

**Transfer of business from
Scottish Boatowners Mutual
Insurance Association to TT
Club Mutual Insurance Limited**

Scheme Report of the Independent
Expert under Part VII Section 109 of the
Financial Services and Markets Act
2000

11 March 2019

Use of this report

This report has been prepared for, and is addressed to, the High Court of England and Wales for the purpose of the terms agreed in the letter between Ernst & Young LLP and TT Club Mutual Insurance Limited, dated 10 April 2018. This report has been prepared to describe the transfer of insurance business from Scottish Boatowners Mutual Insurance Association to TT Club Mutual Insurance Limited, which will be effected under Section 109 of the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012 (together the 'FSMA').

A copy of this report will be made available to competent regulatory authorities, the High Court of England and Wales, policyholders, and any other person entitled to receive a copy under the FSMA, including the trustees of the pension scheme of SBO.

I assume no responsibility whatsoever in respect of, or arising out of or in connection with the contents of this report to parties other than those mentioned above. If other parties choose to rely in any way on the content of this report then they do so entirely at their own risk. This report has been prepared solely for the purposes of the FSMA requirements for insurance business transfer schemes and should not be relied upon for any other purposes by any party.

Draft versions of this report and any other interim working papers must not be relied on by any person for any purpose.

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

The responsibilities of Ernst & Young LLP shall also be limited as stated above.

Signatory



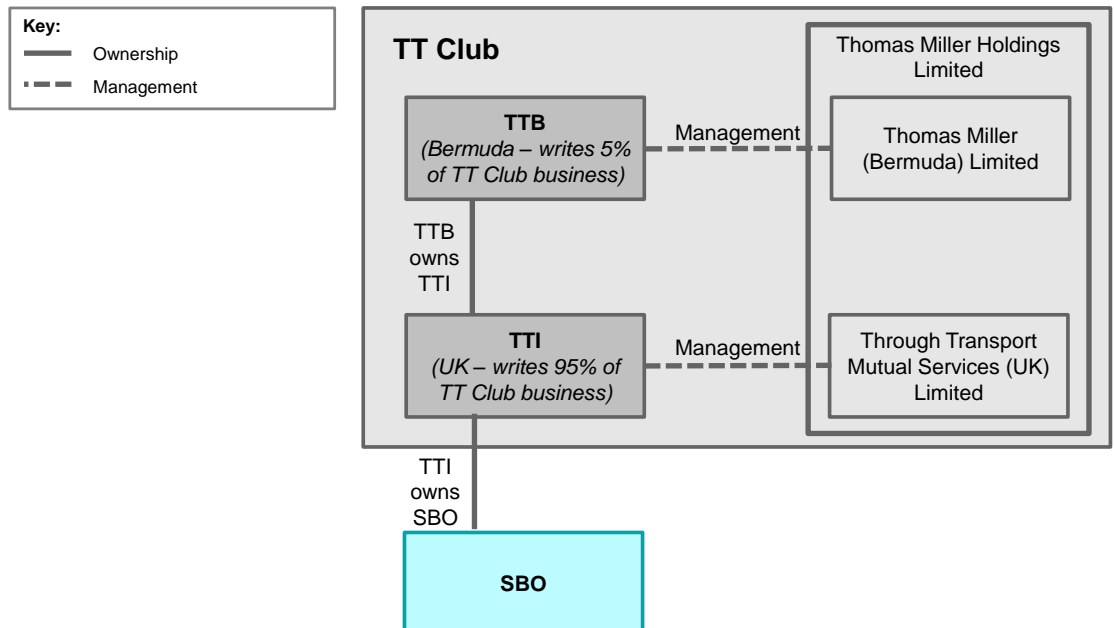
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Company abbreviations and relationships

Full Name	Abbr.	Description
Scottish Boatowners Mutual Insurance Association	SBO	An insurance company incorporated in Scotland as an unlimited liability company in 1919. SBO is a mutual association with the sole member being TTI; this effectively makes TTI the owner of SBO. TTI is the controller of SBO. SBO is authorised and regulated by the PRA/FCA in the UK.
Thomas Miller (Bermuda) Limited	TMB	A managing agent company, responsible for the administration and management of TTB.
Through Transport Mutual Insurance Association Limited	TTB	An insurance company incorporated in Bermuda. TTB is a mutual association, owned by its mutual policyholders. TTB is the parent undertaking of TTI. TTB is regulated by the Bermuda Monetary Authority.
Through Transport Mutual Services (UK) Limited	TTMS	A managing agent company, responsible for the administration and management of TTI and SBO.
TT Club Mutual Insurance Limited	TTI	An insurance company incorporated in England and Wales in 1991. TTI's parent undertaking is TTB. TTI is authorised and regulated by the PRA/FCA in the UK, and has permission to carry on certain classes of general insurance business.
The TT Club	TT Club	The group of companies of which TTB is the parent undertaking.
Thomas Miller Holdings Ltd	Thomas Miller & Co Ltd.	The holding company of TTMS, TMB and Thomas Miller & Co Ltd.

The diagram below shows the structure of the TT Club, including its ownership of SBO. The terms used in this diagram are defined in the Glossary in Appendix A, and within this report.

Diagram 1: The relationships between the companies involved in the proposed Transfer



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1. Introduction

Purpose of this report

- 1.1 TT Club Mutual Insurance Limited ('TTI') is proposing to transfer the policyholders of The Scottish Boatowners Mutual Insurance Association ('SBO') from SBO to TTI by means of an insurance business transfer scheme (the 'Transfer'). After the Transfer is effected, all policyholders of SBO will become policyholders of TTI. Both SBO and TTI are managed by Through Transport Mutual Services (UK) Limited ('TTMS'), which is an entity of Thomas Miller Holdings Limited ('Thomas Miller'). TTMS has supplied a Chief Executive Officer ('CEO') and Chief Finance Officer ('CFO') to SBO to perform the Senior Insurance Management Functions of SBO.
- 1.2 The Transfer will be effected under Section 109 of the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012 (together the 'FSMA'). The High Court of England and Wales (the 'Court') must approve such insurance business transfer schemes at a sanctions hearing. The FSMA requires that a scheme report must accompany any application to the Court to approve an insurance business transfer scheme. This scheme report should be produced by a suitably qualified independent person (the 'Independent Expert') who has been nominated or approved for this purpose by the Prudential Regulatory Authority ('PRA'). The scheme report should address the likely effects of the insurance business transfer on policyholders.
- 1.3 This report has been prepared for, and is addressed to the Court. The purpose of this report is to describe the transfer of insurance business from Scottish Boatowners Mutual Insurance Association to TT Club Mutual Insurance Limited, and to inform the Court and the affected policyholders of the likely effect of the Transfer. This report is not suitable for any other purpose. A copy of this report will be made available to competent regulatory authorities, the Court, policyholders, and any other person entitled to receive a copy under the FSMA, including the trustees of the pension scheme of SBO. This report has been prepared solely for the purposes of the FSMA requirements for insurance business transfer schemes and should not be relied upon for any other purposes by any party. Judgements about the conclusions drawn in this report should be made only after considering the report in its entirety as parts read in isolation may be misleading.
- 1.4 The Transfer is intended to be effected on 28 June 2019 (the 'Transfer Date'). This is after the date for the sanctions hearing of the Transfer, which is currently scheduled for 17 June 2019.
- 1.5 Insurance and reinsurance companies in the UK are authorised to carry out contracts of insurance and reinsurance by the PRA. Insurance and reinsurance companies in the UK are regulated by a combination of the PRA and the Financial Conduct Authority ('FCA'). The PRA and FCA replaced the Financial Services Authority ('FSA') as the regulator of the UK insurance industry on 1 April 2013. In this report the term PRA/FCA shall mean the combination of the PRA and the FCA carrying out their roles as the regulator of the UK insurance industry and/or the FSA carrying out its role as the regulator of the UK insurance industry prior to 1 April 2013.
- 1.6 My report considers the effect of the Transfer upon all policyholders of the companies involved in the Transfer, and any other group of policyholder which I believe could be affected, or potentially affected, by the Transfer.
- 1.7 I will consider various groups of policyholder. In particular:
 - ▶ The policyholders of SBO, all of which will become policyholders of TTI after the Transfer (the 'Transferring Policyholders').
 - ▶ The existing policyholders of TTI (the 'Receiving Policyholders').

- 1.8 My report contains a description of the Transfer, the methodology I have used to analyse the Transfer, the opinions I have formed and reasons why I have formed those opinions.
- 1.9 The use of 'I' and 'my' in this report generally refers to the work done by myself and the team operating under my direct supervision during the course of this review. However, when it is used in reference to an opinion, it is mine and mine alone.

Independent Expert appointment

- 1.10 TTI has nominated Ruth Nelmes of Ernst & Young LLP ('EY') to act as the Independent Expert for the Transfer. This nomination has been approved by the PRA/FCA. I am a Fellow of the Institute of Actuaries and a partner in the Actuarial Services practice of Ernst & Young LLP. I have more than 17 years' experience in general insurance. I have skills in all areas of general insurance actuarial work (including reserving, capital, Solvency II compliance, pricing, and transactions) and have previously worked on a number of other insurance business transfer schemes. Full details of my experience can be found in Appendix C. Ernst & Young LLP is a part of the global network of EY firms.
- 1.11 I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules and the Protocol for Instruction of Experts to give Evidence in Civil Claims. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court, I have complied with that duty and I will continue to comply 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.
- 1.12 I can confirm that I have no direct or indirect connections with SBO or TTI that I believe would affect my ability to act as the Independent Expert for the Transfer. In particular, I have never worked on any project involving SBO or TTI. I have no shareholding, investment or any other financial connection with any of the parties to the Transfer.
- 1.13 EY have performed some previous work for the parties involved in the Transfer, and related entities, although that work was all prior to 2015 and is not related to the subject of the Transfer. My assessment of the Transfer is not in any way affected by this previous work and so I do not believe that this affects my independence for this engagement. The PRA/FCA were aware of the services that EY have performed for the parties involved in the Transfer when approving my appointment as Independent Expert.
- 1.14 TTI will be bearing the costs of producing this report.

Professional guidance

- 1.15 This report complies with the applicable rules on expert evidence and with the guidance for Scheme Reports set out by the PRA in the PRA's Statement of Policy and by the FCA in SUP 18 of the FCA Handbook. This report also complies with the FCA's Finalised Guidance FG18/4.
- 1.16 This report complies with Technical Actuarial Standards TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance as issued by the Financial Reporting Council ('FRC'), which is responsible for setting UK actuarial standards.
- 1.17 The review performed on this work complies with Actuarial Profession Standard X2: Review of Actuarial Work issued by the Institute and Faculty of Actuaries.
- 1.18 The work complies with Actuarial Profession Standard X3: The Actuary as an Expert in Legal Proceedings issued by the Institute and Faculty of Actuaries.
- 1.19 I believe that this compliance has been achieved with no major deviations from the guidelines.

Scope of my work

- 1.20 The scope of my work is detailed in the extract from my terms of reference provided in Appendix C. There are no areas where the actual work performed differs from this agreed scope.
- 1.21 I am not aware of any alternative arrangements to the Transfer proposed by any party, so I have not considered it necessary to discuss alternative proposals within this report.

Use of data and reports

- 1.22 My analysis is based upon my review of the data and documentation produced by SBO, TTI and their advisors, and on discussions with representatives from those firms.
- 1.23 I have not audited nor have I independently verified the data and information supplied to me. This is because the data relies heavily on financial and internal management accounts which can only be verified by SBO and TTI themselves, or by their auditors. However, I have reviewed it for reasonableness and for internal consistency. I have also received a specific statement of data accuracy from the management of SBO and TTI.
- 1.24 I have relied on the completeness of the data provided to me. I have therefore not explicitly considered the potential for future causes of new claims that are not seen in the historical data. I consider this approach to be reasonable and in line with accepted actuarial practice.
- 1.25 A summary of the data provided to me can be found in Appendix D.
- 1.26 All monetary amounts shown in this report are shown in millions of pounds sterling. Where applicable we have converted US Dollars and Euros to Pounds Sterling at the rate of £1 GBP = \$1.42 USD = €1.15 EUR.
- 1.27 It should be noted that where I show totals in the tables, these are rounded to one decimal place throughout the Report.

Materiality

- 1.28 As Independent Expert, I have considered the effect of the Transfer on the policyholders involved, and in particular, I have considered whether any group of policyholders is adversely affected to a material extent by the Transfer. I will explain below what I mean by a “material extent”.
- 1.29 Firstly, it is important to note that an insurance business transfer can have different effects on different groups of policyholder. There may be some effects of a transfer that are positive to a particular policyholder, and some effects that are negative (i.e., adverse). If some of the effects of a transfer are adverse, this does not necessarily mean that the transfer is unfair, because the adverse effect might be insignificant or it might be outweighed by other positive effects.
- 1.30 Secondly, my conclusions are partly based on various statistical estimates of future events, and those estimates will always be subject to some uncertainty (because they are estimates of future, unknown events). I have used my professional judgement to weigh up the conclusions from those statistical estimates, bearing in mind the uncertainties involved.
- 1.31 For the purpose of this report, I consider that a matter is material if it could, either individually or collectively, influence the decision to be taken by the user of the report. Assessing this materiality requires reasonable judgement on the context of the work and the way in which it is reported. I have considered the overall effect of the Transfer on each group of policyholders, after considering the aggregate effect of all of the various issues.

Peer review process

- 1.32 In accordance with the internal control processes of EY, the work documented in this report has been peer reviewed by a suitably qualified person (an Actuary within my own firm who has acted as the Independent Expert in other insurance business transfer schemes). The peer review process has included review of the methodology used and discussion of the key elements of the analysis. The peer reviewer for this review is Alex Lee, FIA.

Layout of this report

My report is structured as follows:

- ▶ Section 1: Introduction
- ▶ Section 2: Outline of the Transfer. This section provides detail on the companies and portfolios of business involved in the Transfer. It explains the details of the operation of the Transfer
- ▶ Section 3: Conclusion. This section sets out my overall conclusion on the Transfer and my key reasons for reaching this conclusion.
- ▶ Section 4: Analysis. This provides details of the work I have carried out and the rationale for reaching my conclusion.
- ▶ Section 5: Reliances and limitations.

2. Outline of the Transfer

- 2.1 As part of the Transfer all insurance policies of SBO as at the Transfer Date will move to TTI. After the Transfer, TTI will be legally responsible for administering and paying the valid claims of the Transferring Policies. On the Transfer Date, all respective assets and liabilities of SBO, including all surplus capital (but excluding the pension scheme assets and liabilities), will transfer to TTI. The majority of the current assets of SBO are held as cash. I describe the effect of the Transfer on the balance sheets of SBO and TTI from paragraph 4.31.

Diagram 2: The Transfer



- 2.2 Although TTI will be the legal entity providing the insurance to policyholders after the Transfer, it is important to note that TTI is a part of a wider group of companies, the TT Club (which comprises TTI, and a second company, TTB). Through a series of mutual relationships, it is the TT Club which provides the cover to their policyholders (and not just TTI on a stand-alone basis).

Summary of the position after the Transfer

- 2.3 After the Transfer, all policyholders of SBO will be policyholders of TTI; there will be no policyholders remaining in SBO. At some point after the Transfer Date, SBO will make an application to be de-authorised as an insurer (i.e. SBO will make an application to cease to be authorised with permission to effect and carry out contracts of insurance) and will then be closed down following that de-authorisation.
- 2.4 The third-party reinsurers of SBO will be transferred to TTI as part of the Transfer, covering the same risks as they were covering prior to the Transfer. From the reinsurers' perspective, there will be no change to the risks that they reinsure.

TT Club Mutual Insurance Limited ('TTI')

- 2.5 TTI is an insurance company incorporated in England and Wales on 24 October 1991 as TT Club Mutual Insurance Limited. TTI's parent undertaking is TTB, an insurance company incorporated in Bermuda as Through Transport Mutual Insurance Association Limited.
- 2.6 TTI is authorised and regulated by the PRA/FCA in the UK, and has permission to carry on certain classes of general insurance business. Additionally, TTI is authorised and regulated by the Hong Kong Insurance Authority, the Monetary Authority of Singapore, and the Australian Prudential Regulation Authority with branch offices in each of these countries, and is a Surplus Lines insurer in the United States.
- 2.7 TTI and TTB (collectively the 'TT Club') operate as a single business with 95% of insurance policies issued by the TT Club written by TTI and the remainder by TTB. The TT Club is a mutual association, owned by the members of the association, who are all policyholders of the TT Club. All mutual policyholders (i.e., members) of TTI are also mutual policyholders of TTB, and vice versa. The TT Club uses all premiums and investment income to pay for claims, administration costs and building up future reserve funds. The majority of the board of directors of TTI are drawn from TT Club's members. The TT Club is managed by TTMS and TMB, both managing agent companies owned by Thomas Miller Holdings Ltd.
- 2.8 TTI writes cover for transport and logistic firms, covering liability, property damage and environmental risks relating to transport operators, ports and terminals, and cargo. It insures 80% of all maritime containers worldwide, and has insurable interests in 45% of the world's top 100 ports. TTI writes around £125m of premium per year and has £202m in booked gross claims reserves as at 31 December 2017.

- 2.9 TTI has an intra-company reinsurance arrangement with TTB, who reinsure 90% of the business written by TTI on a quota share basis.

Scottish Boatowners Mutual Insurance Association ('SBO')

- 2.10 SBO is an insurance company incorporated in Scotland in 1919 as Scottish Boatowners Mutual Insurance Association. SBO is a mutual association with the sole member being TTI; this effectively makes TTI the owner of SBO. TTI is the controller of SBO, and TTMS has supplied a CEO and CFO to SBO to perform the Senior Insurance Management Functions of SBO. TTI is authorised and regulated by the PRA/FCA in the UK.
- 2.11 SBO stopped writing new and renewal insurance business in November 2016, and all of the policies issued by SBO have now expired. The 'expiration date' of an insurance policy is the day on which the policy ends and insurance coverage for any new claim events stops. At the time of writing this report, all of the policies issued by SBO are now past the expiration date, and so there are no future time periods of additional coverage for any policy issued by SBO. SBO is still liable for settling insurance claims arising from periods of coverage prior to the expiration date of the policies. Those policies were mostly a single type, which covered marine hull, personal accident and protection & indemnity. SBO has not underwritten any other types of business aside from those mentioned above since it was established. All policyholders of SBO were owners of fishing vessels.
- 2.12 The policyholder records of SBO were computerised since the early 1990s and in that time SBO have records of 1,650 policyholders (although there will be other policyholders prior to that computerisation, dating all the way back to the formation of SBO in 1919). The majority of those 1,650 risks are located in the UK. However, approximately 150 of those policyholders are located outside the EEA, the majority of which are in Australia and New Zealand.
- 2.13 SBO has 'full' reinsurance place, meaning that there is complete reinsurance protection in place for all of SBO's insurance liabilities. This means that any claims payments made by SBO to their policyholders can be fully reclaimed by SBO as a reinsurance recovery from the SBO reinsurers. In this way the 'net of reinsurance' claim reserve of SBO is zero (i.e., for every payment made by SBO to their policyholders, there is an equal amount of reinsurance that can be collected from the reinsurers). SBO has this reinsurance placed with various third-party reinsurers.
- 2.14 Additionally, if one of those third-party reinsurers does not pay, there is an additional reinsurance contract with TTI (the 'TTI Quota Share'), such that TTI will pay the claim. This offers an additional layer of reinsurance protection for the third-party reinsurance recoveries that SBO can collect on the claim payments they make to their policyholders.

The TT Club

- 2.15 TTI and TTB operate as a single business unit with the trading name TT Club.
- 2.16 The TT Club is a mutual association, owned by the members of the association. All members of TTI are also members of TTB, and vice versa. These members are made up from policyholders of certain types of insurance policy issued by the TT Club (the 'Mutual Policyholders'). Not all policyholders of the TT Club are Mutual Policyholders; in particular, after the Transfer, the Transferring Policyholders will not be Mutual Policyholders of the TT Club. There is, in practice, very little difference to a policyholder in being a Mutual Policyholder or a 'non-mutual' policyholder: the Mutual Policyholders of the TT Club would share its surplus in case of winding up and would also have additional obligations if the club makes a large loss. However, there would be no change to the mutual status of any policyholder after the Transfer, and as stated above, the SBO policyholders would not become Mutual Policyholders (i.e., members) of the TT Club, and so would not be subject to any change in rights or obligations as a result of the Transfer.

2.17 Of the insurance policies issued by the TT Club, 95% are written by TTI and the remainder by TTB.

2.18 As a policyholder of an insurance company a policyholder should have a certain amount of security that their insurer will be able to pay a claim when required to do so. In the case of policyholders of TTI and TTB, this is effectively provided by the TT Club as a whole. Although each policyholder is either insured by TTI or by TTB, the nature of the relationship between TTI and TTB means that there is mutuality between the two companies. This is because TTI is insured by TTB (with a 90% quota share), so that most of the funds held within TTB can be used to pay claims of policyholders of TTI.

Purpose of the Transfer

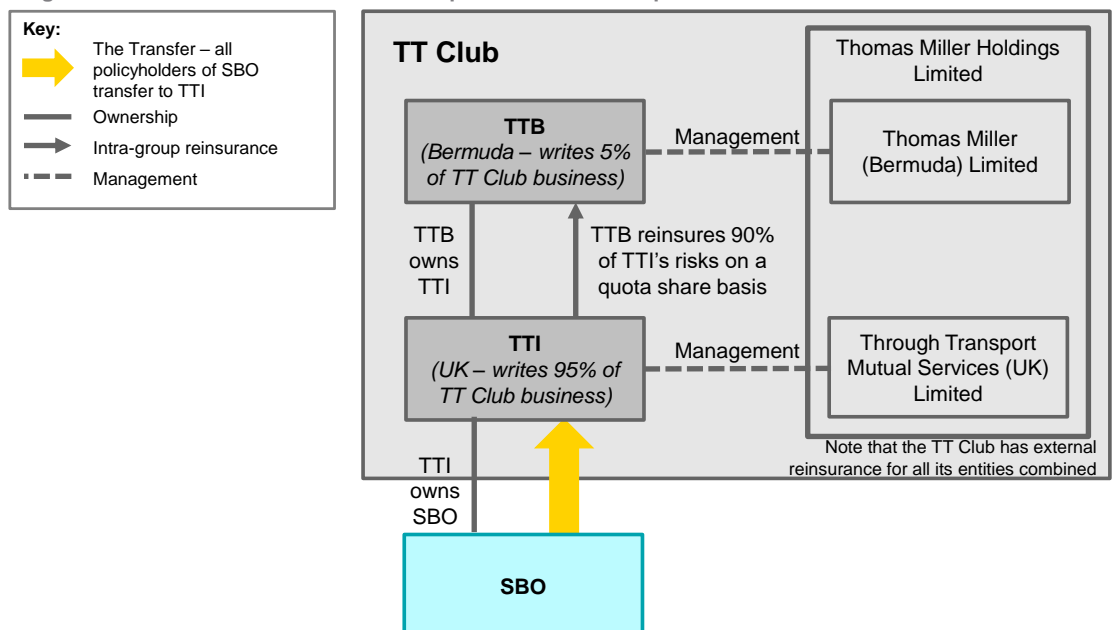
2.19 The purpose of the Transfer is to complete the run-off process of SBO.

2.20 SBO was effectively placed into run-off in November 2016 (i.e., SBO did not write any new policies from that date) and the last contract of insurance issued by SBO expired in September 2017. At that time the board of SBO agreed a plan with the PRA to effect the run-off of the remaining liabilities of SBO. This plan involved the following three steps:

- ▶ TTI wrote a quota share reinsurance of all remaining SBO insurance risks. This enabled a more favourable capital regulatory treatment of SBO (specifically that SBO need not comply with the EU's recently implemented Solvency II regime, see paragraphs 4.40 to 4.66 for details).
- ▶ TTI became the controller and a non-policyholder member of SBO on 7 September 2017. At this point TTI effectively became the owner of SBO and responsible for the run-off of SBO, including policy and claim administration.
- ▶ The Transfer (i.e., moving all policyholders of SBO to TTI). This would complete the run-off of SBO.
- ▶ At some point after the Transfer Date SBO will make an application to be de-authorised as an insurer, and will then be closed down following that de-authorisation.

2.21 The diagram below shows the Transfer, and a more complete version of the relationships between SBO, TTI and TTB.

Diagram 3: The Transfer and the relationships between the companies involved



3. Conclusion

- 3.1 I have considered the Transfer and its likely effects on the policyholders of SBO and TTI. I confirm that I understand my duty to the Court.

I conclude that the security provided to policyholders will not be materially adversely affected after the Transfer, that no group of policyholders would be adversely affected to a material extent by the Transfer, that the level of customer service provided to policyholders would be unaffected by the Transfer, and that therefore there is no reason that the Transfer should not go ahead.

- 3.2 I set out my definition of adversely affected to a “material extent” in paragraph 1.28 above.

Key reasons for reaching my conclusion

- 3.3 The key reasons for reaching my conclusions are set out below. For further details on the analysis I have undertaken and the reasons I have for reaching these conclusions, please see section 4 of this report.
- 3.4 After the Transfer all policyholders will be policyholders of TTI. I have carried out various analyses to estimate the financial strength of SBO and TTI both before and after the Transfer. These analyses then inform my opinion on the effect of the Transfer on each group of policyholder (I summarise my conclusions below in paragraph 3.6 for current policyholders of TTI and paragraph 3.8 for current policyholders of SBO). The main analyses I have carried out are:
- ▶ I have reviewed the claims reserves of SBO and TTI. The claims reserve is the amount of money that an insurance company uses to pay future claim payments to its policyholders. I have reviewed the methodology and assumptions used by TTI to estimate the claims reserve amount; based on this review I believe that TTI use general accepted methods and assumptions that are appropriate to use for these insurance liabilities. I have also used comparisons to market benchmarks from similar insurance companies to test the key assumptions used by TTI for appropriateness (see paragraphs from 4.13 for details on my review of the claims reserve). I note that the claims reserve included in the statutory accounts of TTI includes a small margin for prudence.
 - ▶ The regulatory capital requirement is one measure of the overall financial strength of an insurance firm. I have reviewed the regulatory capital position of SBO and TTI both before and after the Transfer; both companies currently meet their regulatory capital requirement. I have reviewed the calculation of the regulatory capital requirement of SBO and TTI both before and after the Transfer, and I am satisfied these calculations have been carried out in an appropriate way. Therefore, I am satisfied that TTI would continue to meet its regulatory capital requirement after the Transfer (see paragraphs from 4.40 for details on my review of the capital requirements). The capital adequacy of TTI will in fact improve, as the assets of SBO will be transferred into TTI, but there will be very little increase in risk taken by TTI.
 - ▶ I have considered other measures of the financial strength of TTI and the TT Club. The TT Club has a rating of A- (“Excellent”) from the rating agency A.M. Best; this indicates that A.M. Best has the opinion that the TT Club has an excellent ability to meet their ongoing insurance obligations.
- 3.5 The above analyses show that TTI would provide a good level of financial strength after the Transfer.

For current policyholders of TTI

- 3.6 The most important observations I would make for the effect of the Transfer on the current policyholders of TTI are:
- ▶ There would be very little change to the financial position of TTI after the Transfer because the volume of business transferring to TTI is very small compared to the current size of TTI (by claims reserve volume, TTI is 100 times larger than SBO). This means that there is no material or measurable change to the financial position of TTI after the Transfer. There are only 11 remaining open claims of SBO that would transfer from SBO to TTI.
 - ▶ The insurance risk of SBO is already included within TTI prior to the Transfer because TTI provides full reinsurance to SBO via the TTI Quota Share. Therefore, there is no additional insurance risk included in TTI after the Transfer.
 - ▶ The mix of assets held by TTI will not materially change after the Transfer as the volume of assets transferring from SBO is very small compared to the current asset portfolio of TTI (after the Transfer, the assets that historically belonged to SBO will make up around 3% of TTI's asset portfolio).
 - ▶ Indeed, there may be a small benefit to the financial position of TTI, because additional capital will be added to TTI as part of the Transfer.
 - ▶ TTI currently meets its regulatory capital requirement, and would continue to do so, by a similar margin, after the Transfer. This is because TTI already bears the majority of the risk associated with the SBO portfolio, due to the TTI Quota Share. There would not be any material additional risk within TTI after the Transfer. This is discussed in more detail in paragraphs 4.49 to 4.61.
 - ▶ I do not believe that there will be any change to the speed or quality of claims handling service experienced by the current policyholders of TTI. This is because the claims services used for the policyholders of SBO will remain separate from the claims services for the policyholders of TTI. There will therefore be no additional administration for the claims services supporting the existing policyholders of TTI. Additionally, the volume of claims in respect of the transferring business is very small compared to the size of the existing TTI business. Therefore, the volume of assumed SBO claims would have no impact of the service experienced by current TTI policyholders after the Transfer.
- 3.7 For the above reasons I conclude that the security provided to the existing TTI policyholders will be equivalent after the Transfer (see section from paragraph 4.69 for further details).

For current policyholders of SBO

- 3.8 For my consideration of the effect of the Transfer on the current policyholders of SBO I will set out my comments in the following three parts:
- ▶ Implications if the Transfer is not effected.
 - ▶ Implications if the Transfer is effected.
 - ▶ Overall conclusion for the Transferring Policyholders.

Implications if the Transfer is not effected

- 3.9 If the Transfer is not effected, then the alternative is the status quo position: that is, that SBO is run in its current way, as a stand-alone entity, until such time as all its liabilities are fully

paid. The liabilities of SBO include claim payments to policyholders, payments to the members of the SBO pension scheme, and payments to other creditors of SBO.

- 3.10 The security provided to the current policyholders of SBO can be broadly categorised in three layers:
- (i) SBO has full reinsurance in place, as described in paragraph 2.13, and so all insurance liabilities of SBO can be fully recovered from the reinsurers of SBO. This reduces the risk that might arise from higher than expected claim payments to SBO policyholders. As I will set out in paragraph 4.69, the credit rating of those reinsurers is good, and so there is a very high probability that those reinsurance recoveries would be made in full.
 - (ii) There is an additional reinsurance protection from the TTI Quota Share (as described in paragraph 2.14, that quota share will cover any 'bad debt' amounts, where the other reinsurers of SBO do not meet their obligations to SBO). Effectively, this provides an additional layer of protection for the reinsurance recoveries because TTI will cover any non-payment by those reinsurers. However, the TTI Quota Share can be cancelled by TTI at any time. Although the contract is currently in force, there is no guarantee that it will remain in force in the future.
 - (iii) There is a small amount of additional capital held in SBO (as at 31 December 2017, this is £2.6m), which could be used to meet future claim payments if required. This additional capital is also needed to meet the future office and run-off expenses of SBO.
- 3.11 I believe that there are some material risks for the current policyholders of SBO if the Transfer is not effected; notably, that there is uncertainty over the ongoing expenses of SBO, and that there is a risk that the relatively low level of capital in SBO is not sufficient to meet those ongoing expenses.
- 3.12 The current expenses of SBO for ongoing office costs and claims handling support is £25,000 per annum. These office expenses would need to be paid until SBO can be closed down. SBO also currently incurs costs of £45,000 per annum for the pension scheme (which might need to be paid over the remaining life time of the members of the pension scheme: possibly up to 60 years). I believe that there is a risk of additional unforeseen expenses and other costs for SBO. For example, unexpected legal fees which may arise from disputes related to the pension scheme. There are also various other ongoing administrative costs (for example audit fees, regulatory costs, general office expenses, salaries of employees) which could be higher than expected. It is not just the possibility of higher expenses that is uncertain, but also the length of time over which these expenses might need to be paid.
- 3.13 Although SBO has full reinsurance in place, I believe that there is still a risk that the policyholders of SBO might not have their claim paid in full if the Transfer is not effected. This is related to the risk from any additional ongoing expenses that might cause a large reduction in the overall level of capital of SBO. If the capital of SBO falls below a certain level then SBO will become insolvent: there would not be sufficient assets in SBO to meet the projected future outgoings (payments to policyholders, the pension scheme, future expenses of SBO, and other creditors of SBO etc.). In this scenario, the way in which the remaining assets of SBO are shared amongst its creditors depends upon the exact circumstances of the insolvency of SBO; however, I believe that there are scenarios in which the policyholders of SBO would not be paid in full. Crucially, this does not depend on the fact that there is full reinsurance in place: although the reinsurance recoveries can be made from the reinsurers of SBO, if there are other creditors of SBO that rank ahead of the SBO policyholders, then the other creditors would be paid ahead of those policyholders.
- 3.14 If there are additional future office expenses, there is also a greater risk that the level of capital in SBO would fall below the level of the regulatory required capital. As described in paragraph 4.65, SBO currently meets its regulatory capital requirement, but the margin between the available capital and the capital requirement is relatively small (only £0.35m).

- 3.15 If there were an insolvency of SBO, it is possible that TTI might inject further capital; however, I do not believe that TTI would be obliged to make any such additional capital injection.
- 3.16 To a firm of TTI's size, these additional expense costs would be small relative to the size of the firm and the resources it has available; but to a small firm of a size similar to SBO, these increases could be a larger proportion of the total available assets. Therefore, the impact of these additional expenses could have a much larger effect on SBO than on TTI.
- 3.17 In conclusion, if the Transfer is not effected then I believe that the policyholders of SBO would still have a good level of security because SBO has full reinsurance in place, and the quality of that reinsurance is very good. However, I believe that there is a risk of additional future expenses for SBO, and that for a small company the size of SBO, this might mean that some policyholder claims cannot be paid in full.

Implications if the Transfer is effected

- 3.18 If the Transfer is effected then the Transferring Policyholders would become policyholders of TTI.
- 3.19 The security provided to the Transferring Policyholders after the Transfer would derive from the TT Club as a whole, which I believe provides for a good level of security. The TT Club has a rating of A- ("Excellent") from the rating agency A.M. Best; this indicates that A.M. Best has the opinion that the TT Club has an excellent ability to meet their ongoing insurance obligations. After the Transfer I believe that TTI would comfortably meet the regulatory capital requirement; this is discussed in more detail in paragraphs 4.49 to 4.61. The mutual status of TTI provides an additional layer of security because TTI could make a supplementary call to obtain further premium from the members of TTI and TTB. This acts as an additional source of capital, should the TT Club need this.
- 3.20 All SBO reinsurance contracts with external reinsurers will be transferred to TTI as part of the Transfer. The transfer of this reinsurance has relatively little impact on the financial position of TTI because the size of the transferring reinsurance asset is small relative to the size of the existing reinsurance asset of TTI. It is also small relative to the overall assets and capital of TTI. After the Transfer, the TTI Quota Share contract becomes obsolete because the Transferring Policyholders become actual policyholders of TTI (rather than being policyholders of a company which is reinsured by TTI).
- 3.21 TTI are already responsible for managing the policy and claim administration for SBO, and would continue to do so after the Transfer. I do not, therefore, anticipate any changes to the customer service provided to the Transferring Policyholders after the Transfer, nor do I anticipate any changes to the claims handling philosophy or guidelines after the Transfer.
- 3.22 In conclusion, if the Transfer is effected then I believe that the Transferring Policyholders would have a good level of security as a policyholder of TTI.

Overall conclusion for the Transferring Policyholders

- 3.23 Before the Transfer, the security provided to the SBO policyholders is primarily in the form of the SBO reinsurance in place with the third-party reinsurers. After the Transfer the security provided to the Transferring Policyholders is from TTI. I believe that those two sources of security are broadly equivalent and both provide a good level of security (as described from paragraph 3.9 for the pre-Transfer position, and from paragraph 3.18 for the post-Transfer position).
- 3.24 After the Transfer, the nature of the security provided to the Transferring Policyholders is different to the pre-Transfer position, and this has some advantages and disadvantages. In particular, I believe that there are three issues to consider:
- (i) **TTI Quota Share reinsurance.** A disadvantage for the Transferring Policyholders is that the TTI quota share reinsurance protection is lost after the Transfer (the second of

the three layers of protection as described in paragraph 3.10 (ii)). Before the Transfer, the Transferring Policyholders effectively benefit from the SBO third-party reinsurance, and then also from the TTI Quota Share if any of those third-party reinsurers do not, or cannot pay. However, I do not believe that this is a material disadvantage because the TTI Quota Share can be cancelled by TTI. Therefore, there is no guarantee that the TTI Quota Share will remain in force and the reinsurance protection provided by this contract could be cancelled.

- (ii) **Additional capital of SBO.** A disadvantage for the Transferring Policyholders is that they would lose the security provided by the capital in SBO (the third of the three layers of protection as described in paragraph 3.10 (iii)). Although this is a small amount of capital, it could be used to pay the claims of SBO policyholders if the third-party reinsurers and TTI both default on the respective reinsurance contracts.
- (iii) **Expense risk.** An advantage for the Transferring Policyholders is that they would be insured by a larger company than SBO after the Transfer, with more available capital and greater diversification. In particular, the specific risk of higher than expected future expenses in SBO (as described from paragraph 3.11) would be removed after the Transfer.

3.25 I have considered the advantages and disadvantages of the position post-Transfer and the status quo position for the Transferring Policyholders; overall, I believe that the security position is not materially different after the Transfer. This is because, in my judgement, the advantage of removing the 'expense risk' is more important. I am also satisfied that the level of security provided by TTI after the Transfer is good, and not materially different to the security provided to the SBO policyholders before the Transfer.

3.26 For the above reasons I conclude that the security provided to the SBO policyholders transferring to TTI will not be materially affected after the Transfer (see section from paragraph 4.72 for details).

Supplementary report

3.27 My conclusions are based on the information available to me at the time of writing this report. I will produce a Supplementary Report prior to the Transfer Date, and this will comment on the most recent information available. I expect that this will include details of movements in claims paid and claims incurred since 31 December 2017. There may be other data that I will request for the purposes of the Supplementary Report, depending on the circumstances and any changes to the financial positions of the companies involved; in particular, I will consider views on any objections received and comments on the firm's compliance with directions related to the communications plan.

Independent Expert declaration

3.28 In reaching the conclusions set out below, I have applied the following principles. I have sought to:

- ▶ Exercise my judgement in a reasoned and justifiable manner;
- ▶ Describe the impact on all classes of beneficiaries (for the purposes of this report, being the policyholders of SBO and TTI);
- ▶ Indicate how the Transfer might lead to any changes in the material risks to the benefits of different classes of beneficiaries;
- ▶ Indicate (in broad terms) the impact on the actuarial information of adopting alternative plausible assumptions;
- ▶ Assess the impact on all classes of beneficiaries;

- ▶ Indicate the proposed rationale for the Transfer to proceed;
- ▶ Include (in summary) the most material information on which my opinion is based; and,
- ▶ Describe the rationale for my opinion.

- 3.29 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 and conclusions I have drawn represent my true and complete professional opinions on the matters to which they refer.
- 3.30 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court, I have complied with that duty and I will continue to comply with that duty.
- 3.31 I do however consider it necessary that I review the most recent information, up to the date of the Transfer, when this becomes available later in the year, before confirming my opinion and conclusions.

4. Analysis

Summary of my approach

4.1 The section below sets out my approach for assessing the Transfer.

Gain a thorough understanding of the Transfer and identifying the groups of policyholders that would be affected.

4.2 This was achieved through discussions with SBO, TTI, and their advisors to understand the Transfer, together with reviewing the documents agreed between the parties for the implementation of the Transfer. The documents I reviewed included:

- ▶ The SBO Scheme of Operations to understand the context for the Transfer and the recent history of the firms involved in the Transfer;
- ▶ The SBO PRA (regulatory) returns, to understand SBO's balance sheet on a UK GAAP basis;
- ▶ A report produced by SBO, explaining how SBO's claims reserves have been calculated;
- ▶ A structure diagram of the TT Club, to understand the relationships between the entities involved in the Transfer;
- ▶ The TTI and TT Club's balance sheet and annual report, to understand their financial position on a UK GAAP basis;
- ▶ An external actuarial report for the work done to set the reserves for the Consolidated TT Club, and the allocation of this to TTI, as at December 2017 and the Thomas Miller Reserve Review 17Q2 Report, to understand how the claims reserves of TTI have been estimated;
- ▶ The signed Solvency and Financial Condition Report and Quantitative Reporting Template for TTI, to understand TTI's capital position and balance sheet on a Solvency II basis;
- ▶ TT Club's Own Risk and Solvency Assessment Report, to understand the risks inherent in the TT Club and TTI;
- ▶ A reinsurance structure diagram for both SBO and TTI to understand the reinsurance programmes in place for each entity; and,
- ▶ Schedules showing the investment portfolios of SBO and TTI as at December 2016 to understand how the assets are invested.

Review of the claims reserves of SBO and TTI

4.3 The claims reserve of an insurance company is an estimate of the amount of money that the company will need to pay out to its policyholders as claim payments in the future. It is an unknown amount of money (because future claim amounts are unknown and uncertain) but it can be estimated by the company by using various statistical methods.

4.4 An important question when considering the security provided to policyholders of a company is whether the estimation of the claims reserves has been carried out in an appropriate way. This is because there is a risk that the company has underestimated the amount of money that it will need to pay future claim amounts to policyholders, and therefore a risk that it will not be able to pay those claim amounts.

- 4.5 Therefore, I have considered the adequacy of significant parts of the claims reserves of SBO and TTI. This is described from paragraph 4.13.

Review of the assets and capital requirements of SBO and TTI

- 4.6 A second important aspect of the modelling work I have reviewed relates to the uncertainty over the size of the future claim amounts. The amount of capital in an insurance company is the difference between the value of the assets of the company (e.g., investments, cash and amounts due from debtors), and the value of the liabilities of the company (e.g., future claim payments and amounts due to creditors). It is one measure of the financial strength of the company.
- 4.7 Insurance regulators require that an insurance company has at least a certain minimum amount of capital (i.e., so that it has a level of buffer to help make future claim payments). The capital requirement is needed because the ultimate amount of the future claim payments is uncertain; the insurance company and the regulator wish to be confident that the company is able to meet all future claim payments, even in an unlikely adverse scenario. However, this does not mean that a company will be able to meet all claim payments in all circumstances; only that there is a higher probability of being able to do so.
- 4.8 As part of my work I have checked that the probability of both SBO's and TTI's future claim payments being met is not materially affected by the Transfer, and that TTI's ability to meet the regulatory capital requirements is not materially affected by the Transfer. This is described from paragraph 4.40. I describe the changes in asset mix in paragraph 4.37.

Consider the level of security offered to each group of policyholders, assuming existing arrangements, and assuming the Transfer is effected

- 4.9 I have considered each group of policyholders, both before and after the Transfer, and the relative strength of capital available compared to their capital requirements. This is described from paragraph 4.69.

Consider the potential impact of the Transfer on levels of customer service

- 4.10 I have considered how the level of customer service provided to each group of policyholders could change following the Transfer. This is described from paragraph 4.81.

Consider any other factors that might affect policyholders (for example, ongoing expense levels, pension arrangements etc.)

- 4.11 I have considered these other factors (such as the policyholder communication strategy, policyholders outside EEA jurisdiction, the split between direct and reinsurance policyholders, customer service implications, pension arrangements, tax implications, investment management implications, ongoing expense levels, and TTI's liquidity position) through discussions with members of the TTI and SBO management teams, in particular the CFO of both the TT Club and SBO, and the Corporate Development Director of Thomas Miller. The discussions are described further in paragraph 4.77.

Materiality

- 4.12 Throughout my work I have applied the concept of materiality, as set out from paragraph 1.28 above.

Claims reserve assessment

- 4.13 I will use the term 'best estimate' when referring to an estimate of the claims reserve, where that estimate has no intended margin for prudence or optimism, and where it is a reasonable estimate of the claims reserve given the data and information available. There are inherent risks in insurance business, and there are uncertainties when estimating a claims reserve amount. The methods used by actuaries to estimate a claims reserve often involve subjective judgements. Given that there is a range of assumptions that can be reasonably justified, there is also a range of best estimates that can be considered reasonable.

- 4.14 The following table shows a breakdown of the claims reserves of SBO and TTI, gross of reinsurance, net of external reinsurance, and net of all reinsurance as at 31 December 2017 on a UK GAAP basis.

Table 1: Claims reserves for SBO, TTI and TTB as at 31 December 2017 (£m)

	Gross [A]	External Reinsurance [B]	TTB Reinsurance of TTI [C]	Net [D]=[A]+[B] +[C]
Personal Accident	0.0	(0.0)	0.0	0.0
Protection & Indemnity	1.0	(1.0)	0.0	0.0
Damage to Hull	0.9	(0.9)	0.0	0.0
Total SBO	1.9	(1.9)	0.0	0.0
Bodily Injury (less than \$1m)	44.0	(4.2)	(35.8)	4.0
Other Claims (less than \$1m)	111.2	(11.3)	(90.0)	10.0
Claims over \$1m	47.0	(10.6)	(32.7)	3.6
Total TTI *	202.2	(26.1)	(158.5)	17.6
Bodily Injury (less than \$1m)	0.1	(0.0)	35.8	35.9
Other Claims (less than \$1m)	5.8	(0.2)	90.0	95.6
Claims over \$1m	4.2	(0.3)	32.7	36.5
Total TTB *	10.1	(0.5)	158.5	168.1
Grand Total	214.2	(28.5)	0.0	185.6

*We have apportioned various TTI reserve amounts by class of business to allow for timing differences in the data we received.

- 4.15 The size of the SBO gross of reinsurance claims reserve is very small compared to the claims reserves of TTI; the size of the SBO gross reserve is approximately 1% of the comparable TTI gross reserve (£1.9m versus £202.2m, as shown in column A of the table above). There are currently only 11 open claims reported to SBO. The net of reinsurance claims reserve for SBO is zero (as shown in column B) because there is full external reinsurance in place for all insurance claims of SBO (and furthermore, SBO is fully reinsured by TTI, so that any bad debt amounts from the external reinsurers would be paid by TTI both before and after the Transfer).
- 4.16 TTI has claims reserves from various classes of marine insurance business, notably Ports and Terminals, Business Interruption, and Transport Operators Logistics (those account for approximately 60% of the total claims reserve). TTI also has a large amount of reinsurance in place. There is various external third party reinsurance, and then a 90% intra-group quota share contract with TTB.
- 4.17 The claims reserves from the business written directly by TTB is also very small compared to TTI, although the intra-group quota share contract between TTI and TTB does increase the overall gross of reinsurance reserve of TTB.

My review of TTI's claims reserves

- 4.18 TTI commission an external actuarial review of reserves, performed by their actuarial advisors each year. I have reviewed the most recent report on reserves produced by TTI's advisors, dated 30 November 2017, along with the level of booked reserves in TTI's most recent statutory accounts.
- 4.19 For my review of reserves, I have considered the appropriateness of the data and methodology used by TTI and their advisors. I have also considered the appropriateness of the key assumptions in that analysis. For parts of the claims reserves I have also cross-checked the amount booked by carrying out my own high-level analysis, which primarily involved:

- ▶ Comparing high-level benchmarks of the advisor’s initial estimates of loss ratios with the assumptions made by insurance or reinsurance companies writing similar business, and with information in the Lloyd’s returns.
 - ▶ Additionally, comparing the benchmark development profile of incurred claims from the same sources to that selected by the advisors.
 - ▶ Finally, comparing the advisor’s selected incurred development patterns by class with that suggested by TTI’s historical data.
- 4.20 The methods used by TTI and their advisors to estimate claims reserves are based on standard actuarial methods (e.g., Bornhuetter-Ferguson, chain ladder methods, and expected loss ratios). The analysis is performed by class of business, with a separate analysis for large losses (losses in excess of \$1m). The methodology and level of aggregation used by TTI to estimate their claims reserves is therefore in line with my expectations, and in line with standard market practice.
- 4.21 I compared the claims reserving assumptions used by TTI and their advisors with market benchmarks taken from similar insurance firms. The TTI assumptions are broadly in line with those benchmarks.
- 4.22 The results of this analysis did not imply any IBNR for years prior to 2014, and TTI therefore assume that all claims are reported for periods prior to that date. Given the type of business written by TTI, this is in line with my expectations and the market benchmarks that I have compared to.
- 4.23 The booked claims reserve of TTI is £2m higher than the external advisor’s best estimate on a net of reinsurance basis (after all reinsurance). This £2m is effectively a margin for prudence in the booked claims reserve. The booked reserve of TTI is equivalent (per the external advisor’s analysis) to the 90th percentile of outcomes (so that there is a projected 1 in 10 chance of the actual settlement cost exceeding the booked reserve). In my experience, this is a slightly cautious level of booked reserves in comparison to the insurance market.
- 4.24 Based on my review I conclude that the claims reserves for TTI (as shown in their statutory accounts) are appropriate, and lie within a range of reasonable best estimates. I reached this conclusion because:
- ▶ TTI commission a full actuarial analysis of the claims reserve, which uses methods and assumptions that I believe are consistent with standard actuarial practice and are suitable for reviewing these types of liabilities.
 - ▶ I have reviewed the key assumptions for future claims development in that analysis and have compared them against market benchmarks. I believe that those key assumptions are consistent with the market benchmarks. The market benchmarks I have used as a comparison are derived from a range of my other insurance clients, and I believe that those comparisons are valid because TTI writes similar business to those other peer group companies.
 - ▶ The booked statutory claims reserve of TTI is slightly higher than the actuarial best estimate, so that there is a margin for prudence included within the booked reserve amount.
 - ▶ The planned loss ratio (i.e., the ratio of claims to premiums) for TTI from their business plan, for 2019 and onwards, is in line with the recent historical performance of the company, and I believe that the planned assumptions for future premium volumes and profitability are therefore realistic. Therefore, I am satisfied that the level of profitability of the ongoing business is sufficient.

My review of SBO's claims reserves

- 4.25 I have received a short paper from SBO which summarises their claims position and claims reserves as at 31 December 2017.
- 4.26 The SBO claims reserve is set on a case-by-case basis for the 11 known open claims and 3 notifications of potential claims. This gives a total amount of outstanding claims of £1.6m. There is a further amount of £0.3m held as an IBNR provision for the possibility of future claims. The total gross of reinsurance claims reserve is therefore £1.9m (this is shown in line [7], column [A], of tables 2 and 3 in paragraphs 4.33 and 4.38). I believe that there is unlikely to be any further additional claims reported to SBO. This is because the historical reporting pattern for claims (as observed by reviewing the historical data of SBO) suggests that all claims would have been notified to SBO by this time. This is also consistent with my expectations for the reporting pattern of claims for this type of business.
- 4.27 Based on my review I conclude that the claims reserves for SBO (as shown in their statutory accounts) are appropriate. I reached this conclusion because:
- ▶ The methodology used by SBO is appropriate for this relatively small portfolio of liabilities. The portfolio has been in run-off for some time, and for such a small number of remaining open claims, I believe it is appropriate to set reserves on a case-by-case basis, using all information available for each individual claim.
 - ▶ The additional IBNR provision makes allowance for the possibility of new claim notifications. Such an allowance is, by definition, judgemental. The reporting pattern of claims suggests that there is a very low probability of such new claims being notified, and I believe that SBO have made a reasonable allowance for these possible new claims.
 - ▶ There is full reinsurance in place, so that any future claim amounts paid by SBO can be collected from the external reinsurers of SBO. Consequently, the net of reinsurance claims reserves of SBO will always be zero. Furthermore, SBO is fully reinsured by TTI, so that any bed debt amounts from the external reinsurers would be paid by TTI.
 - ▶ The level of the SBO claims reserve is not a material issue for the Transfer, given the size of TTI relative to the size of SBO (the claims reserve of TTI is 100 times larger than the claims reserve of SBO).

Key uncertainties in claims reserves

- 4.28 I believe that the key uncertainties in the claims reserves of TTI are as follows:
- ▶ There is uncertainty for the most recent year because the claims are at an early stage of development. TTI mitigates this risk by managing its exposure to large losses (both incidence and accumulation) through reinsurance arrangements. TTI also holds a margin within the claims reserves to provide a 90% probability of sufficiency.
 - ▶ There is exposure to bodily injury claims which can be long tailed in nature and subject to legislative changes.
 - ▶ There is an assumption made for money received as salvage and subrogation which may not materialise.
 - ▶ The projection for the most recent year is based on premium amounts as a proxy for true level of exposure. This may not turn out to be reflective of the risk.
 - ▶ The reserves do not include an explicit allowance for future new latent claim types arising, and does not include any explicit allowance for claim events not observed

within the historical data. Whilst I believe that this is very unlikely, should either of these issues arise, the settlement cost of the claims could be higher than the current booked claims reserve.

4.29 I believe that the main uncertainty in the claim reserves of SBO is:

- ▶ There are a very small number of open claims. This means that the claims cost, in relative terms, could be quite uncertain because it depends upon the circumstances of the settlement of a small number of claims (there is no diversification across a larger portfolio that would reduce this risk). However, the absolute size of the claims cost is very small, and when transferred to TTI would have minimal impact on the uncertainty in TTI. Indeed, because there is full reinsurance in place, there would be no change to the claims reserves of TTI. Therefore, there is very little risk in the claims reserve of SBO.

4.30 I have considered the above identified uncertainties. I believe that they are uncertainties that would be typical for insurance firms such as SBO and TTI. For any insurance company, the future financial position will depend on the outcome of future unknown events. There is no particular uncertainty identified which should preclude the Transfer from being effected. I believe that the methods used to quantify the claims reserves are appropriate and these uncertainties do not affect the conclusion I reached on the level of the claims reserve.

Effect of the Transfer on the balance sheets of SBO and TTI

4.31 The table below shows simplified balance sheets for SBO and TTI before the Transfer, and the enlarged TTI after the Transfer. The balance sheets are shown on a UK GAAP basis (the standard basis for the preparation of accounts of UK insurance companies).

4.32 The financial amounts are based on a scenario where the Transfer was notionally effected on 31 December 2017. This is not the Transfer Date; however, it is instructive to consider the financial positions at 31 December 2017 because this is the most recent date at which audited financial information is available for each company. I believe that this is most appropriate basis to view the Transfer, because it is based on the most recent set of audited financial statements. I will produce a Supplementary Report prior to the Transfer Date, and this will comment on the most recent information available.

4.33 The starting point for the data shown in the table below is the audited financial statements of each company. The actual position of the portfolios will be different to that represented below due to the actual experience between 31 December 2017 and the Transfer Date. However, I believe that this gives the best currently available picture of the Transfer.

Table 2: Impact of the Transfer on the balance sheets of TTI and SBO (£m)

	Pre-Transfer		Post-Transfer	
	SBO [A]	TTI [B]	SBO [C]	TTI [D]=[A] +[B]
[1] Cash and Other Financial Investments	2.6	82.4	0.0	84.9
[2] Unearned Premium - Reinsurance	0.0	38.9	0.0	38.9
[3] Claims Reserve - Reinsurance	1.9	184.6	0.0	186.5
[4] Receivables and Other Assets	0.2	46.9	0.0	47.1
[5] Total Assets	4.6	352.8	0.0	357.4
[6] Unearned Premium - Gross	0.0	46.1	0.0	46.1
[7] Claims Reserve – Gross	1.9	202.2	0.0	204.1
[8] Payables and Other Liabilities	0.1	59.6	0.0	59.7
[9] Total Liabilities	2.0	307.9	0.0	309.9
[10] Net Assets ([5] - [9])	2.6	44.9	0.0	47.5

- 4.34 Note that lines [3] and [7] for claims reserves reconcile to the amounts shown in the claims reserves table in paragraph 4.14. The net of reinsurance claims reserve of TTI is £17.6m. The net of reinsurance claims reserve of SBO is zero.
- 4.35 The investment assets of SBO are mainly held as cash deposits. These will move to TTI after the Transfer. The reinsurance assets of SBO will also be transferred to TTI as part of the Transfer.
- 4.36 The Net Asset value of TTI (line [10] above) will increase slightly as there is a small positive effect of transferring the assets and liabilities of SBO. However, the impact on the TTI balance sheet is very small. The net reserve amount will not change and the Net Asset Value on a GAAP basis will only increase from £44.9m to £47.5m.
- 4.37 The mix of types of assets held by TTI after the Transfer will be very similar to the mix of assets before the Transfer. This is because the transferring assets are similar in nature to those already held by TTI (cash and bonds) and TTI is already much bigger than SBO.
- 4.38 The table below show the impact of the Transfer on the TT Club as a whole.

Table 3: Impact of the Transfer on the balance sheets of TT Club and SBO (£m)

	Pre-Transfer		Post-Transfer	
	SBO [A]	TT Club [B]	SBO [C]	TT Club [D]=[A] +[B]
[1] Cash and Other Financial Investments	2.6	327.8	0.0	330.4
[2] Unearned Premium - Reinsurance	0.0	13.4	0.0	13.4
[3] Claims Reserve - Reinsurance	1.9	26.6	0.0	28.5
[4] Receivables and Other Assets	0.1	50.9	0.0	51.0
[5] Total Assets	4.6	418.8	0.0	423.4
[6] Unearned Premium - Gross	0.0	49.6	0.0	49.6
[7] Claims Reserve - Gross	1.9	212.3	0.0	214.2
[8] Payables and Other Liabilities	0.1	20.9	0.0	21.0
[9] Total Liabilities	2.0	282.9	0.0	284.9
[10] Net Assets ([5] - [9])	2.6	135.9	0.0	138.5

Conclusion on balance sheet comparison

- 4.39 The analysis of balance sheets shows very little change to either TTI or the TT Club as a whole. There is a very small increase in the value of net assets (which is favourable). There is no change to the amount of the net claims reserve and no material change to the mix of assets held.

Capital modelling assessments

- 4.40 The level of security provided to the policyholders of an insurance company depends on the available assets of the company, and in particular, on the probability that this level of assets is sufficient to make all claim payments as they fall due.
- 4.41 The European Commission has developed regulatory requirements for insurance and reinsurance undertakings within the EU known as 'Solvency II' in respect of the level of capital held by those undertakings (where capital is the available assets of the undertaking), which was implemented on 1 January 2016.
- 4.42 Therefore, in the UK insurance companies are required to report their accounts on both a UK GAAP basis and a Solvency II basis.
- 4.43 In the prior section, figures are calculated on a UK GAAP basis. When considering capital requirements in this section, figures are calculated on a Solvency II basis. The Solvency II balance sheet differs from the GAAP balance sheet as the valuation rules for several balance sheet items under Solvency II differ from those under GAAP. For example, the technical provisions must be on a discounted Best Estimate basis on the Solvency II balance sheet, whereas under GAAP they could be undiscounted and may include a margin for prudence. The table below shows a summary of the movement between the two bases for TTI and TT Club.

Table 4: Conversion of TTI balance sheet from UK GAAP basis to Solvency II basis (£m)

	UK GAAP	Solvency II	Difference
[A] Investments and cash at bank	82	82	0
[B] Reinsurance recoverables	224	147	(77)
[C] Receivables and other assets	47	15	(32)
[D] Total Assets	353	244	(109)
[E] Technical Provisions	248	177	(72)
[F] Payables and other liabilities	60	21	(39)
[G] Total Liabilities	308	197	(110)
[H] Net Assets ([D]-[G])	45	46	1

**We note that lines [2] Unearned Reinsurance Premium and [3] Reinsurance Claims Reserve from table 2 has been combined to form [B] Reinsurance recoverables. Similarly, line [6] Gross Unearned Premium and [7] Gross Claim Reserve have been combined to form [E] Technical Provisions.*

- 4.44 The key metric to trigger regulatory intervention under Solvency II is the Solvency Capital Requirement ('SCR'), which should be determined as the economic capital to be held by insurance and reinsurance undertakings in order to ensure that the probability of not meeting their obligations in the coming year is less than 1 in 200. It is intended to represent a normal target level of capital for the insurer, and capital falling below this level would trigger a response from the insurer's regulator.
- 4.45 A Minimum Capital Requirement ('MCR') is also calculated as a linear function of specified variables, with a floor of 25% of the SCR and a cap of 45% of the SCR. In addition, there is an absolute floor of the MCR which is currently €3.7m, which equates to £3.2m.
- 4.46 Insurers can choose one of three methods on which to base their SCR and MCR calculations; a Standard Formula approach, an Internal Model approach or a Partial Internal Model approach:
- ▶ The Standard Formula approach entails a prescribed basis for calculation and a prescribed set of parameters to use in working out the capital requirement. Within the Standard Formula framework, entities can employ undertaking specific parameters ('USPs') to improve the appropriateness of the parameterization for their specific business.
 - ▶ The Internal Model approach involves the (re)insurer using their own capital model to calculate their regulatory capital requirement. Both the approach to calculating available capital (via the Solvency II balance sheet) and the approach to calculating the capital required are different to the Standard Formula approach.
 - ▶ The Partial Internal Model approach is a mixture of the Standard Formula approach and the Internal Model approach. An Internal Model is used to calculate parts of the regulatory capital, and the Standard Formula to calculate the remainder.
- 4.47 The choice of which of these three approaches to use is made by the (re)insurer themselves; however, the form and structure of Internal Models and Partial Internal Models are subject to approval by the relevant regulator (generally the regulator in the home country of the (re)insurer). In cases where the regulator does not approve an Internal Model or Partial Internal Model, the Standard Formula will be applied by default.

- 4.48 As a PRA regulated insurance company, TTI are required to comply with Solvency II regulations. SBO is not required to comply with these regulations as explained from paragraph 4.65. Nevertheless, I have considered the regulatory capital requirements of TTI and SBO, both before and after the Transfer as the transfer of policyholders and capital from SBO to TTI will impact the total capital held by TTI after the Transfer.

TTI capital requirements – prior to the Transfer

- 4.49 TTI falls under the Solvency II capital regime in the UK. TTI uses the ‘Standard Formula’ approach to calculate the SCR.
- 4.50 The table below shows the Solvency II capital requirement by risk type for TTI as at 31 December 2017, prior to the Transfer.

Table 5: Solvency II capital requirement for TTI – Pre Transfer (£m)

	TTI Pre-Transfer
[1] Underwriting Risk	11.0
[2] Market Risk	8.6
[3] Counterparty Default Risk	12.9
[4] Operational Risk	5.2
[5] Diversification	-7.9
[6] Solvency Capital Requirement	29.8
[7] Own Funds	46.4
[8] Capital Adequacy Ratio ([7] / [6])	156%

- 4.51 The table shows that the SCR (line [6]) is £29.8m. This breaks down into capital held for a variety of risks:
- ▶ **Underwriting Risk:** This risk relating to the upcoming year of insurance business and the uncertainties relating to the claims reserves (i.e., the uncertainty that the cost of settling these liabilities could be higher or lower than the booked reserve amount). In other words, TTI will need to pay some insurance claims to their policyholders over the coming years, but the amount of those payments and the timing of those payments is uncertain. There is a risk that the amount to be paid is more than expected.
 - ▶ **Market Risk:** The risk of loss from a change in market prices, relative to the value of the liabilities. The major part of this for TTI is ‘currency risk’, because a significant proportion of funds is invested in non-US Dollar asset categories.
 - ▶ **Counterparty Default Risk:** The risk of any defaults of counterparties or reinsurers. A major part of this for TTI is the risk from the quota share with TTB (90% of claims reserves and new business risk is reinsured to TTB).
 - ▶ **Operational Risk:** This includes uncertainties relating to failures in operational procedures. For example, IT systems failure or fraud.
 - ▶ **Diversification:** The risk is spread over a number of areas, so the overall capital requirement is somewhat less than the sum of the individual parts.
- 4.52 Under the Solvency II rules the firm must then compare the level of available assets, the “Own Funds”, against the SCR; if the Own Funds is greater than the SCR then the firm will meet its regulatory capital requirement. The Own Funds amount for TTI as at 31 December

2017 was £46.4m. This gives a Capital Adequacy Ratio of 156% (i.e., Own Funds well in excess of the SCR).

- 4.53 As mentioned above, TTI holds Own Funds well above the regulatory requirements, due to their desire to provide additional security to policyholders, which contributes to its high rating-agency grade. It is important to note that although the present balance sheet position of TTI is sufficiently strong enough to comfortably cover expected liabilities, there always remains an inherent risk posed by a possible deterioration in the relative value of assets to liabilities. If a deterioration of this nature were to occur, then TTI's Own Funds may fall below the SCR. It is important to note that even if an insurer does not have sufficient eligible Own Funds to meet the required capital level then this does not necessarily mean that it would not be able to settle all its claims in full. The balance sheet strength of the insurer may still be sufficient to pay its liabilities even if the regulatory capital amount is not met.

TTI capital requirements – after the Transfer

- 4.54 I have reviewed a paper produced by TTMS in which they describe their calculation of the impact of the Transfer on their regulatory capital requirement (SCR) and their Own Funds.
- 4.55 The table below shows the Solvency II capital requirement by risk type for TTI as at 31 December 2017, as though the Transfer took place on this date and a comparison to the reported SCR as at that date.

Table 6: Solvency II capital requirement for TTI – Pre and Post Transfer (£m)

	TTI Pre-Transfer	TTI Post-Transfer	Difference
[1] Underwriting Risk	11.0	11.0	0.0
[2] Market Risk	8.6	9.0	0.4
[3] Counterparty Default Risk	12.9	13.0	0.1
[4] Operational Risk	5.2	5.3	0.1
[5] Diversification	-7.9	-8.0	-0.1
[6] Solvency Capital Requirement	29.8	30.2	0.4
[7] Own Funds	46.4	48.8	2.4
[8] Capital Adequacy Ratio ([7] / [6])	156%	162%	6%

- 4.56 The capital adequacy ratio of TTI will improve after the Transfer, from 156% to 162%. This is because the Own Funds of TTI would increase by £2.4m as a result of the transfer of SBO's assets to TTI, while the capital requirement of TTI will only increase a small amount, as discussed in the next paragraph.
- 4.57 The inclusion of the assets and liabilities of SBO that will transfer to TTI as part of the Transfer does not have a material impact on TTI's SCR, resulting in an increase of only £0.4m. This increase is largely driven by the increase in currency risk, as a result of SBO's assets being held in Pound Sterling while TTI report in US Dollars (this is shown above within the market risk section above). Other minor changes include:
- ▶ An increase in counterparty default risk as a result of adding SBO's cash balances to TTI's balance sheet.
 - ▶ SBO's liabilities are already fully reinsured by TTI, so the impact of the Transfer on underwriting risk is expected to be minimal, as shown above; however, there will be small increases as a result of making an allowance for the possibility of default by SBO's external reinsurers and for claims handling expenses.

My conclusion on TTI available capital

- 4.58 I have reviewed the summary output and documentation from the Solvency II calculations of TTI and discussed the methodology used in this calculation with the management team of TTMS. The methodology used for both pre and post Transfer calculations has been subject to audit by TTI's auditors. Based on my review I believe that the calculation is materially correct and has been calculated in an appropriate way. I also believe that the Standard Formula is an appropriate basis for calculating the capital requirement for TTI under Solvency II. This is because:
- ▶ The TTI risk profile does not have any particularly unusual features that would need to be modelled using an Internal Model.
 - ▶ The Standard Formula approach is a common approach for insurance firms similar to TTI.
 - ▶ The approach has been approved by the regulator and is currently used as the capital requirement basis for TTI.
- 4.59 After the Transfer there would be a change to both Own Funds and the SCR of TTI. TTMS's estimate of this change is discussed above. I believe that their estimate is has been calculated in a reasonable way, and is based on reasonable assumptions. As is to be expected, given the SBO is much smaller than TTI (based on claims reserve, one hundredth of the size) the change to the SCR is not material.
- 4.60 Therefore, I do not expect the Capital Adequacy Ratio of TTI to change materially after the Transfer (it will improve slightly as the assets to be transferred to TTI exceed the increase in regulatory capital requirement as a result of the Transfer), and I expect that the Solvency II requirement would continue to be met by TTI.
- 4.61 I note that whilst I have considered the approach for each element of the calculation, I have not reviewed in detail all the assumptions used, as I do not consider these will change my conclusions. Additionally, I note that the Standard Formula SCR calculated by TTI has been audited by their auditors. I have considered the final results of the calculation, and I have not identified any reason to believe the calculated SCR materially understates the capital required by TTI.

Capital objective for the TT Club

- 4.62 The TT Club has an overall target level of capital that they would like to maintain. This target is set not only to meet the regulator's required capital (i.e., the SCR), but also to achieve an overall credit rating for the TT Club which is sufficiently high. Specifically, the TT Club aim to achieve an A- rating from AM Best, and to be reasonably sure (with a probability of 90%) that they would continue to have this rating over a future one-year period. In order to ensure this, TT Club calculate their own capital requirement based on AM Best's requirements. At the 2017 year-end TT Club's internal capital requirement was equivalent to a 184% capital adequacy ratio. For the 2017 year-end, TT Club held Own Funds in excess of this, equivalent to a 221% capital adequacy ratio.
- 4.63 Therefore, the TT Club meets the SCR requirement (which, based on the Solvency II calibration, is intended to provide a high, 1 in 200 level of protection); but the TT Club then aims for an even higher level of protection, one which would gain an A- rating from AM Best, and be reasonably sure of keeping that A- rating over time. The relatively small size of SBO relative to the TT Club means that this capital objective would still be met after the Transfer. The capital of TT Club is almost fully fungible between TTI and TTB, meaning that almost all of the capital of TT Club could be used by either TTI or TTB.
- 4.64 Therefore, I conclude that the capital held within the TT Club (both TTI and TTB) is at a high level, and provides a good level of security to policyholders.

SBO capital requirements

- 4.65 SBO is not required to meet Solvency II capital requirements because it satisfies the conditions of Article 7 of the Solvency II Directive (which states that a mutual insurance association, such as SBO, is exempt from the requirements of the Solvency II Directive provided it is fully reinsured by another mutual undertaking, in this case TTI, which is subject to the Solvency II Directive). SBO is instead only required to meet Solvency I requirements. SBO does currently meet that Solvency I requirement of £2.25m, as they have capital resources of £2.61m.
- 4.66 If SBO were subject to Solvency II capital requirements, then the Minimum Capital Requirement ('MCR') of £3.2m would apply (this is effectively a floor which must be held by all companies subject to Solvency II). SBO would not meet that capital requirement as at 31 December 2017, as it would only have available funds of £2.61m. SBO would become subject to the Solvency II capital requirements if the reinsurance agreement between TTI and SBO ceases to be in force, or TTI itself ceases to be subject to the rules of Article 7 of the Solvency II Directive.

Security provided to policyholders

- 4.67 I have identified two main groups of policyholders affected by the Transfer:
- ▶ The existing policyholders of TTI (the 'Receiving Policyholders').
 - ▶ The policyholders of SBO (the 'Transferring Policyholders').
- 4.68 I will set out my specific comments for each group of policyholder below.

Conclusion for the existing policyholders of TTI

I conclude that the security provided to the existing TTI policyholders will be equivalent after the Transfer.

- 4.69 The main reason for reaching my conclusion is that the transferring liabilities and risks are very small in comparison to the current overall size of TTI. In particular:
- ▶ The gross claims reserve of SBO is very small, and there is full reinsurance in place with external reinsurers with a strong credit rating, as can be seen in the table below.

Table 7: External reinsurers of SBO

SBO class of business written	Reinsurer	Reinsurer credit rating (Standard & Poor)	% covered by that reinsurer
Marine hull	Various Lloyd's Syndicates, led by MAP	A+	72.5%
Marine hull	Trans Re London	A+	27.5%
Protection & indemnity	British Marine, a division of QBE Insurance Group	A+	100%
Personal accident	Lloyd's Syndicate 4020, managed by Ark Syndicate Management Limited	A+	100%

- ▶ If the Transfer is not effected than TTI would still be liable to meet any shortfall in reinsurance collections because TTI already reinsures SBO fully. Therefore, I do

not believe that there is any material change to the insurance risk of TTI as a result of the Transfer.

- ▶ The balance sheet of TTI would not change materially, as discussed from paragraph 4.31. Indeed, the value of net assets would increase slightly, as the surplus assets are moved to TTI.
- ▶ The mix of assets held by TTI would not change materially as a result of the Transfer as the assets transferred are small in comparison to the assets of TTI.

4.70 I have reviewed the overall claims reserves of TTI and SBO and believe that they lie within a range of reasonable best estimates, as discussed in paragraphs 4.13 to 4.30. I have reviewed the regulatory capital position of TTI both before and after the Transfer, and TTI would meet that requirement, as discussed in paragraphs 4.49 to 4.64.

4.71 For the above reasons I believe that TTI policyholders have a good level of security prior to the Transfer and would continue to have an equivalent level of security after the Transfer.

Conclusion for the policyholders of SBO transferring to TTI

I conclude that the security provided to the SBO policyholders transferring to TTI will not be materially affected after the Transfer.

4.72 Prior to the Transfer, I believe that the SBO policyholders have a good level of security. This is primarily due to the amount of reinsurance in place. The external reinsurance is placed with reinsurers with a strong credit rating; should there be any default from those reinsurers then TTI would pay the claim. TTI is in turn protected by its intra-group quota share reinsurance from TTB. There is a small amount of additional capital in SBO; however, should the Transfer not go ahead, then this capital could be eroded by ongoing expenses. Currently, the only source of security for the SBO policyholders comes from the reinsurance in place, and a small amount of available net assets.

4.73 After the Transfer, the Transferring Policyholders would become policyholders of TTI and the source of security (should TTI be wound up) would be structured differently, essentially through being insured through the TT Club. The levels of security provided to the Transferring Policyholders are:

- ▶ As policyholders of TTI, their claims would be first paid by TTI. TTI is a much larger insurance company, with greater diversification, and a larger amount of available capital than SBO.
- ▶ As policyholders of TTI, the reinsurance protecting their insurer would be structured differently. The Transferring Policyholders would have no specific claim to receive any money collected from the former reinsurers of SBO upon wind up of TTI. This is because the reinsurance is for the benefit of the firm rather than any particular sub-group of policyholders. That reinsurance would be merged and diluted into TTI (which is much larger), so it would be used to pay claims in relation to all TTI policyholders, rather than just the former SBO policyholders. Instead, as policyholders of TTI, the additional protection provided by reinsurance would derive from the wider TT Club external reinsurance program.
- ▶ As policyholders of TTI, they would then benefit from the 90% quota share with TTB, and TTB would cover the cost of a large proportion of any claim (as described in paragraph 2.18).
- ▶ As policyholders of the TT Club, a final layer of protection is available for the Transferring Policyholders: this is the additional capital which could be sourced from the Mutual Policyholders through a supplementary call. As a mutual association, the TT Club can collect additional funds from across all Mutual Policyholders, as

and when additional funds are required to pay insurance claims. We also note that the Transferring Policyholders will not become Mutual Policyholders of TTI, so would not be liable to pay supplementary calls for additional premium.

- 4.74 I have reviewed the overall claims reserves of TTI and SBO and believe that they lie within a range of reasonable best estimates. I have reviewed the regulatory capital position of TTI after the Transfer, and TTI would meet that requirement. As described from paragraph 4.65, SBO is not subject to Solvency II capital requirements; however, if Solvency II did apply, SBO would not meet that capital requirement as at 31 December 2017. I believe that it is beneficial for the policyholders to move to a company that meets that higher regulatory capital requirement.
- 4.75 The TT Club has a rating of A- from the rating agency A.M. Best, which indicates a good level of security.
- 4.76 For the above reasons I believe that Transferring Policyholders have a good level of security prior to the Transfer and would continue to have a good level of security after the Transfer.

Other aspects of the Transfer

Direct and reinsurance policyholders

- 4.77 The majority of the policyholders of TTI are 'direct' policyholders in the sense that they are individuals or owners of vessels and marine interests, as opposed to other insurance companies (in the latter case, an insurance company would insure some marine interests and then reinsure the risk to TTI).
- 4.78 There are some reinsurance policyholders of TTI. This arises where TTI does not have a license to write business in certain countries, and so uses a fronting arrangement (a local company would write the risk and would then reinsure to TTI).
- 4.79 There are no reinsurance policyholders of SBO.
- 4.80 A changing mix of direct and reinsurance policyholders might have an impact on an insurance business transfer scheme because the ranking of creditors in the event of an insolvency is different for direct and reinsurance policyholders. In particular, direct policyholders would usually rank ahead of reinsurance policyholders, so at present the direct policyholders of TTI rank ahead of the SBO (SBO is a reinsurance policyholder of TTI). However, I believe that this is not an issue for the Transfer because:
- ▶ There are no reinsurance policyholders of SBO and so after the Transfer there is no issue that transferring reinsurance policyholders would rank behind direct policyholders of TTI.
 - ▶ SBO is very small compared to TTI; its gross reserves are less than 1% of the size of TTI's gross reserves. Therefore, the number of policyholders transferring to TTI is a small proportion relative to the number of current TTI policyholders, and the mix of direct and reinsurance policyholders in TTI after the Transfer will not change materially from the perspective of the TTI policyholders.

Customer service

- 4.81 TTI are already responsible for managing the policy and claim administration for SBO, and would continue to do so after the Transfer. When TTI took ownership of SBO they retained the member of staff who had historically been responsible for the policy and claims administration of SBO. SBO has 11 claims outstanding at present. Active claims are handled by external lawyers with a former member of SBO staff providing oversight and acting as the liaison between SBO and the reinsurers. The involvement of the external lawyers will continue until all the outstanding claims are settled, and the aforementioned member of staff would continue to perform the same role after the Transfer. This member of staff has

indicated that at some point she would like to resume her retirement, at which point claims oversight and liaison with reinsurers will then be transferred to a TTI employee.

- 4.82 I do not, therefore, anticipate any changes to the customer service provided to policyholders after the Transfer.

Pension arrangements

- 4.83 SBO operates a defined benefit pension plan (the 'Pension Plan') which currently has one deferred member (i.e., former employees of SBO, not currently at retirement age, who will receive a defined benefit pension from the Pension Plan upon retirement) and six pensioners (all of whom are backed by individual annuity policies held in the trustee's name). The Pension Plan has a separate trustee administered fund, holding the plan assets to meet the long-term pension liabilities. As the current statutory employer, SBO is responsible for meeting any deficit that arises in the Pension Plan.

- 4.84 I understand that SBO will either arrange a buy-out of the pension liability of the remaining deferred member or make a new offer to move her pension to a third party; this would commute this pension from the Pension Plan. The six annuity policies for current pensioners would then be transferred into the pensioners' own names, and the Pension Plan wound up; this would extinguish SBO's responsibility for meeting any deficit in the Pension Plan. However, if members remain in the Pension Plan then the following arrangements will be made:

- ▶ The Pension Trustee, SBO and the TT Club will investigate appointing the TT Club as a statutory employer of the Pension Plan, and apportioning any outstanding liabilities for the Pension Plan to the TT Club.
- ▶ A new recovery plan will be agreed between SBO and the Pension Trustee with the aim to extinguish any pension deficit that may exist on or before 30 November 2019.
- ▶ Any assets and liabilities in connection with the Pension Plan will be excluded from the Transfer and remain in the separate trustee administered fund after the Transfer.

- 4.85 This does not affect my conclusion on the Transfer. The assets and liabilities of the Pension Plan are small (with a current value of approximately £0.4m) relative to the size of TTI, and would not adversely affect the financial position of TTI.

- 4.86 I will comment on further developments on the pension arrangements in my Supplementary Report nearer the Transfer Date.

Tax implications of the Transfer

- 4.87 TTI has considered the tax effects of the Transfer. The surplus of assets over liabilities transferred from SBO to TTI on the Transfer Date will be treated as investment income by TTI, and this will give rise to a small tax liability.

- 4.88 I believe that the tax liability is small relative to the size of TTI, and therefore do not believe that there are any tax implications which will materially affect the policyholders or the financial position TTI.

Investment Management implications of the Transfer

- 4.89 I understand that there are no planned changes to the investment policy of TTI. The assets that will be transferred into TTI (other than the reinsurers' share of claims reserves) are largely made up of cash with a small amount of land and buildings.

- 4.90 Therefore, I do not believe any investment management changes affect my conclusion on the Transfer.

Implications of the Transfer on ongoing expense levels

- 4.91 TTI will bear the cost of the Transfer; however, given the size of TTI, no material change is anticipated in its ongoing expense levels.
- 4.92 The PRA and the FCA will be asked to revoke SBO's permission following the completion of the Transfer, thus completing its run off such that no further expense can be incurred.
- 4.93 I therefore do not anticipate that this will create any adverse impact to TTI or SBO policyholders as a consequence of the Transfer.

Liquidity position

- 4.94 As a result of the Transfer I do not anticipate any change to the liquidity position of the companies involved in the Transfer. I therefore conclude that the existing policyholders are not likely to be adversely affected as a result of the Transfer in relation to liquidity issues.

Set-off rights

- 4.95 '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. I do not believe that there are any material set-off rights that can be exercised by cedants or reinsurers. I have not identified any set-off issues as part of my work, and so this does not affect my conclusion on the Transfer.

Policyholder communication strategy

- 4.96 SBO and TTI propose to undertake procedures to notify policyholders and other interested parties of the Transfer. I understand that the following actions will be undertaken by SBO and TTI:
- (i) Notify various policyholders, insurance brokers and reinsurers (see paragraphs from 4.98).
 - (ii) Make relevant information, including this report, available on their website.
 - (iii) Advertise in the press (see paragraphs from 4.101).
- 4.97 Since computerised records began in 1993, SBO has had 1,515 policyholders with risks located in the UK, and 140 policyholders with risks located outside the EEA (mainly in Australia and New Zealand). The following table shows the precise number of policyholders by location.

Table 8: Location of SBO policyholders (all policyholders since 1993 included)

Location	Number of Policyholders
United Kingdom	1,515
New Zealand	92
Australia	34
South Korea	10
Myanmar	2
Philippines	1
Tonga	1
Total	1,655

Parties notified as part of the Communication Strategy

- 4.98 The regulations under the FSMA require that a communication is sent to every policyholder of the parties of an insurance business transfer scheme, unless the Court waives this requirement. SBO and TTI intend to request that the Court grants certain waivers in relation to these notification requirements. In considering these requests I have considered the relevance of the Transfer to the policyholder, the extent to which they might be disadvantaged by not receiving further notification, the extent to which they might be inconvenienced by the notification, and the practicalities and costs of making the notification. The waivers that SBO and TTI intend to request are:
- (i) **TTI policyholders.** I believe that this is reasonable because the effect of the Transfer on these policyholders is minimal, and it would not be practical to write to every TTI policyholder.
 - (ii) **Policyholders of SBO before 2008.** All these policies have expired. Given the period of time since the policy expiry dates, I believe that it is unlikely that any further insurance claims would be made by policyholders. Also, there are no outstanding claims in respect of these policies. I believe that it is reasonable to waive the requirement to notify these policyholders because it is unlikely that they would need to make a further insurance claim.
 - (iii) **Policyholders of SBO after 2008 where SBO does not have contact details of the policyholder.** There are no individual contact details available for the non-EEA policyholders because the vessels were registered overseas and the contracts were entered through insurance broker intermediaries (Willis and Action/Assure). These intermediaries have not provided SBO with the policyholder contact information. However, they have always been able to obtain a response from a policyholder when requested. I therefore have no reason to believe that they would not disseminate the scheme documents when so requested. Historically, these intermediaries have been very proactive in providing updates to SBO on correspondence with these policyholders. TTI will be in contact with these brokers on a weekly basis. This is so that the brokers can give an update on any queries relating to the Transfer that they have received from policyholders of SBO or TTI. In this way, TTI will ensure that they have not missed any queries from policyholders. The policyholders will also have the contact details of SBO and TTI, and so if they have any questions on the Transfer or objections to the Transfer, these can be addressed directly to SBO and TTI if a policyholder prefers that route. Furthermore, the policies written in respect of risks outside the EEA specifically excluded Protection and Indemnity risk, so these policies are not expected to give rise to any new claims. I have been informed that only marine hull cover is written into the Asia-Pacific region. I have also been shown a specimen of the typical policy form used in the cover issued by SBO to insureds in New Zealand and Australia, which I understand to be typical of the policy cover provided to all policyholders who are outside of the EEA. A sample of the non-EEA policies was also inspected by SBO to ensure that Protection & Indemnity risks were not covered. Additionally, all 140 non-EEA policies have expired, and the period during which claims can be made has lapsed. There are no outstanding claims in respect of these non-EEA policies and therefore I believe that the 'run-off' of these non-EEA policies is complete. For these reasons I believe that it is reasonable to waive the requirement to notify these policyholders individually.
- 4.99 SBO will also notify the reinsurers with whom SBO has placed a reinsurance contract which will transfer. I believe that this is reasonable approach.
- 4.100 I also note that the SBO and TTI contact details which policyholders should use will not change after the Transfer.

Advertisements in the press

- 4.101 The regulations under the FSMA require that the parties of an insurance business transfer scheme place notifications in two national newspapers in each EEA state in which a risk is situated. For the Transferring Policyholders, the UK is the only EEA state in which risks are situated.
- 4.102 TTI will place advertisements in the following three newspapers: 'Fishing News', 'The Herald', and 'The Financial Times (International Edition)'. TTI will also place notices in the London, Edinburgh and Belfast Gazettes. I believe that this approach is reasonable because:
- ▶ 'Fishing News' is widely read by British fishermen, who make up a large proportion of the SBO policyholders.
 - ▶ 'The Herald' is widely read along the East coast of Scotland, where a large proportion of SBO policyholders are based.
 - ▶ 'The Financial Times (International Edition)' is widely read. Also, the Transferring Policyholders are not all located in the UK, so this paper provides coverage to those other policyholders.
 - ▶ I believe that the combination of the above three newspapers provides wide coverage to the policyholders of SBO and TTI.

Conclusion on Communication Strategy

- 4.103 I am not aware of anything in the proposed communication to policyholders that would lead to a material adverse effect on any group of policyholders, and I therefore consider the proposed strategy to be reasonable.

Impact of Brexit

- 4.104 The UK intends to leave the EU in March 2019. It will take some time for the full implications of this decision to become clear. 'Brexit' has introduced or exacerbated a number of risks for insurers operating in the UK, particularly for those that trade across EU borders. There is also the potential that post Brexit UK insurers lose the ability that currently exists to insure risks in the EU without being authorised by local regulators. Some potential areas of concern are market volatility with a particular emphasis on exchange rate volatility, a higher risk of negative interest rates in the future and the impact of a changing regulatory environment.
- 4.105 Despite these risks to the insurance market as a whole, I do not believe that changes in the insurance market or the UK regulatory environment resulting from the outcome of the EU referendum will affect my conclusions relating to the Transfer as set out in this report. This is for the following reasons:
- ▶ All the SBO policyholders that might need to make a claim in the future are UK based. There are other SBO policyholders outside of the EEA, but I believe that it is very unlikely that they would need to make an insurance claim against their policies.
 - ▶ TTI, which will be the insurer of the Transferring Policyholders after the Transfer, will remain in the UK and remain subject to the UK regulatory regime.

- ▶ Once the nature of any changes to the insurance market or the UK regulatory environment is determined for the industry post-Brexit, TTI will comply with the requirements at that time in respect of its policyholders.

4.106 I will comment on further Brexit developments in my Supplementary Report nearer the date of the Transfer although I do not anticipate that any such developments would affect my conclusions on the Transfer.

Policyholders in jurisdictions outside the EEA

4.107 I have discussed with TTI and its advisors the possible impact of the Transfer on policyholders outside of the EEA. The 'location' of the policyholder is determined by the place at which the vessel is registered.

4.108 Outside of the EEA, SBO wrote a small number of policies covering vessels registered in the Asia-Pacific region. As discussed from paragraph 4.96, these risks are now fully run-off, and as such I do not believe that they are materially affected by the Transfer.

4.109 All policies will transfer as a matter of English law. The question is whether, to the extent any policies are governed by the laws of another state, such policies will transfer as a matter of local law. I am not aware of any evidence that the Transfer would not be recognised in any of these non-UK jurisdictions, as this would only occur under exceptional circumstance, which currently are not applicable to this Transfer.

4.110 A jurisdiction outside of the EEA could declare that the Transfer is not effective. However, I do not believe that this has a negative impact on policyholders because TTI would still be liable for payment of their claim. I have received confirmation that TTI has declared it will not use non-recognition as a defence for not paying valid claims from a non-EEA policyholder after the Transfer. I do not believe that there is any material disadvantage to a policyholder by requiring them to receive payment of their claim from TTI rather than from SBO.

4.111 Therefore, the existence of policyholders outside of the EEA does not affect my conclusion on the Transfer.

Governance

4.112 TTMS has provided individuals to carry out key management functions at SBO. After the Transfer, the portfolio of policies that has been transferred from SBO will continue to be managed by TTMS as part of TTI.

4.113 The directors of SBO are also the executive directors of TTI (the other directors of TTI are all non-executive directors). This means that the same executive directors are responsible for the SBO policyholders before and after the Transfer.

4.114 I do not, therefore, anticipate any changes to the Governance of SBO after the Transfer.

Financial Services Compensation Scheme

4.115 Consumer protection is provided by the Financial Services Compensation Scheme ('FSCS') in the UK. This is a statutory 'fund of last resort' which compensates customers in the event of the insolvency of a financial services firm. Insurance protection exists for private policyholders and small businesses (with annual turnover of less than £1 million) in the situation where an insurer is unable to meet its liabilities. The FSCS will pay 100% of any claim incurred for compulsory insurance (e.g., motor third party liability insurance or professional indemnity insurance) and 90% of the claim incurred for non-compulsory insurance (e.g., home insurance), without any limit on the amount payable. The FSCS is funded by levies on firms authorised by the PRA and the FCA. No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance. Contracts of reinsurance are also not protected.

- 4.116 After the Transfer, the protection provided by the FSCS will apply to all UK policyholders and potential claimants of SBO to whom it currently applies. The Transfer does not affect the availability of compensation under the FSCS so the same protection from the FSCS would continue to exist for these policyholders after the Transfer. The TTI policyholders would also continue to be protected in the current way and the Transfer would not affect this protection. I have therefore concluded that no policyholders are not adversely affected by the Transfer in relation to the FSCS arrangements.

Financial Ombudsmen Service

- 4.117 The Financial Ombudsman Service (FOS) provides private individuals and micro-enterprises with a free, independent service for resolving disputes with financial companies with the FOS having the power to make binding recommendations relating to disputes up to £150,000. Micro-enterprises are defined to be businesses with less than €2m annual turnover and fewer than ten employees.
- 4.118 It is not necessary for the private individual or micro enterprise 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.
- 4.119 The UK-based Transferring Policyholders that qualify for the FOS will continue to be eligible following the Transfer and as a result I do not believe any policyholders will be affected by the Transfer in relation to the FOS.

Legal Opinions

- 4.120 There are no areas of my work where I have needed to obtain an independent legal opinion.

5. Reliances and limitations

Events following the modelling date

- 5.1 The conclusions in this report are based on various analyses that have been carried out on data as at different points in time (typically 31 December 2017). I have been informed by TTI that there have been no material changes between the modelling dates and the date of this report. However, future events could occur between the date of this report and the effective date of the Transfer that could change my conclusions. I will provide a letter prior to the sanction of the Transfer to update the Court on whether there have been any material changes since the issue of this report.
- 5.2 The balance sheets shown in this report are based on data as at 31 December 2017 for both TTI and SBO. I would expect some changes to have taken place between then and the date of this report.

Reliance on other parties

- 5.3 In developing the conclusions in this report, I have relied on the data and accompanying explanations supplied to me by and on behalf of SBO and TTI. I have received specific statements of data accuracy from SBO and TTI. I have not specifically reviewed the data for accuracy and completeness but I have reviewed it for reasonableness.
- 5.4 I have carried out investigations, as detailed in this report, to gain comfort on the appropriateness of the methodology and conclusions for the most significant liabilities. However, this has not amounted to a full re-estimation of every class of business, so by definition I have relied upon the reserving work performed on behalf of SBO and TTI for some components of the claims reserves. I believe that this is reasonable given the experience and professional qualification of the authors of the documents and the testing that I have carried out. The reviews that I have carried out on the reserves give no indication of any significant deficiency and I believe that appropriate methodologies have been adopted throughout.
- 5.5 I have also relied upon discussions that I have had with the management of SBO and TTI. Where appropriate, I have sought documentation from them to evidence the assertions made to me in these discussions.
- 5.6 Additionally, draft versions of this report have been reviewed by the management of SBO and TTI, in particular the CFO of both the TT Club and SBO, and the Corporate Development Director of Thomas Miller, and challenged appropriately where they believed this report did not capture structural or contractual information in sufficient detail or clarity.

Use of benchmarks

- 5.7 As well as analysing the trends of the historical claims development, I have also relied upon benchmarks from wider market experience. Whilst SBO and TTI's own development can be expected to vary from the benchmarks based on individual circumstances, I believe that the benchmarks are an appropriate check. However, benchmarks are revised periodically as new information and trends emerge, and it is likely that individual accounts will differ from the average. Therefore, it is possible that these benchmarks will not be predictive of the future claim reporting of SBO or TTI.
- 5.8 I have also used other benchmarks based on my wider market experience to assess the appropriateness of some of the assumptions used within the reserve estimations and capital modelling performed for SBO and TTI.

Other reliances

- 5.9 The underlying numbers contained in this report are calculated to many decimal places and so totals and summaries are subject to rounding differences.

- 5.10 In my judgement, the results and conclusions contained in this report are reasonable given the information made available to me. However, the actual cost of settling future claims and those still outstanding as at the valuation date is uncertain as, amongst other things, it depends on events yet to occur such as future court judgments. It could be different from the estimates shown in this report, and possibly materially so. Such differences between the estimated and actual outcome could possibly have a material impact upon the balance sheet strength of the companies involved, and therefore upon the Transfer.
- 5.11 I do not believe that there are any matters that are relevant to SBO's or TTI's policyholders' consideration of the scheme which I have not taken into account.

Appendix A Glossary

The following key terms have been used throughout this report and are gathered here for ease of reference.

Term	Definition
Best Estimate	An estimate prepared with no margin for either prudence or optimism included.
Counterparty Default Risk	The risk of any defaults of counterparties (i.e. any institution or individual that is a debtor to the undertaking).
Court	The High Court of England and Wales
Direct policyholders	Policyholders that are not insurers or reinsurers
EU	European Union
External reinsurance	Reinsurance cover provided by reinsurers (before the application of the loss portfolio transfer reinsurance between SBO and TTI).
FCA	The Financial Conduct Authority, one of the regulators of the insurance industry in the UK (in conjunction with the PRA).
FFA	The flexible apportionment arrangement which switches the sponsoring employer of the Pension Plan from SBO to TTI.
FRC	The Financial Reporting Council, the body responsible for setting actuarial standards in the UK.
FSMA	Financial Services and Markets Act 2000
IBNR	Incurred but not reported. Refers to the amounts an insurer will have to pay for claims that are reported in the future but relate to events that have already occurred. Often used to refer to any amounts insurers must pay over and above existing case reserves and hence also includes IBNER (as defined below). Where it does not include IBNER, it is sometimes referred to as 'Pure IBNR'.
IBNER	Incurred but not enough reported. Refers to the amounts an insurer will have to pay over and above existing case reserves for claims that have already been reported, i.e., the estimated cost of any anticipated future development on known claims. This is often included within IBNR.
Independent Expert	The suitably qualified person appointed by the court to produce an independent report on the Transfer, in accordance with the FSMA.
Insurance Risk	Risks relating to insurance policies sold, i.e., the risk that the cost of claims for which the insurer is responsible proves to be higher than expected.
Loss Portfolio Transfer (LPT)	An arrangement whereby the economic burden in respect of a specified book of business is passed in its entirety from one insurance entity to another.
Market risk	Risks relating to investment performance and changes in the value of investments.
MCR	Minimum Capital Requirement, a formulaic calculation of the capital requirement as part of the existing European Solvency II regulations for insurers.
Operational risk	Risks relating to failure of operational procedures
Own Funds	Available capital to meet the capital requirements under Solvency II
Pension Plan	The defined benefit pension plan of SBO
PRA	The Prudential Regulatory Authority, one of the regulators of the insurance industry in the UK (in conjunction with the FCA).
QRT	Quantitative Reporting Template required to be completed by insurers and provided to regulators quarterly under Solvency II regulations (defined below).

Term	Definition
SCR	Solvency Capital Requirement. The amount of capital insurers are required to hold under Solvency II regulations. If an insurer's capital (i.e., the excess of its assets over its liabilities) falls below the SCR, it will trigger regulatory intervention, with the intention of remedying that position.
SFCR	Solvency and Financial Condition Report – a report that the EU regulators require insurers to produce annually under Solvency II regulations (defined below) that is made publicly available.
Solvency II	An updated set of regulatory requirements for insurers that operate in the EU. These requirements apply to insurers from 1 January 2016.
Standard Formula	A prescribed approach under Solvency II for the calculation of capital based on an insurer's financial information (e.g. premium, claims reserves, etc.).
TAS 100	The Technical Actuarial Standard issued by the FRC which should be applied to all aspects of technical actuarial work.
TAS 200	The Technical Actuarial Standard issued by the FRC relating to matters where there is a high degree of risk to the public interest.
Transfer	The proposed insurance business transfer of the business of SBO to TTI
Transfer Date	The date on which the Transfer becomes effective, currently expected to be 17 June 2019.
UK	United Kingdom of Great Britain and Northern Ireland
UK GAAP	Generally Accepted Accounting Principles as defined in the UK
Underwriting Risk	The risks relating to the upcoming year of insurance business to be written, unexpired policies at the balance sheet date, and the uncertainties relating to the claims reserves at the balance sheet date.

Appendix B Extract from EY Terms of Engagement

Scope of services

This engagement will cover the appointment of Ruth Nelmes as Independent Expert for the SBO to TTI part VII transfer (the "Transfer"). We note that the primary duty of the Independent Expert in an insurance business transfer in the UK is to the High Court of England and Wales ("the Court").

We will:

- ▶ Analyse work you have carried out on the companies and portfolios of policies involved in the Transfer, including (but not limited to) the adequacy of the claims reserves and capital modelling analysis (under solvency rules) for each of the groups of policyholders who are affected by the Transfer.
- ▶ Supplement this with such additional calculations and investigations as the Independent Expert believes are necessary to enable him to form a view on the implications of the Transfer on the policyholders involved and communicate this to the Court.

We will prepare the following reports (together the "Reports"):

- ▶ A report (the 'Report') providing the Independent Expert's conclusions on the Transfer and explanation of those conclusions, to be presented in draft to the PRA and FCA (together the "UK financial regulators") on a date agreed with the UK financial regulators and then updated as required following the feedback from both the UK financial regulators and then delivered to the Court in sufficient time prior to the initial directions hearing.
- ▶ An update letter (the 'Update Letter') to supplement the Report, to be presented to the Court at the final court hearing to consider the sanction of the Transfer. The Update Letter will discuss issues that have arisen between preparation of the Report and the final court hearing that the Independent Expert considers material to the Transfer, as well as any impact on his conclusions.
- ▶ A scheme summary report (the 'Summary Report'). In accordance with the Financial Services and Markets Act 2000 and subordinate regulations, a summary of the Independent Expert's report will be provided to affected policyholders and any other person entitled to receive a copy to assist them with assessing the Transfer.
- ▶ Such further reports as may be required by the Court, the UK financial regulators or by you in connection with the Transfer, it being acknowledged that the preparation of such reports may incur additional costs which (if relevant) will be agreed in advance of the relevant work being undertaken.

We will ensure that the Reports comply with the requirements of the Financial Services and Markets Act 2000, PRA's Statement of Policy – "The Prudential Regulation Authority's approach to insurance business transfers", applicable case law, relevant professional guidance and requests made by the UK financial regulators and Part 35 of the Civil Procedure Rules (each as amended, supplemented or replaced from time to time). This includes any obligations we may have thereunder to evaluate and verify any information which you have provided to us in connection with the provision of the Services or the preparation of the Reports.

In performing the Services, we will use the skill, care, expertise and competence that could reasonably be expected from a highly reputable international consultancy firm or company providing to major multinational corporations the same or similar Services to those provided

under the Agreement (including the particular skill and expertise of the Independent Expert selected for appointment to the Transfer).

Where the Independent Expert determines that she will require legal support in relation to any issues relating to the Transfer we will endeavour to use information produced by your legal advisors wherever possible. Where we do need to obtain an independent legal opinion on any matter we will agree with you the instructions for this legal advice and associated fees in advance.

As part of this engagement Ruth Nelmes will be responsible for providing the report in his role as Independent Expert. In that role Ruth will be undertaking the work on behalf of EY and EY takes responsibility for the work undertaken by its partners and employees. Specifically, Ruth will be personally responsible for the report but that EY also takes responsibility for this work as a result of Ruth being employed by EY.

Appendix C Ruth Nelmes experience

Background

- ▶ Partner within the UK Actuarial department based in London
- ▶ Over 17 years' general insurance experience
- ▶ Qualified as an Actuary in 2007
- ▶ Graduated in 2000 with a BSc in Mathematics from Imperial College of Science Technology and Medicine London

Skills

- ▶ P&I club experience, UK Retail and Gibraltar Motor portfolios
- ▶ Solvency II Implementation, Model Validation and Gap Analysis
- ▶ Solvency II Balance sheets, Standard Formula and disclosures
- ▶ Experience in M&A transaction assessment and integrations
- ▶ Post-Merger Integration

Professional Experience

- ▶ Ruth has been involved in helping companies develop their Brexit strategies and implementation plans including planning for Part VII transfers.
- ▶ She is supporting a UK insurer through their application to a new regulator at present which includes the assessment of business plans, reserve levels, capital requirements under both GAAP and Solvency II, as well as new reinsurance arrangements and the set of new governance structures.
- ▶ She is support a Swiss reinsurer with their Standard Formula calculations to assess the viability and transfer structure into the UK.
- ▶ She is the peer reviewer for several Part VII transfers undertaking in-depth review and challenge of the proposed transfer, reserve levels and capital impacts. This has included P&I club transfers.
- ▶ She has been involved in several merger / acquisition situations and integration workstreams across the UK and internationally for personal and commercial line business.
- ▶ Ruth is currently also assisting a large Global Insurance and Reinsurance company with post-merger integration activity within the actuarial and finance space.
- ▶ Ruth has extensive experience of performing independent reserve review exercises for UK Retail companies – with Motor, Household and Liability (including NIHL) exposures.
- ▶ She is also heavily involved in the audits of GAAP and Solvency II technical provisions estimates for:
- ▶ Several UK Insurers writing Motor and Household business

- ▶ Several large Gibraltar Motor portfolios
- ▶ Ruth has lead the due diligence work for both the purchase and disposal of motor portfolios in the UK, Eastern Europe and Middle East.
- ▶ Ruth has extensive experience in Solvency II.
- ▶ She has supported a large Global Insurance group based in the UK, Paris and the US with their Solvency II implementation, providing technical assistance in the areas of Risk and Capital Management, Capital Modelling, Documentation and the IMAP process.
- ▶ She has also performed an external model validation for a large UK Retail company which included a detailed review of insurance risk including PPOs, a review of their Catastrophe modelling process and internal validation procedures.
- ▶ She has also performed a Standard Formula review for the same UK Retail company.

Appendix D Summary of data provided

Data area	File(s)
Financial information	TT Club and TTI Financial Positions as at 31 December 2017
	TTI PRA Solvency II return 2017
	SBO's investments split into types
	SBO outstanding claims and reserves schedules 2016-2017
	SBO Directors Report & Financial statements 2015-2017
	Thomas Miller & Co – external actuarial review of TT Club as at 30 November 2017 and internal summary report
	TT Club Mutual Insurance Limited Solvency & Financial Condition Reports as at 31 December 2017 and 31 December 2016
	SBO Scheme of Operations, as agreed with PRA in 2016. Includes SBO financial forecasts - Profit and Loss Accounts, Balance Sheet, Capital Requirements (MCR and SCR) as at the date of the Scheme
Schedules showing the impact of the Transfer on the reserves and balance sheets of each company as at 31 December 2017	
Pensions Scheme	Pension Scheme statements
Reinsurance	TT Club external reinsurance structure 2017
	SBO reinsurance contract with TT 2017
	SBO's reinsurance contracts from 2009-2016
Capital calculations	TTI's Standard Formula SCR model

Appendix E Checklist against PRA's Statement of Policy and SUP18 of the FCA Handbook

The table below shows the relevant section references in this 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.

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	1.10, 1.14
PRA 2.30 (2) FCA 18.2.33 (2)	Confirmation that the independent expert has been approved or nominated by the PRA (or appropriate regulator);	1.10
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;	1.10, Appendix C
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;	1.12 to 1.13
PRA 2.30 (5) FCA 18.2.33 (5)	The scope of the report;	1.20 to 1.21, Appendix B
PRA 2.30 (6) FCA 18.2.33 (6)	The purpose of the scheme;	2.19 to 2.21
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;	2.1 to 2.4
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;	1.22 to 1.26, Appendix D
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;	1.23 to 1.24, 5.3 to 5.6
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;	1.23 to 1.24, 5.3 to 5.6
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;	3.1 to 3.26, 4.69 to 4.71, 4.72 to 4.76
PRA 2.30 (12) FCA 18.2.33 (11 A)	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;	2.4

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	5.11
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.	4.18 to 4.120
PRA 2.33 (1) FCA 18.2.36 (1)	Include a comparison of the likely effects if it is or is not implemented;	3.1 to 3.26
PRA 2.33 (2) FCA 18.2.36 (2)	State whether they considered alternative arrangements and, if so, what;	1.21
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; and	4.9, 4.69 to 4.76
PRA 2.33 (4) FCA 18.2.36 (4)	<p>Include their views on:</p> <p>(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;</p> <p>(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:</p> <p>(i) the security of policyholders' contractual rights;</p> <p>(ii) levels of service provided to policyholders; or</p> <p>(iii) for long-term insurance business, the reasonable expectations of policyholders; and</p> <p>(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.</p>	<p>(a) 4.69 to 4.76</p> <p>(b) 4.69 to 4.120</p> <p>(b)(i) 4.69 to 4.76</p> <p>(b)(ii) 4.81 to 4.82</p> <p>(b)(iii) N/A</p> <p>(c) 4.87 to 4.88, 4.91 to 4.93</p>
PRA 2.35 (1) FCA 18.2.38 (1)	For any mutual company involved in the scheme: 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;	4.73
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; and	4.73
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	4.73