufficient capital (as defined in section 6.1) throughout the entire projection period, and returns to being well capitalised by the end of the projection period. By design, the reverse stress test results in R&Q Gamma breaching its SCR as at December 2021. However, under the reverse stress test, R&Q Gamma returns to being sufficiently capitalised by December 2022 and again returns to being well capitalised by the end of the projection period.

Scenarios 13 and 14 consider the impact on the capital position in the event that the gross reserves for mesothelioma claims increase by 50% for frequency and 50% for average claim size (ie gross reserves for mesothelioma claims increase by 125% in total and gross reserves for all claims increase by 71% in total), combined with the default of AIEL. I consider these to be extreme stress tests given the size of the gross deterioration combined with a loss of reinsurance protection.

Scenario 13 assumes that following the default of AIEL, 50% of the recoveries under the new ADC are received. Under this scenario, R&Q Gamma would remain solvent with a SCR coverage ratio of 44%. This means that R&Q Gamma would still have sufficient funds to pay all claims in full.

Scenario 14 assumes that no recoveries can be made under the new ADC. I consider this to be an extreme scenario as it is often possible to recover at least some of the funds when a reinsurer defaults. In addition, I consider the probability of AIEL defaulting to be remote, given AIEL is A- rated, is well capitalised and is expected to remain well capitalised under a range of adverse scenarios (see section 6.11).

Under scenario 14, R&Q Gamma's coverage ratio would fall to -46%. This means that R&Q Gamma's liabilities of £110m would exceed its assets of £96m and it would need to find additional capital to meet its regulatory requirements. However, these liabilities include a risk margin of £22.5m. R&Q Gamma's assets would continue to exceed its gross best estimate technical provisions of £84m, meaning R&Q Gamma would continue to be able to pay claims in full even under this extreme scenario.

AIEL is rated A- (Excellent) by AM Best as at October 2020. AM Best's rating reflects the strength of the R&Q Group and the importance of AIEL to the R&Q Group. Based on discussions with R&Q, I am comfortable in using this credit rating to help me form my view when combined with additional analysis I have performed on AIEL. I have reviewed the financial strength of AIEL and how it is impacted by a range of adverse scenarios, as set out in section 6.11.

6.11. Financial strength of 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 other sensitivity tests relating to the wider portfolio.

The table below sets out the projected SCR and coverage ratio for AIEL immediately after the Proposed Transfer.

Projected AIEL financial strength immediately after the Proposed Transfer

	$m
Total assets	485.2
Total liabilities	392.0
Excess of assets over liabilities	93.2
SCR	59.9
Total eligible own funds to meet the SCR	123.2
SCR coverage ratio	206%

I have considered the impact on AIEL's balance sheet and SCR coverage ratio of a range of adverse scenarios relating to the Transferring Business, including the reserving scenarios set out in the previous section. In all but the most extreme scenarios, AIEL remains well capitalised. In the most extreme scenarios (scenarios 6 and 7), AIEL remains sufficiently capitalised.

I have also been provided with AIEL's sensitivity tests which show that AIEL remains well capitalised under a range of adverse scenarios relating to the wider portfolio. These scenarios include, separately, scenarios such as a 15% increase in reserves, a 10% increase in the loss ratio, a credit downgrade of its largest reinsurer and a downgrade of its bonds.

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

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

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

- AIEL is an A- rated insurer.
- AIEL is projected to be very well capitalised following the Proposed Transfer.
- AIEL is expected to 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 relating to the reserves for the Transferring Business, AIEL remains sufficiently capitalised.

6.12. Overall conclusion: Capital considerations

I have set out below my overall conclusions related to capital. These capital considerations should not be considered in isolation. For example, the overall level of protection for policyholders also depends on a range of other considerations. My overall conclusions on the Proposed Transfer are set out in section 10.

Based on the work and rationale described above I have concluded that:

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

7. Policyholder security

7.1. My considerations relating to policyholder security

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

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

To make these assessments, I have considered the following areas:

- The Solvency II balance sheets of UKC and R&Q Gamma (section 7.2)
- The solvency positions of UKC and R&Q Gamma (section 7.3)
- Reinsurance arrangements (section 7.4)
- Nature of the companies (section 7.5)
- Access to the Financial Services Compensation Scheme (section 7.7)
- Access to the Financial Ombudsman Service (section 7.8)
- Insurance regulation (section 7.9)

Further details on each of these considerations are set out below, and my overall conclusion related to policyholder security is set out in section 7.10.

7.2. Impact on the balance sheets of UKC and R&Q Gamma

I have based my analysis on projected balance sheets immediately pre- and post- the Proposed Transfer, on the anticipated Effective Date.

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

Converted $m	Pre-Transfer		Post-Transfer		Movement due to Proposed Transfer	
	UKC	R&Q Gamma	UKC	R&Q Gamma	UKC	R&Q Gamma
Participations	364.5	0.0	373.1	0.0	+8.6	0.0
Investments	69.1	24.0	62.5	123.5	(6.6)	+99.6
Intra-Group loans	0.0	5.5	0.0	5.2	0.0	(0.3)
Reinsurance recoverables	878.4	0.0	805.8	7.4	(72.5)	+7.4
Cash	37.8	0.3	37.8	1.4	0.0	+1.2
Other assets	86.2	0.2	86.2	0.4	0.0	+0.2
Total assets	**1,436.0**	**29.9**	**1,365.4**	**137.9**	**(70.6)**	**+108.0**
Technical provisions	937.0	8.0	854.3	81.3	(82.7)	+73.3
Other Liabilities	7.8	0.1	7.8	5.3	0.0	+5.1
Total liabilities	**944.8**	**8.1**	**862.1**	**86.5**	**(82.7)**	**+78.4**
Tier 1 basic own funds	491.2	21.8	503.4	51.4	+12.2	+29.6
Tier 2 ancillary own funds	127.5	0.0	127.7	0.0	+0.3	0.0
Tier 3 own funds	0.0	0.0	0.0	0.0	0.0	0.0
Total capital	**618.6**	**21.8**	**631.1**	**51.4**	**+12.5**	**+29.6**

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

The table above shows simplified Solvency II balance sheets for UKC and R&Q Gamma pre- and post- the Proposed Transfer. The impact of the transfer is that $82.7m or around 9% of UKC's total Solvency II liabilities are expected to be transferred out of UKC.

Key movements – UKC

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

- $8.6m increase in participations due to an increase in the value of UKB driven by:
  - the value of the liabilities transferred being higher than the assets transferred (ie the price agreed with R&Q); and
  - a fall in the risk margin ($6.7m decrease) due to the SCR now being expected to run off more quickly following the transfer of the long-tailed OD liabilities.
- $6.6m decrease in investments, which forms a portion of the assets being transferred to R&Q Gamma. A total of $73m is expected to be transferred to R&Q Gamma, the majority of which will come from UKB to recognise the decrease in quota share reinsurance recoverables due to UKC following the Proposed Transfer.
- $72.5m decrease in reinsurance recoverables driven by the 90% quota share with UKB (the OD liabilities are reinsured by the quota share with UKB and these liabilities will no longer by covered following the Proposed Transfer).
- $82.7m decrease in technical provisions due to the OD liabilities being transferred out of UKC following the Proposed Transfer.

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

Key movements – R&Q Gamma

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

- $99.6m increase in investments driven by the assets expected to be transferred from UKC and UKB ($73m) and the £25m ($34m) capital contribution from the R&Q Group, partially offset by the reinsurance premium paid to AIEL ($7m).
- $7.4m increase in reinsurance recoverables, which is R&Q Gamma's best estimate of the amount recoverable under the new ADC reinsurance with AIEL.
- $73.3m increase in technical provisions as a result of the OD liabilities being transferred from UKC. This increase is lower than the decrease in UKC's technical provisions because, as discussed in section 5.5, R&Q Gamma have a lower reserve estimate on the OD liabilities than UKC.
- $5.1m increase in other liabilities as a result of a tax charge.

Overall R&Q Gamma's capital increases by $29.6m, driven by the £25m ($34m) capital contribution by the R&Q Group into R&Q Gamma.

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

7.3. Impact on the solvency positions of UKC and R&Q Gamma

The projected solvency positions of UKC and R&Q Gamma pre- and post-transfer are summarised in the following table.

Projected solvency positions of UKC and R&Q Gamma immediately before and after the Proposed Transfer

	UKC $m	R&Q Gamma £m
Pre-transfer		
Total own funds eligible to meet SCR	618.6	16.0
SCR	255	3.9
SCR coverage ratio	**243%**	**407%**
Post-transfer		
Total own funds eligible to meet SCR	631.8	37.6
SCR	255.5	21.8
SCR coverage ratio	**247%**	**173%**

UKC and R&Q Gamma are both well or very well capitalised immediately before and after the Proposed Transfer (as described in section 6.8).

7.4. Reinsurance arrangements

Reinsurance arrangements – AIEL

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, which gives UKC protection in the event of a deterioration in the valuation of the OD liabilities.

Reinsurance – Existing ADC arrangement with AIEL

Under the existing ADC between UKC and AIEL, 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. The OD liabilities in respect of EEA risks represent a relatively small (c.5%) proportion of the total OD liabilities.

Reinsurance – New ADC arrangement post-transfer

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

I have reviewed the draft ADC reinsurance contract between R&Q Gamma and AIEL. The exact attachment point and limit are subject to change and I will review this in my Supplementary Report. For example, these will depend on the amount of payments made prior to the Effective Date and will also be reviewed to reflect any movements in the reserve estimates.

Conclusion on reinsurance – AIEL

AIEL is a member of the R&Q Group and is fully aware of the Proposed Transfer. Indeed, AIEL has actively been involved in the discussions with UKC around the Proposed Transfer. As a result of the new ADC reinsurance arrangement with R&Q Gamma, AIEL will receive additional premium of £3.1m to compensate for the lower attachment point and higher limit.

AIEL's SCR coverage ratio is expected to decrease from 226% to 206% as a result of the Proposed Transfer. AIEL is therefore expected to remain very well capitalised following the proposed Transfer.

I am therefore satisfied that AIEL is not materially adversely affected by the Proposed Transfer.

As discussed in sections 5.6 and 6.10, I am also satisfied that the new ADC reinsurance with AIEL provides both Transferring Policyholders and Existing R&Q Gamma Policyholders with sufficient protection such that they are not materially adversely affected by the Proposed Transfer.

Reinsurance arrangements – UKB

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.

Conclusion on reinsurance – 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.

Although UKC benefits from reinsurance provided by UKB, UKC is also the parent company of UKB. If we consider the UK P&I Club as a group, the solvency ratio as at February 2020 is lower on a group basis (217%) than on a UKC solo basis (255%).

Further, deteriorations in reserves in UKC are only 90% protected by the QS reinsurance with UKB while the new ADC from AIEL will provide R&Q Gamma with 100% protection up to a very high limit.

I am therefore satisfied that Transferring Policyholders are not materially adversely affected by the loss of the QS reinsurance from UKB.

7.5. Nature of P&I clubs

According to its rules, UKC is entitled to make calls on its Members for supplementary premium. As far as possible, UKC seeks to provide certainty over the insurance costs borne by Members. UKC would therefore only make a supplementary call in extreme circumstances, such as being unable to meet its regulatory capital requirements. UKC recognises its entitlement to make supplementary calls on Members as Tier 2 Ancillary Own Funds for regulatory solvency purposes.

Existing Members of UKC will continue to be subject to and potentially benefit from supplementary member calls for non-transferring liabilities (ie OD liabilities incurred after 20 February 2001 and all non-OD liabilities).

Following the Proposed Transfer, UKC will no longer be able to make supplementary calls on its Members in respect of the OD liabilities that are transferring. The Transferring Policyholders' non-OD liabilities, however, will remain with UKC after the Proposed Transfer and therefore UKC remains entitled to make calls for supplementary premium from its Members in respect of the Non-transferring Business.

Transferring Policyholders will lose the ability to benefit from supplementary calls and will not receive any compensation for this. However, in my view this impact is not material, for the following reasons:

- UKC would only make a supplementary call in extreme circumstances so the likelihood of benefitting from a supplementary call is remote.
- Absent the Proposed Transfer, it is unlikely that OD claims would be the cause of a future supplementary call. It is much more likely that the cause would relate to non-OD claims. After the Proposed Transfer, Transferring Policyholders will no longer be exposed to UKC's non-OD risks.
- In the event of a deterioration in the valuation of the OD liabilities, Transferring Policyholders would be protected up to a very high limit by the new ADC.
- When comparing the solvency coverage ratios in section 6, the ability to make Member calls is allowed for in UKC's capital coverage ratio, via tier 2 capital. Without this tier 2 capital, UKC's coverage ratio would be 193% as opposed to 243%.

Further, although the OD liabilities are uncertain, R&Q Gamma is not actively writing new business so the existing business is known and 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.

I note that R&Q Gamma is part of a larger group which could potentially provide additional capital when required. However, as R&Q Gamma has no contractual right to this financial support, my conclusion does not take this into account.

Overall, given the capital position of R&Q Gamma and the protection afforded by the ADC, I consider the possibility of needing additional capital to be remote. I therefore do not expect Transferring Policyholders to be materially adversely affected by falling outside the scope of any future Member calls.

7.6. US trust fund

UKC has a trust fund in the US pursuant to the National Association of Insurance Commissioners (NAIC) requirements (the Trust Fund). US trust funds are funds held in the US which are ring-fenced to provide security for US policyholders. These funds cannot be called upon by non-US policyholders.

Although the Trust Fund was set up in 2012, the money held in the funds is not limited to policies issued after this date. Therefore the Trust Fund could be called upon if UKC was unable to pay a claim in the US in respect of the OD liabilities.

UKC holds the minimum $5.4m required in the Trust Fund. This amount is small relative to the total reserves for claims from US policyholders so is not a significant source of security for US policyholders. Further, in the event of UKC defaulting, the Trust Fund reserves would be called upon to meet OD and non-OD US claims alike. In my opinion, the Trust Fund is therefore not a significant source of security for the OD liabilities currently in UKC.

Following the Proposed Transfer, I understand that US policyholders would no longer be able to claim against the Trust Fund in respect of OD liabilities. These policyholders are therefore potentially adversely affected by this loss of security. However, I do not consider this to be material. This is because Transferring 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. For example, as demonstrated in section 6.10, even under an extreme scenario such as a 50% increase in claim frequency and a 50% increase in average claim size for mesothelioma claims, combined with full default of AIEL (scenario 14), R&Q Gamma would continue to be able to pay claims in full.

For the avoidance of doubt, Non-transferring Policyholders and Transferring Policyholders in the US will still have the security of the Trust Fund in respect of the non-OD liabilities following the Proposed Transfer.

7.7. Access to the Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) in the UK provides consumer protection. This statutory "fund of last resort" compensates customers in the event of the insolvency of a financial services firm.

If an insurer fails and is unable to pay claims, the FSCS will provide protection to eligible policyholders. The FSCS will pay 100% of any claim incurred for compulsory insurance (eg motor third party liability insurance) and 90% of claims incurred for non-compulsory insurance (eg home insurance), without any limit on the amount payable.

The protection for non-compulsory insurance only applies to individuals and small businesses (being businesses with an annual turnover of less than £1m).

No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance. There is also no protection for reinsurance contracts.

I have considered the business written by UKC and do not believe there are existing policies protected by the FSCS given that the FSCS does not cover "Liability of Ships". UKC has permission to write other business but to the best of their knowledge the management of UKC are not aware of having written anything other than "Liability of Ships" business.

Further, R&Q Gamma is a UK regulated entity, and as such I do not expect the rights of policyholders in respect of access to the FSCS to change as a result of the Proposed Transfer.

7.8. Access to the Financial Ombudsman Service

The Financial Ombudsman Service (FOS) provides private individuals, micro enterprises and small businesses with a free, independent service for resolving disputes with financial companies. For the purposes of the FOS, a micro enterprise is defined as having an annual turnover or balance sheet of less than €2m and fewer than 10 employees, and small businesses are defined to be businesses with less than £6.5m turnover and either fewer than 50 employees or a balance sheet total of less than £5m.

It is not necessary for the private individual, micro enterprise or small business to live or be based in the UK for a complaint regarding an insurance policy to be dealt with by the FOS. However, it is necessary for the insurance policy concerned to be, or have been, administered from within the UK and/or issued from within the UK.

R&Q Gamma is a UK company, so the Transferring Business will continue to be based in the UK. As such, any Transferring Policyholders that are currently eligible for access to the FOS will continue to benefit from this access following the Proposed Transfer. I note that, over the past seven years, there have not been any disputes involving UKC which have been referred to the UK Financial Ombudsman Service.

I do not expect the rights of policyholders in respect of access to the FOS to change as a result of the Proposed Transfer. Any policyholders of UKC or of R&Q Gamma who are currently eligible to refer complaints to the FOS will continue to be eligible following the Proposed Transfer.

7.9. Insurance regulation

Prudential regulation

Prudential regulation requires financial firms to control risks and hold adequate capital to ensure regulated firms are being run in a safe and sound way.

The UK is currently regulated under Solvency II. Solvency II covers the prudential regulation of insurers, including risk management and capital requirements.

R&Q Gamma does not underwrite new insurance policies and will not do so following the Scheme. R&Q Gamma's business model is to acquire books of non-life insurance that are in run-off and it has informed me that this model will not change following the Scheme. Any further acquisitions are subject to approval from the PRA. In addition, as a run-off provider, any extraction of capital from R&Q Gamma would also have to be approved by the PRA.

Both UKC and R&Q Gamma are authorised and regulated by the PRA on prudential matters. Based on this consideration, I do not expect Transferring Policyholders to be adversely affected by the Scheme due to prudential regulation.

Conduct regulation

Conduct regulation of financial firms typically includes consumer protection, market conduct rules and ethical codes of conduct. Conduct is generally regulated by the insurance regulator in the country in which a risk is located and/or the location from which the business is carried out.

In the UK, the Financial Conduct Authority (FCA) is responsible for conduct regulation. The FCA seeks to ensure that consumers are treated fairly in their dealings with insurers. Its rules and guidance include conduct related requirements covering the way in which an insurance firm organises, manages and oversees and governs its business, including codes of conduct, fit and proper requirements and training and competence standards. In addition, conduct regulation covers the full product life cycle, from product design and development, sales and communications with customers, cancellations and claims handling, and complaints handling and compensation.

Both UKC and R&Q Gamma are regulated by the FCA on conduct matters and I would not expect the conduct regulation to change for policyholders due to the Scheme. Based on this consideration, I do not expect Transferring Policyholders to be adversely affected by the Scheme due to conduct regulation.

Conclusion on regulation

As UKC and R&Q Gamma are subject to the same UK based regulatory regime, I have concluded that policyholders will not be adversely affected by the Scheme from a regulatory standpoint.

7.10. Overall conclusion: Policyholder security

Based on the work and rationale described above, I have concluded that it is unlikely that policyholders will be materially adversely affected by the Proposed Transfer.

8. Policyholder communications

8.1. My considerations relating to policyholder communications

I have assessed the appropriateness of UKC and R&Q Gamma's proposed communication strategy to inform policyholders of the Proposed Transfer.

The key focus of my assessment was whether the policyholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them.

8.2. Overview of communications strategy

UKC and R&Q Gamma have developed a communication strategy to notify affected parties of the Proposed Transfer and allow time for any affected parties to raise objections to the High Court. I have summarised the main points of the communications strategy below:

- **UKC Policyholders:** UKC will notify both Non-Transferring and Transferring Policyholders, subject to the dispensations sought as discussed in section 8.3.
- **Existing R&Q Gamma Policyholders:** R&Q Gamma will notify Existing R&Q Gamma Policyholders, subject to the dispensations sought as discussed in section 8.3.
- **Reinsurers:** The only reinsurer who will provide cover for the Transferring Business following the Proposed Transfer is AIEL. This cover will be in the form of the new ADC, while the existing ADC with AIEL will be terminated in respect of the Transferring Business. AIEL is party to the agreement between UKC and R&Q Gamma, so is fully aware of the Proposed Transfer. UKB will no longer be liable for recoveries in respect of the Transferring Business. As part of the UK P&I Club, UKB has been party to the agreement with R&Q, so is fully aware of the Proposed Transfer.

I am satisfied that the communications strategy will ensure that those who will be affected by the Proposed Transfer will be informed appropriately.

8.3. Requested waivers and rationale

UKC and R&Q Gamma intend to request that the court grant a dispensation from the need to directly notify every policyholder in respect of:

- UKC policyholders who fall into the following categories:
  - all policyholders for whom there is no viable (ie complete and useable) address in UKC's records;
  - time charterer policyholders who only held a policy prior to 20 February 2001; and
  - all policyholders from periods prior to 1971.
- Existing R&Q Gamma Policyholders who fall into the following groups:
  - policyholders of RLGIL with no open claims; and
  - policyholders for whom there is no viable address in R&Q Gamma's records.

UKC and R&Q Gamma have provided a rationale to support their request for dispensation which included consideration of the judgement of Norris J in the Directions Hearing in Re Aviva International Insurance Limited [2011] EWCH 1901 (Ch.) (the Aviva Judgment). The Aviva Judgement summarised the following factors as a rationale for granting a dispensation:

- the impossibility of contacting policyholders;
- the practicality of contacting policyholders;
- the utility of contacting policyholders;
- the availability of other information channels through which notice of the application can be made available;
- the proportionality of strict compliance and the impact of collateral commercial concerns; and
- the likely impact of the Proposed Transfer on policyholders.

I have reviewed this rationale, challenged it and sought additional information in support of the requested waivers where required. I am satisfied that the requested waivers are proportionate and reasonable, and I provide more detail on this below.

UKC policyholders

UKC have identified 2,089 unique policyholders based on available computerised records back to 1971. They are proposing to write to 1,689 of these policyholders. This includes the following policyholders:

1. All current policyholders of UKC;
2. To the extent not included in 1, all policyholders of UKC with outstanding claims;
3. To the extent not included in 1 or 2, all non-charterer policyholders who have held a policy in or after 1971, where a viable address is available from UKC's records; and
4. To the extent not included in 1, 2 or 3, all time charterer policyholders who have held a policy on or after 20 February 2001.

There are around 400 identified policyholders for whom there is no viable address available from UKC's records. UKC is undertaking internet searches to find contact details for these policyholders. Given the age of these policies, this may not be successful for all of these policyholders and UKC are therefore requesting a waiver for not contacting those policyholders for whom no viable address can be found.

UKC are also requesting a waiver for not contacting those policyholders who only held a policy prior to 1971.

More detail on the rationale for UKC's waiver requests is set out below.

Time charterer policyholders who were members only prior to 20 February 2001

In addition to the 2,089 policyholders identified, UKC identified a further 1,047 policyholders who were only time charterer members and only prior to 20 February 2001. UKC is seeking a waiver from sending notices to these policyholders and their rationale is as follows (I have included in brackets the reference to the factors from the Aviva Judgement where applicable):

Time charterer members do not assume an employment relationship with the crew and therefore cannot give rise to OD claims. Further, due to the age of policies prior to 2001, any other claims on these policies would now be time-barred. Therefore time charterers from 2001 and prior no longer have any rights or obligations under those policies and so they would not be affected by the Proposed Transfer (utility and impact).

Policyholders for whom there is no viable address

The Transferring Business relates to policies written between 1 January 1935 and 20 February 2001. Given the age of these policies, UKC does not have contact details for all policyholders during that period. In addition, policy records do not provide names and addresses of all policyholders on that policy. In administering the policy, UKC will deal with the policyholder named on the relevant certificate of entry, who will normally act as the representative for any affiliates or other assureds listed on its policies.

UKC is seeking a waiver from sending notices to policyholders for whom there is no viable address held by UKC. The rationale is as follows:

- UKC are seeking this waiver as it is not possible or practical to notify such policyholders (impossibility and practicality).
- UKC's view is that the costs involved in attempting to identify contact details for such policyholders is disproportionate to the impact of the Proposed Transfer on these policyholders (proportionality and impact).
- UKC's view is that such policyholders will have access to the information from the wider communications, including the notices to be placed in newspapers, specialist industry news publications and UKC's website, and so will have the opportunity to be made aware of the Proposed Transfer without direct notification (availability of other information channels).
- UKC's view is that the majority of new claims in respect of the Transferring Business will come from policyholders who have already made a claim and therefore addresses are held. This is based on an analysis of claims experience which shows that at least 95% of claims notified in the last ten years came from policyholders who had a previous claim (utility and impact).

Policyholders who were members only prior to 1971

UKC is also seeking a waiver from sending notices to Transferring policyholders who were members only prior to 1971. UKC's rationale, in addition to the reasons outlined above which also apply to these policyholders, is as follows:

UKC's electronic records only go back to 1971. It would be difficult and costly to analyse individual paper records prior to 1971. In addition, these records do not contain address details. UKC's view is that the costs involved in attempting to identify these policyholders and trace their contact details is disproportionate to the impact of the Proposed Transfer on these policyholders. I have been provided with an estimate of the costs of such an exercise and agree that this would be disproportionate (proportionality and impact).

I have reviewed this information and am satisfied that these are reasonable requests for waiver.

Existing R&Q Gamma Policyholders

Policyholders of RLGIL with no open claims

R&Q Gamma is seeking a dispensation from sending notices to policyholders of RLGIL who do not have an open claim. R&Q Gamma's rationale is as follows:

- R&Q Gamma believes that the cost of direction notification to all RLGIL policyholders (c.40,000) is disproportionate to the benefit received from direct notification. The incidence of new claims from the RLGIL portfolio is low in comparison to the number of policies. In the period since August 2017, there have only been 75 new claims, 61 of which relate to a single policyholder, the Football Association. The gross outstanding loss reserves for the RLGIL portfolio are also small, representing £0.2m of the total outstanding loss reserve of £2.4m as at 31 December 2020 (proportionality and impact).
- R&Q Gamma's view is that such policyholders will have access to the information from the wider communications, including the notices to be placed in newspapers and R&Q's website, and so will have the opportunity to be made aware of the Proposed Transfer without direct notification (availability of other information channels).

While I do not necessarily consider the absolute size of reserves to be a sufficient reason on its own to request the waiver, I have reviewed the analysis behind these reserves. I am satisfied that very few new claims are expected to emerge and therefore on grounds of proportionality and utility, combined with the fact that policyholders will have access to the information through other channels, such as those listed in section 8.4, I believe this waiver request to be reasonable. Further, I have concluded that Existing R&Q Gamma Policyholders, including policyholders of RLGIL, are not materially adversely affected by the Proposed Transfer, so I believe it is reasonable not to contact these policyholders for the above reasons.

Policyholders for whom there is no viable address

R&Q Gamma is seeking a waiver from sending notices to Existing R&Q Gamma Policyholders for whom there is no viable address held by R&Q Gamma. The rationale is as follows:

- R&Q Gamma are seeking this waiver as it is not possible or practical to notify such policyholders (impossibility and practicality).
- R&Q Gamma's view is that the costs involved in attempting to identify contact details for such policyholders is disproportionate to the impact of the Proposed Transfer on these policyholders (proportionality and impact).
- R&Q Gamma's view is that such policyholders will have access to the information from the wider communications, including the notices to be placed in newspapers and R&Q's website, and so will have the opportunity to be made aware of the Proposed Transfer without direct notification (availability of other information channels).

I have reviewed this information and am satisfied that it is reasonable request for waiver.

8.4. Planned notices

UKC and R&Q Gamma will comply with the regulation and place notice of the Proposed Transfer in:

- the London Gazette, the Edinburgh Gazette, the Belfast Gazette;
- TradeWinds and Lloyd's List; and
- two national newspapers in the UK (The Financial Times and The Daily Mail).

TradeWinds and Lloyd's List have been chosen as they are global maritime industry publications which are widely read throughout the industry. UKC and R&Q Gamma consider that these are more likely to come to the attention of policyholders than national newspapers. I am satisfied with the proposal for planned notices.

8.5. Translation of key documents

All publication notices and major documents (including this report) will be provided in English and there are no plans to translate any documents into other languages.

Should any translations be required, the documents will be translated by UKC and R&Q Gamma and I would rely on UKC and R&Q Gamma to ensure that the translations into each language are accurate.

8.6. Clarity of communication

I have reviewed a draft of the proposed letters to be provided to policyholders explaining the background to the Proposed Transfer and the transfer process. I have additionally reviewed the notices to be provided to be published.

I am satisfied the communication to policyholders regarding the Proposed Transfer is clear, fair and not misleading.

8.7. Overall conclusion: Policyholder communications

Based on my review of the communication strategy, I have concluded the planned communications strategy will ensure adequate coverage of affected parties.

UKC and R&Q Gamma are applying for a number of dispensations from communicating to some affected parties, each of which is supported by appropriate rationale.

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

9. Customer service and other considerations

9.1. Customer service

I have reviewed the customer service arrangements of UKC and R&Q Gamma and concluded that there will be no material changes to policyholder administration and claims handling, ie the policyholder experience, in respect of:

- Non-transferring Policyholders;
- Transferring Policyholders; and
- Existing R&Q Gamma Policyholders.

RQCS have been performing all claims handling for the current UKC OD liabilities since March 2020 and will continue to do so following the Proposed Transfer. As part of the agreement between UKC and R&Q Gamma, UKC's main claims handler for the OD liabilities moved across to RQCS. This arrangement provides policyholders with continuity of service in respect of claims handling.

On the Effective Date of the Proposed Transfer, the services agreement between UKC and RQCS will terminate in respect of the Transferring business. A master services agreement is already in place between R&Q Gamma and RQCS which will form the basis of the arrangements following the Proposed Transfer. The main changes as a result of the Proposed Transfer are:

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

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

Although the cover provided by UKC is "liability for ships", there are components of the cover that are similar to employers' liability insurance. To ensure that all potential Claimants, such as crew members who have suffered a personal injury, are able to easily access information to make a claim, UKC publishes an employers' liability register in line with FCA rules. UKC's register contains details of vessels for which relevant claims have been notified since 20 February 2011. The register is designed to help crew members of insured vessels identify the insurer who provided the cover so that they can pursue a claim. In particular, it aims to assist ex-employees whose employers no longer exist or cannot be located. UKC was granted a waiver from the FCA that amends the requirements slightly, including that the list of vessels, rather than the list of employers, is published.

Following the Proposed Transfer, R&Q Gamma intends to take steps to ensure that the register is maintained and that there is no additional barrier to a claimant being able to identify R&Q Gamma as the insurer. I understand that R&Q Gamma intends to apply for the same waiver as granted to UKC and that R&Q Gamma will maintain a separate register on the R&Q website.

In the event that a policyholder presents an OD claim to UKC, I am satisfied that there are processes in place to ensure claimants are directed to R&Q Gamma as the insurer. I am not aware of any reasons why their experience in reporting a claim would be materially more difficult following the Proposed Transfer.

On this basis, I am satisfied that potential future claimants will not be materially adversely affected. However, I note that the proposal for R&Q Gamma's register is not yet finalised and so I will consider this further in my Supplementary Report.

9.2. Splitting of policies

The Proposed Transfer involves splitting the affected policies between UKC and R&Q Gamma, with the OD liabilities transferring to R&Q Gamma and non-OD liabilities remaining with UKC. I have considered the impact of this splitting of policies and concluded that Transferring Policyholders are not materially adversely affected by this aspect of the Proposed Transfer. My reasoning is as follows:

- Based on the legal advice I have reviewed, it is legally possible to split policies. There will be no change to the policyholder benefits following a split. This includes the policy limit and the level of deductible, which will not be split across policies.
- Given the specialised nature of OD liabilities, it is possible and often more appropriate to have separate processes for these liabilities even within the same insurer. This is the case currently for UKC, where the reserving process for OD liabilities is performed separately to non-OD liabilities. Further, although claims currently remain the ultimate responsibility of UKC, the servicing of the OD claims is currently undertaken on an outsourced basis by RQCS. This demonstrates that practically it is possible to split the liabilities.
- There is standard protocol in place for dealing with claims from seafarers that worked on multiple vessels and/or on vessels that were insured by different insurers during the years the claimant was on board. Based on this, the process of splitting claims is well established and adding R&Q Gamma should not add undue complexity to any claims which span the 20 February 2001 cut-off date. RQCS has significant experience in handling OD claims and is familiar with these types of liabilities and the P&I club environment as well as having direct experience of the allocation process referred to above.

I am therefore satisfied that Transferring Policyholders are not materially adversely affected in respect of the splitting of policies between UKC and R&Q Gamma.

9.3. Tax implications

UKC and R&Q Gamma have both informed me that they do not anticipate any material tax implications as a result of the Scheme. Although not an expert in matters of taxation, I consider it to be a reasonable assumption that there will not be any material tax implications for any group of policyholders as a result of the Proposed Transfer.

9.4. Pension arrangements

Neither UKC nor R&Q Gamma are sponsors of any defined benefit pension schemes.

Therefore, I do not consider there to be any pension arrangements that would materially adversely affect any group of policyholders as a result of the Proposed Transfer.

9.5. Investment management implications

UKC investment management

As per UKC's investment risk appetite, UKC's financial assets must be held as cash and other money market instruments, government bonds, corporate bonds or other fixed income securities. There are various limits around this, including that investments must have a credit rating of A or greater with a maximum of 50% of assets held in corporate bonds. As at August 2020, 60% of UKC's assets were held in government bonds and 40% in money market instruments. UKC has confirmed that there is no planned change to its investment strategy following the Proposed Transfer.

UKC's investment management is outsourced to specialists outside UKC. This will continue to be the case following the Proposed Transfer.

There are no planned changes to UKC's investment risk appetite and the Transferring Business represents a relatively small proportion of UKC's overall portfolio (9% of GAAP technical provisions as at the Effective Date).

R&Q Gamma investment management

R&Q Gamma's investment strategy is reviewed on a quarterly basis by the board. R&Q Gamma's investment risk appetite requires that the total of net insurance claims reserves and 125% of its SCR are covered by investment grade fixed income securities (defined as investments with a credit rating of BBB or greater) and cash. This risk appetite will continue to be adhered to following the Proposed Transfer.

The minimum credit rating for most of the assets held is therefore slightly lower in R&Q Gamma than for UKC. However, BBB rated securities are still considered "investment grade" and have a very low probability of default. I am therefore satisfied that Transferring Policyholders are not materially adversely affected in terms of investment management as a result of the Proposed Transfer.

Investment management is outsourced to specialists outside R&Q Gamma. The same investment management company will continue to be used following the Proposed Transfer.

Given there are no planned changes to R&Q Gamma's investment risk appetite or management, I am satisfied that Existing R&Q Gamma Policyholders are not materially adversely affected in terms of investment management as a result of the Proposed Transfer.

9.6. Implications for ongoing expense levels

All costs and expenses incurred relating to the Proposed Transfer will be borne by UKC and R&Q Gamma and will not be borne by policyholders. One-off costs associated with the Proposed Transfer are expected to be modest relative to the size of the transferring business and existing portfolios of UKC and R&Q Gamma.

Therefore, there are no impacts for any group of policyholders as a result of any changes to ongoing expense levels.

9.7. Impact on liquidity position

The liquidity position of a company represents its ability to meet all claim payments and other obligations as and when they fall due.

UKC maintains a large proportion of its assets in highly liquid asset classes, including cash, government bonds and corporate bonds. As such, UKC does not expect any material cashflow risk. As UKC writes new business, liquidity is also available from premium income.

R&Q Gamma monitors liquidity risk as part of its ORSA process to ensure that sufficient funds are available to settle claims and expenses as they fall due. R&Q Gamma invests mainly in government bonds and corporate bonds which are normally readily convertible into cash. R&Q Gamma can also recall funds from the R&Q Group to cover any short-term deficit.

Following the Proposed Transfer, R&Q Gamma's financial assets will increase by £74m as a result of the assets received from UKC under the terms of the Proposed Transfer, as well as a £25m capital contribution from the R&Q Group. These assets will continue to be held in highly liquid asset classes, so R&Q Gamma does not expect any material cashflow risk.

Therefore, I do not anticipate any materially adverse impacts on the liquidity position for any group of policyholders as a consequence of the Proposed Transfer.

9.8. Impact of other transfers

I am not aware of any other future transfers into or out of either UKC or R&Q Gamma that will affect any of the transferring policyholders or the remaining policyholders of UKC or the existing policyholders in R&Q Gamma.

Any future transfers would need to go through a separate approval process to ensure that policyholders would not be materially adversely affected.

9.9. Set-off

I have considered whether the Proposed Transfer is likely to lead to any changes in the rights of set-off for creditors or debtors of UKC or R&Q Gamma. "Set-off" is a right that allows parties to cancel or offset mutual debts with each other by subtracting one from the other and paying only the balance.

UKC and R&Q Gamma have confirmed that there are no changes in set-off rights as a result of the Proposed Transfer. I have also not identified any material set-off rights as part of my review.

Therefore, considerations around set-off do not impact my conclusions.

9.10. Overall conclusion: Customer service and other considerations

Based on the work and rationale described above, I have concluded that no material impact on service standards (or any other considerations within this section of the report) is expected following the Proposed Transfer.

10. Conclusions and Statement of Truth

10.1. Conclusion

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

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

I have concluded that:

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

10.2. Issues to highlight

I consider it necessary that I review the most recent information, up to the date of the Sanctions Hearing for the Proposed Transfer, when this becomes available later in the year, before confirming my opinion and conclusions.

Specific issues that I have highlighted in this report which require further review include:

- Considering the latest position on COVID-19.
- The AWP's upcoming paper setting out the full details of their updated market estimates for asbestos liabilities, including details of the change in basis compared to the 2009 projections. I will also consider performing additional reserve stresses based on any relevant potential future scenarios outlined by the AWP.
- UKC's estimate of the reserves for the OD liabilities based on the 2020 AWP projections.
- Any findings from the audits of UKC's 20 February 2021 accounts.
- Any policyholder objections received.
- An update on R&Q Gamma's Capital Management Plan, which is due for Board approval in June 2021.
- Confirmation of the amount of capital contribution from the R&Q Group to R&Q Gamma.
- Final confirmation of the reinsurance arrangement between R&Q Gamma and AIEL, including the full contract details for the new ADC and the exact attachment point and limit.
- Confirmation of R&Q Gamma's approach to maintaining an employers' liability register.

I will consider these points further as part of my Supplementary Report.

10.3. IE duty and declaration

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

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

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

Charl Cronje FIA
Partner

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.

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 ("Our Clients").

This work is only appropriate for the purposes described and should not be used for anything else. It is subject to any stated limitations (eg regarding accuracy or completeness). Unless otherwise stated, it is confidential and is for your sole use. You may not provide this work, in whole or in part, to anyone else without first obtaining our permission in writing. We accept no liability to anyone who is not Our Client.

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About Lane Clark & Peacock LLP

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The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. Locations in London, Winchester, Ireland, and - operating under licence - the Netherlands.

https://www.lcp.uk.com/emails-important-information contains important information about this communication from LCP, including limitations as to its use.

Appendix 1 – Glossary

Term	Definition
Adverse development cover (ADC) reinsurance	A reinsurance contract in which the reinsurer covers losses for a book of business above a certain amount and up to an agreed limit. For example, in the case of the Proposed Transfer, R&Q Gamma is transferring underwriting (insurance) risk to AIEL using an ADC reinsurance arrangement.
Asbestos Working Party (AWP)	An actuarial working party in the UK that has performed extensive work based on UK market data to estimate the total claims cost of UK asbestos-related claims
Best estimate	An estimate prepared with no margin for either prudence or optimism.
Bornhuetter-Ferguson (BF) method	A blend of development factor modelling and the Expected Loss Ratio Method (defined later in this glossary). The weighting given to each is dependent on how developed the claims are for a policy year.
Cede	When a company reinsures its liability with another. The insurance company that purchases reinsurance is the "ceding company" that "cedes" business to the reinsurer.
Counterparty default risk	The risk of defaults or downgrades by counterparties that either owe an insurer money or hold money on its behalf. For example, this covers the risk of the failure of a reinsurer or a broker.
Development Factor Modelling (DFM)	An actuarial method for estimating future claims development using assumptions based on past patterns of claims development. “Development” could mean the reporting of claims, payment of claims or the progression of case reserves.
Effective Date	The date when the Proposed Transfer is expected to occur, which will be shortly after the Sanctions Hearing which is scheduled for 1 December 2021.
Events not in data (ENIDs)	An estimate of possible future events or developments that are not reflected in the insurer’s historical data. Insurers need to make allowance for ENIDs in their Solvency II technical provisions.
Existing R&Q Gamma Policyholders	Policyholders of R&Q Gamma at the time of the Proposed Transfer, who will remain with R&Q Gamma after the Proposed Transfer.
Expected Loss Ratio method	An actuarial method for estimating future claims development based on combining an exposure measure and an assumed rate per unit of exposure (the “initial expected loss ratio”).
Financial Conduct Authority (FCA)	The UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Financial Ombudsman Service (FOS)	Set up by the UK Parliament, the FOS is a free service that settles complaints between consumers and business that provide financial services. Parliament set up the FOS and has legal powers in the UK to address unresolved complaints between a business and a customer relating to financial services.
Financial Reporting Council (FRC)	The body responsible for setting actuarial standards in the UK. The FRC also regulates auditors and accountants and sets the UK’s Corporate Governance and Stewardship Codes.
Financial Services and Markets Act 2000 (FSMA)	The legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
Financial Services Compensation Scheme (FSCS)	The FSCS is the compensation fund of last resort for customers of UK authorised financial services firms. This covers insurance for individuals and some insurance for small businesses.

Term	Definition
Generally accepted accounting principles (GAAP)	A collection of commonly-followed accounting rules and standards for financial reporting. GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.
High Court	The High Court of Justice of England and Wales.
Incurred but not enough reported (IBNER)	See definition of IBNR.
Incurred but not reported (IBNR)	The provision for claims that may be reported in the future but relate to events that have already occurred. This also includes provision for possible future development of existing open claims, ie those that have been reported but not fully settled. The provision possible development of open claims is called IBNER (Incurred But Not Enough Reported). Depending on the type of insurance being considered and the claims handling approach, both the IBNR and IBNER can be either positive or negative.
Independent Expert	A suitably qualified person appointed by the Court to produce an independent report on an insurance business transfer scheme, in accordance with the FSMA. The Independent Expert's primary duty lies with the Court, and the opinion of the expert is independent of those of the sponsoring companies involved in the Transfer and the PRA.
Market risk	The risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this covers the risk of falls in the value of assets that are being held to make future claims payments.
MCR coverage ratio	The MCR coverage ratio is the ratio of own funds to Required Capital (MCR). This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer.
Minimum Capital Requirement (MCR)	A formulaic calculation of the capital requirement as part of the European Solvency II regulations for insurers. Breaching the MCR defines the point of intensive regulatory intervention. The calibration of the MCR is to be the capital required to give an 85% confidence level of sufficient capital to last one year. The MCR is a simpler calculation than the SCR and is typically a less onerous requirement.
Non-transferring Policyholders	UKC policyholders who will have no part of their policy transferred and will remain with UKC after the Proposed Transfer.
Occupational disease	A disease contracted primarily as a result of an exposure to risk factors arising from work activity. For example, exposure to asbestos is associated with a number of diseases, including mesothelioma, asbestosis, pleural thickening and various cancers.
Operational risk	The risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would cover the risk of fraud or IT failure.
Own funds	The capital in excess of provisions available to meet the SCR capital requirements under Solvency II.
PRA's Statement of Policy	The Statement of Policy issued by the PRA entitled "Statement of Policy – The PRA's approach to insurance business transfers – April 2015"
Proposed Transfer	The proposed insurance business transfer from UKC to R&Q Gamma under Section 105 of the FSMA.
Prudential Regulation Authority (PRA)	The part of the Bank of England that carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.

Term	Definition
Quota share reinsurance	A reinsurance contract in which the insurer and reinsurer share both claims and premiums in the same proportion. The reinsurer usually pays a commission to the insurer to allow for their costs of selling and administering the policy.
Reinsurance	An arrangement with another insurer to share or pass on risks. For example, in the case of the Proposed Transfer, R&Q Gamma is transferring underwriting (insurance) risk to AIEL using an ADC reinsurance arrangement.
Reinsurance bad debt	Reinsurance bad debt is a provision for amounts that are owed by reinsurers but which may not be paid, eg due to the insolvency of the reinsurer.
Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (ie the SCR).
Scheme Document	A document submitted to the High Court setting out details of the Scheme or Proposed Transfer.
Scheme Report	This report prepared by me, as the Independent Expert, for submission to the High Court.
SCR coverage ratio	The ratio of an insurer's available capital to its Required Capital (SCR). This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer (all else being equal).
Solvency Capital Requirement (SCR)	The amount of capital an insurer is required to hold under Solvency II regulations. This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie, a 1 in 200 event). If an insurer's capital (ie the excess of its assets over its liabilities) falls below the SCR, it will trigger regulatory intervention, with the intention of remedying that position.
Solvency Financial Condition Report (SFCR)	Solvency II requires each insurer to publish an SFCR annually that contains certain qualitative and quantitative information.
Solvency II	The system for establishing (among other things) minimum capital requirements for EEA insurers under the Solvency II Directive 2009/138/EC.
Standard formula	A prescribed approach under Solvency II for the calculation of capital based on an insurer's financial information (eg premiums and claims provisions).
TAS 100	The FRC issued Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) which applies to all actuarial work produced after 1 July 2017.
TAS 200	The FRC issued Technical Actuarial Standard 200: Insurance (TAS 200) which applies to all actuarial work produced after 1 July 2017.
Technical provisions	Under Solvency II, the technical provisions cover the ultimate costs of settling all claims arising from events occurring up to the balance sheet date plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
Tier 1 capital	Under Solvency II, capital is categorised into 3 tiers based on the permanence and loss absorbency of the form of capital. Tier 1 capital is the highest quality.
Transferee	The insurer to which the business is being transferred, R&Q Gamma Company Limited (R&Q Gamma).
Transferor	The insurer from which the business is being transferred, The United Kingdom Mutual Steam Ship Assurance Associated Limited (UKC).
Transferring Policyholders	UKC policyholders whose policies will be split between UKC and R&Q Gamma as a result of the Proposed Transfer.
Underwriting risk	The risk that the value of insurance claims proves to be higher than expected.

Term	Definition
Unearned Premium Reserve (UPR)	A provision for the unexpired portion of insurance policies. This appears as a liability on the insurer's balance sheet, since the premium would be paid back upon cancellation of the policy.

Appendix 2 – Extract from Terms of Reference

Summary of agreed scope of work

I, Charl Cronje will act as IE to support your planned Part VII transfer from The United Kingdom Mutual Steam Ship Assurance Associated Limited (UKC) to R&Q Gamma Company Limited (R&Q Gamma).

Your primary requirement is for the IE to act in line with Section 109 of the Financial Services Markets Act 2000.

The key deliverables from the work will be:

- The main and supplementary IE reports;
- Input as required to address any issues arising;
- Presenting my findings as IE to the Court and responding to any queries and additional court requests; and
- A summary report to support policyholder communications.

Appendix 3 – CV of Charl Cronje FIA

Fellow of the Institute and Faculty of Actuaries (qualified 2000) and Fellow of the Society of Actuaries in Ireland. Holder of Lloyd's Syndicate Actuary practising certificate. Holder of Chief Actuary (non-Life with Lloyd's) practising certificate.

Part VII and Section 13 transfers

- Independent Expert for three Part VII transfers in recent years.
- Peer reviewer on a number of other Part VII transfers.

Chief actuary appointments

Appointed Chief Actuary (SIMF20) on an outsourced basis for two insurers, providing formal opinions on technical provisions, underwriting policy and reinsurance and contributing to risk management.

Reserving

- Provides independent reserving review for a number of insurance companies, as well as public sector bodies with insurance liabilities. Experience covers all major classes of business. Significant expertise in reserving EL/PL business including asbestos and other industrial disease claims.
- Acted as signing actuary on eight Lloyd's syndicates and as peer reviewer on a number of others.
- Significant experience communicating with boards including presenting results, providing board training, assisting with presentations to regulators, reinsurers and capital providers and designing reserving governance structures.

Risk and capital

- Independent validation of internal models for more than twenty firms.
- Has developed innovative methodologies for "top-down" model validation.
- Closely involved in building two Solvency II internal models from scratch.
- Significant experience writing and reviewing model documentation, risk management policies and processes and ORSA documentation.
- Performing and reviewing standard formula capital calculations.

Appendix 4 – Summary of data provided

The following is a list of the key data items I have requested and received in assessing the Proposed Transfer. All data I have requested has been provided to me. Each of UKC and R&Q Gamma has provided a data accuracy statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

- Draft High Court and regulatory documents prepared by UKC and R&Q Gamma for the Proposed Transfer, including:
  - Scheme Document (dated July 2021)
  - UKC First Witness Statement (dated July 2021)
  - R&Q Gamma First Witness Statement (dated July 2021)
- Draft proposed communication plan and communications prepared by UKC and R&Q Gamma:
  - Proposed communication plan (dated July 2021)
  - Template letters to the Transferring Policyholders and other stakeholders
  - Explanatory Circular of the Proposed Transfer
- Documents relating to provisions and reserving processes, including:
  - UKC actuarial reserving report (as at 20 February 2020)
  - UKC occupational disease reserving report (as at 20 February 2020)
  - UKC Actuarial Function Report (dated October 2020)
  - UKC Reserving Policy (dated January 2020)
  - External actuarial reserving report on the occupational disease liabilities, performed on behalf of R&Q Gamma (as at 31 December 2020)
  - R&Q Gamma's reserves for the occupational disease liabilities, including details of the methodology and assumptions (as at 31 December 2020)
  - R&Q Gamma reserving report for the existing business (as at 30 September 2020)
  - R&Q Gamma Actuarial Function Report (as at 31 March 2020)
  - Various reserving scenarios for R&Q Gamma post-transfer
- Documents relating to capital and related processes, including:
  - UKC Solvency and Financial Condition Report (SFCR) (as at 20 February 2020)
  - UKC Own Risk and Solvency Assessment (ORSA) report (dated November 2020)
  - UKC appropriateness of SCR report (as at February 2020)
  - UKC validation report (as at February 2020)
  - R&Q Gamma Solvency and Financial Condition Report (SFCR) as at 31 December 2019)
  - R&Q Gamma Own Risk and Solvency Assessment (ORSA) report (dated July 2020)
  - R&Q Gamma Solvency Capital Requirement (SCR) report (dated July 2020)
  - R&Q Gamma Capital Management Plan (dated June 2020)
  - Various capital scenarios for R&Q Gamma post-transfer
  - Various scenarios for AIEL, including scenarios in respect of the Transferring Business and sensitivities relating to AIEL's other liabilities.
- Other evidence prepared by UKC and R&Q Gamma to support the Proposed Transfer, including:
  - Projections of future balance sheets and capital requirements at the point of the proposed transfer for UKC and R&Q Gamma

    - Projections of future balance sheets and capital requirements up to 31 December 2024 for R&Q Gamma
    - Legal opinion on the splitting of the policies between UKC and R&Q Gamma
    - Legal opinion on the recognition of the Scheme in the United States

- Data accuracy statement
    - UKC and R&Q Gamma have provided a data accuracy statement confirming that the data provided to me regarding the Proposed Transfer are accurate and complete.
    - UKC and R&Q Gamma have read this IE Scheme Report and each has confirmed that it is correct in terms of all factual elements of the Proposed Transfer.

Appendix 5 – Breakdown of UKC policyholders by country – 1998 & post

The table below shows a breakdown by country of all UKC policyholders who have held a policy since 1998. These figures therefore exclude policyholders who only held a policy with UKC prior to 1998, but provides an illustration of the breakdown of policyholders by country.

For the purposes of these figures, the following definitions apply:

- An owner of 15 vessels is counted as one unique policyholder (not 15).
- An owner that uses operating companies in two different countries each owning 10 vessels is counted as two policyholders and not 20.
- The location is based on the correspondence address of the policyholder.

Country	Transferring Policyholders	Non-Transferring Policyholders	Total Policyholders	Percentage of Total
Greece	88	99	187	15%
United States of America	63	76	139	11%
United Kingdom	58	54	112	9%
Japan	39	42	81	7%
Singapore	28	41	69	6%
China	25	27	52	4%
Turkey	31	16	47	4%
Germany	23	23	46	4%
Republic of Korea	26	12	38	3%
Hong Kong	13	16	29	2%
Switzerland	16	11	27	2%
Canada	4	17	21	2%
France	8	9	17	1%
The Netherlands	7	10	17	1%
Cyprus	6	8	14	1%
Italy	7	7	14	1%
Malaysia	11	3	14	1%
Russia	9	5	14	1%
Taiwan	8	6	14	1%
United Arab Emirates	9	5	14	1%
Unknown	8	6	14	1%
Australia	5	7	12	1%
Monaco	6	6	12	1%
Norway	2	9	11	1%
Brazil	5	4	9	1%
South Africa	7	2	9	1%
India	5	3	8	1%
Ukraine	7	1	8	1%

Country	Transferring Policyholders	Non-Transferring Policyholders	Total Policyholders	Percentage of Total
Venezuela	8	0	8	1%
Argentina	7	0	7	1%
Bermuda	2	5	7	1%
Indonesia	5	1	6	0%
Saudi Arabia	2	4	6	0%
Belgium	1	4	5	0%
Croatia	4	1	5	0%
Finland	4	1	5	0%
Mexico	5	0	5	0%
Qatar	1	4	5	0%
Sweden	3	2	5	0%
Denmark	1	3	4	0%
Latvia	3	1	4	0%
Liberia	1	3	4	0%
Marshall Islands	0	4	4	0%
New Zealand	3	1	4	0%
Spain	1	3	4	0%
Thailand	3	1	4	0%
British Virgin Islands	0	3	3	0%
Chile	2	1	3	0%
Egypt	3	0	3	0%
Israel	2	1	3	0%
Kuwait	2	1	3	0%
Nigeria	0	3	3	0%
Oman	0	3	3	0%
Romania	3	0	3	0%
Brunei Darussalam	1	1	2	0%
Iran	1	1	2	0%
Ireland	0	2	2	0%
Isle of Man	0	2	2	0%
Lithuania	2	0	2	0%
Luxembourg	1	1	2	0%
Malta	0	2	2	0%
Peru	2	0	2	0%
Philippines	0	2	2	0%
Puerto Rico	1	1	2	0%
Slovenia	1	1	2	0%
Algeria	1	0	1	0%

Country	Transferring Policyholders	Non-Transferring Policyholders	Total Policyholders	Percentage of Total
Angola	1	0	1	0%
Azerbaijan	1	0	1	0%
Bahamas	0	1	1	0%
Bangladesh	1	0	1	0%
Barbados	1	0	1	0%
Cayman Islands	1	0	1	0%
Colombia	0	1	1	0%
Costa Rica	0	1	1	0%
Curaçao	1	0	1	0%
Ecuador	1	0	1	0%
Georgia	1	0	1	0%
Gibraltar	1	0	1	0%
Libya	0	1	1	0%
Madagascar	1	0	1	0%
Mauritius	0	1	1	0%
Netherlands Antilles	0	1	1	0%
Pakistan	1	0	1	0%
Poland	0	1	1	0%
Senegal	1	0	1	0%
Syrian Arab Republic	1	0	1	0%
Tanzania	1	0	1	0%
Trinidad & Tobago	0	1	1	0%
Tunisia	1	0	1	0%
Republic of Panama	0	1	1	0%
Total	**615**	**597**	**1,212**	**100%**

Appendix 6 – Mapping to requirements

The table below shows the relevant section references in the Scheme Report where I have addressed each point in the guidance from Chapter 18 of the Supervision Manual of the FCA Handbook and the PRA's "Statement of Policy – The PRA's approach to insurance business transfers – April 2015" with regards to the Scheme Report.

The guidance references for "PRA x.x" are taken from the PRA Statement of Policy and "FCA x.x" are taken from Chapter 18 of the Supervision Manual.

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (1) FCA 18.2.33 (1)	Who appointed the independent expert and who is bearing the costs of that appointment	2.2 (page 13)
PRA 2.30 (2) FCA 18.2.33 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator (the PRA)	2.2 (page 13)
PRA 2.30 (3) FCA 18.2.33 (3)	A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role	2.2 (page 13) Appendix 3
PRA 2.30 (4) FCA 18.2.33 (4)	Whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest	2.2 (page 13)
PRA 2.30 (5) FCA 18.2.33 (5)	The scope of the report	2.3 (page 14)
PRA 2.30 (6) FCA 18.2.33 (6)	The purpose of the scheme	3.3 (page 22)
PRA 2.30 (7) FCA 18.2.33 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	3 (page 17)
PRA 2.30 (8) FCA 18.2.33 (8)	What documents, reports and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided	Appendix 4
PRA 2.30 (9) FCA 18.2.33 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others	2.5 (page 15)
PRA 2.30 (10) FCA 18.2.33 (10)	The people the independent expert has relied on and why, in their opinion, such reliance is reasonable.	2.5 (page 15)
PRA 2.30 (11) FCA 18.2.33 (11)	Their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) Transferring Policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee	1.3 (page 7) 10 (page 63)
PRA 2.30 (12) FCA 18.2.33 (11A)	Their opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme.	1.3 (page 7) 10 (page 63)

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (13) FCA 18.2.33 (12)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme.	10 (page 63)
PRA 2.30 (14) FCA 18.2.33 (13)	For each opinion that the independent expert expresses in the report, an outline of their reasons	Reserving: 5.11 (page 34) Capital: 6.12 (page 48) Policyholder security: 7.10 (page 55) Policyholder communications: 8.7 (page 59) Customer service and other considerations: 9.10 (page 62)
PRA 2.32 (1) FCA 18.2.35 (1)	A description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme	3.2 (page 18)
PRA 2.32 (2) FCA 18.2.35 (2)	A description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	3.2 (page 18)
PRA 2.33 (1) FCA 18.2.36 (1)	Include a comparison of the likely effects if it is or is not implemented	3.5 (page 23)
PRA 2.33 (2) FCA 18.2.36 (2)	State whether they considered alternative arrangements and, if so, what	3.4 (page 23)
PRA 2.33 (3) FCA 18.2.36 (3)	Where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences they consider may be material to the policyholders	1.3 (page 7)
PRA 2.33 (4) FCA 18.2.36 (4)	Include their views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; (b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and (c) the cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations	(a) 1.3 (page 7) (b) and (c) 9 (page 60)

Guidance reference	Guidance	Scheme report reference
PRA 2.35 (1) FCA 18.2.38 (1)	Describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders.	7.5 (page 52)
PRA 2.35 (2) FCA 18.2.38 (2)	State whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights.	7.5 (page 52)
PRA 2.35 (3) FCA 18.2.38 (3)	Comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	7.5 (page 52)

The Proposed Transfer does not involve any long-term insurance business. As such, PRA 2.36 (FCA 18.2.39) does not apply.

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

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