MILLIMAN CLIENT REPORT

Report of the Independent Expert on the proposed transfer of business from TT Club Mutual Insurance Limited to UK P&I Club N.V.

11 May 2021

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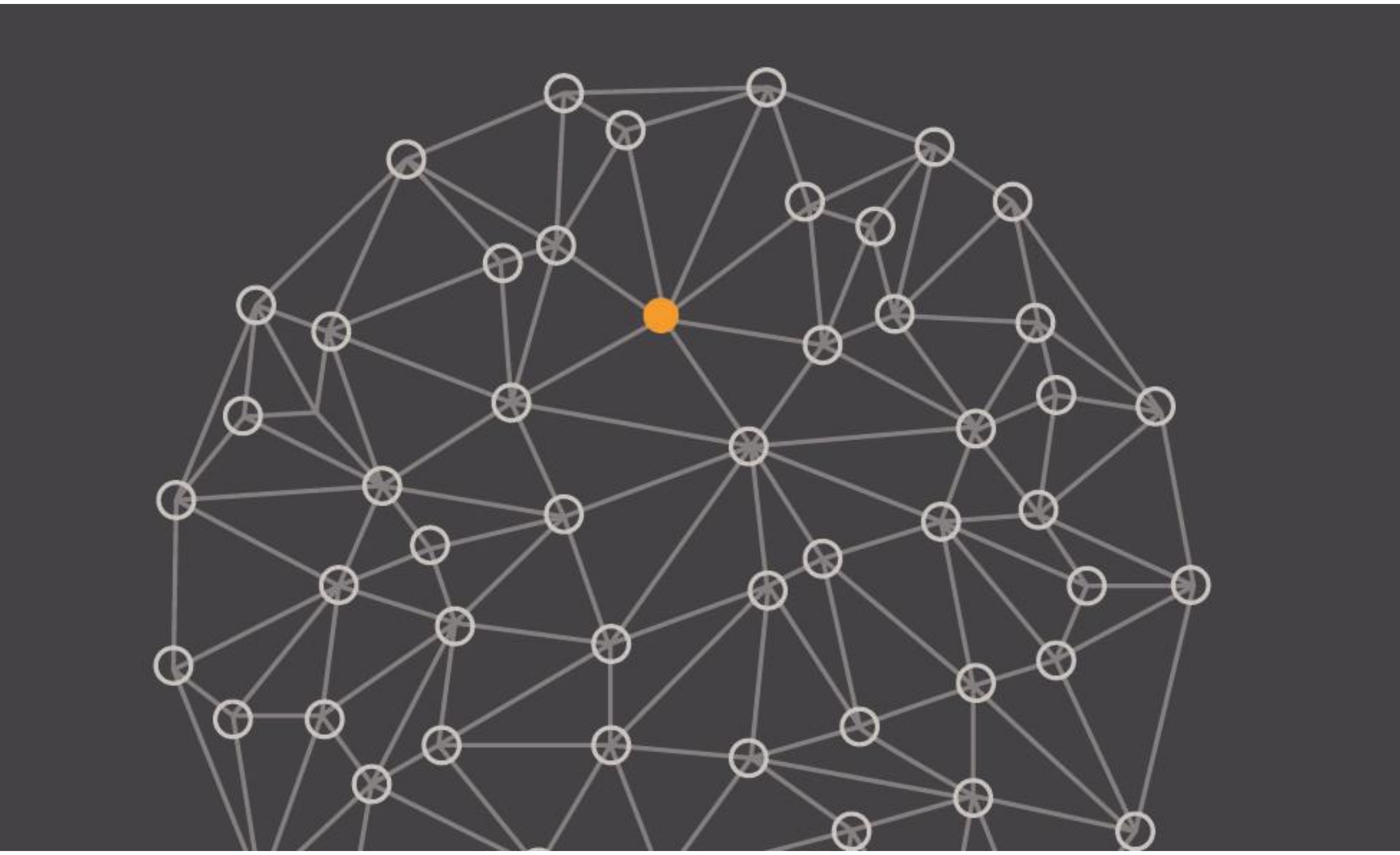

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1. Purpose and Scope

PURPOSE OF THIS REPORT

1.1 It is proposed that part of the insurance and reinsurance business of TT Club Mutual Insurance Limited ("**TTI**" or the "**Transferor**") be transferred to UK P&I Club N.V. ("**UKNV**" or the "**Transferee**") by an insurance business transfer scheme ("**the Scheme**"), as defined in Section 105 of the Financial Services and Markets Act 2000 ("**FSMA**"). In this report (the "**Report**"), I refer to any such business transfer scheme as a "**Part VII Transfer**".

1.2 Section 109 of FSMA requires that an application to the High Court of Justice in England and Wales ("**the Court**") for an order sanctioning an insurance business transfer scheme must be accompanied by a report on the terms of the transfer ("**FSMA Report**"). The FSMA Report must be prepared by an independent person (the "**Independent Expert**") who has the skills necessary to make the report and who is nominated or approved by the Prudential Regulation Authority ("**PRA**"), the PRA having consulted with the Financial Conduct Authority ("**FCA**"). The FSMA Report is required in order that the Court may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question.

1.3 I refer to TTI and UKNV collectively as "**the Companies**". The Companies have nominated me to act as Independent Expert to provide the FSMA Report in respect of the Scheme, and the PRA, in consultation with the FCA, has approved my appointment (see paragraph 1.12, below).

1.4 This Report describes the proposed transfer and discusses its possible effects on the policyholders of UKNV and TTI, including its effects on the security of policyholder benefits and levels of service. As such, this Report fulfils the requirements of the FSMA Report.

1.5 TTI is domiciled and authorised in the UK, where it is regulated by both the PRA and the FCA. UKNV is domiciled and authorised in the Netherlands, where it is regulated by both the Dutch Central Bank ("**DNB**") and the Netherlands Authority for the Financial Markets ("**AFM**").

1.6 A list of terms defined in this Report is shown in Appendix A. Otherwise, I use the same defined terms (which are capitalised in this Report) as are in the document that sets out the terms of the Scheme (the "**Scheme Document**").

THE SCHEME

1.7 Under the Scheme, it is intended that the business to be transferred to UKNV (the "**Transferring Business**") comprises all business underwritten by TTI before 1 January 2021 that covers risks located in the European Economic Area ("**EEA**[1]").

1.8 With effect from 1 January 2021, the renewal rights relating to the Transferring Business have been passed by TTI to UKNV and all such business written by UKNV is 100% reinsured by TTI, in accordance with a reinsurance agreement between UKNV and TTI, dated 25 January 2021 (the "**TTI UKNV Reinsurance Agreement**"). As such, UKNV acts as a fronting insurer for TTI (as well as other insurers) in respect of its business covering EEA risks. The TTI UKNV Reinsurance Agreement is intended also to cover, post-Scheme, the Transferring Business, so that, post-Scheme the Transferring Business will be 100% reinsured by TTI.

1.9 The Effective Date of the Scheme is expected to be 30 September 2021.

1.10 The operational management of both TTI and UKNV, including all policy administration, claims handling, etc., is currently conducted by staff employed by companies within the group whose ultimate parent is Thomas Miller Holdings Ltd. ("**Thomas Miller Group**"). Thomas Miller Group will continue to provide the operational management of both TTI and UKNV post-Scheme.

1.11 The business involved in the Scheme, the arrangements for the Scheme and the effect of the Scheme are discussed in more detail in Sections 4 to 9 of this Report.

[1] *Prior to 31 January 2020, the UK was a member state of the EEA. However, when referring to the EEA in this Report, I am considering it in the context of its composition as at the date of the Report, i.e. excluding the UK.*

THE INDEPENDENT EXPERT

1.12 I, Derek Newton, have been appointed by TTI and UKNV as the Independent Expert to consider the Scheme under Section 109 of FSMA. My appointment has been approved by the PRA in consultation with the FCA; this was confirmed in a letter dated 21 December 2020.

1.13 I am a Principal of Milliman LLP ("**Milliman**") and I am based in its UK General Insurance practice in London. I am a Fellow of the Institute and Faculty of Actuaries ("**IFoA**"), which was established in 2010 by the merger of the Institute of Actuaries and the Faculty of Actuaries. I became a Fellow of the Institute of Actuaries in 1988. My experience of general insurance includes (reserved) roles such as Signing Actuary to Lloyd's syndicates and to Irish non-life insurance companies, as well as acting as the Independent Expert in seven insurance business transfer schemes that were sanctioned in 2014, 2015, 2016, 2017, 2019 and 2020 (two) respectively. One of the two transfers sanctioned in 2020 involved the transfer of protection and indemnity ("**P&I**") business and the other involved the transfer of business to an entity authorised and regulated in the Netherlands. I have included my Curriculum Vitae in Appendix B in which I explicitly note the insurance business transfer schemes for which I have acted as the Independent Expert, as well as those for which I have provided peer review support to the Independent Expert.

1.14 I do not have, and, to the best of my knowledge, never have had, any direct or indirect interest in any of the parties involved in the proposed Scheme. I have never had any insurance policies with the Companies or with any entity related to the Companies (including Thomas Miller Group), and I am not a shareholder or member of any entity related to the Companies. I have not previously acted in an advisory role to either of the Companies or to any entity related to the Companies.

1.15 Milliman has no current business relationship with TTI, UKNV or any entity related to the Companies. Other than indirectly through its work with the International Group of P&I Clubs (the "**International Group**"), I am unaware of any past business relationship between Milliman and TTI, UKNV or any entity related to the Companies.

1.16 I believe that, for all practical purposes, I am independent for the purposes of assessing the proposed Scheme.

1.17 The Scheme is subject to sanction by the Court under Section 111 of FSMA.

1.18 TTI will meet the cost of my work as Independent Expert. No costs of the Scheme will be borne directly by any of the policyholders of either TTI or UKNV.

THE SCOPE OF MY REPORT

1.19 My terms of reference have been reviewed by the PRA and by the FCA and are set out in Appendix C.

1.20 I have considered the terms of the Scheme only and have not considered whether any other scheme or schemes or alternative arrangement might provide a more efficient or effective outcome.

1.21 The Report describes the Scheme and their likely effects on policyholders of TTI and UKNV, including effects on the security of policyholders' benefits and levels of service.

1.22 The Report should be read in conjunction with the full terms of the Scheme.

1.23 My work has required an assessment of the liabilities of TTI and UKNV for the purposes of describing the effect of the Scheme. My review of the liabilities was based on the actuarial reserve assessments conducted by actuaries employed by Thomas Miller Group, on behalf of both TTI and UKNV. I have reviewed the methodology and assumptions used in their work and assessed the key areas of uncertainty in relation to these liabilities. I have not attempted to review in detail the calculations performed by the Thomas Miller Group actuaries on behalf of TTI and UKNV or to produce independent estimates of the liabilities.

1.24 In addition to the liabilities, I have assessed the appropriateness in nature and amount of any assets to be transferred under the Scheme, and the capital position of TTI and UKNV both pre- and post-Scheme. Again, I have not attempted to review in detail the calculations of the capital position performed by Thomas Miller Group employees, on behalf of both UKNV and TTI, and I have not attempted to produce independently my own estimates.

1.25 As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the Scheme and in preparing this Report, but which nonetheless should be drawn to the attention of policyholders in their consideration of the Scheme.

1.26 In reporting on the Scheme as the Independent Expert, I recognise that I owe a duty to the Court to assist the Court on matters within my expertise. This duty overrides any obligation to TTI and / or to UKNV. I confirm that I have complied with this duty.

1.27 I have taken account of the requirements regarding experts set out in Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Protocol for Instruction of Experts to give Evidence in Civil Claims.

1.28 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.

1.29 Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a supplemental report ("**Supplemental Report**") that will cover any relevant matters that might have arisen since the date of this Report.

Materiality

1.30 After considering the effects of the Scheme on each of the different groups of policyholders affected by the Scheme (as identified in paragraph 5.11 below), I have drawn conclusions as to whether I believe the Scheme will materially adversely affect that group of policyholders. It should be recognised that the Scheme will affect different policyholders in different ways, and that, for any one group of policyholders, there may be some effects of the Scheme that are positive and others that are adverse. If some effects of the Scheme are adverse, that does not necessarily mean that the Scheme is unreasonable or unfair, as those adverse effects may be insignificant or they may be outweighed by positive effects.

1.31 In order to determine whether any effects of the Scheme on any group of policyholders are materially adverse, it has been necessary for me to exercise my professional judgement in the light of the information that I have reviewed.

1.32 When assessing the financial security of policyholders, I have looked at the solvency position of the Companies, both pre- and post-Scheme, relative to regulatory solvency requirements, and also at the nature of the assets that constitute each company's capital and surplus. It should be noted that a company may have capital considerably in excess of its regulatory requirements, but that the directors of a company could legitimately reduce that level of capital (for example, through the payment of dividends) and still leave the company appropriately capitalised. In circumstances where the Scheme has adversely affected the financial security of a group of policyholders, in order to determine whether that impact is material, I have considered whether the level of financial security projected to be in place after the transfer would have been acceptable and permissible before the transfer had taken place. I would determine that any adverse impact to a particular group of policyholders is material if the level of financial security afforded to them after the transfer would not have been acceptable relative to the normal constraints under which the company's capital position was managed before the transfer.

THE STRUCTURE OF MY REPORT

1.33 The remainder of this Report is set out as follows:

- Section 2: I provide an executive summary of this Report (I have also provided a separate summary of this Report, as described in paragraph 1.39, below).
- Section 3: I provide some background information regarding the two regulatory environments in which TTI and UKNV operate.
- Section 4: I provide some background information regarding TTI and UKNV.
- Section 5: I summarise the key provisions of the Scheme.
- Section 6: I consider the likely impact of the Scheme on the holders of policies included within the Transferring Business ("**Transferring Policyholders**").
- Section 7: I consider the likely impact of the Scheme on the policyholders who would remain within TTI after the transfer has taken place ("**TTI Non-Transferring Policyholders**").
- Section 8: I consider the likely impact of the Scheme on the current policyholders of UKNV.
- Section 9: I cover more general issues relating to the Scheme and the management of TTI and UKNV.

1.34 I summarise my conclusions in Section 10.

RELIANCES AND LIMITATIONS

1.35 In carrying out my review and producing this Report, I have relied, without detailed verification, upon the accuracy and completeness of the data and information provided to me, in both written and oral form, by the Companies. Reliance has been placed upon, but not limited to, the information detailed in Appendix F. My opinions depend on the substantial accuracy of this data, information and the underlying calculations. I am unaware of any issue that might cause me to doubt the accuracy of the data and other information provided to me. All information that I have requested in relation to my review has been provided. I have been assisted in my review of the information and my analyses by colleagues of mine at Milliman but I have not relied on their work or their advice.

1.36 The Report has been prepared for the purposes of the Scheme in accordance with Section 109 of FSMA. A copy of this Report will be sent to the FCA and PRA, and will accompany the Scheme application to the Court.

1.37 The Report must be considered in its entirety as individual sections, if considered in isolation, may be misconstrued.

1.38 Neither this Report, nor any extract from it, may be published without me having provided my specific written consent, save that

- copies of this Report may be made available for inspection by policyholders who might be affected by the Scheme, and
- copies may be provided to any person requesting the same in accordance with legal requirements.

I explain in paragraph 5.39, below, that TTI and UKNV intend to set up a specific page on their respective websites dedicated to the Scheme. I consent to this Report being made available on the TTI and UKNV website pages dedicated to the Scheme.

1.39 No summary of this Report may be made without my express consent. I will provide a summary of this Report (the "**Report Summary**") for inclusion in a document that will be made available to the affected policyholders of TTI and of UKNV, to the lawyers and brokers dealing with or representing individual claimants in relation to the Transferring Business, and to anyone who has been identified as having an interest in the policies being transferred or who has notified TTI or UKNV of their interest (further details are provided in paragraphs 5.34-5.36, below). That document will be sent to the FCA and PRA, will accompany the Scheme application to the Court, and will be available on the TTI and UKNV website pages dedicated to the Scheme.

1.40 This Report has been prepared within the context of the assessment of the terms of the Scheme and must not be relied upon for any other purpose. Milliman and/or I will accept no liability for any application of this Report to a purpose for which it was not intended or for the results of any misunderstanding by any user of any aspect of this Report. In particular, no liability will be accepted by Milliman or me under the terms of the Contracts (Rights of Third Parties) Act 1999.

1.41 Actuarial estimates are subject to uncertainty from various sources, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, economic and investment conditions. Therefore, it should be expected that the actual emergence of claims, premiums, expenses and investment income will vary from any estimate. Such variations in experience could have a significant effect on the results and conclusions of this Report. No warranty is given by Milliman or me that the assumptions, results and conclusions on which this Report is based will be reflected in actual future experience.

1.42 This review does not comprise an audit of the financial resources and liabilities of TTI or UKNV.

1.43 The Report should not be construed as investment advice.

1.44 Nothing in this Report should be regarded as providing a legal opinion on the effectiveness of the Scheme.

1.45 In considering the background to the Companies, and in considering the likely impact of the Scheme, I have made extensive use of the most recent audited financial information that is available[2]. I have also taken into account updated financial information that has been made available to me, although I note that this updated information has not been audited and that, in general, it has not been publicly disclosed. I have asked the managements of the Companies for information regarding any developments between the dates of their respective most recent audited financial statements and the date of this Report that would have affected the Companies, in particular any development that might have affected the security of their policyholders and the standards of service provided to them, both now and in future. I have referred in this Report to the developments that they have reported to me. The managements of TTI and UKNV have confirmed to me that there have been no other such developments. I have also searched using on-line resources for information regarding any such developments. At the date of this Report, I am not aware of any material changes in circumstances since the dates of the Companies' respective most recent audited financial statements other than those referred to in this Report. The Report also takes no account of any information that I have not received, or of any inaccuracies in the information provided to me. I will review any further financial statements of TTI and UKNV, whether audited or unaudited, as and when they become available, and will comment on this information in my Supplemental Report.

1.46 All of the financial information with which I have been provided has been expressed in US Dollars. However, I would expect that some of the underlying assets and transactions would be or would have been denominated in other currencies. I presume that, throughout the financial information, data in other currencies has been converted to US Dollars at appropriate and mutually consistent currency exchange rates.

1.47 The use of Milliman's name, trademarks or service marks, or reference to Milliman directly or indirectly in any media release, public announcement or public disclosure, including in any promotional or marketing materials, websites or business presentations, is not authorised without Milliman's prior written consent for each such use or release, which consent shall be given in Milliman's sole discretion.

PROFESSIONAL AND REGULATORY GUIDANCE

1.48 I am required to comply with relevant professional standards and guidance maintained by the Financial Reporting Council and by the IFoA, including *TAS 100: Principles for Technical Actuarial Work* and *TAS 200: Insurance*. I have complied with such standards, subject to the principles of proportionality and materiality.

1.49 In accordance with *Actuarial Profession Standard X2*, as issued by the IFoA, I have considered whether this Report should be subject to review ("**Work Review**"). I concluded that it should and I have also decided that the Work Review should be conducted by an individual who has not otherwise been involved in the analysis underlying this Report or in the preparation of this Report, but who would have had the appropriate experience and expertise to take responsibility for the work himself. In other words, I have decided that this Report should be subject to Independent Peer Review. I confirm that this Report has been subject to Independent Peer Review prior to its publication.

1.50 This Report has been prepared under the terms of the guidance set out in the Statement of Policy entitled *The Prudential Regulation Authority's approach to insurance business transfers* ("**the Policy Statement**"), issued in April 2015 (see Appendix E), and in Section 18 of the FCA Supervision Manual ("**SUP18**") contained in the Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. I have also followed the guidance contained within the FCA's May 2018 paper on Part VII Transfers (FG18/4).

[2] *As at 31 December 2019 in the case of TTI; as at 20 February 2020 in the case of UKNV.*

2. Executive Summary

CONCLUSION

2.1 In my opinion, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so:

- The Scheme will not materially adversely affect the security of benefits to policyholders of either TTI (both the Transferring Policyholders and the TTI Non-Transferring Policyholders, as defined in paragraph 5.11, below) or UKNV;
- The Scheme will not have an impact on service standards experienced by either the policyholders of TTI or the existing policyholders of UKNV; and
- The Scheme will not result in any loss or dilution of the constitutional rights to which the members of the TT Club are currently entitled, including but not limited to their entitlements and obligations as policyholders.

2.2 I summarise below the key aspects of the Scheme, the aspects of the Scheme that I considered, and the conclusions that I reached in respect of those aspects.

2.3 I will review my analyses and conclusions in the light of any relevant information of which I become aware prior to the Court hearing to sanction the Scheme, and I will summarise my additional review and conclusions, explaining any revisions to those contained within this Report, in a Supplemental Report.

THE SCHEME

2.4 The Transferring Business consists of insurance risks located in the EEA that have been underwritten by TTI prior to 1 January 2021. Under the Scheme, the Transferring Business will be transferred from TTI to UKNV. The liabilities transferred to UKNV will be matched with reinsurance recoverable assets from TTI as the liabilities will be 100% reinsured by TTI. There are no other transferring assets.

Motivation for the Scheme

2.5 The primary motivation for the Scheme is that TTI wishes to ensure continuity of service to those of its policyholders that have risks located in the EEA. Post Brexit and the conclusion of the Transition Period, there are no indefinite agreements in place between the UK and the EEA States in which these risks reside that would permit TTI to continue to provide service to these policyholders. The insurance regulators in some, but not all, EEA states are allowing UK insurers with risks within those EEA States to effect an orderly run-off of those risks, and TTI is currently servicing its EEA business in accordance with such permissions. However, some of those states have imposed a time limit for that run-off and so the current arrangement can only be temporary. The Scheme provides a long-term solution, while leaving TTI's economic risks unchanged and the rights of those TT Club members with EEA risks largely unaltered.

Policyholders Affected

2.6 I have considered the effects of the Scheme on the following groups of policyholders:

- the Transferring Policyholders;
- the current policyholders of TTI whose policies will not be transferred under the Scheme; and
- the current policyholders of UKNV.

Administration

2.7 Post-Scheme, the Transferring Business will be serviced by UKNV. UKNV has delegated the handling of any claims relating to such insureds to Thomas Miller B.V. ("**TMBV**"), which in turn has entered into a co-operation agreement with Through Transport Mutual Services (UK) Ltd ("**TTMS**") to provide it with underwriting and claims handling assistance. TTMS currently services the Transferring Business on behalf of TTI. In practice, this means that Transferring Policyholders will enjoy continuity of service post-Scheme in terms of the handling of their policies, in particular their claims.

2.8 TTI will provide funding for claims on a just-in-time basis. UKNV will request funding from TTI a week in advance for any claim payment in excess of US$50,000 that it expects to make. In addition, TTI will provide UKNV with a "float" of roughly US$0.5 million, which is to meet claims handling expenses and payment of claim amounts less than US$50,000, and which will be topped up on a regular basis. As I discuss in paragraphs 6.96-6.97, below, I am satisfied that such a float will be adequate providing that it is topped back up at least weekly

THE IMPACT OF THE SCHEME UPON THE TRANSFERRING POLICYHOLDERS

2.9 I am satisfied that the proposed Scheme does not affect in a materially adverse way either the security or the policy servicing levels of the Transferring Policyholders. I have reached this conclusion by considering:

- the reserves of the Companies as at 31 December 2019 and 20 February 2020, respectively (and subsequently where available);
- the excess assets of the Companies as at 31 December 2019 and 20 February 2020, respectively (and subsequently where available);
- the risk exposures in the Companies and the impact that the Scheme might have on those; and
- the standards of policy servicing in each of the Companies.

2.10 I concluded that:

- the reserves of TTI appeared reasonable as at 31 December 2019, and the reserves of UKNV appeared reasonable as at 20 February 2020;
- there is no reason to think that the reserve strength of TTI or UKNV will be impacted by the Scheme;
- as at 31 December 2019, TTI is a well-capitalised company and, as at 20 February 2020, UKNV is a very well-capitalised company (I have defined these terms in paragraph 6.5, below);
- the Transferring Policyholders will not be materially adversely affected due to relative differences in the financial strength of UKNV post-Scheme to those of TTI pre-Scheme;
- although the proposed Scheme will lead to a change to the risk exposures of the Transferring Business, this will not have a materially adverse impact on the security of policyholder benefits; and
- the proposed Scheme is unlikely to have any impact on the standards of policy servicing experienced by the Transferring Policyholders compared to their current position.

THE IMPACT OF THE SCHEME UPON THOSE POLICYHOLDERS REMAINING WITHIN TTI

2.11 The TTI Non-Transferring Policyholders consist of those TTI policyholders whose policies cover risks situated outside of the EEA. I am satisfied that the security of the contractual rights or the standards of policy servicing currently enjoyed by the TTI Non-Transferring Policyholders, and by any holders of policies that become Excluded Policies, will not be adversely affected by the Scheme.

2.12 In reaching this conclusion I have noted that:

- post-Scheme, the insurance liabilities of TTI will essentially be unchanged. The only difference would be that the Transferring Business, which previously had been direct business of TTI, would now be inwards reinsurance business of TTI;
- TTI will pay a fee to UKNV for UKNV accepting the Transferring Business, which will reduce TTI's solvency position, but only to a small extent[3]; and
- there are no planned changes to the policy service standards within TTI post-Scheme.

THE IMPACT OF THE SCHEME UPON THE EXISTING POLICYHOLDERS OF UKNV

2.13 I have concluded that the Scheme would not have a materially adverse impact on the existing policyholders of UKNV.

2.14 In reaching this conclusion I have noted that:

[3] *At the date of this Report, the amount of the fee was still being negotiated between TTI and UKNV, but I have been told that it is not expected to exceed €300,000 (roughly US$370k), of which just 10% would be borne by TTI, the other 90% being paid by TTB under its 90% quota share reinsurance of TTI's business. A fee of roughly US$37k would have a negligible effect on the post-Scheme ratio of TTI's Eligible Own Funds to its Solvency Capital Requirement, which would remain at 184%.*

- UKNV's estimates of solvency, assuming the successful completion of the Scheme, suggest that UKNV will be a very well-capitalised company as at 20 February 2022 (the first year-end after the Scheme effective date), consistent with its position as at 20 February 2020;
- neither the Scheme nor any subsequent insolvency of TTI would affect UKNV's ability to cover its claim payments to its existing policyholders through the reinsurance arrangements with the relevant Fronted Clubs (other than TTI). Insolvency of TTI would jeopardise the payments from TTI to fund claim payments to those existing policyholders of UKNV with policies written on behalf of TTI, but that risk would be unaffected by whether or not the Scheme is implemented; and,
- the Keep-Well Agreement (defined in paragraph 4.124, below) requires The United Kingdom Mutual Steam Ship Assurance Association Limited (**"UKM"**)to ensure that UKNV has, as at the date of any inwards portfolio transfer, such as that effected by the Scheme, eligible own funds ("**EOF**") that are at least 150% of its Solvency II Solvency Capital Requirement ("**SCR**").

THE IMPACT OF THE SCHEME IN RESPECT OF OTHER MATTERS

2.15 I have considered the likely effects of the Scheme on the reinsurers whose reinsurance contracts relate to the Transferring Business. The reinsurance contracts that relate to the Transferring Business will not be included within the Scheme, rather they will continue to protect TTI in respect of the Transferring Business, albeit on a retrocessional basis rather than as reinsurance of directly covered risks. I am satisfied that the Scheme will not have a materially adverse effect on those reinsurers. The administration of the Transferring Business, including the management and handling of claims, will continue to be performed post-Scheme by the same people, using the same processes, as it had been pre-Scheme, so the magnitude and timing of recoveries claimed against reinsurance contracts relating to the Transferred Business will be unaffected by the Scheme.

2.16 I have also considered the effect, if any, of the Scheme on the proprietary rights of the members of the TT Club. Members of the TT Club who are Transferring Policyholders will remain members of the TT Club post-Scheme. Although, post-Scheme, they will no longer be direct policyholders of TTI but will be direct policyholders of UKNV whose benefits are 100% reinsured by TTI, their rights as members of the TT Club will remain unaltered. Therefore, the Scheme will result in no loss or dilution of the constitutional rights to which existing members of the TT Club (whether Transferring Policyholders or otherwise) are currently entitled, including but not limited to their entitlements and obligations as policyholders.

2.17 I have been informed that the Scheme is not expected to have any material tax implications that would affect any of the Companies or any of the groups of policyholders identified in paragraph 2.6, above.

2.18 I have been provided with an estimate of the external costs of the Scheme. I consider that the costs of the Scheme will not be such as to jeopardise the security of any of the groups of policyholders.

APPROACH TO COMMUNICATION WITH POLICYHOLDERS

2.19 The Companies' approach to communicating the Scheme to affected policyholders and their brokers is outlined in paragraphs 5.32-5.40, below.

2.20 I consider the approach being taken in relation to the affected policyholders to be reasonable.

2.21 The Companies will apply to the Court for a waiver of the notification requirements in respect of former policyholders of TTI who have not held a policy since 1 January 2011 and in respect of former policyholders of UKNV who have not held a policy 20 February 2011.

2.22 In addition to direct, written correspondence with policyholders and their brokers (as identified in paragraph 5.34, below), the Companies also plan indirect notification via advertisements in appropriate publications, including at least two national newspapers in the UK (including one international edition) and specialist industry publications.

2.23 The letters, notices and advertisements will refer all queries to a postal address or a telephone number or an email address, all of which are intended to respond promptly to any such queries. Both this Report and the Supplemental Report will be published on the UKNV and TTI websites, on pages dedicated to the Scheme.

2.24 In the circumstances, I regard the proposed approach to communications to be reasonable and proportionate, and the draft communications to be clear, fair and appropriate for their intended audiences.

3. Background regarding the regulatory environments

INTRODUCTION

3.1 The Scheme proposes the transfer of the insurance and inwards reinsurance business that relates to risks located in the EEA from TTI, a company domiciled in the UK, to UKNV, a company domiciled in the Netherlands. In this Section, I describe the general insurance markets of each of these countries and the regulatory environments therein.

3.2 Insurers regulated in any EU-member state are subject to the EU-wide solvency regime known as Solvency II. The Netherlands remains an EU member state but the UK left the EU with effect from 31 January 2020. Effectively, the UK continues to apply Solvency II, having transcribed an identical regime into UK regulations. I include in this section a description of the key features of Solvency II.

3.3 I also comment here on consumer protections schemes in the UK and the Netherlands and how the Scheme will alter access to them. I then comment on the respective winding-up arrangement for companies in the UK and in the Netherlands.

OVERVIEW OF UK INSURANCE REGULATION

Background

3.4 UK insurers, as well as other financial services organisations, are regulated by both the PRA and the FCA using a system of dual regulation. The PRA and the FCA are statutory bodies set up under FSMA and the Financial Services Act 2012; their roles and objectives are defined by FSMA (as amended).

3.5 The PRA is part of the Bank of England and is responsible for:

- Prudential regulation of banks, building societies and credit unions, insurers and major investment firms;
- Promoting the safety and soundness of the firms it regulates, seeking to minimise the adverse effects that they can have on the stability of the UK financial system; and
- Contributing to ensuring that insurance policyholders are appropriately protected.

3.6 The FCA is a separate institution and is responsible for:

- Ensuring that the markets that it regulates function well;
- Conduct regulation of all financial firms; and
- Prudential regulation of those financial services firms that are not supervised by the PRA.

3.7 A Memorandum of Understanding has been established between the PRA and the FCA, which sets out the high level framework by which these two regulatory bodies will co-ordinate. In particular, the Memorandum of Understanding requires the PRA and FCA to co-ordinate with each other in advance of Part VII transfers.

3.8 The PRA sets the regulations governing the amount and quality of solvency capital held by firms; these are summarised below. The solvency regime is designed to protect the security of policyholders, as well as the stability of the insurance industry.

3.9 The FCA is concerned with achieving fair outcomes for consumers and seeks to ensure that firms adhere to its conduct principles. Its strategic objective is to ensure that the relevant markets function well. To support this, it has three operational objectives, which are:

- To secure an appropriate degree of protection for consumers;
- To protect and enhance the integrity of the UK financial system; and
- To promote effective competition in the interests of consumers.

Taxation

3.10 In the UK, proprietary general insurance companies are taxed on profits achieved at the main rate of corporation tax (currently 19% for the financial year ending 31 March 2021). Mutual general insurance companies are taxed only on their investment income and, to the extent that they conduct some business not on a mutual basis, on the proceeds of that non-mutualised business.

Financial Services Compensation Scheme

3.11 As well as through the PRA and FCA regulations, consumer protection is also provided by the Financial Services Compensation Scheme ("**FSCS**"). This is a statutory "fund of last resort", which compensates customers in the event of the insolvency (or other defined default) of a financial services firm authorised by the PRA or FCA, subject to certain eligibility rules. Insurance protection exists for private policyholders and small businesses[4] that hold eligible policies in the situation when an insurer is unable to meet fully its liabilities. For general insurance business, the FSCS will pay 100% of any claim incurred before the default:

- In respect of a liability subject to compulsory insurance (such as employers' liability cover); or
- That arises in respect of a liability subject to professional indemnity insurance; or
- That arises from the death or incapacity of the policyholder due to injury, sickness, or infirmity

and 90% of any claim incurred before the default for other eligible types of insurance (such as home insurance).

3.12 These limits have been effective since 3 July 2015; prior to that date, for general insurance business, only claims in respect of compulsory insurance were eligible for 100% payment by the FSCS in the event of the default of an authorised firm.

3.13 No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance. Contracts of reinsurance are also not protected. The FSCS is funded by annual levies on all firms regulated by the PRA and by the FCA, with separate tariffs for each of five broad classes of activity (deposits, life and pensions, general insurance, investments and home finance).

3.14 I discuss the Transferring Business in paragraphs 4.78-4.83, below. However, I note that over half of the liability relates to marine, aviation and transport risks and the holders of policies that cover such risks are ineligible for protection by the FSCS. Moreover, I have been told by TTI that there are very few private individuals or small businesses among the Transferring Policyholders and that its investigations have determined that none of the Transferring Policyholders would currently be eligible to access the FSCS.

Financial Ombudsman Service

3.15 The Financial Ombudsman Service ("**FOS**") provides eligible complainants with a free, independent service for resolving disputes with financial companies. An eligible complainant must be a person that is one of the following:

- a consumer (essentially, a private individual);
- a micro-enterprise[5];
- a charity that has an annual income of less than £6.5 million at the time that the complaint is made;
- a trustee of a trust that has a net asset value of less than £5 million at the time that the complaint is made;
- in relation to consumer buy-to-let (“**CBTL**”) business, a CBTL consumer;
- a small business[6] at the time the complainant refers the complaint to the respondent;
- a guarantor.

3.16 For a complaint regarding an insurance policy to be dealt with by the FOS, it is not necessary for the complainant to live or be based in the UK, but it is necessary for the insurance policy concerned to be, or have been, administered from within the UK.

3.17 I have been told by TTI that it has identified just six Transferring Policyholders (roughly 0.4% of the total number of Transferring Policyholders) who have policies that incepted since 1 January 2020 and who satisfy the criteria to be eligible to refer a complaint to the FOS, as set out in paragraph 3.15, above. I discuss this further in paragraph 6.139, below.

[4] *In accordance with Section 382 of the Companies Act 2006, a small business is defined as one for which two of the following three conditions apply over the preceding financial year: turnover not more than £10.2 million; balance sheet not more than £5.1 million; and not more than 50 employees.*

[5] *An entity is considered to be a micro-enterprise if it has an annual turnover of less than €2 million and fewer than ten employees.*

[6] *According to FOS eligibility rules, a small business is a business that is not a micro-enterprise but which has an annual turnover of less than £6.5 million and either has a balance sheet total of less than £5 million or employs fewer than 50 people.*

FCA Conduct Principles

3.18 Within its document "*Fair treatment of customers*", the FCA sets out six consumer outcomes that firms (and the UK branches of insurers not domiciled in the UK) should strive to achieve to ensure fair treatment of customers. These remain core to what the FCA expects of firms. These are as follows:

- Outcome 1: Consumers can be confident that they are dealing with insurers where the fair treatment of customers is central to the corporate culture;
- Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
- Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
- Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances;
- Outcome 5: Consumers are provided with products that perform as insurers have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect; and
- Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by insurers to change product, switch provider, submit a claim or make a complaint.

3.19 These outcomes, which are often summarised as "Treating Customers Fairly" ("**TCF**"), apply even for firms that do not have direct contact with retail customers. The FCA's rationale is that risks and poor conduct can be carried from wholesale to retail markets.

3.20 The FCA has supplemented its *Fair Treatment of Customers* document with guidance, published in January 2018, entitled *The Responsibilities of Providers and Distributors for the Fair Treatment of Customers* ("**RPPD**"). This provides the FCA's view on what the combination of Principles for Businesses and detailed rules require respectively of providers and distributors in certain circumstances to treat customers fairly. The RPPD looks particularly to the following Principles:

- Principle 2: A firm must conduct its business with due skill, care and diligence;
- Principle 3: A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;
- Principle 6: A firm must pay due regard to the interests of its customers and treat them fairly; and
- Principle 7: A firm must pay due regard to the information needs of its clients, and communicate information to them in a way that is clear, fair and not misleading.

The Insurance Distribution Directive

3.21 The Insurance Distribution Directive ("**IDD**") has applied in the UK (and in all EU Member States) with effect from 1 October 2018. The key requirements of the IDD are:

- Product oversight and governance arrangements aimed at ensuring that customers' interests are taken into consideration throughout the whole life cycle of an insurance product;
- Transparency of inducement schemes to ensure respect of customers' interests;
- The insurance undertaking (or insurance intermediary) providing advice to a customer is responsible for the assessment as to whether the insurance product(s) is/are suitable and appropriate, having regard to the customer's profile; and
- A conflict of interest policy to facilitate customers' understanding of an insurance undertaking's actions taken on their behalf.

The Insurers (Reorganisation and Winding-Up) Regulations 2004

3.22 Under UK law, the winding-up of an insurance undertaking is governed by the *Insurers (Reorganisation and Winding-Up) Regulations 2004* (as amended, including under the Solvency II Regulations 2015). Under these regulations, insurance claims have precedence over any claim on the insurance undertaking with the exception of certain preferential claims (e.g. claims by employees, etc.) with respect to the whole of the insurance undertaking's assets. Therefore, direct policyholders rank equally and above inwards reinsurance policyholders and all other unsecured/non preferential creditors in the event that an insurer is wound up.

SOLVENCY CAPITAL FRAMEWORK (SOLVENCY II)

3.23 With effect from 1 January 2016, the regulatory solvency and reporting framework for (re)insurers regulated within the EU, which is commonly referred to as Solvency II, introduced, consistently across the EU, solvency requirements that reflect the risks that individual (re)insurers actually face.

3.24 Under Solvency II, those (re)insurers regulated within the EU (and the UK) are required to adhere to a set of risk-based capital requirements, the results of some of which are shared with the public.

3.25 Solvency II is a principles-based regime, based on three so-called pillars:

- Under Pillar I, quantitative requirements define a market consistent framework for valuing the company's assets and liabilities, and determining the SCR (and the Minimum Capital Requirement (“**MCR**”)).
- Under Pillar II, insurers must meet minimum standards for their corporate governance, and also for their risk and capital management. There is a requirement for internal audit and actuarial functions. Insurers must regularly complete an Own Risk and Solvency Assessment ("**ORSA**").
- Under Pillar III, there are explicit requirements governing disclosures to supervisors and policyholders.

3.26 Under Solvency II, both the assets and liabilities of insurers are valued on a market consistent basis. Therefore, under Solvency II, the technical provisions in respect of claims incurred and losses arising from unexpired exposures (together typically the largest item on the liability side of an insurer's balance sheet, and hence the balance sheet itself) are often substantially different from those calculated under the current requirements for IFRS/GAAP.

3.27 I set out in Appendix G simplified details for the balance sheet, and the calculation of technical provisions (in respect of claims incurred and losses arising from unexpired exposures), for an insurer under Solvency II. In this Report I denote technical provisions under Solvency II as "**TPs**".

3.28 TPs as relating to general insurance business are:

- The premium provision: the expected present value (with no allowance for optimism or prudence) of all future cash-flows (claim payments, expenses and future premiums due) relating to future exposures arising from policies for which the insurer is obligated as at the valuation date;
- The claims provision: the expected present value (with no allowance for optimism or prudence) of all future cash-flows (claim payments, expenses and future premiums due) relating to claim events prior to the valuation date; and
- The risk margin: the risk margin is intended to be the balance that another (re)insurer would require over and above the sum of the premium provision and claims provision for taking on the liabilities at the valuation date. Under Solvency II, the risk margin is calculated using a cost-of-capital approach (presently employing a 6% cost of capital parameter as set out in EU regulation[7]).

3.29 TPs in respect of claims required under Solvency II differ from the GAAP/IFRS reserves in several ways, including the following:

- The TPs contain no element of conservatism above a best estimate that may be held in the undiscounted GAAP reserves;
- The TPs include an allowance for events not in data ("**ENID**"), which are events or future developments that might occur but which are not represented in the historical data upon which the actuarial projections are based;
- The TPs include a discount to account for the time value of money in the future cashflows; and
- The TPs include a risk margin.

I have set out the differences and their balance sheet implications in Appendix H.

3.30 The SCR under Solvency II is the amount of capital required to ensure continued solvency over a one-year time horizon with a probability of 99.5%. There are two main approaches to calculating the SCR:

- Using an internal model approved by the local supervisor: an internal model calculation of the SCR is based upon an assessment of the risks specific to an insurer, and is calibrated so as to correspond to a confidence level of 99.5% over a one-year trading period that net assets remain positive (i.e. the insurer remains solvent); or

[7] *Commission Delegated Regulation (EU) 2015/35 dated 10 October 2014.*

- Using the standard formula specified in detail in the Solvency II legislation (the "**Standard Formula**"): the Standard Formula is designed to be applicable to all insurers and is not therefore tailored to the circumstances of an individual insurer. In summary, the basic SCR consists of five risk modules (non-life, life, health, market and counterparty) that are, in turn, further sub-divided into 18 sub-modules (e.g. premium and reserve risk, catastrophe risk and currency risk). The results for each sub-module are aggregated using a correlation matrix to arrive at a capital charge for each of the five main modules, which in turn are aggregated using a further correlation matrix to determine the basic SCR. A further module is used to calculate operational risk, which is added to the basic SCR to produce the (Standard Formula) SCR.

3.31 The MCR defines the point of intensive regulatory intervention. The MCR calculation is less risk sensitive than the SCR calculation and is calibrated to a confidence level of 85% over a one-year time horizon (compared to 99.5% for the SCR). The MCR is calculated as a linear function of the TPs and written premium but must be between 25% and 45% of the firm's SCR, subject to an absolute floor of €2.5 million (or €3.7 million for (re)insurers writing liability, credit or suretyship classes).

3.32 If an insurer's available resources fall below the SCR, then supervisors are required to take action with the aim of restoring the insurer's finances back to the level of the SCR as soon as possible. If, however, the financial situation of the insurer continues to deteriorate, then the level of supervisory intervention will be progressively intensified. The aim of this "supervisory ladder" of intervention is to capture any ailing insurers before their situation becomes a serious threat to policyholders' interests. If the available resources of the insurer were to fall below the level of the MCR, then "ultimate supervisory action" would be triggered, i.e. the insurer's liabilities would be transferred to another insurer and the licence of the insurer would be withdrawn, or the insurer would be closed to new business and its in-force business placed into run-off. In practice, supervisors would be expected to have determined earlier whether or not the insurer's finances could be restored to above the level of the SCR – an insurer whose supervisor determined that it would not be able to restore its solvency position would be placed into run-off before it breached its MCR.

BREXIT

3.33 The UK formally withdrew from membership of the EU on 31 January 2020, whereupon a transition period ("**Transition Period**") commenced, during which almost all existing arrangements between the UK and EU continued to apply and during which the UK Government and the EU negotiated the terms under which the UK and EU (and EU member states) would trade with each other post the Transition Period (the Trade and Cooperation Agreement). The Transition Period concluded on 31 December 2020.

3.34 The Trade and Cooperation Agreement reaffirmed the commitment of both the UK and the EU to ensure financial stability, market integrity and the protection of investors and consumers of financial services, and noted agreement for enhanced regulatory cooperation between the UK and the EU and the integrity of the respective, autonomous equivalence financial services frameworks. This suggests that it is unlikely that the UK Government will, in the foreseeable future, seek to cancel or materially alter its existing solvency regime for insurers such that it deviates materially from the Solvency II regime that applies throughout the EU. I have therefore not considered further this possibility in this Report, although I note that, in both the UK and EU, consultation exercises are currently being conducted that are expected to result in some adjustments to the respective regulatory regimes.

3.35 While it appears likely, from the terms of the Trade and Cooperation Agreement, that there will continue to be considerable commonality between the UK and the EU in their respective regulation of their insurance markets, the Trade and Cooperation Agreement did not extend the so-called passporting regime that had applied up to the end of the Transition Arrangements, whereby UK insurers could operate and perform regulated activities across UK/EEA borders (and EU insurers could likewise operate in the UK). Therefore, with effect from 1 January 2021, insurers authorised and regulated in the UK are unable to write direct business relating to risks located in the EEA and, with a few exceptions[8], are not authorised to service policies that they have previously written that relate to risks located in the EEA.

[8] *Some, but far from all, EU member states have enacted legislation that permits UK insurers of risks located in their respective states to continue to service them for a period after the conclusion of the Transition Period. This is intended to allow the orderly run-off of those contracts or for the orderly transfer of the UK insurers' obligations to suitably qualified entities within the EU, whom the local regulators would permit to undertake those services.*

OVERVIEW OF THE NETHERLANDS INSURANCE REGULATION

Background

3.36 Insurers (and other financial services organisations) in the Netherlands are regulated by both the DNB and the AFM. The DNB exercises prudential supervision of Dutch insurance companies, and monitors Dutch insurance companies' compliance with rules and regulations under *Wet op het financieel toezicht* (the Dutch Act on Financial Supervision). The AFM performs conduct of business supervision on financial markets for Dutch insurance companies.

3.37 The DNB works with its EU partners to achieve:

- Price stability and a balanced macroeconomic development;
- A shock-resilient financial system and a secure, reliable and effective payment system; and
- Strong and sound financial institutions that meet their obligations and commitments.

3.38 The AFM is a separate institution and has the following three strategic objectives :

- Promoting the fair and conscientious provision of financial services;
- Promoting the fair and efficient operation of the capital markets; and
- Contributing to the stability of the financial system.

3.39 The DNB and the AFM cooperate with one another in line with terms and conditions set out in a cooperation covenant. In addition, cooperation and information exchange takes place on subjects of mutual interest between the DNB and the AFM, such as on enforcement, remuneration policy and controlled and ethical business operations.

3.40 The solvency capital framework applicable to Dutch insurers is the same Solvency II framework described in paragraphs 3.23-3.32 above.

Dutch Corporate Governance Code

3.41 Both financial regulation and Dutch corporate law are fundamental to the principles and practices for the governance of Dutch insurers.

3.42 The major Dutch insurers use a two-tier governance structure, whereby management and supervision are divided between two company bodies: the management board and the supervisory board, with the management board consisting solely of executive directors and the supervisory board consisting solely of non-executive directors. The Dutch Corporate Governance Code provides guidance relating to this governance structure, as well as guidance for firms operating a one-tier governance structure.

3.43 The management board of a Dutch insurer is responsible for the continuity of the company and for setting a strategy in line with its view on long-term value creation. The supervisory board is responsible for supervising the manner in which the management board implements its strategy, and must be independent from the management board, which is achieved in part by consisting only of non-executive directors.

Taxation

3.44 In the Netherlands, proprietary insurance companies are taxed on profits achieved at the main rate of corporation tax (in 2021 this is 15% of taxable income up to €245,000 and 25% of taxable income above this threshold[9]).

Dutch Financial Services Complaints Institute

3.45 The Dutch Financial Services Complaints Institute (*Klachteninstituut Financiële Dienstverlening* or "**KiFiD**") provides private individuals with an independent service for resolving disputes with financial services companies, which is free other than a fee charged for any appeals made regarding the KifiD's decision. KiFiD will deal with most consumer complaints concerning any financial services provider that is registered with KiFiD.

[9] *The threshold is expected to be increased to €395,000 in 2022. However, previously planned reductions to the main rate are no longer expected.*

3.46 In the case that the KiFiD is unable to resolve a dispute between an individual and a financial company, a decision is made with regards to the resolution by the Disputes Committee within KiFiD. Decisions made by the Disputes Committee are usually legally binding, provided both parties have accepted that such decision will be legally binding prior to the decision being made. However, if unsatisfied with the decision of the Disputes Committee and the decision is not binding, in general, an individual may take the case to court, where any decision made would be legally binding.

3.47 Although KiFiD has some jurisdiction over policyholder disputes arising outside the Netherlands, in practice such disputes will normally be referred to the local competent dispute resolution service under the arrangements agreed by "**FIN-NET**". FIN-NET is an international partnership of financial complaint institutes of which KiFiD is a member. FIN-NET published a memorandum setting out its intent on cross-border-co-operation between the affiliated complaint institutes, such as KiFiD. The memorandum outlines the mechanisms and other conditions according to which the affiliated complaint institutes intend to co-operate.

3.48 KiFiD does not act on claims above €1m.

Policyholder ranking upon the wind-up of a Dutch insurer

3.49 Under Dutch law, the winding-up of an insurance undertaking is governed by the Dutch Insolvency Act. Under this regulation, policyholders of insurance policies are preferential creditors and, as such, insurance claims have precedence over any claim on the insurance undertaking, with the exception of certain preferential claims with respect to the whole of the insurance undertaking's assets. The preferential claims ranking ahead of insurance claims include claims from creditors with a mortgage claim over the assets of the insurer, claims relating to employee pensions and some claims relating to employee wages. Therefore, direct policyholders rank equally and above inwards reinsurance policyholders and all other unsecured/non preferential creditors in the event that an insurer is wound up.

COMPARISONS BETWEEN THE REGULATORY ENVIRONMENT IN THE UK AND THE NETHERLANDS

Supervision, governance and conduct

3.50 The supervision of insurers in both the Netherlands and the UK is conducted by two regulators, one that deals with the prudential regulation and the other with conduct against required principles. While the detail of the governance and conduct requirements in the two countries appears different, the effect is similar.

Capital and reserve requirements

3.51 All EU regulators have expected insurers under their supervision to comply with the Solvency II requirements with effect from 1 January 2016. This included the UK regulators, as the UK was then a member of the EU. This has had the effect of putting regulatory capital and reserve requirements in the UK and the Netherlands onto essentially the same basis. Although the UK has since ceased being a member state of the EU, it has retained the Solvency II regime and, as discussed in paragraph 3.34, above, I do not think it likely to change that regime in the foreseeable future.

Security under winding-up

3.52 The rules governing the winding-up of an insurance or reinsurance company are broadly similar in the UK and the Netherlands. In both cases, where assets are insufficient to meet fully the company's liabilities, holders of direct policyholders rank equally or behind certain preferential claims but rank above inwards reinsurance policyholders and all other unsecured/non preferential creditors.

Consumer protection

3.53 In the UK, the FSCS compensates eligible customers of authorised financial firms (including insurers) in the event that the firm has insufficient assets to meet claims, and the FOS provides eligible customers with a free, independent service to help settle disputes with financial firms (including insurers). The FOS has compulsory jurisdiction in respect of complaints raised by eligible policyholders.

3.54 In the Netherlands, there is no scheme directly equivalent to the FSCS. Therefore, holders of insurance contracts that contain no investment element are not protected in respect of their benefits under those contracts against the failure of their insurer. As noted in paragraph 3.14, above, TTI has identified that none of the Transferring Policyholders would currently be eligible to access the FSCS and so, in respect of access to a financial compensation scheme, the Scheme will not affect any of the Transferring Policyholders. I discuss this in more detail in paragraphs 6.137-6.146, below.

3.55 KiFiD fulfils a role in respect of policyholder complaints against insurers registered with KiFiD that is similar to that fulfilled by the FOS in respect of polices administered in the UK. I note that registration with KiFiD is not compulsory for Dutch insurers. I further note that (as explained in paragraph 6.142, below, where I discuss the impact of the Scheme upon the Transferring Policyholders' access to an ombudsman service) UKNV has not registered and does not intend to register with KiFiD.

4. Background regarding the entities concerned in the Scheme

4.1 In this section of the Report, I set out some background information and key metrics relating to the entities that are involved in the Scheme, specifically TTI and UKNV.

- In paragraphs 4.2-4.97, below, I discuss TTI. In particular, I cover the following:
  - general information about TTI, including its business strategy and its mutuality (paragraphs 4.2-4.19);
  - the business written by TTI (paragraphs 4.20-4.22);
  - TTI's key financial information such as assets and reserves (paragraphs 4.23-4.28);
  - TTI's reinsurance strategy (paragraphs 4.29-4.32);
  - TTI's governance structure (paragraphs 4.33-4.35);
  - TTI's risk management strategy (paragraphs 4.36-4.52);
  - the key risks faced by TTI and its approach to managing those risks (paragraphs 4.53-4.68);
  - TTI's capital management policy (paragraphs 4.69-4.72);
  - TTI's conduct risk policy (paragraphs 4.73-4.77);
  - the Transferring Business (paragraphs 4.78-4.83);
  - TTI's strategic focus and plans over a three year time-horizon (paragraphs 4.84-4.85); and
  - recent market events that might have affected TTI, specifically the COVID-19 pandemic and the running aground of the Ever Given (paragraphs 4.86-4.98).
- In paragraphs 4.99-4.158, below, I discuss UKNV. In particular, I cover the following:
  - general information about UKNV, including its business strategy and its mutuality (paragraphs 4.99-4.110);
  - business written by UKNV (paragraphs 4.111-4.113);
  - key financial information relating to UKNV, such as assets and reserves (paragraphs 4.114-4.120);
  - UKNV's reinsurance arrangements, including an agreement with UKM (paragraphs 4.121-4.125);
  - UKNV's governance structure (paragraphs 4.126-4.127);
  - UKNV's risk management strategy (paragraphs 4.128-4.132);
  - the key risks faced by UKNV and its approach to managing those risks (paragraphs 4.133-4.142);
  - UKNV's capital policy (paragraphs 4.143-4.145);
  - UKNV's conduct risk policy and its procedures for handling complaints (paragraphs 4.146-4.149);
  - Recent market events that might have affected UKNV, specifically the COVID-19 pandemic and the running aground of the Ever Given (paragraphs 4.150-4.156); and
  - UKNV's current plans (paragraphs 4.157-4.159).

TTI

Background

4.2 TTI is registered in England and Wales as a company limited by guarantee (registered number 02657093) under the Companies Act 1985. It has no share capital. From 1 January 1996 to 3 July 2007, the name of the company was Through Transport Mutual Insurance Association (Eurasia) Limited, and from its incorporation (24 October 1991) until 1 January 1996, its name was Through Transport Mutual Insurance Association of Europe Limited.

4.3 TTI's sole member is Through Transport Mutual Insurance Association Limited ("**TTB**"), incorporated in Bermuda as a company limited by guarantee without share capital. In this Report, I refer to TTB and TTI collectively as "**the TT Club**".

4.4 TTI is regulated by the PRA and the FCA; TTB is regulated by the Bermuda Monetary Authority ("**BMA**").

4.5 Although TTB and TTI have separate corporate governance arrangements and separate management (see paragraph 4.11, below), the TT Club operates as a single business. 95% of policies of insurance issued by the TT Club are written by TTI and all mutual policyholders of TTI and TTB are members of TTB (and are not members of TTI). The policyholders of the TT Club, of which the majority are also policyholders of TTI, therefore hold all voting rights of TTB.

4.6 As a mutual organisation, the TT Club does not seek to make distributable profits from its operations.

4.7 TTI's business is the provision of insurance and related risk management services to the international transport and logistics industry. TTI is authorised to write contracts of general insurance under paragraphs 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16 and 17 of Part 1 of Schedule 1 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. However, in practice, in respect of risks located in the EEA, TTI has only written the following classes of business: 6 (Ships), 7 (Goods in Transit), 8 (Fire and Natural Forces), 9 (Damage to Property) 10 (Motor Vehicle Liability – carrier liability only), and 13 (General Liability). The business that it writes can be categorised into the following five main areas:

- container risks for ship operators and others;
- transport and logistics operator liabilities;
- cargo handling facility liabilities and assets;
- port authority liabilities and assets; and
- forwarders' cargo all risks.

TTI also provides 'Marine Hull Cover' and 'P&I Cover' when required. These types of cover are usually requested from its policyholders who operate on a smaller scale than TTI's industry leading policyholders.

4.8 TTI has branch offices in in Singapore, Hong Kong, and Australia. As such, TTI is also regulated by the Monetary Authority of Singapore, Hong Kong Insurance Authority, and the Australian Prudential Regulation Authority. TTI is registered as an alien insurer in New York State, permitting it to write surplus lines insurance throughout the United States. It also has risks located in China, South Korea, South Africa, Paraguay, Uruguay, Peru, Argentina, and Kenya. TTI holds current reinsurance licences in:

- Argentina;
- China;
- Colombia (where TTI is also licensed as a direct insurer);
- Dominican Republic;
- Ecuador;
- India;
- Mexico; and
- Panama.

4.9 Up until 31 December 2020, TTI was licensed to write business on a freedom of services basis in all member states of the EEA ("**EEA States**"). Since 1 January 2021, all of TTI's EEA business has been written by UKNV, acting as a fronting insurer. TTI has then provided 100% quota share reinsurance to UKNV in respect of the EEA business written by UKNV on behalf of TTI.

4.10 TTI's financial year runs 1 January - 31 December.

4.11 TTI is managed by TTMS. TTMS is a member of the Thomas Miller Group. TTB is managed by another member of the Thomas Miller Group.

4.12 In 2017, TTI acquired Scottish Boatowners' Mutual Insurance Association Limited ("**SBO**"). SBO's assets and liabilities were transferred to TTI on 28 June 2019 via a Part VII Transfer. SBO had ceased writing new or renewal business with effect from November 2016.

4.13 I note that neither TTI nor TTB are members of the International Group.

Business strategy

4.14 The TT Club's mission is: *"To make the global transport and logistics industry safer and more secure".* To achieve this, the TT Club intends to position itself as the preferred independent mutual specialist provider of insurance products and related risk management services to the industry.

4.15 TTI's business strategy is to provide superior insurance products and claims handling to its policyholder Members at a competitive price, whilst maintaining excellent financial security over the long term.

4.16 The following four objectives have been identified as those which are used to guide the TT Club Boards' planning and oversight of the business.

- Deliver the capital strength and financial performance required by regulators, rating agencies and Members. In the case of the TT Club's rating agency, this means maintaining the Club's current A- (Excellent) rating with AM Best (I note that AM Best confirmed this rating most recently on 4 June 2020);
- Provide the TT Club's core products at a competitive, stable price and with an appropriate spread of risk;
- Deliver value to Members and brokers through excellent underwriting risk assessment, claims handling and claims payment, loss prevention and overall service levels which differentiate the TT Club from its competition; and
- Maintain and enhance relationships with Members and brokers in order to maximise retention and growth, and form new relationships with intermediaries primarily in the retail broking market sector.

Mutuality

4.17 The TT Club operates predominantly upon a mutual model of business whereby those persons that insure risks with the TT Club (other than those with fixed premiums, see paragraph 4.19, below) are required to be members of TTB, the sole member of TTI, until such time as their cover ceases or is terminated. As such, the members of the TT Club for each policy year effectively insure each other against the liabilities, losses, costs and expenses for which any of them might become liable to pay in respect of any risk that they have entered for cover during the relevant policy year. The constitutional documents and policy wordings of the TT Club contain provisions that provides it with powers to call upon its members to contribute funds for that purpose.

4.18 Policy years of TTI remain open until such time as the directors of the TT Club are satisfied that the claims, expenses and outgoings arising in respect of that policy year have largely been satisfied and that no further contributions are or will be required from the members of that policy year. Upon closure of a policy year, the liability of the members of that policy year to make further contributions in respect of that policy year is expunged. Any surplus that emerges in respect of policy years that have already been closed will be returned to mutual policyholders and/or will be added to TTI's reserves. Any shortfall that emerges in respect of policy years that have already been closed will be met by calls to mutual policyholders in respect of the next most recent open year and/or from the accumulated reserves within TTI's balance sheet. As at the date of this Report, the following Policy Years remain open for TTI: 2018, 2019, 2020, and 2021. Also as at the date of this Report, it is expected that the 2018 Policy Year will be closed on 30 June 2021.

4.19 TTI's policy wordings also permit it to effect and carry out contracts of insurance on a fixed premium basis, whereby the policyholder does not become a member of TTB, and neither TTI nor TTB has the right to seek further premiums from the policyholder in addition to those fixed in the insurance contract. I noted in paragraph 3.10, above, that mutual insurers are taxed on their investment income and, to the extent that they conduct some business not on a mutual basis, on the profits of that non-mutualised business. I have been told by TTI that the proceeds of its fixed premium business are deemed as being *de minimis* and therefore TTI is taxed in the UK on its investment income only.

Business Written

4.20 The gross premiums written by TTI in the year ending 31 December 2019 totalled US$202.0 million[10] and was split by product type and geography as set out in Figure 4.1, below. The total gross premium written for non-UK EEA risks was US$32.0 million over the period.

[10] *Based on TTI Annual Report and Financial Statements as at 31 December 2019, p35.*

FIGURE 4.1 BREAKDOWN OF TTI PREMIUM INCOME FOR THE 2019 CALENDAR YEAR

Premium Income	non-EEA	non-UK EEA	UK	TOTAL
Cargo	3.9%	0.7%	0.3%	4.9%
Containers	16.5%	3.8%	0.7%	21.0%
Logistics	23.7%	4.5%	1.8%	30.0%
Other	3.1%	0.1%	0.1%	3.3%
Ports	22.1%	4.9%	1.2%	28.3%
Property	10.1%	1.8%	0.5%	12.5%
TOTAL	**79.5%**	**15.9%**	**4.7%**	**100.0%**

4.21 Of the gross written premiums relating to risks in locations outside of the UK and EEA States, the US accounts for roughly half, with Hong Kong roughly 10%, Russia 6% and other countries collectively the remaining 34%. These were spread between the main elements of business in broadly similar proportions to the overall premium set out in Figure 4.1, above.

4.22 The gross premiums written by TTI in the year ending 31 December 2019 could also be subdivided[11] between direct business (US$168.6 million or 83%) and inwards proportional reinsurance (US$33.3 million or 17%). Of this, US$166.6 million was ceded to reinsurers, leaving net premiums written in the year ending 31 December 2019 totalling US$35.4 million.

Key financial information

4.23 As at 31 December 2019, on a UK GAAP basis, the booked reserves for outstanding liabilities, including the provisions for unearned premiums ("**UPR**"), were as set out in Figure 4.2, below.[12]

FIGURE 4.2 TTI'S RESERVES ON A UK GAAP BASIS AS AT 31 DECEMBER 2019 (US$M)

	Claims Outstanding	UPR	TOTAL
Gross	289.0	75.2	364.2
Ceded	266.0	63.0	329.0
Net	23.0	12.2	35.2

4.24 TTI management considers that the UK GAAP booked reserves remain reasonable and comply with TTI's reserving policy. I discuss TTI's reserves in more detail in paragraphs 6.6-6.36, below.

4.25 As at 31 December 2019, on a UK GAAP basis, the total assets and the total liabilities of TTI amounted to US$535.0 million and US$468.1 million[13] respectively, giving net assets of US$66.9 million. The net assets represent the capital of the company under UK GAAP (it should be noted that this is not the same as the own funds available to meet the solvency capital requirements under Solvency II).

4.26 As at 31 December 2019, on an UK GAAP basis, TTI held investment assets[14] valued at US$147.3 million. The largest share of this ($101.3 million) comprised debt securities (all AA rated), with a further US$39.3 million in cash and cash equivalent funds (almost all rated A or AA).

4.27 As at 31 December 2019, on a Solvency II basis, the technical provisions were as set out in Figure 4.3, below.[15]

FIGURE 4.3 TTI'S TECHNICAL PROVISIONS ON A SOLVENCY II BASIS AS AT 31 DECEMBER 2019 (US$M)

	Motor Liability	Marine Aviation & Transport	Fire & Property	General Liability	TOTAL
Gross	6.3	128.0	4.4	121.8	260.6
Ceded	6.5	111.8	2.4	99.9	220.6
Net	-0.2	16.3	2.0	21.9	39.9

[11] *Based on TTI Solvency and Financial Condition Report for the year ending 31 December 2019, Page 49.*
[12] *Based on TTI Annual Report and Financial Statements for year ending 31 December 2019, Pages 19 and 20.*
[13] *Based on TTI Annual Report and Financial Statements for year ending 31 December 2019, Pages 19 and 20.*
[14] *Based on TTI Annual Report and Financial Statements for year ending 31 December 2019, Page 29.*
[15] *Based on TTI Solvency and Financial Condition Report for the year ending 31 December 2019, S.17.01.02.*

4.28 As at 31 December 2019, TTI held deposits and letters of credit totalling US$ 64.5 million to meet overseas regulatory requirements. This included a collateralised letter of credit in relation to TTI's Hong Kong branch amounting to US$24.4 million and a trust fund deposit in relation to the US business of US$39.8 million.

Reinsurance and guarantees

4.29 TTI has secured the following reinsurance for Policy Year 2019:

- Excess of Loss ("**XoL**") reinsurance in respect of its liability and property covers, which provides cover of US$145 million xs US$5 million on each and every liability and property claim (prior to application of the following quota share reinsurance);
- 25% whole account quota share reinsurance provided by Swiss Re (the quota share proportion to reduce in policy years 2020 and 2021 to 20%); and,
- 90% whole account quota share reinsurance provided by TTB (applied to the business net of the Swiss Re quota share arrangement). This quota share reinsurance contract also includes a stop-loss element to protect TTI from an excessive accumulation of claims within its 10% retention between 105% and 150% net loss ratio.

4.30 The XoL cover is mostly provided by Lloyd's syndicates, although Munich Re has a share of the US$5 million xs US$5 million layer.

4.31 The programmes for other years differ from this, depending on the business written and the availability and relative cost effectiveness of reinsurance covers in each of those policy years, but the reinsurance strategy has remained unchanged for several years. The programme in Policy Year 2018 was the same as in Policy Year 2019.

4.32 Under the terms of a bond dated 12 December 1991 (the "**Parental Guarantee**"), TTB agrees that, should TTI be unable to meet its regulatory solvency requirements, it will pay to TTI the amount required to enable TTI to meet those solvency requirements, subject to a maximum aggregate payment from TTB to TTI of US$2.5 million. I note that the maximum aggregate payment under the Parental Guarantee is roughly 6% of TTI's SCR as at 31 December 2019 (see Figure 4.4, below). This means that the Parental Guarantee would be of limited use in situations where the SCR were materially breached.

Governance

4.33 The Board of TTI consists of nine Directors, including one specialist Director (in relation to insurance) and two executive Directors (being the CEO and the Finance Director). It is supported by several committees:

- <u>TTI Audit & Risk Committee</u> ("**TTI ARC**"): The TTI ARC is responsible for monitoring TTI's risk management system and risk profile against the Board's risk appetite.
    - It oversees the risk function to ensure that risks are properly identified and assessed.
    - It receives reports from the Risk Management Director in respect of new or emerging risks or changes to existing risks.
    - It reviews TTI's ORSA and recommends it for Board approval.
    - It considers the internal control framework designed to mitigate identified risk and directs the internal audit function when assessing the effectiveness of these controls.
    - It considers the internal audit plan, and receives internal and external audit reports.
- <u>Nominations Committee</u>: This is a joint TTI/TTB committee and aims to ensure that the Boards of TTB and TTI continue to be composed of suitably qualified and skilled individuals, including the appointment of specialist directors. It also makes recommendations to ensure that the Committees of the Boards of TTB and TTI are composed of individuals appropriate to the respective roles.
- <u>Investment Committee</u>: This is another joint committee that reviews in detail the performance of the investment portfolio. The investments are managed across the TT Club by a common set of investment managers.
- <u>TTI Discretions Committee</u>: The TTI Discretions Committee was established to exercise discretions vested on the Directors of TTI pursuant to the TT Club Wordings. This is in relation to coverage disputes with members. The TTI Discretions Committee comprises the non-executive Directors of TTI.

Outsourcing

4.34 As noted in paragraph 4.11, above, TTI outsources all functions, including controlled functions, to TTMS. The management outsourcing, as set out in the management agreement (the "**TTI Management Agreement**") is in accordance with TTI's outsourcing policy, which sets out the controls in place in relation to all outsourcing arrangements.

4.35 In accordance with the TTI Management Agreements, TTI pays a single management fee to TTMS for the services that it provides. TTMS is responsible for executive recruitment and performance management, ensuring that all staff have and maintain the relevant skills, knowledge and expertise necessary to perform their roles and responsibilities.

Risk management strategy

4.36 The TTI Board has adopted the TT Club risk management policy, which is designed to protect the TT Club from occurrences that hinder sustainable achievement of its objectives and financial performance and to ensure that TTI complies with regulatory requirements in the jurisdictions in which it operates.

4.37 The following key principles outline the TT Club's approach to risk management (in respect of TTI):

- The Board is responsible for risk management and internal control;
- The Board is responsible for ensuring that a framework exists which sets out risk appetite, risk management, control and business conduct standards; and
- The Board is responsible for ensuring that TTMS implements and maintains a sound system of internal controls.

4.38 The risk documentation is reviewed at least annually, and amendments approved as required by the TTI ARC and the TTI Board.

Risk Policies

4.39 The risk policies define the TT Club's approach to the risk universe inherent in the business and establish the controls, procedures, limits and escalation to ensure that the risks are managed in line with the risk appetite.

Risk Appetite

4.40 The TT Club's Risk Appetite Statement is used to define the amount of risk that the TT Club is willing to accept in pursuit of value. The Boards of TTI and TTB determine the appropriate risk appetites aligned to the TT Club's business plan objectives. The high-level Risk Appetite Statements are reviewed as part of the business planning process and set out in the business plan.

4.41 The Risk Appetite Statement is owned by the Boards and reviewed on a regular basis as new risks emerge, and at least annually. The statements articulate the key risks arising from the TT Club's strategic objectives and the targets and tolerances in respect of the operations of the business in pursuit of these targets.

4.42 The Boards review performance against the risk appetite statements as part of the financial planning item at each of their meetings. Reporting mechanisms ensure that the Boards are aware of movements, exceptions and breaches in relation to risk appetite statements. They consider new or modified initiatives and business plan objectives in the context of the existing risk appetite statements.

4.43 I discuss in more detail the TT Club's risk appetite in the context of specific risk types in paragraphs 4.53-4.65, below.

Risk Log

4.44 A Risk Log of risks to the business that could inhibit the TT Club achieving its objectives are described and categorised in the TT Club's Risk Log, together with the consequences should a risk materialise. Potential root causes of the risk materialising as well as mitigation and controls implemented to prevent, detect or mitigate are listed alongside. The risks are assessed and monitored on an ongoing basis.

4.45 The Risk Log is held at a TT Club level, and the Board and senior management of TTI (and those of TTB) contribute to that rather than TTI (and TTB) maintaining its own log. These comprise the known universe of risks faced by the business that, individually or in combination, may have a material impact on the TT Club.

4.46 A separate Emerging Risk Log is maintained and reviewed regularly; if any such risk materialises, it is added to the Risk Log and its impact on the TT Club assessed. I have seen a copy of the Emerging Risk Log, and noted that all items that I would have expected to be on the Emerging Risk Log were indeed listed. Where necessary, scenario testing is conducted to understand the impact of the emerging risk. I note that such testing was conducted during 2020 for the risks associated with the then emerging COVID-19 pandemic (this was then repeated later in the year) and also for the risks associated with climate change. I note that the scenario testing in respect of climate change formed part of the TT Club's ORSA (dated November 2020).

4.47 Individual risks are allocated to Risk Owners within the senior management team of the TT Club. The Risk Owners monitor internal and external data feeds and information for emerging risks and deterioration of, or change in, risks already identified. Their findings are reviewed by the Risk Management Director, who reports all consequential amendments to the Risk Log to the TTI ARC and the TTB ARC (collectively, the "**TT Club ARCs**"), who in turn review the assessment and recommend the proposals to their respective Boards for approval.

4.48 Any significant internal loss events and near misses are reported to the Risk Management Director and the TT Club ARCs, and monitored for correlations, trends and contagion.

4.49 The Risk Log is reviewed at least annually by the TT Club ARCs, and submitted for approval by their respective Boards.

Own Risk and Solvency Assessment ("ORSA")

4.50 The TT Club prepares an ORSA overview report at least once each year. The TT Club uses the ORSA process to help to manage its financial and solvency position over the period of its Business Plan. The ORSA overview report provides a summary of this process and is approved by the Boards. As such, it is an intrinsic part of the TT Club's business planning process.

4.51 The key elements of the ORSA process are:

- An analysis of the TT Club's recent performance
- Assessment of the TT Club's risk profile
- Consideration of business planning and stress scenarios

4.52 The TT Club ARCs review the ORSA and recommend it for approval and use by their respective Boards.

Risks and risk appetite

4.53 TTI has one key high level risk appetite statement with regard to maintaining adequate levels of capital, which is that the probability of TTI breaching its SCR is less than 10% (1 in 10) over one year, ignoring management actions.

Insurance Risk

4.54 This is the risk of insurance payments differing from expectations, in magnitude and/or in timing. The underlying risks can include:

- Inaccurate pricing of risk when underwritten;
- Inadequate reinsurance protection;
- Fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations; and
- Inadequate claims reserves.

4.55 Insurance risk is often considered in two main component parts: underwriting risk, in respect of future earned business; and reserving risk, in respect of earned business. It is a key risk for any insurer, particularly for one such as TTI that operates on a mutual business model. The TT Club manages its insurance risk through:

- adherence to the underwriting strategy, which promotes the writing of a diverse and balanced portfolio;
- adherence to the TT Club's underwriting management policy, which establishes robust underwriting practices in order to meet business needs and satisfy regulatory control. The policy requires prior approval of all quotations by a minimum of two senior underwriters, underwriters' authority levels being based on experience and competence, and frequent technical underwriting and claims file reviews by management. This is supplemented with a robust forecasting approach undertaken as part of the TT Club's ORSA process;

- pro-active claims handling. TTI has a specialised claims department dealing with the mitigation of risks surrounding known claims. Claims are reviewed individually at least bi-annually and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. Claims performance is monitored by senior management on a weekly basis and movements in notified claims costs are monitored monthly, with comparison made against actuarial expected development. Quarterly claims developments are reviewed by the reserving committee and the Board;
- adherence to the TT Club's reserving policy, which governs the establishment of provisions to cover the TT Club's expected ultimate liability. In order to minimise the risk of understating these provisions, the assumptions made and actuarial techniques employed are reviewed in detail by management and the TT Club's ARCs; and
- adequate reinsurance arrangements (see paragraphs 4.29-4.32, above).

Liquidity risk

4.56 Liquidity risk is the risk that cash may not be available to pay obligations as they fall due. The TT Club has adopted an investment policy that requires the maintenance of significant holdings in short-term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand. Short-term cash needs are monitored to ensure the most efficient investment of cash balances. As at 31 December 2019, TTI's short-term deposits (including cash and Undertakings for Collective Investment in Transferable Securities) amounted to US$45.3 million (on both a GAAP and Solvency II basis).

4.57 The amount of expected profits included in future premium as per the Solvency II balance sheet is US$31.2 million.

Market Risk

4.58 Market risk is the risk that, because of market movements, a firm might be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Sources of general market risk include movements in interest rates, equities, exchange rates and real estate prices. It is important to note that none of these sources of risk is independent of the others. Such movements will affect not only the TT Club's investments, but also the value of other assets and liabilities such as premium income, claims payments and reinsurance recoveries.

4.59 Under the TT Club's Investment Policy, all investments are invested and managed in accordance with the "prudent person principle", meaning that duties of the Investment Managers are discharged with the care, skill, prudence and diligence that a prudent person acting in a like capacity would use in the conduct of an enterprise of like character and aims. More specifically, the assets are invested as follows:

- only in assets and instruments whose risk can properly be identified, measured, monitored, managed, controlled and reported;
- in such a manner as to ensure the security, quality and liquidity of the portfolio as a whole;
- in a manner appropriate to the nature, currency and duration of the TT Club's insurance liabilities;
- the use of derivative instruments are possible insofar as they contribute to a reduction of risks or efficient portfolio management;
- investments and assets which are not admitted to trading on a regulated financial market are kept to Risk Appetite levels;
- properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings, or geographical area and excessive accumulation of risk in the portfolio as a whole.

4.60 The TT Club's funds are invested by the investment managers in accordance with parameters set by an Investment Mandate. The Investment Mandate, which is set to be consistent with the TT Club's Investment Policy, provides a framework to the investment managers for the management and stewardship of the TT Club's investment assets in conformity with the business and investment objectives and sets the parameters within which the TT Club's assets may be invested. The Investment Mandate is subject to review and approval by the Boards of TTI and TTB no less frequently than annually. The TT Club's Investment Mandate sets out target allocations, as well as limits for asset classes. The asset classes included are cash, government bonds, corporate bonds, and equities, although some other investments such as derivatives are permitted within specific constraints. TTI's own asset portfolio contains no equities, and a greater proportion of cash than TTB's directly held portfolio.

Credit risk

4.61 Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The TT Club (and TTI) is exposed to credit risk as follows:

- Cash at banks and deposits with credit institutions: Exposure to bank balances is concentrated with two main counterparties and the risk is mitigated by placing funds surplus to normal operational requirements in money market funds and other investments.
- Reinsurers' shares of insurance liabilities: The creditworthiness of reinsurers is considered on an ongoing basis by reviewing their financial strength prior to finalisation of any contract. The Senior Management Committee monitors aggregate exposure to each reinsurer and the TT Club has set selection criteria whereby each reinsurer is required to hold a credit rating greater than or equal to A- at the time the contract is made. The TT Club's main reinsurance exposure relates to Swiss Re. with Lloyd's syndicates also assuming a material share. However, TTI's main reinsurance exposure is to TTB.
- Amounts due from TTI's Members: The TT Club manages the risk of Member default through a screening process to ensure the quality of new entrants to the TT Club and the ability to cancel cover and outstanding claims to Members that fail to settle amounts payable.
- Amounts due from insurance intermediaries: The TT Club manages this risk through weekly monitoring of creditors, and through the ability to not provide cover where amounts payable have not been received.

Operational risk

4.62 Operational Risk is defined as direct or indirect losses arising from inadequate or failed internal processes, personnel or systems, or from external events. The TT Club has established a risk management framework and an Electronic Quality Management System ("**TT Club EQMS**") that sets out the processes and controls in place in the business.

4.63 Mitigation of these risks is managed in the following generic ways:

- Processes are documented, training provided and functional reviews carried out to ensure compliance.
- Procedures are in place to manage recruitment, training and appraisal of all staff. Outsourced service providers are also managed, and their performance of operational tasks is monitored and reviewed on a frequent basis.
- Applications used in business processes contain relevant mandatory fields, predefined reference data, validation and conditional inputs.
- Consideration of external events, including reports of loss/near miss events to which the business could be exposed and emerging risks.

4.64 The TT Club's stability means that its Operational Risk is not volatile. There are risks arising from the normal day-to-day running of the TT Club, such as loss of staff, issues with the implementation of IT projects, business continuity/disaster recovery, etc. However, the management fee arrangements that are in place lead to the TT Club being, to a large extent, protected from events that have a large cost associated with them. The risk is further mitigated by the Errors & Omissions insurance of the Thomas Miller Group. Nevertheless, emerging operational problems could lead to the TT Club suffering from operational performance issues and consequential reputational damage.

4.65 As the primary direct insuring entity in the TT Club, TTI's operations drive the experience for the TT Club as a whole and therefore it shares the Operational Risks of the TT Club.

Retirement benefit scheme

4.66 In 2019, two years after TTI had acquired SBO, the SBO Pension and Life Assurance Scheme (the **"SBO DB Scheme**") was transferred to TTI. As at August 2020, the pension liabilities of the SBO DB Scheme related to just four annuitants and two deferred members. The benefits for the annuitants have been secured from third party providers (Aviva plc, Rothesay Life plc and ReAssure Life Ltd). The assets intended to fund the future benefits for the deferred member have been invested in two collective investment funds run by Legal & General plc, the value of which as at 31 December 2020 was £106k.

4.67 I am aware that, as at the triennial valuation in August 2017, the Scheme Actuary identified a material shortfall in the fund. I have been told by TTI that, since the last triennial valuation, the scheme has been extensively de-risked. I have seen the report on the triennial valuation as at August 2020 that indicates that there remains a funding shortfall in the SBO DB Scheme but that it has reduced to under £20,000. In the context of the margin of TTI's Eligible Own Funds over its SCR as at 31 December 2019 (US$33 million, as shown in Figure 4.4, below), I do not consider a shortfall of that magnitude to be material. I also note in passing that the PRA has not applied a loading to TTI's SCR calculation in respect of any additional risks to TTI posed by the SBO DB Scheme.

4.68 I note that, other than the SBO DB Scheme, TTI has no further liabilities relating to retirement benefit schemes.

Capital Policy

4.69 TTI operates a capital management plan that reflects both its own standalone situation and the position of TTB. Capital is monitored by TTI management and the TTI Board, who all look closely at actual and projected coverage across a number of jurisdictions.

4.70 The TT Club's capital policy is set in reference to the AM Best's model: Best's Capital Adequacy Ratio (**"BCAR"**). In accordance with its risk appetite statement, The TT Club's Board aims to maintain TTB's AM Best A- (Excellent) rating. The TT Club equates this aim with holding capital in excess of 160% of the AM Best capital requirement, which currently corresponds to a BCAR ratio of 37.5%.

4.71 As noted in paragraph 4.53, above, TTI aims to maintain its EOF , i.e. the capital available to meet its regulatory SCR, at a level such that the probability of it not meeting its SCR is less than 10% (1 in 10) over one year, ignoring management actions. Based on capital requirements projected to 31 December 2020, TTI's view is that this is equivalent to having a ratio of EOF to the SCR of at least 118%.

4.72 As at 31 December 2019, TTI's SCRs and the EOFs available within TTI to meet those requirements were as set out in Figure 4.4, below[16]. In this Report, I refer to the ratio of the EOF to the regulatory solvency capital requirement as the "**Capital Cover Ratio**". As can be seen, as at 31 December 2019, TTI comfortably complied with its strategic objective regarding its Capital Cover Ratio.

FIGURE 4.4 TTI'S AVAILABLE ASSETS AND SOLVENCY REQUIREMENTS AS AT 31 DECEMBER 2019 (US$M)

	MCR	SCR
Eligible Own Funds	75.5	75.5
Solvency Capital Requirement	10.3	41.1
Capital Cover Ratio	735%	184%

Conduct Risk policy

4.73 The TT Club defines Conduct Risk as "*the risks arising from what the business does and the way in which it does the business in relation to its customers/Members*". Key objectives of the TT Club's Conduct Risk policy are:

- to engender a strong culture throughout the organisation, including outsourced service providers, that effectively pays due regard to the needs and interests of Member/customer outcomes in determining and achieving business plan objectives;
- to ensure that Members/customers are treated fairly at all times;
- to establish and maintain appropriate human resources processes and systems, together with data and MI, to support and manage behaviour consistent with determined Member/customer outcomes; and
- to ensure that adequate business continuity plans capable of responding to both internal and external events are in place and operative.

4.74 The following key principles outline the TT Club's approach to Conduct Risk:

- to achieve the necessary level of compliance with all relevant laws and regulations;
- to be proportionate to the nature, scale and complexity of the strategies, structure and activities of the business and their inherent risks;

[16] *These figures were taken from QRT S.23.01.01, shown in the Solvency and Financial Condition Report for TTI as at 31 December 2019.*

- to maintain practical control processes that require and encourage all staff to carry out their duties and responsibilities in a manner that achieves the above objectives;
- to set standards for and to promote ethical values, such as clarity, openness, trust, honesty and integrity thus encouraging comprehensive risk reporting and challenging debate about risk throughout the business;
- to be integrated into planning, decision-making, system development and operational processes, and take into account changing circumstances both internally and externally; and
- to deliver proportionate continuous improvement.

4.75 The TT Club considers its Conduct Risk policy is to be a subset of its Operational Risk policy. As such, it is the responsibility of the TTI and TTB Boards, which in turn delegate to the TT Club ARCs the task of reviewing, at least annually, the effectiveness of the Conduct Risk policy.

4.76 The TT Club has set in place procedures, systems and controls that are intended to provide consistent customer-focused outcomes. Behaviour of all staff is recognised as fundamental to such outcomes and is engendered in the following key ways:

- Appropriate recruitment, performance management and remuneration;
- Staff training in relation to regulatory requirements, business skills and technical competence;
- The establishment and maintenance of documented policies, processes, procedures and plans covering all operational functions, which define the way in which business is conducted, the requirements for referral and escalation in relation to decisions, and the programme for quality management reviews;
- Regular and on-going interaction between management and staff, amongst other things communicating in relation to business plan objectives, the customer service statement and customer feedback;
- Maintenance of appropriate 'whistleblowing' policies and controls that encourage all staff to speak out – without fear of recrimination or discrimination – if they find malpractice in the business. A report is made at least annually to the TT Club ARCs by the TT Club Chief Operating Officer concerning compliance with these policies and controls; and
- Maintenance of appropriate policies in relation to the prevention of financial crime, including such matters as money-laundering and bribery.

4.77 I have been provided with sample documentation relating to the operation of TTI's Conduct Risk Policy, including extracts from an internal audit report regarding the operational risk log, a dashboard showing various metrics relating to conduct risk (e.g. checks conducted, complaints received, potential rule breaches identified) and documentation of a policyholder complaint and how it was handled. This documentation gives me comfort that TTI is following its own Conduct Risk Policy.

The Transferring Business

4.78 The types of business that will be transferred are (i) fire and damage to property, (ii) general liability and (iii) marine, aviation and transport risks cover, for all and only TTI's EEA risks. The Transferring Business has liabilities valued on a UK GAAP basis at US$75.9 million, gross of reinsurance, as at 31 December 2020 (comprising US$61.0 million in respect of outstanding claims and US$14.9 million UPR). As such, they comprise roughly 20% of TTI's gross reserves on a UK GAAP basis.

4.79 With effect from 1 January 2021, TTI no longer writes EEA risks – those are written on its behalf by UKNV in accordance with a fronting agreement. TTI has projected that, by the Effective Date, the GAAP liabilities in respect of the Transferring Business will have reduced through run-off to US$54.4 million (comprising US$50.3 million in respect of outstanding claims and US$4.1 million UPR).

4.80 The number of Transferring Policies is approximately 7,400 and the number of Transferring Policyholders is approximately 1,700.

4.81 The Transferring Business comprises almost wholly direct insurance policies. I have been told by TTI that it also includes a small number of policies relating to risks located in Portugal. The risks were originally written by a local insurer, using standard TT Club policy wordings, and then 100% ceded by the local insurer to TTI. The policyholder of the fronted policy is treated as the member of the TT Club.

4.82 There are no TTI policies that cover multiple risks that are located in different geographical locations, including both EEA States and countries not in the EEA. Therefore, there will be no need to separate the risks within individual policies between those risks to be transferred at part of the Scheme and those to remain with TTI.

4.83 I note that a small number of policies that relate to risks located in Estonia, Poland and Romania and which were written by TTI prior to 1 January 2021 have already been (or will have been prior to the Effective Date) transferred to UKNV, by novation. These policies comprise those that have open claims relating to risks located in Estonia, Poland or Romania. TTI has transferred these to UKNV, ahead of the Scheme and the transfer of the remainder of the Transferring Business, as the regulators in Estonia, Poland and Romania have not agreed to permit UK insurers to continue to run-off any liabilities that they have that reside in those countries. Without such novation, with effect from 1 January 2021, it would not have been possible for these claims to have continued to be serviced and settled.

Current Plans

4.84 The TT Club's mission is to be an independent mutual specialist provider of insurance products and related risk management services to the global transport and logistics industry. Its strategic focus is on:

- Improving its gross risk profile;
- Developing its core products; and
- Maintaining and optimising a strong global network.

4.85 The TT Club's current business plan focuses on the next three years (2021-2023). The main planned developments for that period are:

- Effect the following technological change.
    - Replace the policy and claims administration systems supporting the TT Club's business;
    - Launch the first element of the TT Club's "digital" service platform to its members and their brokers, and thereafter further develop the platform's capability and functionality; and
    - Implement various actions identified as part of a project on the Club's response to the "digital" age.
- Effect the Scheme so that the TT Club is able to continue to service its EEA markets post Brexit.
- Ensure that claims, underwriting and loss prevention staff are trained and developed to meet the challenges of the digital environment.
- Identify initiatives to improve the product for large operators.

Recent significant market events that might affect UKNV

COVID-19

4.86 The COVID-19 pandemic and the responses to it of various national governments have had far-reaching consequences across society and business, worldwide. In the following few paragraphs, I discuss the impact that the COVID-19 pandemic has had, and is expected to have, upon the TT Club.

Operational

4.87 The Thomas Miller Group implemented a smooth transition to remote working for all its offices serving the TT Club. There has been no material change in the standards of service enjoyed by the TT Club, and it appears that all systems and processes continue to operate as they did prior to the COVID-19 pandemic. The TTI and TTB Boards continue to monitor closely the impact of COVID-19 pandemic on the TT Club's operations, as well as on its financial position.

Premiums

4.88 The COVID-19 pandemic resulted in a reduction in global trade during 2020 which was in turn expected to reduce premiums and the number of TT Club members. However, I understand that the TT Club experienced marginal growth over 2020 in its member volumes. That probably reflects strong underlying sales experience, mostly negated by the impact of the COVID-19 pandemic. Looking forward, it is expected that global trade will recover, but the lower claims experience in the market in 2020 (see below) could put downward pressure on premium rates.

Claims

4.89 In general, the COVID-19 pandemic has resulted in more benign claims experience due to reduction in global trade.

4.90 Although business interruption cover is a relatively minor part of its business, the TT Club has received several claims relating to such cover, including some relating to the Transferring Business. However, the TT Club uses standard contract wording in almost all of its policies and it has verified that its standard wording for business interruption covers requires the business interruption to be attributable to property damage for a claim to be valid. Because these claims are unrelated to damage to property, the TT Club has declined almost all of them.

4.91 The recent test case, brought to the Court and then to the Supreme Court by the FCA against several insurers in respect of various sample wordings, ruled in favour of claimants in respect of most of the (non-standard) wordings under review. The TT Club has reviewed those business interruption policies for which it is aware the contract wording is non-standard. It has identified no policy that contains any of the sample wordings that were considered by the Court and the Supreme Court and, therefore, it has concluded that it will be unaffected by the ruling. I have not independently verified the results of the TT Club's review of its policy wordings but do not consider its findings to be surprising.

4.92 It remains possible that the TT Club's policy wordings are challenged in court (in the UK or another jurisdiction) or that there is an unexpected intervention from regulators, both of which could lead to an increase in the TT Club's claims liability. However, in view of the relatively minor nature of business interruption cover within the business written by the TT Club, I would not expect any such increase in the TT Club's claims liability to be material.

4.93 I have been told by the TT Club that, in respect of the Transferring Business, the total gross notified amount for claims relating to the COVID-19 pandemic was less than US$20,000 as at the date of this Report.

4.94 The COVID-19 pandemic has also increased the risk of reinsurance disputes, for example if reinsurers apply pandemic exclusions and hence resist paying out on COVID-related claims after the TT Club has settled them. However, in light of the very low level of COVID-related claims experienced by the TT Club, I consider the increase in this risk to be negligible.

4.95 While it is felt that the virus has not had a material impact on the TT Club's claims, there is a greater level of uncertainty in estimates of the ultimate claim amounts than there would be in normal circumstances.

Assets

4.96 The COVID-19 pandemic initially had a severe impact on investment valuations, particularly the equity markets, although much of the effect has since been reversed. TTI's investments mainly consist of US government bonds and there are no equity holdings (although TTB's investment mandate permits some degree of exposure to equity investments). Therefore, its investments have not been materially affected by the pandemic. I note from the Solvency and Financial Condition Report ("**SFCR**") as at 31 December 2020 that TTI's investment return over 2020, net of interest payable and exchange losses, was US$1.9 million (in 2019 it was US$ 2.4 million).

Capital and Solvency

4.97 Taking into consideration current laws and regulations, the TT Club does not expect its liquidity or solvency position to be materially affected by the COVID-19 pandemic. However, it has increased the frequency of monitoring its capital and liquidity positions, and has been conducting stress and scenario testing to help it to understand better the possible effects of the continuing pandemic on the wider business as well as market, liquidity, operational, and capital risks.

Ever Given

4.98 On 23 March 2021, the container ship Ever Given ran aground in the Suez Canal. This event has caused significant losses within the marine insurance sector, including for P&I clubs. The TT Club has examined the policies held by its members and has identified just one member (the policy for which is fronted by UKNV) who is likely to be affected significantly by this incident, in respect of its contribution to the salvage of the vessel. As at the date of this Report, there are no firm market figures for the actual costs incurred for re-floating the vessel. However, based on similar past claims, the TT Club estimates that the claim on this member is unlikely to exceed US$1.5 million.

UKNV

Background

4.99 UKNV is a public limited liability company incorporated and domiciled in the Netherlands. The company was incorporated on 27 November 2018 and registered with the Chamber of Commerce under number 73217484. It has issued share capital of €500,000, which is wholly held by UKM. UKM is the parent of the group of companies known as the "**UK Club**", the others being The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited ("**UKB**"), The United Kingdom Mutual Steam Ship Assurance Association (London) Limited and UKNV.

4.100 UKNV's stated purpose is *"to mitigate the potential negative consequences of the United Kingdom leaving the European Union for the various mutual insurance Clubs managed by Thomas Miller"*.

4.101 UKNV's first accounting year ran from its incorporation date to 20 February 2020. This was the year in which UKNV started underwriting. UKNV was established so that a number of existing mutual insurers (the "**Fronted Clubs"**) could continue to offer their members cover for risks residing in EEA States. UKNV is a fronting insurer for these entities, with all business written on their behalf by UKNV being fully reinsured under 100% quota share reinsurance agreements to the corresponding mutual insurers. All of the Fronted Clubs, as well as UKNV, are managed by members of the Thomas Miller Group. The Fronted Clubs are:

- UKM;
- International Transport Intermediaries Club Limited (**"ITIC"**);
- PAMIA Limited (from 1 January 2021);
- The United Kingdom Mutual War Risks Association Limited ("**UKWR**") (from 20 February 2021); and
- TTI (from 1 January 2021).

4.102 UKNV is authorised and regulated by The DNB. UKNV has permission under Section 2:27 of the Dutch Financial Supervision Act to effect and carry out contracts of general insurance under classes 6, 7, 8, 9, 10b, 11, 12 and 13 of such law.

4.103 UKNV is authorised to effect and carry out general insurance contracts on a freedom of services basis in the all EEA States.

4.104 UKNV is managed by TTBV, a member of the Thomas Miller group of companies.

4.105 UKNV's financial year runs 20 February - 20 February.

4.106 I note that:

- UKM transferred its EEA business for all policy years ending on or before 20 February 2020 ("**UKM Transferred Business**") to UKNV via a Part VII Transfer that became effective on 31 December 2020. With effect from the time of the transfer, the UKM Transferred Business has been reinsured from UKNV to UKM via a 100% quota share reinsurance agreement; and
- UKNV has agreed with Accredited Insurance (Europe) Limited ("**AIEL**"') that AIEL shall acquire UKNV's P&I occupational disease portfolio for the period 1 January 1935 to 20 February 2001 (the "**UKNV Transferring Occupational Disease Business**") which are part of the UKM Transferred Business). Under the terms of an agreement dated 27 February 2020, the UKNV Transferring Occupational Disease Business is currently 100% reinsured by AIEL. Therefore, the economic liability inherent in UKNV's P&I occupational disease portfolio has already been transferred to AIEL[17], with the portfolio transfer of the legal liability to be completed no later than 31 December 2022. I have been told that UKNV expects the portfolio transfer to be completed in November 2021.

Strategy

4.107 UKNV aims to be the solution for the Fronted Clubs in respect of those risks located in the EEA that were (or would have been) directly insured by the Fronted Clubs, but no longer can be post-Brexit. UKNV's strategy is inherently linked to the mutual insurers managed by members of the Thomas Miller Group.

4.108 UKNV's strategy is to:

[17] *Were the Part VII transfer of the UKNV Transferring Occupational Disease Business not to take place, it would make negligible difference to either the balance sheets (on both GAAP and Solvency II bases) of UKNV or to UKNV's SCR as the UKNV Transferring Occupational Disease Business would either remain 100% reinsured by AIEL or would be reinsured 100% by UKM, i.e. in no circumstances would UKNV bear the economic liability of the UKNV Transferring Occupational Disease Business.*

- allow service continuity for the members of the Fronted Clubs that have risks located in EEA States, while reinsuring the fronted premium and risks back to the Fronted Clubs;
- provide a cost-effective operation; and
- ensure compliance on all fronts.

Mutuality

4.109 Any holder of a policy that UKNV has written under fronting arrangements is a member of the membership entity associated with the relevant Fronted Club. For example, a holder of a policy that UKNV has written on a fronting basis for TTI is a member of TTB. On the other hand, a holder of a policy that UKNV has written on a fronting basis for UKM would be a member of UKM. This also applies to holders of policies within the UKM Transferred Business – they were members of UKM prior to their policies being transferred from UKM to UKNV and remained members of UKM post-transfer.

4.110 It is intended that these arrangements will continue to be applied for all future business written by UKNV on behalf of the Fronted Clubs, or transferred to UKNV from a Fronted Club, i.e. that the policyholder will be, or will continue to be, a member of the Fronted Club.

Business Written

4.111 The total gross premiums written by UKNV in the year ending 20 February 2020 totalled US$2.8 million, the main elements of which were as follows:

- General Liability (95%);
- Property (5%).

4.112 The gross premiums written by UKNV in the year ending 20 February 2020 were in respect of the following main EEA States:

- Germany (30%);
- France (21%);
- Italy (15%);
- Denmark (14%);
- The Netherlands (11%);
- Spain (6%);
- Other (3%).

4.113 According to UKNV's 2021 business plan, it anticipates writing the following business volumes for the various Fronted Clubs during 2021:

- UKM: US$63.2 million;
- ITIC: US$14.1 million;
- PAMIA Limited: immaterial amounts;
- UKWR: US$2.4 million;
- TTI: US$28.5 million.

Key financial information

4.114 As at 20 February 2020, on a Dutch GAAP basis, the outstanding claims reserves and the UPR were as set out in Figure 4.5, below.[18] The reserves were attributable to UKNV's fronting arrangements for UKM and ITIC. The gross reserves include an amount of deferred continuity credit, which relates to a credit provided to ITIC's renewing members.

[18] *Based on UKNV Annual Report and Financial Statements 2020, Page 13.*

FIGURE 4.5 UKNV'S CLAIMS RESERVES ON A DUTCH GAAP BASIS AS AT 20 FEBRUARY 2020 (US$M)

	Claims Outstanding	UPR	TOTAL
Gross	0.2	3.2	3.5
Gross minus deferred continuity credit		2.4	2.6
Ceded	0.2	2.0	2.2
Net	0.0	0.4	0.4

4.115 Despite UKNV 100% reinsuring to the relevant Fronted Clubs the business that it writes, Figure 4.5, above, shows a non-zero net UPR. This relates to acquisition costs, and is appropriately matched in UKNV's GAAP balance sheet by a Deferred Acquisition Cost asset.

4.116 UKNV management considers that the Dutch GAAP booked reserves remain reasonable and in line with its reserving policy. I discuss UKNV's reserves in more detail in paragraphs 6.37-6.53, below.

4.117 As at 20 February 2020, on a Dutch GAAP basis, the total assets and the total liabilities of UKNV amounted to US$42.6 million and US$5.2 million[19] respectively, giving net assets of US$37.4 million. The net assets represent the capital of the company under Dutch GAAP (it should be noted that this is not the same as the own funds available to meet the solvency capital requirements under Solvency II).

4.118 As at 20 February 2020, on a Dutch GAAP basis, UKNV held investment assets[20] valued at US$31.8 million, consisting entirely of US Treasury securities.

4.119 UKNV benefits from the UK P&I Club's credit rating of A as rated by Standard & Poor's (last updated October 2020), which also rated UK P&I Club's capital adequacy as AAA ("extremely strong").

4.120 As at 20 February 2020, on a Solvency II basis, UKNV's technical provisions were as set out in Figure 4.6, below.[21]

FIGURE 4.6 UKNV'S TECHNICAL PROVISIONS ON A SOLVENCY II BASIS AS AT 31 DECEMBER 2019 (US$M)

	Premium Provision		Claims Provision		Total Provision		
	Marine Aviation & Transport	General Liability	Marine Aviation & Transport	General Liability	Marine Aviation & Transport	General Liability	TOTAL
Gross	-8.1	0.0	0.1	0.2	-8.0	0.2	-7.8
Ceded	-6.3	0.3	0.1	0.2	-6.2	0.5	-5.7
Net	-1.8	-0.3	0.0	0.0	-1.8	-0.3	-2.2

Reinsurance

4.121 UKNV's insurance liabilities are fully reinsured. All business written by UKNV on a fronting basis is reinsured 100% by the insurer for which UKNV is fronting. UKM also 100% reinsures UKNV in respect of the UKM Transferred Business.

4.122 As noted in paragraph 4.106, above, the economic risk inherent in UKNV's P&I occupational disease portfolio (which is part of the UKM Transferred Business) has been transferred to AIEL via a reinsurance arrangement. It is currently expected that the legal risk will transfer to AIEL via a portfolio transfer in November 2021.

4.123 UKNV is a member of the International Group, participating only in relation to the P&I insurance business that it fronts for UKM. Under the International Group Agreement, UKNV participates, with other members of the International Group, for its share of claims arising above a value determined under the agreement (currently US$100 million, up to a limit of US$3.0 billion). Claims in respect of the membership of the International Group are fully reinsured to UKM, as the only Fronted Club that is a member of the International Group.

4.124 UKM and UKNV have entered into an agreement (the "**Keep-Well Agreement**") with a view to ascertaining that UKNV will be able to fulfil its regulatory responsibilities. The Keep-Well Agreement contains one general and two specific covenants.

[19] *Based on UKNV Annual Report and Financial Statements 2020, Page 13.*
[20] *Based on UKNV Annual Report and Financial Statements 2020, Page 26.*
[21] *Based on UKNV Solvency and Financial Condition Report for the year ending 20 February 2020, S.17.01.02.*

- The first specific covenant states that, in the event that the UK's insurance regime is not deemed to be equivalent (to Solvency II) after Brexit, UKM shall procure that UKNV's solvency ratio is at least 150% on the later of the date the UK leaves the EU and the date the UK leaves the Single Market. As the UK has now left both the EU and the Single Market, this covenant has effectively expired and can be ignored for the purposes of this Report.
- Under the second specific covenant, in the event of a portfolio transfer into UKNV from a Fronted Club, UKM will (if required) provide additional funds to UKNV to ensure that UKNV's Capital Cover Ratio in respect of its SCR is at least 150% on the date of the transfer.
- Under the general covenant, in the event that UKNV had insufficient funds to meet its regulatory requirements, UKM would decide whether to support UKNV with extra funds after taking into account the best interests of UKNV, UKNV's policyholders and other stakeholders.

4.125 I understand that TTI and UKNV have taken this to mean that UKM will act as "reinsurer of the last resort" for UKNV. It appears to me that the general covenant is intended to have that effect, although the wording of the covenant does not confer any guarantee. I discuss this further in Section 6, below.

Governance

4.126 UKNV is organised according to the two-tier board principle. The Management Board is in charge of the day-to-day management of the business, and the Supervisory Board has an internal supervision and advisory role.

4.127 UKNVs Management Board consists of three people, the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer. The Supervisory Board consists of five people, three of whom are representatives of members of the UK Club (two are directors of UKM, the other is a member of the Members Committee but otherwise has no specific UK Club role – he is also a Dutch resident) and two of whom are Dutch residents who are not otherwise affiliated with the UK Club. One of the non-UK Club members of the Supervisory Board acts as its Chairman and the other chairs UK NV's Audit & Risk Committee ("**UKNV ARC**"), which reports to the Supervisory Board.

Risk management strategy

4.128 UKNV's risk management framework falls under the responsibility of UKNV's Management Board. UKNV's risk management system:

- Identifies risks, which are recorded in the Risk Log;
- Includes a Risk Appetite, which is set by UKNV's Management Board and documented in the UKNV Business Plan;
- Measures, monitors and reports risk in a consistent, continuous and timely fashion; and.
- Supports decisions to manage risks and thereby helps deliver the UKNV Business Plan objectives.

4.129 The process of managing risks is encapsulated in the ORSA process, which has a particular focus on managing capital throughout the period of UKNV's Business Plan. This is described in the ORSA.

4.130 The following key principles outline UKNV's approach to risk management:

- to maintain processes that methodically and comprehensively identify and address all risks associated with the activities of the business;
- to promote a high level of integrity and establish a culture that encourages comprehensive risk reporting and challenging debate about risk throughout the business;
- to make conservative and prudent recognition and disclosure of the financial and non-financial implications of risks;
- to be integrated into planning, decision-making and operational processes, and responsive to changing circumstances;
- to be compliant with all laws and regulations;
- to encourage cost-effective continuous improvement in the control environment;
- to achieve maximum sustainable value from all the activities of UKNV within the constraints of UKNV's appetite for risk (as set out in the Risk Appetite Statement);
- to be proportionate to the nature, scale and complexity of the risks inherent in the business; and

- to provide a sound foundation on which to assess the emergence of new risks and changes in existing risks, whether influenced by regulatory, legislative, commercial or any other means.

4.131 The UKNV ARC supervises financial, actuarial, risk management, compliance and audit matters, and provides UKNV's Supervisory Board with advice.

4.132 The tasks and duties of the UKNV ARC include the supervision of the following matters:

- Risk matters, including the review of risk reports and other reports from the Chief Risk Officer;
- Internal control matters, in accordance with the general control environment of UKNV, including
  - any identified material failings in the internal controls; and
  - any material changes made to, and any material improvements planned for, the internal controls;
- Compliance matters, including the review of compliance reports and other reports from the compliance officer;
- Financial matters, including both management and external reporting and tax matters;
- Actuarial matters, including the adequacy of reserves and capital levels and other reports from the actuarial function holder;
- Internal audit reports, and other reports from the internal auditor;
- The functioning of, and the developments in, the relationship with the external auditor, including the external audit report of the annual accounts;
- The effective functioning of the four key function holders as required by Solvency II, being risk officer, compliance officer, actuary and internal auditor;
- Investment matters and investment reports, including the outsourcing structure for investments (if relevant);
- UKNV's relations with shareholders and the intra-group relationships;
- Issuing recommendations to UKNV's Supervisory Board concerning the appointment and the dismissal of the head of the Internal Audit Department;
- Reviewing and discussing the performance of the Internal Audit Department;
- Advising UKNV's Supervisory Board regarding the external auditor's nomination for (re)appointment or dismissal and preparing the selection of the external Auditor for such purpose; and
- Submitting proposals to the Supervisory Board concerning the external auditor's engagement to audit UKNV's financial statements, including the scope of the audit, the materiality to be applied and the external auditor's compensation.

Risks and Risk Appetite

4.133 The UKNV risk appetite is documented in a risk appetite statement. The statement is a qualitative and quantitative articulation of the tolerance levels for risk that UKNV is prepared to accept in the execution of its strategic and businesses objectives and provides the link between the Board's strategy and the risk profile, risk register and reporting triggers. The risk appetite statement is a dynamic document, which changes from time-to-time to reflect any amendments that the Board considers appropriate.

Insurance Risk

4.134 UKNV has a zero tolerance for insurance risk. The maximum tolerance for the net loss on a single claim is nil. This is achieved through the 100% reinsurance arrangements with the Fronted Clubs.

4.135 UKNV has a low tolerance for risk on fronting services, targeting a profit on these services.

Liquidity risk

4.136 Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. UKNV manages liquidity risk by maintaining adequate reserves and banking facilities and ensuring that the spread of investments across short, medium and long-term funds will enable any short-term funding requirements to be met. Liquidity risk is also managed through seeking funding for claims from the fronted insurer before paying claims to the policyholder.

Investment risk

4.137 The UK Club operates a common investment policy across all entities within the group, including UKNV. Under the policy, the UK Club's investments comprise a series of sub-funds (as well as an investment in Thomas Miller Holdings) and the percentage of the UKNV's investments within any of the sub-funds is constrained by UKNV's Investment Mandate. This sets out UKNV's low appetite for investment risk through mandating investments to be only in high quality money market instruments or US Treasury securities.

4.138 Interest rate risk is mitigated through the matching of insurance liabilities by the 100% quota share reinsurance provided by the Fronted Clubs. In addition, the invested assets of UKNV are mainly invested in US Treasury securities with a maximum average duration of eight years.

Currency Risk

4.139 The insurance liabilities in the balance sheet are wholly matched by the 100% quota share reinsurance provided by the Fronted Clubs, and so the insurance liabilities create no currency risk to UKNV. All investments are in securities or financial instruments denoted in US Dollars, which is the reporting currency.

Credit risk

4.140 Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. UKNV is exposed to credit risk in three primary ways:

- <u>Cash at banks and deposits with credit institutions:</u> Exposure to bank balances is managed through a minimum long-term credit rating limit and maximum exposure limit for each bank where UKNV deposits cash. These limits are defined in the UKNV investment mandate.
- <u>Reinsurer's share of insurance liabilities:</u> UKNV has a low tolerance for risk on reinsurance contracts. UKNV's risk appetite states that it will only purchase reinsurance cover from the Fronted Clubs and mutual insurers within the International Group or from reinsurers who are at least "A-" rated at the time of purchase. UKNV will place up to 100% of its reinsurance cover with the Fronted Club, but will place no more than 25% of other reinsurance cover with any single carrier and require other reinsurance cover to be placed with a minimum of five reinsurers.
- <u>Amounts due from insurance intermediaries:</u> UKNV does not accept the risk of default by brokers on their obligations to pass on to UKNV policyholders' premiums to UKNV. Therefore, where policyholders purchase their insurance through brokers, UKNV will only bind cover once the premium has been received from the broker.

Operational risk

4.141 Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In particular, this includes the risk of business interruption, of compliance or regulatory breaches, or of poor service delivery, any of which could result in damage to UKNV's reputation and could adversely affect its ability to meet its stated objectives. To help manage this risk UKNV has in place the following explicit risk appetite statements:

- Processes and delivery: UKNV has a very low tolerance for failure in providing an excellent service to policyholders. UKNV operates in a controlled environment backed up by documented procedures, risk logs and controls. Performance is monitored and audited to ensure adherence to the service standards set in our claims handling and underwriting protocols.
- Authority: UKNV does not tolerate breaches of authority levels.
- Data Quality, Data Integrity and Data Security: UKNV has a very low tolerance for errors in the data held on our systems. All data is reviewed and reconciled to ensure the highest degree of accuracy possible. In order to protect the data in UKNV's systems it requests outsourced service providers to implement a set of security controls that satisfies minimum regulatory requirements.
- Regulatory Risk: UKNV has zero tolerance of regulatory breaches and will operate within the law at all times, as also set out in the Systematic Integrity Risk Analysis ("**SIRA**"). This is discussed further under Conduct Risk policy, below.

Pension scheme risk

4.142 UKNV has no, and never has had any, employees. Hence, there is no risk in respect of any related pension scheme.

Capital Policy

4.143 UKNV operates a capital management plan to ensure that regulatory capital minima, supervisory targets and internal target are met at all times. Capital is monitored by management, the UKNV Supervisory Board and the UKNV Management Board.

4.144 As part of its capital management policy, the UKNV Board intends that Solvency II regulatory capital is maintained at a level at least 150% of that of the SCR, with an optimum Capital Cover Ratio of 175%. UKNV would consider declaring a dividend in the event that the Capital Cover Ratio was expected to remain above 200% for a prolonged period of time.

4.145 As at 20 February 2020, UKNV's SCRs and the EOFs available within UKNV to meet those requirements were as set out in Figure 4.7, below[22]. As can be seen, as at 20 February 2020, UKNV comfortably complied with its strategic objective regarding its Capital Cover Ratio.

FIGURE 4.7 UKNV'S AVAILABLE ASSETS AND SOLVENCY REQUIREMENTS AS AT 20 FEBRUARY 2020 (US$'000)

	MCR	SCR
Eligible Own Funds	38,466	38,466
Solvency Capital Requirement	4,126	14,919
Capital Cover Ratio	932%	258%

Conduct Risk policy

4.146 UKNV manages conduct risk through its SIRA policy. This policy is based on rules and regulations from the EU and DNB, and is framed around the concept of Integrity Risk, defined as *"the threat to the reputation of, or the current or future threat to, the capital or the results of UKNV due to insufficient compliance with applicable laws and regulations"*. UKNV has zero risk appetite for Integrity Risk issues. It has suggested the following as examples of Integrity Risks:

- Crime, including cybercrime
- Fraud
- Money-laundering
- Financing of terrorism
- Bribery and corruption
- Breaches of international sanctions
- Actual and perceived conflicts of interest
- Tax evasion or tax avoidance
- Breaches of internal policies
- Integrity risks with regard to outsourcing
- Other unethical behaviour.

4.147 The SIRA is a cyclical process and consists of the four phases: risk identification; risk analysis; risk management; and risk monitoring and review. This policy is in the responsibility of the Chief Risk Officer and has to be approved by the UKNV Management Board. The policy is subject to review at least annually.

Complaints handling

4.148 UKNV's approach to claims handling is consistent with that of the Fronted Clubs, as all are managed by members of the Thomas Miller Group. Complaints are raised with the Fronted Clubs and dealt with according to their own complaint handling procedures. Post-Scheme, complaints to UKNV by Transferring Policyholders will be dealt with by the TT Club and its managers, TTMS.

4.149 I understand that the complaints policy and procedures are reviewed annually, and are also updated on an ad hoc basis if and when any applicable regulatory changes are introduced.

[22] *These figures were taken from QRT S.23.01.01, shown in the solo Solvency and Financial Condition Report for UKNV as at 20 February 2020.*

Recent significant market events that might affect UKNV

COVID-19 pandemic

4.150 As I stated in paragraph 4.86, above, the COVID-19 pandemic and the responses to it of various national governments have had far-reaching consequences across society and business, worldwide. In the following few paragraphs, I discuss the impact that the COVID-19 pandemic has had, and is expected to have, upon UKNV.

Operational

4.151 As it did with its offices serving TTI, the Thomas Miller Group implemented a smooth transition to remote working for all its offices serving UKNV. There has been no material change in the standards of service enjoyed by UKNV, and it appears that all systems and processes continue to operate as they did prior to the COVID-19 pandemic. The Management Board and the Supervisory Board continue to monitor closely the impact of COVID-19 pandemic on UKNV's operations, as well as on its financial position.

Premiums

4.152 The COVID-19 pandemic resulted in a reduction in global trade during 2020, which in turn is expected to reduce the gross premiums written by UKNV on behalf of the Fronted Clubs.

Claims

4.153 In general, the COVID-19 pandemic has resulted in more benign claims experience for P&I clubs due to reduction in global trade. However, UKNV has received some claims relating to the COVID-19 pandemic, including some business interruption claims. As at February 2021, the total incurred amounts, gross of reinsurance, for claims relating to the COVID-19 pandemic was US$3.2 million. However, these claims are 100% reinsured by the relevant Fronted Clubs and so the net impact upon the balance sheets, on both a GAAP and a Solvency II basis, is negligible.

Assets

4.154 The COVID-19 pandemic had a severe impact on investment valuations, particularly the equity markets, although much of the effect has since been reversed. UKNV's investments mainly consist of US government bonds and there are no equity holdings. Therefore, its investments have not been materially affected by the pandemic.

Capital and Solvency

4.155 Taking into consideration current laws and regulations, and the fact that UKNV's insurance liabilities are 100% reinsured by the Fronted Clubs, UKNV does not expect its liquidity or solvency position to be materially affected by the COVID-19 pandemic. I consider this expectation to be reasonable.

Ever Given

4.156 As noted in paragraph 4.98, above, the running aground in the Suez Canal in late March 2021 of the container ship Ever Given has caused significant losses within the marine insurance sector, including for P&I clubs. The TT Club identified just one policy (which was written by UKNV on its behalf on a fronted basis) that was likely to be affected significantly by this incident. Although the TT Club estimates that the claim on this member could be up to US$1.5 million, it is wholly reinsured by TTI and, therefore, the overall effect on UKNV's balance sheets is negligible, on both a GAAP and a Solvency II basis. I have been informed by TMBV that the Ever Given event was not covered by any other policies issued (or assumed through transfer) by UKNV claim and hence it is expected that it will have no impact on UKNV's balance sheet.

Current Plans

4.157 As noted in paragraph 4.107, above, UKNV's strategic purpose is to provide those mutual insurers that are managed by the Thomas Miller Group with access to the EEA market after Brexit. UKNV has passporting rights to countries in the EEA. There are no plans for UKNV to front for insurers other than the Fronted Clubs.

4.158 As noted in paragraph 4.106, above, UKNV and AIEL have agreed that AIEL shall acquire UKNV's P&I occupational disease portfolio for the period 1 January 1935 to 20 February 2001. The economic risk inherent in UKNV's P&I occupational disease portfolio has already been transferred to AIEL via a reinsurance arrangement and it is currently expected that the legal risk will transfer to AIEL via a portfolio transfer in November 2021.

4.159 I am unaware of any other plans of UKNV that are material to the Scheme.

5. The proposed Scheme

SUMMARY OF THE SCHEME

5.1 In this section of the Report, I summarise the terms of the Scheme, as set out in the Scheme Document. For the avoidance of doubt, the terms of the Scheme as set out in the Scheme Document are definitive.

5.2 Assuming that the Court approves the Scheme as proposed, all EEA insurance business and inwards reinsurance that has been written by TTI (the Transferor) prior to 1 January 2021 will be transferred to UKNV (the Transferee) at and with effect from 24:00 hours GMT on the Effective Date (expected to be 30 September 2021). This will include all of TTI's liabilities, insurance policies, and inwards reinsurance policies in respect of the Transferring Business. UKNV will cede to TTI 100% of the risks of the TTI policies transferring to UKNV pursuant to the Scheme and, accordingly, no outwards reinsurance of TTI will transfer to UKNV pursuant to the Scheme. In paragraph 1.8, above, I have explained that UKNV already writes EEA business on behalf of TTI, on a fronting basis, and cedes to TTI 100% of those risks.

5.3 There will be no changes to the terms and conditions of any policy included within the Transferring Business as a result of the Scheme. TTI's rights and obligations under the policies that comprise the Transferring Business will be transferred, without alteration, to UKNV. Similarly, it is intended that there will be no change in how the Transferring Business is administered as a result of the Scheme. All holders of policies included within the Transferring Business will be entitled to the same rights against UKNV as were available to them against TTI under such policies and will be accountable to UKNV for any further or additional premiums or other amounts attributable or referable thereto as and when the same become due and payable.

5.4 Any pending or current proceedings or complaints issued or served before the Effective Date by or against TTI in connection with the Transferring Business shall be continued by or against UKNV in place of TTI, and TTI shall cease to have any direct legal liability under those proceedings following the Effective Date. Any proceedings or complaints issued or served on or after the Effective Date that would hitherto have been by or against TTI will instead be by or against UKNV. UKNV shall be entitled to all defences, claims, counterclaims and rights of set-off that would have been available to TTI before the Effective Date in respect of the Transferring Business.

5.5 Any judgment, order or award in respect of the Transferring Business that is not fully satisfied before the Effective Date will become enforceable by or against UKNV in the place of TTI.

5.6 UKNV shall indemnify TTI against any loss or expense incurred by TTI, whether before or after the Effective Date, that is attributable to the Transferring Business.

5.7 No members of staff of TTI (TTI has no employees) or of Thomas Miller will be transferred from their current employer to a new employer as a result of the Scheme.

5.8 All costs and expenses incurred in connection with the preparation and carrying into effect of the Scheme, whether before or after the Effective Date, shall be paid by TTI (and not by the Transferring Policyholders).

5.9 The terms of the Scheme are governed by English law.

MOTIVATION FOR THE SCHEME

5.10 The primary motivation for the Scheme is that TTI wishes to ensure continuity of service to those of its policyholders that have risks located in the EEA. Post Brexit and the conclusion of the Transition Period, there are no indefinite agreements in place between the UK and the EEA States in which these risks reside that would permit TTI to continue to provide service to these policyholders. The insurance regulators in some, but not all, EEA states are allowing UK insurers with risks within the EEA state to effect an orderly run-off of their EEA risks, and TTI is currently servicing its EEA business in accordance with such permissions. However, some of those states have imposed a time limit for that run-off and so the current arrangement is only a temporary fix. The Scheme provides a long-term solution, while leaving TTI's economic risks unchanged and the rights of those TT Club members with EEA risks largely unaltered.

POLICYHOLDERS AFFECTED

5.11 I have considered the effects of the Scheme on the following groups of policyholders:

- the Transferring Policyholders;

- the TTI Non-Transferring Policyholders;
- the current policyholders of UKNV.

5.12 I do not consider that the policyholders of any other insurance companies are affected by the Scheme.

EXCLUDED POLICIES

5.13 While it is possible that there will be some Excluded Policies, none are currently expected.

5.14 If there are any Excluded Policies post the Effective Date then the Companies shall work towards subsequently transferring each and every Excluded Policy to UKNV, by novation or other means.

POLICY ADMINISTRATION

5.15 As discussed in paragraph 1.10, above, the operational management of both TTI and UKNV, including all policy administration, claims handling, etc. in respect of the Transferring Business, the TTI Non-Transferring Business and the existing business of UKNV, is currently conducted by members of Thomas Miller Group. Each will continue to be managed by the Thomas Miller group of companies following the Transfer, and the transferred business will therefore continue to be serviced by experienced transport industry insurance professionals.

5.16 UKNV has delegated to TMBV the handling of any claims relating to business that it fronts on behalf of Fronted Clubs. Post-Scheme, this will include handling all claims relating to the Transferring Business. TTMS and TMBV have entered in a co-operation and advisory agreement, pursuant to which TTMS will assist TMBV with claims handling advice and will assist TMBV generally as and when so requested. In practice, this means that Transferring Policyholders will enjoy continuity of service post-Scheme in terms of the handling of their policies, in particular their claims.

5.17 There will be no need for claims records to be migrated. The only material IT developments that will be required as a result of the Scheme will be to arrange that relevant management information is fed through to UKNV as well as to TTI.

5.18 It is intended and expected that the Transferring Policyholders will experience no difference in the administration and servicing of their policies and claims between the periods before and after the Effective Date, and it is intended that those operations are undertaken pursuant to substantially the same arrangements as currently exist. I note that the corporate governance arrangements of UKNV and of TTI, their key systems of governance (risk, compliance, actuarial and internal audit), and their financial and operational reporting arrangements are already materially consistent with one another.

5.19 On and with effect from the Effective Time, UKNV shall:

- succeed to all rights, liabilities and obligations of TTI in respect of any personal data which relates to the Transferring Business or Transferring Policyholders to the extent transferred by this Scheme;
- become the data controller of any personal data which relates to the Transferring Business or Transferring Policyholders, to the extent required by the Data Protection Laws and shall be deemed to have been the controller of all such data at all material times when personal data is processed; and
- in respect of any personal data which relates to the Transferring Business or Transferring Policyholders be under the same duty as TTI was under to respect the confidentiality and privacy of any person in relation to that personal data and shall be bound by any specific notice or consent given, or request made by, the data subject which was binding on TTI and which required TTI not to use the personal data for marketing purposes, and in any consent given by a data subject in respect of such data as is mentioned in this paragraph any reference to TTI shall be deemed to include a reference to UKNV.

EFFECT OF THE SCHEME ON THE BALANCE SHEETS OF TTI AND UKNV

5.20 Figure 5.1, below, shows simplified balance sheets on a GAAP basis for TTI as at 31 December 2019[23] under the two situations):

- The "Actual" column shows the actual balance sheet as at 31 December 2019.
- The "Immediately Post-Scheme" column shows what the balance sheet would have looked like as at 31 December 2019 had the Scheme been approved and become effective as at 31 December 2019.

[23] *Based on TTI's Annual Report as at 31 December 2019.*

FIGURE 5.1 SIMPLIFIED GAAP BALANCE SHEETS FOR TTI AS AT 31 DECEMBER 2019 (IN US$'000)

	Actual	*Scheme*	Post-Scheme
Assets			
Investments	107,994	*0*	107,994
Reinsurance recoverables	328,993	*0*	328,993
Cash and cash equivalents	39,281	*0*	39,281
Loans and receivables	50,454	*0*	50,454
DAC	7,270	*-678*	6,592
Any other assets	980	*0*	980
Total Assets	**534,972**	***-678***	**534,294**
Liabilities			
Equity	66,894	*0*	66,894
Gross technical provisions	364,152	*-678*	363,474
Payables	101,606	*0*	101,606
Other liabilities	2,320	*0*	2,320
Total Liabilities	**534,972**	***-678***	**534,294**

5.21 Figure 5.2, below, shows simplified balance sheets for TTI as at 31 December 2019[24] under the same two situations as per Figure 5.1, but on a Solvency II basis.

FIGURE 5.2 SIMPLIFIED SOLVENCY II BALANCE SHEETS FOR TTI AS AT 31 DECEMBER 2019 (IN US$'000)

	Actual	*Scheme*	Post-Scheme
Assets			
Investments	107,994	*0*	107,994
Reinsurance recoverables	220,640	*0*	220,640
Cash and cash equivalents	39,281	*0*	39,281
Loans and receivables	11,740	*0*	11,740
Any other assets	979	*0*	979
Total Assets	**380,634**	***0***	**380,634**
Liabilities			
Equity	75,480	*22*	75,502
Gross technical provisions	260,560	*-22*	260,538
Payables	42,273	*0*	42,273
Other liabilities	2,320	*0*	2,320
Total Liabilities	**380,633**	***0***	**380,633**

5.22 The analysis that underlies Figure 5.1 and Figure 5.2, above, has been produced on the following basis:

- TTI transfers gross claims reserves and UPR of US$50.3 million and US$4.1 million respectively to UKNV on 31 December 2019.
- UKNV fully reinsures these liabilities to TTI and so they become inwards reinsurance liabilities for TTI, although the unpaid brokerage corresponding to the UPR will be paid by UKNV rather than TTI. TTI's UPR corresponding to the inwards reinsurance premium from UKNV will therefore be net of brokerage.
- No allowance has been made for any charge by UKNV for the transfer. This is still being discussed between TTI and UKNV and, should any charge be payable, this will reduce TTI's capital, but the impact on TTI's accounting and solvency positions is not expected to be material given the level of capital held by TTI.

5.23 The following observations can be made:

- TTI's GAAP equity amount is unchanged following the transfer:
  - While TTI's gross claims reserves for direct insurance business would reduce by the amount transferred to UKNV, they would be replaced by the inwards reinsurance liabilities from UKNV of the same value and so there is no change at the overall level. In addition, TTI's own reinsurance arrangements would apply in the same way as before the transfer, so there would be no change to the reinsurance recoverables corresponding to these liabilities.

[24] *Based on TTI's Solvency & Financial Condition Report as at 31 December 2019.*

    - While TTI's UPR reduce slightly due to the inwards reinsurance premium from UKNV being net of brokerage as discussed above, this is offset by a reduction to TTI's deferred acquisition costs corresponding to this brokerage that TTI would have previously had to pay.
- TTI's Capital Cover Ratio increases slightly from 183.8% to 184.3% following the transfer. This is driven by a small reduction to TTI's SCR and a small increase to TTI's EOF:
    - The reduction to TTI's SCR primarily arises from a decrease in the capital charge for Premium and Reserve Risk. In particular, the volume measure for Premium Risk is based on earned premium net of reinsurance but gross of acquisition costs, so the inwards reinsurance premium from UKNV (corresponding to the transferred UPR) being net of brokerage results in a small reduction in the volume measure
    - The increase to TTI's EOF is driven by a decrease in TTI's risk margin. This is due to the small reduction in the volume measure for the calculation of the capital charge for Premium Risk in the notional SCR underlying the risk margin, in line with the main SCR calculation.

5.24 There will be no net assets transferring on a GAAP basis. The insurance liabilities transferred to UKNV will be 100% ceded to TTI by UKNV.

5.25 There will be no material change to TTI's balance sheet given that the Transferring Business will be 100% reinsured back into TTI.

5.26 Figure 5.3, below, shows UKNV's simplified GAAP balance sheet as at 20 February 2020[25] under the three situations:

- The "Actual" column shows the actual balance sheet as at 20 February 2020.
- The "Post UKM Transfer" column shows what the balance sheet would have looked like as at 20 February 2020 had the transfer of the UKM Transferred Business become effective as at 20 February 2020 (instead of as at 31 December 2020)[26]. Post the UKM Transfer, the GAAP balance sheet of UKNV includes additional reserves, and matching reinsurance recoverables, equal to the value of the liabilities transferred, as well as an additional capital amount provided by UKM.
- The " Post-Scheme" column shows what the balance sheet would have looked like as at 20 February 2020 had both the transfer of the UKM Transferred Business and the Scheme been approved and become effective as at 20 February 2020. Post-Scheme, the balance sheet of UKNV includes additional reserves, and matching reinsurance recoverables, equal to the value of the Transferring Business.

FIGURE 5.3 SIMPLIFIED GAAP BALANCE SHEETS FOR UKNV AS AT 20 FEBRUARY 2020 (IN US$'000)

	Actual	UKM transfer	Post UKM Transfer	Scheme	Post-Scheme
Assets					
Investments	33,191	*5,000*	38,191	*0*	38,191
Reinsurance recoverables	2,239	*185,000*	187,239	*53,773*	241,012
Cash and cash equivalents	4,252	*0*	4,252	*0*	4,252
Loans and receivables	1,997	*0*	1,997	*0*	1,997
DAC	405	*0*	405	*678*	1,083
Any other assets	2,742	*12,000*	14,742	*4,108*	18,850
Total Assets	**44,826**	***202,000***	**246,826**	***58,559***	**305,385**
Liabilities					
Equity	37,351	*5,000*	42,351	*0*	42,351
Gross technical provisions	3,463	*185,000*	188,463	*54,451*	242,914
Payables	0	*12,000*	12,000	*4,108*	16,108
Other liabilities	4,012	*0*	4,012	*0*	4,012
Total Liabilities	**44,826**	***202,000***	**246,826**	***58,559***	**305,385**

5.27 Figure 5.4, below, shows UKNV's balance sheet as at 20 February 2020[27] under the same actual and post-Scheme situations as per Figure 5.3, but on a Solvency II basis and omitting the impact of the transfer of the UKM Transferring Business.

[25] *Based on UKNV's Annual Report as at 20 February 2020.*
[26] *These figures were derived from page 5 of the report "*Supplementary Report on the proposed insurance business transfer from Transfer of The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited to the UK P&I Club N.V.*"*
[27] *Based on UKNV's Solvency & Financial Condition Report as at 20 February 2020.*

FIGURE 5.4 SIMPLIFIED SOLVENCY II BALANCE SHEETS FOR UKNV AS AT 20 FEBRUARY 2020 (IN US$'000)

	Actual	*Scheme*	Post-Scheme
Assets			
Investments	31,840	*0*	31,840
Loans and receivables	1,997	*0*	1,997
Reinsurance recoverables	2,239	*51,640*	53,879
Cash and cash equivalents	5,603	*0*	5,603
Any other assets	3,147	*0*	3,147
Total Assets	**44,826**	***51,640***	**96,466**
Liabilities			
Equity	37,351	*-228*	37,123
Gross technical provisions	2,644	*51,868*	54,512
Payables	4,831	*0*	4,831
Other liabilities	0	*0*	0
Total Liabilities	**44,826**	**51,640**	**96,466**

5.28 The analysis that underlies Figure 5.3 and Figure 5.4, above, has been produced on the following basis:

- TTI transfers gross claims reserves and UPR of US$50.3 million and US$4.1 million respectively to UKNV on 20 February 2020.
- UKNV fully reinsures these liabilities to TTI and so does not retain any net insurance risk, although the unpaid brokerage corresponding to the UPR will be paid by UKNV. TTI's share of the UPR will therefore be net of brokerage.
- No allowance has been made for the discounting of these liabilities or any uplift to reflect events not in data in UKNV's Solvency II balance sheet for simplicity. However, as these adjustments have offsetting effects and the liabilities are fully reinsured, the impact is not expected to be material.

5.29 The following observations can be made:

- UKNV's GAAP equity amount is unchanged following the transfer:
  - While UKNV's gross claims reserves would increase by the amount transferred in from TTI, they would be offset by a corresponding increase in reinsurance recoverables from TTI.
  - While UKNV's UPR increases by the amount transferred in from TTI, they would be offset by a corresponding increase in the reinsurers' share of the UPR and deferred acquisition costs.
  - There is an increase to other assets arising from premiums receivable from TTI members corresponding to the transferred-in UPR. This is offset by an increase to other liabilities for the corresponding reinsurance premiums payable to TTI and brokerage payable on the premiums collected.
- UKNV's Capital Cover Ratio decreases from 257.8% to 215.8% following the transfer. This is driven by an increase to UKNV's SCR and a small decrease to UKNV's EOF:
  - The increase to UKNV's SCR primarily arises from increases in the capital charges for Counterparty Default Risk and Operational Risk. The increase in Counterparty Default Risk arises due to the transferred-in liabilities from TTI being fully reinsured to TTI. The increase in Operational Risk arises due to the capital charge being a function of UKNV's gross earned premiums and gross technical provisions, so the increase in UKNV's gross technical provisions following the transfer leads to a significant increase in the result, particularly as UKNV has only recently commenced operations and so its technical provisions were very small as at 20 February 2020.
  - The decrease to UKNV's EOF is driven by an increase in UKNV's risk margin. This is due to the increase in the notional SCR underlying the risk margin, in line with the main SCR calculation.

5.30 I note that no allowance has been made in Figure 5.1-Figure 5.4, above, for any charge to TTI made by UKNV for receiving the Transferring Business. Such a charge would increase UKNV's equity and EOF, and would reduce those of TTI, but not to the extent that it materially impacts the balance sheets (both GAAP and Solvency II) of either entity or their respective solvency positions[28].

5.31 I discuss the reserving strength of TTI and UKNV in more detail in Section 6, below.

APPROACH TO COMMUNICATION WITH POLICYHOLDERS

5.32 The Companies have set out the approach that they intend to take in communicating information about the proposed Scheme to the affected policyholders and other parties. Their plans will be subject to approval by the Regulators and by the Court before the Companies can implement them.

5.33 The main objectives of the communications are to:

- Give those policyholders and others who might be affected by the Scheme the information that they need to understand the proposed changes;
- Inform those policyholders and others who might be affected by the Scheme about the implications for them of the proposed changes;
- Give those policyholders and others who might be affected by the Scheme access to further relevant information (beyond that in the communications pack);
- Let those policyholders and others who might be affected by the Scheme know what steps they should take if they object to any of the proposed changes;
- Maintain customers' confidence in UKNV's willingness and ability to continue to meet its obligations in respect of the Transferring Business; and
- Meet legal and regulatory requirements.

5.34 The Companies intend to notify the following groups about the Scheme:

- all current policyholders of TTI and UKNV, and their brokers;
- all policyholders of TTI and UKNV with a notified outstanding claim, and their brokers;
- all former policyholders of TTI who entered into policies on or after 1 January 2011, and their brokers;
- all former policyholders of UKNV who entered into policies on or after 20 February 2011 (this would include business transferred into it from UKM that had been written by UKM on or after 20 February 2011), and their brokers.

5.35 The Companies will be applying to the Court for waivers in respect of the requirement to make similar direct notification to the following groups:

- those former policyholders of TTI who entered into policies prior to 1 January 2011 and who do not have outstanding claims against TTI; and
- those former policyholders of UKNV who entered into policies prior to 20 February 2011 (this would comprise those holders of policies underwritten by UKM prior to 20 February 2011 and subsequently transferred to UKNV) and who do not have outstanding claims against UKNV.

5.36 The Companies will take appropriate and proportionate steps to find alternate contact details for those to whom notification letters have been sent but then returned. Where communication has been via a broker, the Companies will request that they receive regular updates on which policyholders have been notified. The Companies will, if necessary, request that the broker conducts website and industry-specific public database searches for each relevant policyholder in order to locate up-to-date contact details. The Companies will monitor the contact process, recording the dates on which letters are sent (and returned and resent, also noting all address changes), any queries or objections raised by policyholders or other interested parties and, in each such case, their response.

[28] *At the date of this Report, the amount of the fee was still being negotiated between TTI and UKNV, but I have been told that it is not expected to exceed €300,000 (roughly US$370k), of which only 10% would be met by TTI, the remainder being met by TTB. A fee of this magnitude would reduce negligibly TTI's post-Scheme Capital Cover Ratio (based on figures as at 31 December 2019), which would remain at 184%, but would increase UKNV's post-Scheme Capital Cover Ratio (based on figures as at 20 February 2020) from 216% to 218%.*

5.37 In addition to direct, written correspondence, the Companies also plan to make indirect notification. FSMA indicates that such indirect notification will include notices in at least two national newspapers and one business paper in the UK and in the other EEA states in which the risks are situated. Therefore, the Companies intend that a notice regarding the Scheme should be published in Financial Times (both in its UK and International editions) and The Guardian newspapers, in part because these newspapers circulate in Europe as well as the UK. In addition, a notice will be published once each in the London Gazette, the Edinburgh Gazette and the Belfast Gazette. The notifications will also be placed on relevant websites where applicable.

5.38 In addition to the above, the Companies are aware that other EEA states have publication requirements that differ from those in the UK. I have been told that the Companies will proceed on the basis that, between them, they have underwritten at least one policy that covers a risk in each of the current EEA states. However, they will seek a waiver from the requirement to publish a notice regarding the Scheme in at least two newspapers in all EEA states. Should the waiver be granted, they will rely on individual notifications and notices in the international edition of the *Financial Times*, in *Lloyd's List*, in *Tradewinds* and in *International Transport Journal* to ensure that those policyholders based outside of the UK are informed of the intended Scheme. The Companies have estimated that the cost of advertising in two newspapers in each of the thirty EEA states would be approximately £240,000 (plus estimated additional translation costs of approximately £30,000), as disproportionate cost compared with that of advertising in *Lloyd's List*, *Tradewinds* and *International Transport Journal*. Furthermore, *Lloyd's List* and *Tradewinds* are both shipping industry publications and *International Transport Journal* is an international transport industry publication. All three are widely read throughout the shipping and international transport industries, and the Companies believe that notices within them are far more likely to come to the attention of policyholders (past and present) than would notices within national daily newspapers of the relevant EEA states. However, if the regulator in any EEA state requires additional publication to be made (e.g. in a national daily newspaper), then the Companies will comply with such a requirement.

5.39 The letters, notices and advertisements will refer all queries to a postal address or a telephone number or a website address, all of which will respond promptly to any such queries. It is intended that both this Report and the Supplemental Report will be published on the UKNV and TTI websites, on pages dedicated to the Scheme, and that copies will be sent to any policyholders who request them. The Report will be made available in this way immediately following the directions hearing relating to the Scheme and the Supplemental Report will likewise be made available at least one week before the date of the Court hearing at which the Scheme might be sanctioned.

5.40 TTI and UKNV will continue writing business between the date of the Directions Hearing of the Court and the date on which the Court will be asked to sanction the Scheme. Policyholders of such business will be informed of the proposed Scheme at the point of sale and will be invited to refer to the website pages described in paragraph 5.39, above.

5.41 I comment on this proposed approach to communications with policyholders in Section 9, below.

COSTS

5.42 All costs and expenses, including, without limitation, fees and disbursements of legal and financial advisers and accountants, incurred in connection with the Scheme and the transactions contemplated by the Scheme shall be paid by TTI.

6. The impact of the Scheme on the Transferring Policyholders

INTRODUCTION

6.1 Under the Scheme, the Transferring Business will be transferred to UKNV.

6.2 The Transferring Business will be 100% reinsured back to TTI. Therefore, the economic liability for the Transferring Business, and the implied insurance risk, will remain post-Scheme with TTI.

6.3 The main issues affecting the Transferring Policyholders as a result of the Scheme are likely to arise from relative differences in:

- The financial strength of UKNV post the Effective Date compared with that of TTI pre the Effective Date. Financial strength is derived from:
  - the strength of the reserves held, relative to a best estimate of the outstanding liabilities;
  - excess assets or capital; and
  - specific financial support arrangements.
- The risk exposures in UKNV compared with those in TTI.
- The policy servicing levels provided by UKNV post the Effective Date compared with those currently enjoyed by the Transferring Policyholders.

In this section of this Report, I deal with each of these in turn.

6.4 I note that the reserves held on a GAAP basis differ from the TPs that are used to determine an insurer's funds available to meet its solvency capital requirements under both Solvency II and the UK solvency regime (which, as noted in paragraph 3.2, above, are essentially synonymous with each another). However, the best estimate of the claims liabilities that underlie those shown in the GAAP Accounts is used as the base for the best estimate of the claims provision, which then forms a key part of the TPs.

6.5 Key metrics under Solvency II and the UK solvency regime, such as the SCR, MCR and EOF, are intended to be made public as part of each insurer's annual SFCR. However, other relevant metrics (for example, projected values of own funds and of solvency capital requirements as set out in insurers' ORSAs or in their quarterly Quantitative Reporting Templates ("**QRTs**")) are private matters between the entities and the relevant regulators. Therefore, I am not at liberty to disclose in this Report the actual values of those private metrics, or figures by which those values could be calculated. In this Report, I have considered the extent to which TTI and UKNV each hold capital in excess of various solvency capital measures. Each entity will have different Capital Cover Ratios for different solvency measures. Where permitted (e.g. when dealing with publicly available information), I have expressed Capital Cover Ratios in numeric terms. In other instances, for comparative purposes in this Report, I have defined the following terms:

- "sufficiently capitalised" refers to a Capital Cover Ratio between 100% and 119%;
- "more than sufficiently capitalised" refers to a Capital Cover Ratio between 120% and 149%;
- "well-capitalised" refers to a Capital Cover Ratio between 150% and 199%, and
- "very well-capitalised" refers to a Capital Cover Ratio in excess of 200%.

RESERVE STRENGTH OF TTI (PRE-SCHEME)

6.6 As set out in Figure 4.2, above, in its statutory accounts as at 31 December 2019, TTI held UK GAAP gross reserves of US$364.2 million (made up of US$75.2 million of UPR and US$289.0 million of outstanding claims). Reinsurers' share of technical provisions totalled US$329.0 million (made up of US$63.0 million of UPR and US$266.0 million in respect of claims outstanding).

6.7 In this section of the Report, I provide details of my review of the reserve strength of TTI. As the work underlying the reserves booked by TTI has been used in its capital calculations (albeit indirectly), the appropriateness of these reserves is important in assessing the security currently afforded to the Transferring Policyholders.

6.8 I have been provided with details of the outstanding claims reserves for TTI as at 31 December 2019, the process by which the provisions were established and details of the actuarial review that underlies those provisions. The outstanding claims provisions so developed and included in TTI's financial statements (as at 31 December 2019) were prepared in accordance with UK GAAP.

6.9 I have not attempted to review in detail the calculations performed by the actuarial team responsible for the actuarial review. Instead, I have reviewed the process by which reserves were set, the approach followed by the actuary, the key areas of reserve uncertainty and the apparent strength of the reserves based on this review.

Reserving Policy

6.10 The Reserving Policy is set at the level of the TT Club, and applies to TTB and TTI.

6.11 TTI's policies may be written on a direct or reinsurance basis, and may be for 100% or only part of the risk. The Reserving Policy does not differ across these bases of business.

6.12 For each reported claim, TTI estimates the cost of settling the claim, gross of claims handling costs and net of any policyholder or third party recoveries, on a "probable outcome" basis.

6.13 The TTI board determines the provision for outstanding claims to be included within TTI's financial statements, having regard to recommendations made by the Actuarial Function and the Reserving Committee.

6.14 The Actuarial Function outsourced the estimation of outstanding claims costs for the TT Club as at 30 November 2019 to the actuarial team within a global risk management, insurance brokerage and advisory company (the "**Reserving Actuaries**"). The Reserving Actuaries projected the claims costs to derive a statistical measure of the expected final costs of claims settlement, and a statistical distribution of the cost of settlement of outstanding claims.

6.15 To calculate the provision for outstanding claims to be included within the financial statements as at 31 December 2019, the TTI Finance team then "rolled forward" the best estimates of the ultimate claim amounts to 31 December 2019 and added a margin, before deducting claim amounts already paid. As at 31 December 2019, the margin was the difference between the 90th percentile of the distribution of outstanding claim costs and the best estimate of the outstanding claim costs, as calculated by the Reserving Actuaries as at 30 November 2019. This margin was intended to represent the 90th percentile of outcomes, so that there is a 1 in 10 chance of the actual settlement cost exceeding the provision in the financial statements.

The Reserving Actuaries' projections of outstanding claims costs

Methodology

6.16 The Reserving Actuaries' projections shown in their reports are at the level of the TT Club in aggregate. In addition, they also provide spreadsheets with a range of additional information, including splits between TTI and other entities.

6.17 For projection purposes, the Reserving Actuaries segment most of the business as follows. These segments are not mutually exclusive. Other than for the "Losses excess of US$1 million" segment, incurred claims data in all segments is capped at US$1 million per claim.

- US Bodily Injury
- Other Bodily Injury
- Ports and Terminals
- Property
- Containers and Chassis
- TO Logistics
- Hull, Machinery and Other
- Cargo
- Schemes (divided between Trucking Solutions, Trucksure, PT Motor, PT Liability, and Discontinued Schemes)
- Subscription Lines
- Losses excess of US$1 million.

6.18 For all but the "Losses excess of US$1 million" segment, the Reserving Actuaries have used three generally accepted actuarial methods (specifically the Chain Ladder[29], Bornhuetter-Ferguson ("**B-F**")[30] and Expected Loss Ratio[31] methods) to estimate ultimate claim amounts. The assumptions used in the models are based on analysis of the historical data and on actuarial judgement as appropriate.

6.19 In order to estimate the ultimate cost, gross of non-proportional reinsurance, for the "Losses excess of US$1 million" segment, the Reserving Actuaries have used an average cost per claim[32] method, combined with a B-F approach. They have applied this to three sub-segments: BI US$1 million - US$5 million, Non-BI US$1 million - US$5 million, and All US$5 million - US$10 million. They have then considered specific non-proportional reinsurance treaties in order to calculate the outstanding claim amounts for claim amounts excess of US$1 million net of non-proportional reinsurance.

6.20 The Reserving Actuaries have calculated outstanding claim amounts net of the TT Club programme of non-proportional reinsurance, but gross of whole account quota share reinsurance. They estimated outstanding claim amounts, gross of all reinsurance, by applying tail factors to gross incurred claims for historic policy years. These tail factors were based on the ratio of net (of non-proportional reinsurance) incurred claims to net (of non-proportional reinsurance) ultimate claims, with adjustments to incorporate the incurred claim amounts and estimated ultimate claim amounts before the application of reinsurance.

6.21 I have been informed by the TT Club that no post-Scheme changes are planned to the reserving process.

Claims Reserves - Future in-house claims handling costs for previous policy years

6.22 The Reserving Actuaries' calculations include consideration of allocated loss adjustment expenses. The TTMS personnel who are handling claims are able to allocate all of their time to the individual claims that they are handling so that their costs (salaries, benefits, accommodation, IT infrastructure, administrative support, etc.) are all added to the claims to which they relate. Estimates of future costs relating to the TTMS personnel who are handling the claims are included within the case estimates. This means that there are no unallocated loss adjustment expenses ("**ULAE**") and hence no need for an explicit reserve in the GAAP accounts for future ULAE as all such costs are included within the claims reserve.

Reserve uncertainty

6.23 For some segments of TT Club business, the historic incurred development experience has been volatile and inconsistent from policy year to policy year. Such volatility reflects the inherent uncertainty in the estimates of ultimate claim values. Any estimate produced by a method or a model can be characterised as uncertain. Some conditions can lead to an amplified level of uncertainty in the estimates. Particular sources of amplified uncertainty include:

- The effect of changes in legislation and regulation;
- Some of the above reserving segments contain relatively small amounts of data, meaning that individual claims that exhibit unusual development patterns, even if the claims themselves are not very big, can distort those historic development patterns exhibited by all claims in the reserving segment.

[29] *The Chain Ladder method is an actuarial method that is commonly used to estimate claim reserve amounts. The method considers the historical development of reported amounts (which might be incurred claims, cumulative payments, numbers of claims, etc.) and then extrapolates this historical development into the future in order to estimate future development. By applying the estimated future development to the current amounts, one can then estimate the ultimate amounts. The method involves some actuarial judgement in determining the assumption for the pattern of future claims from the historical data.*

[30] *The B-F method is a commonly used actuarial method for estimating claim reserves. It can be thought of as a weighted mixture of the Chain Ladder method and expected ultimate losses on an* a priori *basis, the latter for any particular policy or accident year being typically based on the underwriter's view or estimates of the ultimate loss ratios relating to earlier policy or accident years. For more recent policy or accident years, more weight is given to the expected ultimate losses (where claim based methods are less reliable); for older policy or accident years more weight is given to the Chain Ladder method (where claim data provides more information).*

[31] *The Expected loss ratio method is a commonly used actuarial method for estimating claims reserves. The ultimate claim cost for any period is the product of the expected ultimate premiums for that period and the a priori loss ratio (also known as the expected loss ratio) for that period.*

[32] *The average cost per claim method is a standard actuarial method that involves modelling separately the number of claims still to be notified, modelling the number of those future claims that would settle at cost, and then applying an average cost to that expected number of claims settling at cost.*

- While the TT club has not changed its underwriting philosophy in recent years, it is possible that even small changes in its underwriting practices and changes in its competitors' underwriting philosophy and practices have led to changes over time in the profile of its business. Therefore, historical claim development patterns might not be perfectly aligned with the development patterns applicable to business written more recently.

6.24 To illustrate this uncertainty, the Reserving Actuaries have carried out a stochastic reserving analysis using bootstrapping[33]. This analysis provides a statistical distribution of the expected outcome of the outstanding claims costs. In particular, this analysis provides the 90th percentile point used to estimate the GAAP reserve margin discussed in paragraph 6.15, above.

Comments regarding the reserving for the TT Club

6.25 I note the following in respect of the approach taken by the Actuarial Function and, by extension, the Reserving Actuaries.

- Neither the TTI Reserving Actuary nor TTI's Finance Team make any allowance in their reserve estimates for the future emergence of claim types that have not historically been represented in the claims data to date. As such, they make no allowance for the possible exposure of this business to latent claims. This is not unusual.
- The Reserving Actuaries do not make any explicit allowance for inflation when estimating the reserve for claims capped at US$1 million. Given positive rates of claims inflation, and a fixed nominal threshold of US$1 million, it is expected that the mix of claims above and below the threshold will change over time. The thresholds selected are compatible with the TT club's reinsurance structure, which is not unreasonable.
- The initial estimates of claim frequency for claims in excess of US$1 million are based on historical ratios of frequency in the given layer to frequency in the layer below. In the event that claims inflation is slowly driving claims up through the layers over time, this could result in the ultimate frequency of large claims being underestimated.
- The Reserving Actuaries have included a zero reserve for claim amounts above US$10 million gross of non-proportional reinsurance. Claim amounts above US$10 million are fully reinsured, meaning that this assumption is appropriate on a net basis, but it could be an optimistic assumption on a gross basis. This could lead to an underestimation of the counterparty default risk associated with these higher layers of reinsurance cover.
- Reinsurance recoveries for claims in excess of US$1 million are determined using a deterministic method. In theory, a stochastic method or scenario testing could be used to capture the responses of the reinsurance arrangements to the range of possible outcomes of the gross claims. However, there would be considerable uncertainty in the parameterisation of the stochastic model. The approach taken by the Reserving Actuaries is not unusual.
- For methods that rely on exposure information, such as the ELR and B-F methods, the Reserving Actuaries have relied on premium volumes as the exposure measure. Other measures of exposure, such as tonnage or insured value (if such measures are available), might be more aligned than premium volume to expected experience.

6.26 From my review of the various documents supporting the reserve calculations, as I have described above, and notwithstanding the above comments, I am satisfied that:

- the methodologies adopted by the Reserving Actuaries to derive best estimates of the TT Club's outstanding claim liabilities as at 31 December 2019 are broadly consistent with usual market practice; and
- the major assumptions adopted by the Reserving Actuaries in their derivation of the best estimates of the TT Club's outstanding claim liabilities as at 31 December 2019 appear reasonable in the context of the underlying portfolios and of my market knowledge.

Therefore, I conclude that the best estimate reserves on a UK GAAP basis for the TT Club as at 31 December 2019 appear reasonable, notwithstanding the uncertainty present.

[33] *The fundamental idea of a bootstrap model is to use an empirical probability distribution based on actual observed values in place of a theoretical parametric distribution. The particular form of the empirical distribution will vary depending on the underlying model.*

Allocation of reserves between TTB and TTI

6.27 As noted in paragraph 6.14, above, the Reserving Actuaries calculate an estimate of the outstanding claim costs at the aggregate level of the TT Club. This aggregate claims reserve net of non-proportional reinsurance is split between TTI and TTB, and within TTI between the branches, as follows:

- In general, aggregate development patterns and loss ratio assumptions are applied to the data split for each entity. If necessary, changes are made to the aggregate assumptions. Reserves are then estimated using the same actuarial methods as for the aggregated data.
- For large claims, outstanding amounts are calculated by deducting capped outstanding claims from total outstanding claims.
- For the IBNR reserves relating to large claims, the aggregate IBNR reserves are allocated between the entities, using either the case estimates or the premiums as a measure of exposure.

6.28 Claims gross of non-proportional reinsurance are allocated in proportion to the net of non-proportional reinsurance analysis described above.

6.29 The reserve margin is allocated between entities by the TT Club finance team. The reserve margin for the TT Club in aggregate is US$32.9 million, in respect of US$268.5 million of gross outstanding claims liabilities. The reserve margin for TTI is US$31.5 million, in respect of US$257.5 million of gross outstanding claims liabilities. For both entities, the reserve margin is approximately 12% of the gross outstanding claims liabilities.

Conclusion regarding the reserves for TTI

6.30 From my review of the documentation describing the allocation of results between TTB and TTI supporting the reserve calculations, as I have described above, I am satisfied that:

- the allocation methodologies adopted by the Reserving Actuaries, and used by the Actuarial function, are broadly consistent with usual market practice; and
- the major assumptions adopted by the Reserving Actuaries appear reasonable in the context of the underlying portfolios and of my market knowledge.

Therefore, I conclude that the best estimate reserves on a UK GAAP basis for TTI as at 31 December 2019 appear reasonable, notwithstanding the uncertainty present.

Solvency II Technical Provisions

6.31 TPs are conceptually valued on a market consistent basis, i.e. the amount a third party would require to be paid to assume the liabilities. They consist of three components: (1) a discounted best estimate claims provision for incurred claims (whether or not reported at the valuation date); (2) a discounted best estimate premium provision for bound but unexpired policies (comprising cash-flows from unearned premiums, both claim payments from future exposures and certain elements of future premiums); and (3) a risk margin calculated using a cost-of-capital approach. Appendix G provides further details on the calculation of TPs.

6.32 TTI's starting point for calculating its TPs is the best estimate claims reserves calculated on the UK GAAP basis as described above (which underlie the booked reserves). TTI's Actuarial Function performs the calculation of the TPs. I have been provided with the Actuarial Function Report ("**AFR**") prepared by the Actuarial Function. In particular, including the opinion in respect of the TPs as at 31 December 2019. The AFR is intended to set out the Actuarial Function's opinion on the TPs and to summarise and explain the Actuarial Function's conclusions on the following matters:

- The appropriateness of the methodologies, underlying models and assumptions used to calculate TPs;
- Differences from year to year in the calculation of TPs;
- How actual experience since the "as-at" date of the previous TP calculation compares with that expected based on the best estimate projections;
- The impact on the TPs of any options and guarantees included in insurance and reinsurance contracts; and
- The uncertainty associated with estimates of the TPs.

6.33 In the AFR, while identifying some areas whereby TTI's process for calculating its TPs could be enhanced or made more robust, the Actuarial Function concluded that there were no significant deficiencies in the process that could result in material misstatement of TTI's TPs.

6.34 In calculating its TPs, TTI has made a number of adjustments to its UK GAAP reserves , as set out below (see Appendix H for further information):

- Removal of the margin to take the provision for outstanding claims to a "best estimate";
- Allowance for future premiums on incepted business (i.e. recognition of profits expected to arise on such business);
- Removal of UPR and the addition of the best estimate of the cost of future claims in respect of claim events that TTI is bound to cover under incepted business but have not yet taken place. TTI calculate this using a loss ratio approach. As at 31 December 2019, the aggregate loss ratio assumed is 74%.
- Allowance for Bound But Not Incepted ("**BBNI**") business (e.g. recognition of profits expected to arise in respect of tacit renewals, multi-year contracts, delegated authorities and any quotes that TTI was legally obliged to honour if the quote were accepted);
- Allowance for ENIDs – TTI has adopted a load of 1.5% on its best estimate of claims provision and no load for its best estimate of premium provisions. In my experience, insurers have included larger loads for ENIDs in their estimate of premium provisions than in their estimates of claims provisions, given the greater uncertainty in relation to incidents that have not yet occurred. The ENID loading for the claims provision is towards the low end of the range of loadings that I have seen selected by other insurers, although I also note that it is hard to equate the potential exposure between different insurers to events that have not previously been fully represented in their respective historic claims experience. I note that, had TTI used ENID loadings in line with those that I have seen used by other P&I clubs, the increase in the TPs (and the consequential reduction in the EOF and in the Capital Cover Ratio) would not have been material.
- Addition of a reserve for expected reinsurance bad debts. This has the effect of reducing the reinsurance recoverables.
- Allowance for the time value of money, through discounting using the relevant risk-free interest rate term structure for each material settlement currency;
- Addition of future expenses for running off the business (“non-ULAE” expenses, such as those relating to depreciation (tangible and intangible), investment management expenses and policy administration); and
- Addition of a market value risk margin (i.e. the additional payment that a knowledgeable third party would require in order for it to assume the liabilities covered by these TPs) – this is based on the future SCRs required to back TTI’s business as it runs off into the future (excluding risks not relevant to such a run-off, such as those associated with new business), discounted to a present value using discount rates as prescribed by the PRA[34].

6.35 Other than the comment above in respect of ENIDs, the process and assumptions used in respect of TTI are typical of those that I have seen adopted by other UK insurance companies.

Conclusion with regard to the strength of TTI’s technical provisions pre-Scheme

6.36 Based on my review of the technical provisions of TTI (on a Solvency II basis) as at 31 December 2019, as described above, I have concluded that

- the methodologies and major assumptions underlying the reserve analyses and allocations as performed by the TT Club (and outsourced the Reserving Actuaries) as at 31 December 2019 are reasonable;
- the best estimates of unpaid claim amounts also appear reasonable; and
- the TPs booked by TTI as at 31 December 2019 include appropriate margins and other adjustments over those actuarial indications.

I therefore conclude that TTI's TPs appear reasonable as at 31 December 2019, notwithstanding the uncertainty present.

[34] *Prior to Brexit, the discount rates were prescribed by EIOPA. Up to the date of this Report, the rates prescribed by the PRA and those prescribed by EIOPA are, and have always been, identical.*

RESERVE STRENGTH OF UKNV (PRE-SCHEME)

6.37 As set out in Figure 4.5, above, in its statutory accounts as at 20 February 2020, UKNV held Dutch GAAP gross reserves of US$2.6 million, including -US$819k continuity credit relating to policies fronted for ITIC. Reinsurers' share of technical provisions totalled US$2.2 million. All reserves related to the 2019/2020 policy year as this was the first year in which UKNV wrote any insurance business and, as at 20 February 2020, UKNV had yet to receive the transfer of any portfolios of existing business. The gross and reinsurers' share of claims provisions were US$236k and -US$236k respectively.

6.38 As at 20 February 2020, UKNV's reserves included only provisions in respect of the business fronted for UKM and ITIC. By the Effective Date, UKNV will also hold reserves in respect of the following:

- Business written under fronting arrangements on behalf of UKM, ITIC, PAMIA Limited, and UKWR between 20 February 2020 and the Effective Date – this business is fully reinsured by the respective Fronted Clubs;
- Business written under fronting arrangements on behalf of TTI between 1 January 2021 and the Effective Date – this business is fully reinsured by TTI; and
- Business transferred on 31 December 2020 to UKNV from UKM under a Part VII Transfer. The value of gross technical provisions transferred was estimated to be US$185m[35]. This business is fully reinsured by UKM.

6.39 In this section of this Report, I provide details of my review of the reserve strength of UKNV. As the claims reserves booked by UKNV have been used in its capital calculations (albeit indirectly), the appropriateness of these reserves is important in assessing the security currently afforded to the existing UKNV policyholders and which might be afforded, post-Scheme, to the Transferring Policyholders.

6.40 I have been provided with details of the outstanding claims provisions for UKNV as at 20 February 2020, the process by which the provisions were established and details of the actuarial review that underlies those provisions. The outstanding claims provisions so developed and included in UKNV's financial statements (as at 20 February 2020) were prepared in accordance with Dutch GAAP.

6.41 I have not attempted to review in detail the calculations performed by the actuary responsible for the actuarial review. Instead, I have reviewed the process by which reserves are set, the approach followed by the actuary, the key areas of reserve uncertainty and the apparent strength of the reserves based on this review.

Reserving Policy

6.42 The UKNV Management Board determines the provision for outstanding claims to be included within the GAAP financial statements, having regard to recommendations made by the Actuarial team, and subject to sign-off by the Supervisory Board.

6.43 Each claim incurred by UKNV is ceded to one of the companies for which UKNV fronts. The Fronted Clubs have several liability for their claims. As explained in paragraph 4.125, above, under the terms of the Keep-Well Agreement, UKM is *de facto* the reinsurer of last resort for UKNV.

6.44 Under Dutch GAAP, UKNV's gross outstanding claims will be exactly matched by reinsurance recoverables, leaving nil net outstanding claims reserves. On a Solvency II basis, these figures will be slightly different as the reinsurance recoverables under Solvency II include an adjustment for expected reinsurer default.

6.45 The following key principles outline UKNV's approach to reserving:

- to produce a consistent and reliable assessment of UKNV's claims liabilities;
- to be compliant with all relevant laws and regulations;
- to establish and maintain practical cost-effective control processes that require and encourage all staff to carry out their duties and responsibilities in a manner that achieves the above objectives;
- to provide timely information for integration into planning, decision-making and operational processes and to be responsive to changing circumstances;
- to maintain processes that adequately identify and address risks associated with reserving and the reserving process;

[35] *Page 5 of the report "*Supplementary Report on the proposed insurance business transfer from Transfer of The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited to the UK P&I Club N.V.*" specifically, the row entitled '*Technical Provisions' *in the column '*UKNV Effect of Transfer'.

- to make conservative and prudent recognition and disclosure of the financial and non-financial implications of reserving risks;
- to deliver cost-effective continuous improvement; and
- to be proportionate to the nature, scale and complexity of the strategies, structure and activities of the business and their inherent risks.

6.46 The Reserving Policy is owned by UKNV's Chief Financial Officer. Its Actuarial Function ensures that there is adequate challenge of models used and that the actuarial professional guidance/technical standards are met in relation, particularly, to modelling and reporting.

Actuarial projections of outstanding claims costs

6.47 The UKNV actuarial team estimates outstanding claims costs, gross of reinsurance, using the ELR method, with assumed loss ratios provided by the Fronted Clubs. These estimates implicitly include allowance for claims handling expenses and other loss adjustment expenses. Thus, the estimates of the outstanding liabilities, both gross and ceded, with UKNV are on a consistent basis with those accepted as inwards reinsurance by the respective Fronted Clubs. The gross reserves held on the GAAP balance sheet are nearly identical to the figures calculated on a best estimate basis, meaning that there is no explicit reserve margin held.

Reserve uncertainty

6.48 The UKNV actuarial team has illustrated the uncertainty in the estimates of outstanding claim costs, gross of reinsurance, by performing sensitivity analyses using different loss ratio assumptions to those provided by the Fronted Clubs. Net of reinsurance, the outstanding claim costs within UKNV are zero, whatever loss ratios are assumed.

Solvency II Technical Provisions

6.49 UKNV's starting point for calculating TPs is the Dutch GAAP basis as described above. UKNV performs the calculation of the TPs itself. UKNV has provided me with a summary of the AFR that was prepared by the Actuarial Function as at 20 February 2020. This includes the Actuarial Function's opinion on technical provisions. In this opinion, the Actuarial Function describes and assesses the process undertaken by UKNV in calculating the TPs as at 20 February 2020. As per TTI, while identifying some areas whereby the process for calculating UKNV's TPs could be enhanced or made more robust, the Actuarial Function concluded that there were no significant deficiencies in the process likely to result in material misstatement of UKNV's TPs.

6.50 A number of adjustments have been made to the held reserves to calculate UKNV's TPs as follows (paragraph 6.34, above, and Appendix H contain further information regarding these adjustments):

- Removal of UPR and the addition of the best estimate of the cost of future claims in respect of claim events that UKNV is bound to cover but have not yet taken place.
- Allowance for future premiums (net of fronting fee) in respect of business already incepted;
- Inclusion of BBNI business (e.g. in respect of delegated authorities);
- Allowance for ENIDs;
- Reinsurance bad debt reserve;
- Allowance for discounting;
- Risk Margin; and
- Solvency II expenses.

6.51 I note that, in selecting its ENID loadings as at 20 February 2020, UKNV selected a percentage that was the higher of the loadings evaluated in respect of their respective businesses by UKM and ITIC. If this methodology is retained post-Scheme, this may result in slightly higher gross and ceded TPs held in respect of this business on UKNV's balance sheet.

6.52 The process and assumptions are typical of those that I have seen adopted by other UK insurance companies.

Conclusion with regard to the reserve strength of UKNV pre-Scheme

6.53 Based on my review, as described above, of the technical provisions of UKNV (on both GAAP and Solvency II bases) as at 20 February 2020, I have concluded that

- the methodologies and major assumptions underlying the reserve analyses as performed by UKNV as at 20 February 2020 are reasonable;
- the best estimates of unpaid claim amounts also appear reasonable; and
- the reserves booked by UKNV as at 20 February 2020 do not include explicit margins over those best estimates.

I therefore conclude that UKNV's claims reserves on a Dutch GAAP basis and TPs on a Solvency II basis appear reasonable as at 20 February 2020, notwithstanding the uncertainty present.

RESERVE STRENGTH OF TTI (POST-SCHEME)

6.54 I have discussed with TTI's management what, if any, plans it has to change its approach to reserving post the Effective Date. It intends to make no changes. It will continue to estimate the ultimate costs of the Transferring Business post-Scheme – that the business would then be inwards reinsurance rather than direct business would make no difference to approach taken to reserving. It will continue to use the same approach to calculate the TPs, using the GAAP best estimate reserve as a base.

Conclusion with regard to the strength of TTI's technical provisions post-Scheme

6.55 **I therefore conclude that implementation of the Scheme will cause no change in the strength of either TTI's best estimate reserves on a UK GAAP basis or TTI's TPs.**

RESERVE STRENGTH OF UKNV (POST-SCHEME)

6.56 I have discussed with UKNV's management what, if any, plans it has to change its approach to reserving post the Effective Date. UKNV intends to continue to align its reserving methodologies and key assumptions with those of the Fronted Clubs in respect of that business which UKNV has fronted. I understand that it also intends to align its reserving methodologies and key assumption in respect of the Transferring Business with that of TTI.

6.57 Post-Scheme, on a GAAP basis, the gross claim reserves in respect of the Transferring Business will be of a very similar amount on the UKNV balance sheet to that on the TTI balance sheet. Net of reinsurance, the GAAP claims reserves within UKNV in respect of the Transferring Business will be nil.

6.58 Post-Scheme, on a Solvency II basis, I understand that the best estimate of claims provision (gross of reinsurance)in respect of the Transferring Business will be the same on the UKNV balance sheet as they will be on the TTI balance sheet. Net of reinsurance, the Solvency II best estimate of claims provisions within UKNV in respect of the Transferring Business will be equal to a small reserve for expected reinsurer defaults. UKNV will still have a best estimate of premium provisions in respect of expected future fronting fees, as well as expected reinsurer defaults. UKNV's technical provisions will also continue to contain a market value risk margin.

Conclusion with regard to the strength of UKNV's technical provisions post-Scheme

6.59 **I therefore conclude that implementation of the Scheme will cause no change in the strength of either UKNV's best estimate reserves on a Dutch GAAP basis or UKNV's TPs.**

EXCESS ASSETS OF TTI

6.60 As explained in paragraph 4.70, above, the TT Club monitors actual and projected solvency capital requirements against its risk appetite on a global basis, with reference to the BCAR model, while TTI's capital risk appetite is set with respect to the Solvency II Standard Formula.

6.61 In assessing its SCR for regulatory purposes, TTI has assessed the appropriateness of using the Standard Formula and has concluded that, overall, the Standard Formula leads to a higher valuation of risk than is reflected in TTI's own risk profile. That is not to say that the Standard Formula measures all of TTI's risk components conservatively, rather that its measure in totality is expected to be conservative. Differences between the Standard Formula and firms' own risk assessments are to be expected – the Standard Formula has been parameterised by EIOPA using average experience from insurers across Europe and most firms differ to some degree from the average. In particular, as a small insurer, focusing on P&I cover provided to the marine industry, TTI certainly differs materially from the average European insurer. I discuss below the main differences.

6.62 For TTI's ORSA calculations, TTI has developed its own model (the "**TTI Capital Model**") that reflects the claims characteristics and reinsurance structure of its business. This model uses TTI's own claims history to set volatility assumptions and applies TTI's reinsurance programme explicitly to the gross claims modelling to capture net claims volatility. The model also incorporates stochastic scenarios provided by the Investment Managers' quantitative risk consultants.

6.63 The Standard Formula SCR is intended to represent the 1 in 200 risk level on a one-year basis, while the SCR generated by the TTI Capital Model is intended to represent the 1 in 200 risk level on an ultimate time horizon basis.

6.64 Apart from the different time horizons, there are three key differences between the TTI Capital Model and the Standard Formula:

- The TTI Capital Model considers counterparty default risk in respect of the 90% quota share arrangement with TTB to be substantially lower than that assumed under the Standard Formula. This is justified, taking into account that TTB is an internal group reinsurer, which TTI is able to monitor, and TTB's capital position;
- The TTI Capital Model does not explicitly model lapse risk as TTI considers this risk not to be material; and
- The TTI Capital Model uses realistic disaster scenarios to parameterise the catastrophe risk within Premium Risk. The Standard Formula prescribes a fixed method for calculating catastrophe risk.

6.65 The most significant components of TTI's regulatory SCR as at 31 December 2019 are insurance risk, being 36% of the Standard Formula SCR, and counterparty default risk, being 34% of the Standard Formula SCR, both prior to application of diversification benefits. As at the same date, market risk is 15% of the Standard Formula SCR prior to application of diversification benefits.

6.66 I have explained in paragraphs 4.66-4.68, above, that TTI is responsible for the SBO DB Scheme and that the scheme was in deficit as at the triennial valuation in August 2017. As such, the SBO DB Scheme might create a solvency capital charge for TTI. However, I note that, since the August 2017 valuation, the trustees of the SBO DB Scheme have been progressively de-risking it, with the aim ultimately of closing it down. To that end, the four remaining pensions in payment have been secured with annuities provided by reputable third party insurers, leaving just two members with deferred benefits. The triennial valuation as at August 2020 indicates that there remains a funding shortfall in the SBO DB Scheme but that it has reduced to under £20,000. The remaining assets and liabilities of the SBO DB Scheme are very small relative to the size of TTI's EOF (with the current estimate of the liability being approximately US$0.4 million as at 31 December 2019) and therefore I consider that any additional capital charge in respect of the SBO DB Scheme would not materially affect the Capital Cover Ratio.

6.67 I have reviewed the work undertaken in estimating capital requirements for TTI, as documented in the report entitled *"TT Club ORSA Overview",* dated November 2020 **("TT Club ORSA 2020**"), in order to satisfy myself that it is reasonable for me to rely on that work. This included reviewing the process by which capital estimates have been made, the approach followed by the TT Club's modelling team, the key assumptions employed, and the resulting capital amounts. Based on my review, I consider the methodology and modelling techniques used by the TT Club to be in line with industry practice and generally appropriate. As a result, I believe it is reasonable for me to rely on the work of the TT Club modelling team, and, therefore, I have not attempted to review in detail the calculations performed in respect of TTI in order to estimate its SCR.

6.68 As shown in Figure 4.4, above, as at 31 December 2019, TTI was a well-capitalised insurer relative to its regulatory SCR, with a Capital Cover Ratio of 184%.

6.69 TTI does not make use of any ancillary own funds items, or other non-Tier 1 capital items, such as the right to make supplementary calls on its members, in its Eligible Own Funds to cover its SCR.

6.70 The TT Club ORSA 2020 shows that (on a standalone basis and ignoring the planned Scheme) the one-year time horizon Capital Cover Ratio for TTI is expected to remain at a broadly similar level from 31 December 2019 to 31 December 2020, so that TTI remains well-capitalised with a Capital Cover Ratio of 193%. TTI is also expected to remain well-capitalised as at 31 December 2021 and 31 December 2022.

6.71 The Capital Cover Ratios underlying the above analysis are on a statutory (Standard Formula) basis. The Capital Cover Ratios based on TTI's own assessment of its risks (to ultimate) are higher, reflecting TTI's view that the Standard Formula SCR is, overall, a prudent measure of the underlying risk of its business.

6.72 The TT Club ORSA 2020 shows a range of scenario and reverse stress testing applied at the level of the TT Club group. While it does not consider a separate range of scenarios for TTI, it does include figures showing the results of the stress tests on TTI. The scenario tests are based on alternative views of the future impact of underwriting cycles, claims inflation, new business volumes, and large claims. There is also a scenario test based around the potential impacts of climate change. In all cases, it is forecast that TTI will remain well-capitalised from 31 December 2020 to 31 December 2022. The ORSA also includes two reverse stress tests: a loss of three large members, and a claims reserve deterioration. Under the first scenario, TTI remains well-capitalised over the period to 31 December 2022. Under the second, the financial strength of TTI deteriorates so that TTI is only a more than sufficiently capitalised company.

6.73 Within its ORSA, TTI has not highlighted any explicit actions that it would take in the event of a capital shortfall to restore its capital buffer.

Conclusion regarding the excess assets of TTI

6.74 **I have explained above why I consider that TTI's calculations and projections of its solvency requirements and available capital, and hence of its excess assets, are reasonable. Overall, these lead me to conclude that the policyholders of TTI, including those who will transfer under the proposed Scheme, currently benefit from the financial strength provided by a well-capitalised company.**

EXCESS ASSETS OF UKNV

6.75 In assessing its SCR for regulatory purposes, UKNV uses the Standard Formula. It has assessed the appropriateness of using the Standard Formula and has concluded that, overall, the Standard Formula does not accurately reflect UKNV's underwriting and counterparty default risks, which are the most significant parts of its risk profile. UKNV has identified the following as the main inadequacies of the Standard Formula in respect of its business:

- The lines of business prescribed under Solvency II are not a good fit for the insurance business written by UKNV. However, as UKNV's insurance liabilities are fully reinsured, this minimises the impact of using inappropriate risk factors for the lines of business used in the SCR calculation.
- The volume measure for Premium Risk is based on UKNV's expected net earned premium gross of acquisition costs. As UKNV's insurance liabilities are fully reinsured, this means that the volume measure is equal to the acquisition costs, and produces a positive net of reinsurance Premium Risk, despite no insurance risk remaining on a net basis. The capital charge for Premium Risk is therefore likely to be overstated.
- The capital charge for Lapse Risk is based on the discontinuance of 40% of any unexpired or BBNI business recognised on UKNV's Solvency II balance sheet under premium provisions, where the loss of business would result in a loss of capital. UKNV considers that this charge is likely to overstate UKNV's Lapse Risk as the mutual business tends to experience lower lapse experience than that experienced by equivalent non-mutual business.
- A significant portion of UKNV's counterparty exposures are to mutual insurers whose ability to make unlimited supplementary calls to their members (subject to their members' ability to meet those calls) means that, in practice, their probabilities of default are expected to be extremely remote.

6.76 UKNV has also highlighted in the report entitled *"UK P&I Club N.V. – ORSA Overview",* dated December 2020 **("UKNV ORSA 2020**") that, being a new company with fully outsourced management, it may not fit the typical operational risk profile assumed by the Standard Formula. This is particularly the case as at 20 February 2020, as the Operational Risk SCR for UKNV was only $45,000, compared with an overall SCR of US$14.9 million, because of the nature of the Standard Formula calculation. As UKNV grows, the differences between its operational risk profile and that assumed by the Standard Formula are likely to reduce in relative terms.

6.77 UKNV has considered which parts of its risk profile are not captured by the Standard Formula. It has identified Investment manager risk, volume uncertainty and pricing uncertainty but has then explained that the omission of these additional risks from the Standard Formula is unlikely to have a material impact upon the calculated SCR.

6.78 Despite the limitations noted above, UKNV generally uses the Standard Formula as a basis to calculate its capital requirements, as it is comfortable that the Standard Formula will overstate rather than understate UKNV's solvency capital requirements. UKNV's Own Solvency Needs Assessment ("**OSNA**") represents the minimum target level of capital that UKNV wishes to hold. This is based upon holding a buffer in excess of its regulatory SCR such that its Capital Cover Ratio is at least 150%.

6.79 As noted earlier in this Report, the Standard Formula SCR is at a 1 in 200 risk level on a one-year time horizon basis. UKNV does not perform an assessment of solvency capital requirements on an ultimate time horizon basis.

6.80 UKNV's insurance risk is protected by its reinsurance arrangements with the Fronted Clubs. It is also protected by the Keep-Well Agreement, which UKM and UKNV entered into with the intention that it ensured that UKNV remains compliant with its regulatory requirements. In practice, if a Fronted Club other than UKM were unable to meet its obligations to UKNV under the relevant reinsurance arrangement, requiring UKNV to eat into its solvency capital to pay claims of the members of that Club, then UKM is likely to provide funding to UKNV to ensure that it retained adequate solvency capital. I discuss the likely operation of the Keep-Well Agreement in paragraph 6.124, below. I note that, in the circumstances where one (or more) of the Fronted Clubs were unable to meet its obligations to UKNV under the relevant reinsurance arrangement(s), the payments by UKNV in respect of the business written on behalf of (or business transferred from) the other Fronted Clubs would be unaffected as they would be supported by the reinsurance arrangements with those other Fronted Clubs. This would remain the case even were UKNV to be placed into run-off.

6.81 UKNV does not have any risks related to defined benefit pensions schemes or other employee benefit schemes.

6.82 The most significant component of UKNV's Solvency II SCR as at 20 February 2020 is counterparty risk, being 83% of the SCR, prior to application of diversification benefits. As at the same date, insurance risk, market risk and operational risk were 8%, 9% and 0% respectively of the Standard Formula SCR prior to application of diversification benefits.

6.83 As shown in Figure 4.7, above, as at 20 February 2020, UKNV was a very well-capitalised insurer relative to its regulatory SCR, with a Capital Cover Ratio of 258%. I have seen UKNV's QRTs as at 20 November 2020. These indicate that UKNV remained very well-capitalised as at 20 November 2020, with a Capital Cover Ratio of 447%. This reflects increases in the EOF during the February-November period, mainly due to a US$29 million capital injection from UKM in November 2020.

6.84 UKNV does not make use of any ancillary own funds items, or other non-Tier 1 capital, to cover its SCR.

6.85 The UKNV ORSA 2020 shows that (on a standalone basis and ignoring the planned Scheme) the one-year time horizon Capital Cover Ratio for UKNV is expected to be lower as at 20 February 2021 than as at 20 February 2020. This allowed for the transfer from UKM to UKNV of the UKM Transferred Business with effect from 31 December 2020, and increased capital requirements associated with fronting for ITIC while the UK's solvency regime is not deemed equivalent to Solvency II. It is in anticipation of these, that UKM has made the aforementioned capital injection. As at 20 February 2021, it is expected that UKNV will be a well-capitalised company. As at subsequent year ends thereafter, it is expected that (on a standalone basis and ignoring the planned Scheme) UKNV will return to being a very well-capitalised company and remain as such until at least 20 February 2025.

6.86 The Capital Cover Ratios underlying the above analysis are on a statutory (Standard Formula) basis. I consider it likely that the Capital Cover Ratios based on a more realistic assessment of UKNV's risks would have been higher.

6.87 In the event of an unexpected capital shortfall, the UKNV ORSA 2020 explains that UKNV would consider the following in order to restore its capital buffer:

- Request a capital contribution from the UKM (under the Keep-Well Agreement);
- Reduce market risk by making changes to the investment mandate;
- Increasing the fronting fee.

6.88 In UKNV's AFR, dated November 2020, the Actuarial Function identified that the current fronting fee arrangements appeared to fall short of producing the surpluses required for UKNV to meet the target level of profit for the provision of fronting services under its risk appetite. The Actuarial Function further commented that the fronting fee arrangement were (then) currently under review.

6.89 I have reviewed the work undertaken in estimating capital requirements for UKNV, as documented in the UKNV ORSA 2020, in order to satisfy myself that it is reasonable for me to rely on that work. Based on my review, I consider the approach taken by UKNV is in line with industry practice and is generally appropriate. As a result, I believe it is reasonable for me to rely on the work of the UKNV, and therefore I have not attempted to review in detail the calculations performed by UKNV in order to estimate its SCR. I note that it is likely that its approach leads to the SCR for UKNV being overstated.

6.90 The UKNV ORSA 2020 shows a range of scenario and reverse stress testing. I note that this Scheme is considered as one of the scenarios being tested, rather than as part of the base business plan that is subsequently stressed under scenario assumptions. Under this scenario, UKNV is expected to be well-capitalised as at 20 February 2021, and very well-capitalised at subsequent year-ends thereafter to 20 February 2025.

6.91 The ORSA includes two scenario tests that can be compared on a like-for-like basis with the aforementioned scenario. The first shows the impact of the Scheme and of all Fronted Clubs being downgraded by one step. The second shows the impact of the Scheme, of all Fronted Clubs being downgraded by one step, and of the UK solvency regime being deemed non-equivalent to Solvency II over the long-term. Non-equivalence is a significant risk to UKNV as neither ITIC nor PAMIA Limited have credit ratings – under Solvency II rules, when calculating their SCRs, insurers are not permitted to recognise the beneficial impact of any reinsurance provided by an unrated entity that is regulated under a non-equivalent regime. As both ITIC and PAMIA Limited are currently very well-capitalised (see paragraph 6.115 below), this would result in a significant overstatement of the Underwriting Risk for UKNV. Under both of these scenarios, the Capital Cover Ratio is adversely affected, more so with the second scenario, but in both cases UKNV is expected to remain a well-capitalised company.

Conclusion regarding the excess assets of UKNV

6.92 **I have explained above why I consider that UKNV's calculations and projections of its solvency requirements and available capital, and hence of its excess assets, are reasonable. Overall, these lead me to conclude that the policyholders of UKNV, including those who will transfer under the proposed Scheme, currently benefit from the financial strength provided by a very well-capitalised company as at 20 February 2020.**

RELATIVE FINANCIAL STRENGTH ENJOYED BY TRANSFERRING POLICYHOLDERS PRE- AND POST-SCHEME

6.93 I have concluded, above, that the Transferring Policyholders currently benefit from the financial strength provided by a well-capitalised company. I have also concluded that, if the Scheme is implemented, the Transferring Policyholders will become policyholders of a company that is expected to be well or very well-capitalised company. Therefore, relative to the solvency capital requirements of the respective entities, the Transferring Policyholders will see, if anything, a small improvement in the financial security afforded to them.

6.94 Post-Scheme, the payment of the Transferring Policyholders' claims will still be funded by TTI, via its 100% reinsurance of UKNV in respect of the Transferring Business. Therefore, the security of the Transferring Policyholders' benefits will continue to be directly dependent on TTI. This is unchanged from before the implementation of the Scheme. However, in the event that TTI were unable to meet its obligations to UKNV under the 100% reinsurance agreement then the Transferring Policyholders will benefit from the additional layer of security provided by UKNV having the legal liability for their benefits and also having UKM as its reinsurer of last resort. I consider the likelihood of this event occurring to be remote due to TTI's financial strength. I discuss further, in paragraphs 6.121-6.127, below, what would happen in the event that either TTI or UKNV became insolvent, both were that to occur pre-Scheme and were it to occur post-Scheme.

6.95 Post-Scheme, UKNV will remain sufficiently capitalised to absorb the potential impacts of reinsurer downgrades while remaining a well-capitalised company.

6.96 According to the terms of the TTI UKNV Reinsurance Agreement, rather than UKNV holding a significant deposit of TTI funds in respect of TTI's reinsurance obligations, TTI will instead provide to UKNV funds in respect of claims that are about to be paid. Claims handlers are required to notify TTI's finance function one week in advance of any payment due that is in excess of US$50,000. In addition, UKNV will hold a small float of up to US$0.5 million to ensure that it can meet claims handling expenses and claim payments of under US$50,000 as and when they arise. Therefore, the Transferring Policyholders will be dependent, post-Scheme, on the strength of TTI's reserves, and TTI's liquidity, for payment of claims. This is no different from their position pre-Scheme.

6.97 I note that, in 2019, TTI paid gross claim amounts of US$110 million, on reserves, gross of reinsurance that averaged US$359 million during the period. As stated in paragraph 4.78, above, the reserves, gross of reinsurance, for the Transferring Business reserves were roughly US$76 million as at 31 December 2020, which means that one would expect payments during 2021 in respect of the Transferring Business to be roughly US$20 million (on average US$0.4 million per week). The Transferring Business would comprise the majority of the business fronted by UKNV on behalf of the TT Club. In that context, I am satisfied that a float of US$0.5 million to meet claims handling expenses and claim payments of under US$50,000, with larger claims being funded separately, will be adequate providing that it is topped back up at least weekly.

Scenario tests

6.98 Notwithstanding the actual and projected financial strength of TTI and of UKNV, as indicated by the Capital Cover Ratios, I have considered the impact upon the balance sheets of both entities of various "shocks", specifically to the value of investments (considering separately fixed interest investments and other investments) and to the technical provisions. In so doing, I have focused on the absolute solvency of TTI and UKNV, i.e. the ability of the Companies to meet their obligations to their policyholders, rather than on the ability of the Companies to meet their respective SCRs and MCRs.

6.99 In developing these tests

- I have considered the balance sheets of all of the Fronted Clubs and the relationship of those balance sheets with that of UKNV. In particular, I have assumed that, should one of the Fronted Clubs be insolvent in the stressed scenario, that the Fronted Club would be unable to meet its reinsurance obligations to UKNV, to the extent of the lesser of the surplus shortfall and the gross liabilities being fronted by UKNV on behalf of that Fronted Club;
- as TTI is heavily dependent on the 90% quota share reinsurance provided by TTB, I have considered the balance sheet of TT Club on a consolidated basis. Similarly, because ITIC is heavily dependent on a 90% quota share reinsurance arrangement provided by Transport Intermediaries Mutual Insurance Association Ltd ("TIMIA"), I have considered the balance sheets of both ITIC and TIMIA;
- The starting point for the tests are the GAAP balance sheets contained in the most recent available financial statements for the Fronted Clubs, and the projected balance sheet for UKNV as at 20 February 2021, as shown in the UKNV ORSA 2020 (I have considered this both including and excluding the Transferring Business). These balance sheets are not all as at the same date. This means that some of the data within my calculation is mismatched, although I do not believe that this mismatch materially affects the results of my tests or the conclusions that I have drawn from those results. However, this mismatch and the various simplifications that I have included within my calculation, some of which I describe below, mean that the results of these tests should be considered as illustrative rather than as accurate projections. I note that, in my calculation, I have adjusted the starting balance sheet for UKM to allow for it having provided to UKNV additional capital totalling US$29.0 million in November 2020 (which is included within the starting balance sheet for UKNV). I have assumed that this additional capital has been paid out of UKM's fixed income investments.

Test 1: deterioration in the technical provisions

6.100 I have considered the impact on the balance sheets of the Fronted Clubs and UKNV of increasing by 40% the value of the statutory Technical Provisions (both gross and net of reinsurance) for all of the Fronted Clubs, as per the most recent publicly available financial statements for each[36]. This would increase the gross Technical Provisions in UKNV by about US$100 million and the net Technical Provisions in the TT Club by about US$120 million. In this scenario, all of the Fronted Clubs would retain accounting surpluses, meaning that they would remain solvent. I note that the surplus funds within UKM and the TT Club would be significantly reduced by this "shock", whereas the surplus funds of the other Fronted Clubs would not be materially reduced, as the technical provisions comprise smaller proportions of their GAAP balance sheets than they do within the GAAP balance sheets of UKM and the TT Club.

6.101 As they would remain in surplus in this scenario, the Fronted Clubs would be able to meet fully their reinsurance obligations to UKNV, and UKNV's surplus funds would be only marginally reduced, by the increase in the provisions against reinsurance default.

6.102 I have flexed the percentage deterioration in the technical provisions.

- Beyond 65%, the deterioration in UKM's technical provision would be sufficient to reduce its surplus to below zero (i.e. to make it insolvent). At this point, UKNV would no longer be able to recover fully against the 100% reinsurance provided on its fronted business by UKM, and would need to make good the shortfall from its own surplus.
- The deterioration would need to be in excess of 70% for UKNV to have exhausted its surplus. Even in these circumstances, the TT Club would (just) remain solvent and thus would still be able to meet its reinsurance liabilities to UKNV in respect of the business fronted by UKNV on its behalf (including, post-Scheme, the Transferring Business).
- Deterioration of its technical provisions by 75% would exhaust the TT Club's surplus. Once that happened, it would seek to pay fully its direct policyholders before meeting, as far as possible, its reinsurance obligations to UKNV under the TTI UKNV Reinsurance Agreement (the ranking of creditors in the event of the insolvency of an insurer is discussed in detail below in paragraph 6.122). In this scenario, UKNV would no longer have any surplus funds with which to make good any shortfall in the TT Club's reinsurance payments and the shortfall will reduce the payments to the Transferring Policyholders (and other policyholders of UKNV fronted on behalf of the TT Club).

6.103 Notwithstanding the uncertainties in the businesses written by and on behalf of the Fronted Clubs, I consider a deterioration of 40% in the net technical provisions of all of the Fronted Clubs to be a remote scenario.

- While I believe there to be some correlation between the risks underwritten by the different Fronted Clubs and while all of the Fronted Clubs are affected by movements in the global economy, in inflation, etc., the risks and their exposure to global factors are only partially correlated with one another. Therefore, it is very unlikely that all of the technical provisions would deteriorate by the same amount;
- The technical provisions of larger portfolios (i.e. those of the TT Club and UKM) are likely to experience less volatility than those of smaller portfolios. The continuing financial health of UKNV is partially dependent on the continuing financial health of UKM (and, post-Scheme, the TT Club) and is hardly dependent at all on the continuing financial health of the other Fronted Clubs;
- The reinsurance programmes are not the same across the Fronted Clubs and some will constrain increases in the net technical provisions to a greater extent than will others (assuming that the reinsurers themselves remain solvent;
- The GAAP technical provisions include margins over the best estimate, particularly in the UPR. Such margins would be able to dampen the impact of a shock to the claims reserves or to the future claims experience;
- I note that, in the event that the ultimate value of these liabilities were materially greater than current estimates, this would likely be driven by developments that emerge over time, rather than an immediate change.

[36] *UKM – Report & Accounts for the year ended 20 February 2020*
ITIC (and TIMIA) –Annual Report & Financial Statements for the year ended 31 May 2020
PAMIA Limited – Annual Report & Financial Statements for the year ended 30 June 2020
UKWR – Annual Report & Financial Statements for the year ended 20 February 2020
TT Club - Annual Report & Financial Statements for the year ended 31 December 2019.

- I note that deterioration of 40% in the GAAP Technical Provisions for the TT Club would increase them by over US$120 million. I note that (according to the TT Club ORSA 2020) the worst-case outcome for a future claim event such as a container ship or congested port area explosion (assuming the damage caused by which was covered by a TT Club member) would be about U$110 million, gross of reinsurance (expected likelihood 1 in 100). A loss of this magnitude would be materially mitigated by the TT Club's outwards reinsurance programme. Other extreme scenarios shown in the TT Club ORSA 2020 have much less material financial consequences. This gives me comfort that, for the TT Club at least, deterioration of 40% in the GAAP Technical Provisions would be a very unlikely occurrence.
- I further note that I have been informed by the Thomas Miller Group that the 1 in 200 reserve risk stresses generated by the internal model used by UKM to assess its solvency requirements are equivalent to 16% of the Solvency II Technical Provisions on a one year time horizon and 26% of the Solvency II Technical Provisions on a to-ultimate basis. This would be consistent with a shock of considerably less than 40% of UKM's GAAP Technical Provisions, i.e. that deterioration of 40% in UKM's GAAP Technical Provisions would be a very unlikely occurrence.

Test 2: fall in asset values.

6.104 I have considered the impact on the balance sheets of the Fronted Clubs and UKNV of reducing by 15% the value of the fixed interest securities that they hold, and reducing by 50% the value of the investments (e.g. equities) that they hold.

6.105 In this scenario, the accounting surpluses of all of the Fronted Clubs (and UKNV) would be materially reduced, particularly those with a significant holding of equities and other variable interest investments, but all would remain solvent. Specifically, this would reduce the value of the investments, and hence of the surplus, in the TT Club by about US$85 million and in UKNV by about US$10 million.

6.106 I have flexed the percentage deterioration in the asset values. Were the value of fixed interest investments to fall by 40% and the value of other investments to fall by 70% then the surplus within UKM would fall below zero. However, all other things being equal, all of the other Fronted Clubs and UKNV would remain solvent. It would require an even larger fall in asset values (all other balance sheet items remaining unaffected) for UKNV to become insolvent. At this point, UKNV would no longer be able to recover fully against the 100% reinsurance provided on its fronted business by UKM, and would need to make good the shortfall from its own surplus.

6.107 Notwithstanding the uncertainties in the businesses written by and on behalf of the Fronted Clubs, I consider deterioration of 15% in the value of the fixed interest securities held by all of the Fronted Clubs and by UKNV and deterioration of 50% in the value of the other investments held by all of the Fronted Clubs and by UKNV to be a remote scenario. I note that, over the last 60 years, the various equity market crashes have not seen the S&P500 index fall by more than 50% and typically (with the exception of the rapid fall in response to the emergence of the COVID-19 pandemic in March 2020) the severe falls have taken place over a period of 6-30 months. I also note that nearly 60% by value of the fixed interest securities of both UKM and the TT Club are of less than 12 months duration, which have limited scope for material movements in asset values. I further note that the TT Club's own assessment of its market risk (on a 1 in 200 basis), as included in its most recent ORSA, indicates a shock of US$24 million, rather than the US$85 million shock under this scenario.

Test 3: Combination of Test 1 and Test 2

6.108 For this stress scenario, I have considered the combined impact of:

- 40% deterioration in the value of the statutory Technical Provisions (both gross and net of reinsurance) for all of the Fronted Clubs; and
- a financial crisis that would cause the investments of all of the Fronted Clubs and UKNV to fall in value, by 15% for fixed interest securities and by 50% for all other investments.

6.109 This combined stress scenario would lead to a reduction in the total surplus of all of the Fronted Companies, but all bar UKM would remain solvent with a positive accounting surplus. However, the resulting reduction in the value of the reinsurance asset provided by UKM to UKNV would be such that UKNV would also then be insolvent (I note that this would be the case whether or not the Scheme were to proceed). There is a risk that, in such circumstances, the reinsurance assets provided to UKNV by the other Fronted Clubs would not be used solely to fund payments to the holders of policies fronted on behalf of those Fronted Clubs, especially where the Fronted Clubs provided funds in advance of payments to the policyholders. In this hypothetical scenario, this risk might be mitigated by the appointment of a liquidator for UKNV.

6.110 I have already explained why I believe that the stresses within both Test 1 and Test 2 represent very remote possibilities. Falls in the value of investments and increases in the value of technical provisions can be linked with one another but they are not heavily correlated. Therefore, I consider the combination of the stresses of Tests 1 and 2 to represent an even more remote possibility.

6.111 I further note that, in the above tests, I have ignored the ability of the Fronted Clubs to make calls upon their respective members for additional premiums to restore (or maintain) their solvency. This would mitigate at least some of the adverse circumstances discussed above, although I recognise that the same factors that might lead to the severe falls in asset values and increases in technical provisions might also impact members' abilities to meet calls for additional premiums. I have been told that the ability of the UK Club to make additional premium calls upon its members is unlimited, and that claim liabilities can be cancelled to the extent that such premium calls are uncollected.

Conclusion of Scenario Tests

6.112 Based on my assessment of the impact of the various scenarios outlined above on UKNV's balance sheet, I believe that the intended level of solvency is sufficiently robust that it will be able to continue to meet all of its liabilities even in significantly adverse circumstances. However, I do note that if significantly adverse circumstances to do occur, UKNV may have reduced solvency coverage which could result in regulatory intervention.

Conclusion regarding the relative financial strength enjoyed by Transferring Policyholders pre- and post-Scheme

6.113 **I am therefore satisfied that the Transferring Policyholders will not be materially adversely affected due to relative differences in the financial strength of UKNV post-Scheme to those of TTI pre-Scheme.**

CHANGES IN RISK EXPOSURES

6.114 If the Scheme is sanctioned, the Transferring Policyholders will continue to be exposed to the risks within TTI, through the TTI UKNV Reinsurance Arrangement, and will additionally be exposed to risks within UKNV. The additional risks within UKNV to which they will be exposed are principally the credit default risks relating to the business that UKNV fronts on behalf of the Fronted Clubs, plus the 100% reinsurance provided by UKM in respect of the UKM Transferred Business.

6.115 I note that the Fronted Clubs (excluding TTI) have the following credit ratings and Capital Cover Ratios in respect of their regulatory SCRs:

- UKM[37]: Standard & Poor's – A "very strong" (as at 30 October 2020); Capital Cover Ratio as at 20 February 2020 was 255% (or 205% including just Tier 1 capital);
- ITIC: this company is unrated but its Capital Cover ratio as at 30 June 2020 was 423% (all Tier 1 capital);
- PAMIA Limited[38]: this company is unrated but its Capital Cover ratio as at 30 June 2020 was 313% (all Tier 1 capital);
- UKWR[39]: AM Best rating – A- Stable; Capital Cover Ratio as at 20 February 2020 was 193%.

[37] *From Page 5 and S.23.0.01 of the SFCR for UKM as at 20 February 2020.*
[38] *From S.23.0.01 of the SFCR for PAMIA Limited as at 30 June 2020.*
[39] *From Page 5 and S.23.0.01 of the SFCR for UKWR as at 20 February 2020.*

6.116 Based on the above Capital Cover Ratios, and notwithstanding the differences in the "as at" dates, I would classify UKM, ITIC and PAMIA Limited as being very well-capitalised companies and UKWR and being a well-capitalised company. As such, the likelihood of any of them being unable to meet their obligations under their respective reinsurance arrangements with UKNV is remote. As UKM has agreed to act as reinsurer of last resort for UKNV, its strong capital position is particularly relevant.

6.117 As mentioned previously, the Board of TTI has set its capital risk appetite so that there is a 1-in-10 chance of breaching the SCR, equating to a target minimum Capital Cover Ratio of 118%. The Board of UKNV has set its capital risk appetite with a target minimum Capital Cover Ratio of 150%. Therefore, the additional risks to the Transferring Policyholders in respect of UKNV are covered by a more prudent risk appetite regarding capital coverage than that which they enjoy pre-Scheme. As noted in several places in this Report, in practice, both TTI and UKNV hold capital well above their target minimum Capital Cover Ratios.

6.118 Gross of the reinsurance provided by the Fronted Clubs, post-Scheme the Transferring Policyholders will be direct policyholders of an insurer whose insurance risks are more geographically concentrated than were the risks covered by TTI pre-Scheme. On the other hand, the range of risks covered by UKNV on behalf of the Fronted Clubs is much wider than that covered by TTI in isolation.

6.119 Different risk profiles, insofar as they might affect the future financial security of policyholders, are reflected in the capital requirements of TTI and UKNV. As I have already concluded, UKNV is currently a very well-capitalised company (and is projected to remain at least well-capitalised post the Effective Date) and TTI is a well-capitalised company. Therefore, I am satisfied that, even were the Scheme to result in adverse change to the Transferring Policyholders' risk exposures, the capital protection available to them post-Scheme will not be materially different to that which they enjoyed pre-Scheme (indeed, they are likely to be enhanced to a small degree). Therefore, I conclude that any change in their risk exposure will not have a materially adverse impact on the security of the Transferring Policyholders.

Conclusion regarding the effect of the Scheme on the Transferring Policyholders' exposure to risk

6.120 **I am satisfied that, although the proposed Scheme will lead to some change to the risk exposures of the Transferring Business, this will not have a materially adverse impact on the security of the Transferring Policyholders' benefits.**

IN THE EVENT OF INSOLVENCY

6.121 In this subsection of the Report, I consider the effect on the Transferring Policyholders of either TTI or UKNV becoming insolvent, both pre-Scheme and post-Scheme. I then compare the effects pre- and post-Scheme to determine the effect of the Scheme on the Transferring Policyholders in the event of insolvency.

6.122 Pre-Scheme, were TTI to become insolvent, even after calling upon the Parental Guarantee to its limit, direct policyholders would rank behind holders of preferential debt in accessing the remaining assets of TTI but ahead of other creditors, including cedant holders of reinsurance contracts with TTI. Post-Scheme, were TTI to become insolvent, UKNV would be the cedant holder of a reinsurance contract with TTI in respect of the Transferring Business (and also the business that UKNV had fronted on behalf of TTI). As such, UKNV would rank behind the (remaining) direct policyholders of TTI when claiming on the assets of TTI in order to meet the liabilities of the Transferring Business. Pre-Scheme, almost all of the Transferring Policyholders had been direct policyholders of TTI. Therefore, in the event of TTI's insolvency, funds would not become available from TTI to UKNV to meet the Transferring Policyholders' liabilities until the liabilities of TTI's direct policyholders had been fully met. In this respect, almost all of the Transferring Policyholders would be adversely affected by the Scheme, possibly to a material extent depending on the degree of insolvency.

6.123 There are two mitigating factors: the Keep-Well Agreement; and that, as a well-capitalised company both pre-Scheme and post-Scheme, the likelihood of TTI becoming insolvent is remote.

6.124 Under the Keep-Well Agreement, UKNV would inform UKM if and when it anticipated that it would have insufficient funds and assets to meet its insurance obligations and its capital requirements. Assuming that UKM were not itself insolvent, UKM would decide, in consultation and cooperation with the DNB, whether to provide additional funding to UKNV to enable UKNV to remain solvent and hence to meet its obligations to its existing policyholders, including the Transferring Policyholders. I consider it very unlikely that, had it sufficient excess funds to make good any solvency shortfall suffered by UKNV, UKM would not provide such funds, as otherwise its reputation would suffer materially from the failure of its subsidiary. As such, UKM would act as UKNV's reinsurer of the last resort.

6.125 I note that the UKM's Capital Cover Ratio as at 20 February 2020 was 255%. As such, it is very well-capitalised. Moreover, the value of UKM's Tier 1 funds over the SCR is roughly US$280 million, with Tier 2 capital contributing a further US$134 million. Aside from the UKM Transferred Business and the business fronted by UKNV on behalf of UKM, UKNV's gross liabilities post-Scheme will initially be dominated by the Transferring Business. As the Transferring Business runs off it will gradually be overtaken by the accumulated volumes of business written by UKNV on behalf of the non-UKM Fronted Clubs (assuming that UKNV writes in subsequent years similar volumes to those planned for 2021, as set out in paragraph 4.113, above). Were UKM asked by UKNV to provide funds to meet all of the gross insurance liabilities in its balance sheet immediately post-Scheme then UKM's EOF would reduce by roughly US$100 million (US$54 million of which would be to meet the gross liabilities of the Transferring Business (see paragraph 5.28, above)). This would still leave UKM very well-capitalised with a Capital Cover Ratio of over 200%.

6.126 Pre-Scheme, were UKNV to become insolvent, it would have no impact on the Transferring Policyholders, UKNV's pre-Scheme involvement with TTI being limited to fronting for TTI in the sale and renewal of policies covering EEA risks, and in accepting the novation of policies with open claims that relate to Estonia, Poland or Romania. Post-Scheme, it should also have no material effect in that the security of payments in respect of the Transferring Business is maintained through the 100% reinsurance arrangement with TTI. Moreover, the reinsurance arrangements provide for UKNV to receive funds from TTI regularly but only of amounts sufficient to meet expected payments over the next few days. This restricts the risk that, in the event, post-Scheme, of UKNV's insolvency, there might be a misappropriation of funds that should be allocated to the Transferring Business. Depending on the degree of insolvency, it might be necessary to transfer the run-off of UKNV's gross liabilities to another vehicle but that again should not materially affect the Transferring Policyholders.

6.127 I note that the circumstances in which UKNV were to become insolvent would involve the failure of one or more of the Fronted Clubs to meet its/their reinsurance obligations to UKNV. As set out in paragraph 6.115, above, the Capital Cover Ratios of the Fronted Clubs indicate that they are each either well-capitalised or very well-capitalised and hence the likelihood of any being unable to meet its reinsurance obligations to UKNV is remote. Therefore, I consider that UKNV is very unlikely to become insolvent.

Conclusion regarding the effect of the Scheme on the Transferring Policyholders in the event of the insolvency of either TTI or UKNV

6.128 In the event of the insolvency of TTI, the security of benefits for the Transferring Policyholders would be worse, possibly materially so, post-Scheme than they would have been pre-Scheme due to the change in ranking with respect to accessing the remaining assets. However, I consider the likelihood of TTI becoming insolvent post-Scheme to be remote.

6.129 In the event of the insolvency of UKNV, the Transferring Policyholders might be affected tangentially but the security of their benefits would be protected. I consider the likelihood of UKNV becoming insolvent post-Scheme to be remote.

6.130 **I am satisfied that the Transferring Policyholders will not be materially adversely affected due to relative differences in their rights pre- and post-Scheme in the event of the insolvency of either TTI or UKNV.**

POLICY SERVICING

6.131 Post-Scheme, the Transferring Business will be serviced by UKNV. As discussed in paragraph 5.16, above, UKNV has delegated to TMBV the handling of all claims relating to business that it fronts on behalf of the Fronted Clubs. Post-Scheme, this will include handling all claims relating to the Transferring Business. TTMS (which currently handles all claims relating to the Transferring Business on behalf of TTI) and TMBV have entered in a co-operation and advisory agreement, pursuant to which TTMS will assist TMBV with claims handling advice and will assist TMBV generally as and when so requested. In practice, this means that TTMS staff who currently handle policies relating to the Transferring Business will assist TMBV in handling those same policies. This means that Transferring Policyholders will enjoy continuity of service post-Scheme in terms of the handling of their policies, in particular their claims.

6.132 There should be no change to the policy administration arrangements of the Transferring Business as a result of the Scheme. There are no planned changes, post-Scheme, to the services standards, policy management and administration practices, processes or procedures, or to the TTMS employees performing the policy administration and servicing.

6.133 It is also intended that TTMS employees will continue to operate the existing administration systems. Therefore, there will be no change in this respect for the Transferring Business.

6.134 TTI will provide funding for claims on a just-in-time basis. UKNV will request funding once a week for claim payments due in the next week. This process might delay slightly the time taken for policyholders' claims to be paid by up to one week, although in practice UKNV will hold a "float" of roughly US$0.5 million, which is expected to mitigate the risk of delays.

6.135 On and from the Effective Date, UKNV shall become the data controller of any personal data that relates to the Transferring Business or Transferring Policyholders, to the extent required by the Data Protection Laws and shall be deemed to have been the controller of all such data at all material times when personal data is processed.

Conclusion regarding the effect of the Scheme on the policy servicing of the Transferring Business

6.136 **Because there are no intended post-Scheme changes to the policy administration arrangements, the policy administration systems or (in the main) the policy administration personnel, I believe that the Scheme will not have a materially adverse impact on the standards of policy servicing experienced by the Transferring Policyholders compared to their current position.**

COMPENSATION AND COMPLAINTS

6.137 I have explained in paragraphs 3.11-3.14, above, that in the event that a UK-authorised financial firm had insufficient assets to meet its liabilities, the FSCS would compensate eligible customers of the firm in question. I have also explained, in paragraphs 3.15-3.17, above, that the FOS provides eligible customers with a free, independent service to help settle disputes with financial firms (including insurers). The FOS has compulsory jurisdiction in respect of complaints raised by eligible policyholders.

6.138 I have explained in paragraphs 3.45-3.48, above, that, in the Netherlands, KiFiD fulfils a role in respect of policyholder complaints against insurers registered with KiFiD that is similar to that fulfilled by the FOS in respect of polices administered in the UK. However, there is no scheme directly equivalent to the FSCS and the benefits of holders of insurance contracts that contain no investment element are not protected against the failure of their insurer.

6.139 On the face of it, any Transferring Policyholders eligible to access the FSCS would be disadvantaged by the Scheme as they would lose that access without gaining access to an equivalent arrangement post-Scheme. Similarly, any Transferring Policyholders eligible to access the FOS would be disadvantaged by the Scheme were UKNV not to register with KiFiD, as they would lose that access without gaining access to an equivalent service post-Scheme. However, as discussed in paragraphs 3.14 and 3.17, above, TTI has assessed that none of the Transferring Policyholders are currently eligible to access the FSCS and only a very small number are currently eligible to access the FOS. I have considered whether it is reasonable for TTI to have assessed that only a very small number of the Transferring Policyholders are currently eligible to access the FOS and have concluded that it is, for the following reasons:

- TTI operates a minimum premium threshold of US$15,000. This would equate to risks of a size that are unlikely to be carried by many policyholders who satisfy the eligibility criteria, as set out in paragraph 3.15, above;
- TTI has identified just six policyholders who satisfy the eligibility criteria, as set out in paragraph 3.15, above, in respect of business incepting between January 2020 and March 2021;
- Of those six, I understand that five have been TTI policyholders for more than ten years;
- I would expect the likelihood of an eligible policyholder having need for access to the FOS to decline materially in the period after expiry of the cover or, if the policyholder made a claim under the cover, after settlement and payment of the claim.

6.140 As they currently have no rights to lose as a result of the Scheme in respect of their access to a compensation scheme, I conclude that, in this respect, the Transferring Policyholders will not be adversely affected by the Scheme.

6.141 I note that, in respect of any proceedings in relation to the Transferring Policies which (a) have commenced but not been settled before the Effective Date, or (b) commence after the Effective Date in respect of acts or omissions of TTI prior to the Effective Date, UKNV will (subject to prevailing regulatory requirements) comply with:

- the relevant provisions of Dispute Resolution Complaints rules issued by the FCA that would apply to the handling of any complaints brought to the FOS that fall under the jurisdiction of the FOS; and
- any valid judgment, settlement, order or award (or relevant part thereof) of the FOS, made under its jurisdiction.

6.142 Post-Scheme, the few Transferring Policyholders who had been able to access the FOS will no longer be eligible to bring complaints to the FOS, other than those relating to acts or omissions of TTI prior to the Effective Date. Moreover, UKNV has not registered and does not intend to register with KiFiD, so they would be unable to access any other financial ombudsmen service. This is an adverse development for the Transferring Policyholders resulting from the Scheme. However, I note that:

- The purpose of the proposed Scheme is to effect the transfer of the Transferring Business to UKNV in order to enable, post-Brexit, its continued servicing and for the Transferring Policyholders to receive the benefits to which they are entitled. It is of primary importance that there will be certainty that the Transferred Policies will continue to be serviced lawfully and the Transferring Policyholders will receive their benefits under their policies, and the loss of access to the FOS is an unavoidable consequence of this; and
- Given that UKNV is projected to be very well-capitalised and will be required to comply with Solvency II, I consider the likelihood of the default or insolvency of UKNV to be remote.

6.143 I have been told by TTI that it has checked but has found no record of any complaint being referred to the FOS by one of its policyholders within at least the last ten years. I therefore consider it unlikely that many if any complaints would be raised against TTI in future in relation to its current business, and the likelihood for a complaint to arise in respect of the Transferring Business to be remote.

6.144 Overall, given the very low level of FOS activity experienced historically by TTI and the small number of Transferring Policyholders who would currently be eligible to access the FOS, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the rights of the Transferring Policyholders in relation to their access to the services of a financial ombudsman.

6.145 In addition, I note that there have been a number of recent Part VII Transfers presented to the Court from other insurers with a similar motivation as the motivation for this Scheme, in anticipation of the loss of EU passporting rights as a result of Brexit. The loss of access to the FOS and/or to the FSCS was a key matter considered by the Court in past Part VII transfers. For example, in the Part VII Transfer of EEA business from The Royal London Mutual Insurance Society Limited to Royal London Insurance DAC, which was sanctioned by the Court on 31 January 2019, Snowden J concluded that "*I regard the potential loss of FSCS protection for some transferring policyholders as being a largely theoretical risk, as against the very real prejudice that all EEA policyholders would face in the event of a 'no-deal' Brexit if the Scheme were not implemented.*"

6.146 I note that the comment above by Snowden J covers only loss of protection from the FSCS and does not refer to any loss of access to the FOS. As none of the Transferring Policyholders are currently eligible to access the FSCS, it could be considered irrelevant to this Scheme. It is my opinion that this conclusion could equally be applied, in the case of this Scheme, to the Transferring Policyholders' access to the FOS, given that the motivation for the Scheme is largely the same as the motivation for the scheme in the example above, and that the likelihood to be remote of a complaint arising in respect of the Transferring Business that would have been eligible for consideration by the FOS.

CONCLUSION FOR THE TRANSFERRING POLICYHOLDERS

6.147 **I am satisfied that the Scheme will not affect in a materially adverse way either the security or the policy servicing levels of the Transferring Policyholders.**

7. The impact of the Scheme on the policyholders of TTI not transferring to UKNV under the Scheme

7.1 In this section of the Report, I consider the impact of the Scheme on the TTI Non-Transferring Policyholders. This group of policyholders consists of the existing non-EEA policyholders of TTI. I also consider in this section the position of holders of Excluded Policies, should there be any.

7.2 Post the Effective Date, the insurance liabilities of TTI will essentially be unchanged. The only difference would be that the Transferring Business, which previously had been direct business of TTI, would now be inwards reinsurance of TTI, under the terms of the TTI UKNV Reinsurance Agreement. Under Solvency II, both the TPs and the capital requirements relating to direct business are identical to those of an identical portfolio of inwards proportional reinsurance business. Aside from a small counterparty default risk in respect of the “float”, as described in paragraph 6.134, above, I do not believe that implementation of the Scheme would create any additional risks within TTI, although the TT Club will pay a fee (expected to be no more than US$370k, of which TTI’s share would be 10%) to UKNV for UKNV accepting the Transferring Business. The payment of the fee would, post-Scheme, reduce to a negligible extent TTI’s EOF and hence its Capital Cover Ratio. Therefore, I consider that the Scheme will have no material impact upon the security of benefits of the TTI Non-Transferring Policyholders, or of any holders of Excluded Policies.

7.3 There are no planned changes to the policy service standards within TTI post-Scheme. The staff who service TTI policies pre-Scheme will continue to service the policies post-Scheme, using the same processes and practices. Therefore, neither the TTI Non-Transferring Policyholders nor any holders of Excluded Policies should experience any change in the servicing of their business.

7.4 In the event of the insolvency of TTI, post-Scheme, those TTI Non-Transferring Policyholders who are direct policyholders of TTI, and any holders of Excluded Policies, would effectively rank ahead of the Transferring Policyholders in having access to the remaining assets of TTI, as the Transferring Policyholders would be seeking payment initially from UKNV, which, in turn, would be a reinsurance creditor of TTI. I have discussed this point in paragraphs 6.121-6.127, above, albeit from the perspective of the Transferring Policyholders. In this respect, TTI Non-Transferring Policyholders who are direct policyholders of TTI, and any holders of Excluded Policies, would be advantaged by the Scheme, although, based on the expected post-Scheme financial strength of TTI, I consider it unlikely that TTI would become insolvent in the foreseeable future. I note that, in the event of the insolvency of TTI, post-Scheme, the position of TTI Non-Transferring Policyholders who are not direct policyholders of TTI would also be improved, albeit to a lesser extent, in that the Transferring Policyholders would no longer rank in front of them for access to the remaining assets of TTI, rather they would rank alongside them.

7.5 As described in paragraph 5.13, above, if there are any Excluded Policies post the Effective Date then the Companies shall work towards subsequently transferring each and every Excluded Policy to UKNV, by novation or other means. While they remain direct policyholders of TTI, the holders of any Excluded Policies will be treated by TTI no less favourably than those holders of business successfully transferred to UKNV under the Scheme.

CONCLUSION FOR THE POLICYHOLDERS OF TTI NOT TRANSFERRING UNDER THE SCHEME

7.6 **I am satisfied that the security of the contractual rights or the standards of policy servicing currently enjoyed by the TTI Non-Transferring Policyholders, and by any holders of policies that become Excluded Policies, will not be adversely affected by the Scheme.**

8. The impact of the Scheme on the existing UKNV policyholders

8.1 In this Section, I consider the impact of the Scheme on the existing policyholders of UKNV.

RELATIVE FINANCIAL STRENGTH ENJOYED BY THE EXISTING UKNV POLICYHOLDERS PRE- AND POST-SCHEME

8.2 I have concluded, above, that the existing UKNV policyholders currently benefit from the financial strength provided by a very well-capitalised company. UKNV's estimates of its Capital Cover Ratios, assuming the successful completion of the Scheme, suggest that UKNV will be a very well-capitalised company as at 20 February 2022 (the first year-end after the Scheme effective date). The Capital Cover Ratio is expected to be 229%, in contrast to 250% in the event that the Scheme did not take place. This decrease is caused by an increase in counterparty default risk arising from the reinsurance with TTI, and an increase in the risk margin reducing UKNV's EOF. In my view, the existing UKNV policyholders will see no material difference in the financial strength afforded to them if the Scheme is implemented.

8.3 It is expected that the Capital Cover Ratio for UKNV will increase marginally over the period to 20 February 2025, subject to UKNV meeting its business plan targets, and UKNV is expected to remain a very well-capitalised company throughout the period. This is forecast to happen whether or not the Scheme is implemented.

Conclusion regarding the impact of the Scheme on the financial security of existing UKNV policyholders

8.4 **I am therefore satisfied that the existing policyholders of UKNV will not be materially adversely affected due to relative differences in the financial strength of UKNV pre-Scheme and post-Scheme.**

CHANGES IN RISK EXPOSURES

8.5 Post-Scheme, existing policyholders for whom UKNV fronts on behalf of clubs other than TTI will be subject to additional counterparty risks associated with TTI and the Transferring Business. This includes the risk of insolvency of TTI, which could result in TTI failing to meet its reinsurance obligations to UKNV, and hence a reduction in the capital resources of UKNV. However, I note the following:

- The existing UKNV policyholders are already exposed to the risk of TTI's insolvency, in respect of the business that UKNV has been writing on behalf of TTI since 1 January 2021 (indeed, UKNV's existing policyholders include those holders of policies written by UKNV on behalf of TTI). The Scheme will increase UKNV's exposure to this risk. The relative increase will decline over time as further business is written by UKNV on TTI's behalf.
- Neither the Scheme nor any subsequent insolvency of TTI would affect UKNV's ability to cover its claim payments to its existing policyholders through the reinsurance arrangements with the relevant Fronted Club (other than TTI). Insolvency of TTI would jeopardise the payments from TTI to fund claim payments to those existing policyholders of UKNV with policies written on behalf of TTI, but that risk would be unaffected by whether or not the Scheme were implemented.
- If one of the other Fronted Clubs were also to default on its reinsurance obligations then UKNV would use its capital resources to fund any shortfall in payments to its existing policyholders, but its capital resources will have been reduced following TTI's insolvency. However, under the Keep-Well Agreement, UKNV would inform UKM if and when it anticipated that it would have insufficient funds and assets to meet its capital requirements. Assuming that UKM were not itself insolvent, UKM would decide, in consultation and cooperation with the DNB, whether to provide additional funding to UKNV to enable UKNV to remain solvent and hence to meet its obligations to its existing policyholders.

8.6 I consider that the financial strength of the Fronted Clubs, as noted above, is such that the likelihood of any becoming insolvent in the foreseeable future is remote.

8.7 Acceptance of the Transferring Business might alter the profile of the UKNV business, gross of the reinsurance provided by the Fronted Clubs. While the risks covered by UKNV will remain all located in the EEA, the weighting between individual EEA States might be altered. Moreover, the profile of the Transferring Business, in terms of the types of risk covered, is not the same as that of the business written directly by UKNV or of the UKM Transferred Business. However, as discussed in paragraph 6.119, above, changes in the risk profile of UKNV should be reflected in the capital requirements of UKNV. As I have already concluded, UKNV is currently a very well-capitalised company (and is projected to remain at least well-capitalised post the Effective Date). Therefore, I am satisfied that, even were the Scheme to result in adverse change to the existing UKNV policyholders' risk exposures, the capital protection available to them post-Scheme will not be materially different to that which they enjoyed pre-Scheme. Therefore, I conclude that any change in their risk exposure will not have a materially adverse impact on the security of the existing UKNV policyholders.

Conclusion regarding the effect of the Scheme on the existing UKNV policyholders' exposure to risk

8.8 **I am satisfied that the Scheme will not lead to a material change in the risk exposures of the existing policyholders of UKNV.**

POLICY SERVICING

8.9 Neither UKNV nor TMBV is planning any changes to the policy administration arrangements in respect of the existing UKNV business as a result of the Scheme. The staff who service UKNV policies pre-Scheme will continue to service the policies post-Scheme, using the same processes and practices. Therefore, the existing policyholders of UKNV should experience no change in the servicing of their business.

Conclusion regarding the effect of the Scheme on the policy serving for existing UKNV policyholders

8.10 **I believe that the Scheme will not have a materially adverse impact on the standards of policy servicing experienced by the existing UKNV policyholders compared to their current position.**

IN THE EVENT OF INSOLVENCY

8.11 Pre-Scheme, in the unlikely event that were UKNV to become insolvent, then the existing policyholders' claims would still be payable by the Fronted Club to which their policy was ceded. In the event that one of the Fronted Clubs were to become insolvent, then the financial responsibility for the relevant existing policyholders' claims would fall to UKNV, although some of the liability would be borne by the insolvent Fronted Club's reinsurance panel. Were multiple fronted insurers to become insolvent simultaneously, this would put increased strain on the capital resources of UKNV.

8.12 Post-Scheme, this situation is broadly unchanged, except that the very unlikely event of multiple fronted insurers becoming insolvent simultaneously may become marginally increased.

8.13 Pre-Scheme, the Capital Cover Ratios indicate that UKNV is very well-capitalised and hence very unlikely to become insolvent. Post-Scheme, the Capital Cover Ratios indicate that UKNV is very unlikely to become insolvent. I note that the most recent Capital Cover ratios of the Fronted Clubs indicates that it is very unlikely that any of them would become insolvent in the foreseeable future, and the likelihood of several of them becoming insolvent is even more remote.

Conclusion regarding the effect of the Scheme on the existing UKNV policyholders in the event of the insolvency of UKNV

8.14 **I do not envisage circumstances in which the existing UKNV policyholders would be in a materially worse position post-Scheme than they would have been pre-Scheme in the event of the insolvency of UKNV. Moreover, the very small likelihood of UKNV becoming insolvent post-Scheme satisfies me that the existing UKNV policyholders will not be materially adversely affected due to relative differences in their rights pre- and post-Scheme in the event of the insolvency of UKNV.**

CONCLUSION FOR THE EXISTING UKNV POLICYHOLDERS

8.15 **I am satisfied that the Scheme will not affect in a materially adverse way either the security, membership rights or the policy servicing levels of the existing UKNV policyholders.**

9. Other considerations

ASSETS OF TTI AND UKNV

9.1 There are no transferring assets. Rather, the liabilities transferred to UKNV will be matched with reinsurance recoverable assets from TTI as the liabilities will be 100% reinsured by TTI. As discussed in paragraph 5.23, above, implementation of the Scheme reduces slightly TTI's UPR due to the inwards reinsurance premium from UKNV being net of brokerage, but this is offset by a reduction to TTI's deferred acquisition costs corresponding to this brokerage that TTI would have previously had to pay. Otherwise, the Scheme has a nil impact on TTI's balance sheet.

OPERATIONAL PLANS AND CHANGES IN ASSETS AND LIABILITIES UP TO THE EFFECTIVE DATE

9.2 In this Report, I have shown balance sheet data for TTI as at 31 December 2019 and for UKNV as at 20 February 2020 (these being the most recent date for which audited financial information is available). I have also shown pro forma balance sheets, which have been based on those actual balance sheets but which include data that relates to subsequent transactions, such as the Scheme. I have noted that, since 20 February 2020, UKNV has accepted the transfer of the UKM Transferred Business and has also started to write, on a fronted basis, EEA risks on behalf of TTI, PAMIA Limited and UKWR.

9.3 I expect that the current activities of both UKNV and TTI have continued, and will continue, between the dates mentioned in paragraph 9.2 and the Effective Date. Both UKNV and TTI have continued, and will continue until the Effective Date and beyond, to write new business, and have continued, and will continue until the Effective Date, to settle claims and reassess reserves in the light of experience. I do not consider that any material additional risk to any group of affected policyholders will emerge as a result of the continuation of normal business.

9.4 I have discussed in Section 4, above, the impact of the COVID-19 pandemic upon TTI and UKNV. I believe that it is unlikely that any events occurring between the dates mentioned in paragraph 9.2 and the Effective Date would affect any conclusion that I have reached based on my review of the data as at these dates.

9.5 A short time before the final Court hearing, I will consider the extent to which actual changes in assets and liabilities have been in line with expectations (relative to the position as at the dates mentioned in paragraph 9.2) and hence whether there have been any changes (including those associated with current economic conditions) that would affect my overall opinion. I will report on these separately in the Supplemental Report.

MIS-SELLING LIABILITIES

9.6 In her judgement regarding the case of PA(GI) Limited v (1) GICL 2013 Limited (2) Cigna Insurance Services (Europe) Limited (2015), Mrs Justice Andrews DBE said that *"...an intention to make provision for the transfer of mis-selling liabilities would qualify as an unusual feature which might have a material financial impact on the scheme, and which one would therefore expect to be expressly disclosed in the context of an application for a transfer under a Part VII scheme.*" TTI is unaware of any actual or potential mis-selling liabilities within its business. The Transferring Business comprises only commercial insurance business and no personal lines direct business. While it is possible for commercial insurance to be mis-sold, it is, in general, considered less likely to occur than in respect of personal lines policies, especially on a systemic basis. Therefore, I consider the likelihood of any mis-selling liabilities emerging in relation to the Transferring Business to be very small and it would be reasonable to assume the expected cost of such liabilities to be at most negligible. In any event, I have been told by TTI that it is not intended that the Scheme will transfer such liabilities, should they arise in relation to the Transferring Business, and that they will, instead, be retained by TTI. I have not considered it necessary to comment further on this matter in this Report.

THE LIKELY EFFECTS OF THE SCHEME UPON REINSURERS OF THE TRANSFERRING BUSINESS

9.7 In accordance with the PRA Statement of Policy and SUP18, I have considered the likely effects of the Scheme on the reinsurers whose reinsurance contracts cover the Transferring Business.

9.8 All reinsurance contracts benefiting the Transferring Business will continue to provide the same benefit under the Scheme, albeit as retrocession from TTI, acting as a reinsurer. As at 20 February 2019, the reinsurers' share of TTI's technical provisions amounted to approximately US$329 million on a GAAP basis and US$221m on a Solvency II basis.

9.9 The amount of the liabilities of each external reinsurer of the Transferring Business will not change as a result of the Scheme.

9.10 The Scheme will not result in a change in the way in which TTI manages recoveries under its reinsurance programmes. Therefore, because TTI will be responsible for paying the full amount of claim liabilities, I have no reason to expect the Scheme to result in any change in the standards of claims handling or management. As the same staff will continue, post-Scheme, to support the administration of TTI's obligations in respect of the Transferring Business, operating to the same policies, processes, practices and procedures, I believe that the magnitude and timing of recoveries claimed against reinsurance contracts relating to the Transferring Business will be unaffected by the Scheme.

9.11 I have considered whether the Scheme is likely to lead to any changes in the rights of "set-off"[40] for creditors or debtors of TTI or UKNV. As the reinsurance contracts that relate to the Transferring Business will not be moved by the Scheme but will remain with TTI, offsetting TTI's 100% quota share reinsurance obligation to UKNV, there will be no changes in the rights of set-off as a result of the Scheme.

Conclusion regarding the impact of the Scheme on the reinsurers of the Transferring Business

9.12 **For the reasons discussed above, I am satisfied that the Scheme will have negligible effect on the reinsurers of TTI whose contracts of reinsurance cover the Transferring Business.**

EFFECT ON MEMBERS

9.13 SUP 18.2.38 requires that I describe the effect of the Scheme on the proprietary rights of the members of the TT Club, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes that could affect their entitlements as policyholders. I should also consider and comment on the appropriateness of any compensation paid under the Scheme to members for any diminution of proprietary rights.

9.14 As I explained in paragraph 4.109, above, any holder of a UKNV policy written under fronting arrangements or which has been transferred from a Fronted Club will be, or will remain, a member of the membership entity associated with the relevant Fronted Club. Therefore, members of the TT Club who are Transferring Policyholders will remain members of the TT Club post-Scheme. Although, post-Scheme, they will no longer be direct policyholders of TTI but will be direct policyholders of UKNV whose benefits are 100% reinsured by TTI, their rights as members of the TT Club will remain unaltered. Therefore, the Scheme will result in no loss or dilution of the constitutional rights to which existing members of the TT Club (whether Transferring Policyholders or otherwise) are currently entitled, including but not limited to their entitlements and obligations as policyholders.

Conclusion regarding the impact of the Scheme on the membership rights of the members of TTI

9.15 **I am satisfied that the Scheme will have no effect on the rights of existing members of the TT Club to secure or prevent further changes that could affect their entitlements as members of the TT Club.**

THE APPROACH TO COMMUNICATION WITH POLICYHOLDERS

9.16 Regulations made under the FSMA require a communication regarding the proposed Scheme to be sent to every policyholder of the Companies. However, consideration may be given to the practicality and costs of sending notices against the likely benefits for policyholders of receiving such communications. In order to comply with paragraph 2.53 of the Policy Statement, paragraph 2.46G of SUP18 and Sections 7 and 8 of FG18/4, the Companies would be expected to notify the policyholders, or interested persons (which would include all reinsurers of the business to be transferred), at least six weeks before the date of the Court hearing at which the application to sanction the Scheme will be heard.

9.17 The Companies' approach to communicating the Scheme to affected policyholders is outlined in paragraphs 5.32-5.40, above.

9.18 I consider the approach being taken to policyholders to be reasonable.

9.19 The Companies will be applying to the Court for waivers in respect of the requirement to make direct notification to the following groups:

[40] *"Set-off" allows parties to cancel or offset mutual debts with each other by subtracting one from the other, and paying only the balance.*

- those former policyholders of TTI who entered into policies prior to 1 January 2011 and who do not have outstanding claims against TTI; and
- those former policyholders of UKNV who entered into policies prior to 20 February 2011 (this would comprise those holders of policies underwritten by UKM prior to 20 February 2011 and subsequently transferred to UKNV) and who do not have outstanding claims against UKNV.

9.20 I consider the proposed waivers to be reasonable for the following reasons.

- The vast majority of claims involve circumstances of which a policyholder will be immediately aware, e.g. property damage, bodily injury, machine breakdowns, etc. Therefore, it is likely that the vast majority of claims are (and have been) reported quickly to TTI.
- TTI has recently analysed its history of claims being reported, especially in relation to the Transferring Business, and has identified, of the 18,776 claims notified to TTI in the last ten years, just 14 notifications that related to incidents which occurred more than ten years before the date of notification.
- UKNV has recently analysed the history of claims being reported that relate to the business it now writes, including the UKM Transferred Business. It has identified that approximately 95% of outstanding claims have been reported within the last ten years.

9.21 This analysis implies to me that there will be few policyholders for whom the waiver is being sought who will report a claim subsequent to the communications programme being carried out.

9.22 I have reviewed draft copies of the proposed notices and letters, including the draft summary of the Scheme and of the Report. I am not an expert in such communications. However, I consider the draft notices and letters to be clear and concise, to contain all of the information that I would expect them to contain, to be fair, and to be appropriate for their intended audiences.

Conclusion regarding communication with policyholders

9.23 **I am satisfied that the proposed approach to communication with policyholders in respect of the Scheme is both proportionate and reasonable.**

POLICYHOLDER EXPECTATIONS

9.24 I have not considered the expectations of policyholders other than whether their policies will continue to be serviced post-Scheme to the same service levels as they were pre-Scheme and the relative likelihood pre- and post-Scheme that they will receive whatever benefits to which they are contractually entitled. For example, I have not considered the possible reasons that TTI policyholders might have had in selecting TTI as their insurance provider and whether the Scheme would invalidate those reasons. However, I note that the Transferring Business comprises wholly commercial risks. I have no reason to suspect that policyholders' expectations would (reasonably) be adversely affected to a material extent.

WHAT WOULD HAPPEN WERE THE SCHEME NOT TO PROCEED?

9.25 UKNV was established to act as the fronting insurer for mutual insurance companies managed by the Thomas Miller Group (including TTI) that wished to continue writing EEA business post-Brexit. It will continue doing so regardless of whether or not the Scheme is implemented.

9.26 If the Scheme were not to proceed then the Transferring Business would remain with TTI. TTI would continue to work with the local EEA regulators to ensure service continuity for its policyholders with risks in the EEA. As explained above in paragraph 4.83, there are three EEA States where the insurance regulators have not permitted any period of grace post the end of the Transition Period during which UK insurers could continue to service contracts that covered local risks. Therefore, TTI has novated to UKNV those contracts that covered notified claims in respect of risks in those three EEA States (and it intends to deal similarly with any other contracts that cover claims in respect of risks in those three EEA States that are reported to TTI prior to the Effective Date). Certain of the other EEA States in which TTI covers risks have established timeframes in which UK insurers are permitted continue to service contracts that covered local risks. However, as those timeframes move towards expiry, TTI would seek to novate to UKNV each of the Transferring Policies, with the liabilities 100% reinsured back to TTI. This would be a time-consuming process, and would be administratively costly. There is also the risk that TTI might not be able to novate all of its contracts relating to EEA risks before the expiry of the relevant local run-off permissions, in which case TTI would no longer be permitted to service those contracts that had not been novated.

9.27 Any such novation programme would be expected to achieve, ultimately, the same result as the Scheme, i.e. all TTI contracts that covered EEA risks to be transferred to UKNV and reinsured 100% back to TTI, albeit via a more complicated, time consuming and expensive process than that provided by the Scheme.

LEGAL JURISDICTION

9.28 I understand that an insurance business transfer scheme as defined in Section 105 of FSMA would be effective as a result of the Court Order sanctioning the business transfers for all policies governed by English law. For cases where such an insurance business transfer scheme aimed to transfer policies that were governed under laws other than English law, it might be possible holders with such policies to challenge the validity of the sanctioned transfer subsequent to its effective date. TTI has told me that all policies written by TTI (including all of the Transferring Business) have been written under English law. Therefore, there is minimal risk that policyholders might challenge the Scheme subsequent to the Court's approval (should that be granted).

9.29 I note that the TT Club's policy wordings make clear that any and all disputes between a TTI policyholder and the TT Club are subject to London arbitration in accordance with the Arbitration Act 1996 and not the local or English Courts.

TAX

9.30 The tax implications of the Scheme are expected to be negligible. That all business written or assumed by UKNV is 100% reinsured by the respective Fronted Clubs ensures that the respective circles of mutuality are not broken, and TTI continues to be taxed on its investment income (which will be largely unaffected by the Scheme). In addition, I have been told that the Scheme has been structured as a Transfer of a Going Concern and, as such, no VAT will be levied on the transaction.

COSTS OF THE SCHEME

9.31 The external costs of the Scheme (estimated to be about £350,000) will be met by TTI. These costs are not such as to affect the solvency of TTI or the security of any group of policyholders.

10. Final conclusions

10.1 In summary, in my opinion, provided the proposed Scheme operate as intended, and I have no grounds for believing that they will not do so:

- the Scheme will not materially adversely affect the security of benefits to policyholders of either TTI (both those policyholders being transferred under the Scheme and those who will remain, post-Scheme, policyholders of TTI) or UKNV; and
- the Scheme will not have any impact on service standards experienced by the policyholders of either TTI (both those policyholders being transferred under the Scheme and those who will remain, post-Scheme, policyholders of TTI) or UKNV.

10.2 In reaching this opinion I have applied the following principles:

- I have considered which parties might be affected by the Scheme and in what way. I have documented my findings.
- I have not performed my own modelling, rather I have relied on the results of models developed and operated on behalf of TTI and UKNV. I have reviewed documentation describing the models, describing and justifying the assumptions underlying those models, and explaining the derivation of the data underlying the models and assumptions, in particular explaining how its accuracy, completeness and relevance has been verified.
- To the best of my knowledge, there are no beneficiaries for whom the impact of the Scheme has not been considered.
- I have considered how the Scheme might lead to any changes in the material risks to the benefits of the different interested parties.
- I have considered the impact on the actuarial information provided to me of TTI and UKNV having adopted alternative plausible assumptions
- I have not considered alternative arrangements, other than what would happen were the Scheme not to proceed.

Derek Newton / 11 May 2021

Fellow of the Institute and Faculty of Actuaries

Appendix A Definitions

TERM	DEFINITION
Accident year	The year in which an incident that gives rise to an insurance claim occurs.
AFM	The Netherlands Authority for the Financial Markets.
AFR	Actuarial Function Report, a report prepared at least annually by the Actuarial Function for the Board of the relevant insurer.
AIEL	Accredited Insurance (Europe) Limited.
AOF	Ancillary own funds, which are off-balance sheet funds that are available under Solvency II (subject to certain limits) to meet solvency capital requirements.
Available Capital	Capital available to meet solvency capital requirements.
BBNI	Bound But Not Incepted.
BCAR	Best's Capital Adequacy Ratio, a capital model operated by AM Best.
Best estimate	This term is used in this Report in reference to an estimate of outstanding claim amounts and is intended to represent an expected value over a reasonable range of estimates. As such, a "best estimate" is not deliberately biased upwards or downwards, and does not include any margins. However, the limitations of actuarial projection methods mean that a "best estimate" is not a statistically rigorous estimate of the mean of the underlying distribution of all possible outcomes.
B-F	The Bornhuetter-Ferguson method, which is a commonly used actuarial method for estimating claim reserves.
BMA	Bermuda Monetary Authority.
Brexit	"Brexit" refers to the exit of the UK from the European Union, following the referendum on continuing membership held in the UK in June 2016.
Capital Cover Ratio	The ratio of Available Capital to Required Capital. This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the company.
CBTL	Consumer Buy-to-Let
The Companies	The collective term for TTI and UKNV.
Correlation	Correlation (in the context of this Report) is a number that describes the statistical relationship between two variables (e.g. equity prices and interest rates).
The Court	The High Court of Justice of England and Wales.
CRO	Chief Risk Officer.
DNB	The Dutch Central Bank.
EEA	The European Economic Area ("EEA") was established by the EEA Agreement on 1 January 1994. The EEA unites the 27 EU member states with Iceland, Liechtenstein, and Norway into an internal market governed by the same basic rules. These rules aim to enable goods, services, capital, and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms.
EEA State	A state that is, as at the date of this Report, a contracting party to the EEA Agreement on the European Economic Area 1992.
Effective Date	The date on and from which the Scheme shall become effective.
EIOPA	The European Insurance and Occupational Pensions Authority ("EIOPA") was established in consequence of the reforms to the structure of supervision of the financial sector in the European Union, with the goals of: better protecting consumers and rebuilding trust in the financial system; ensuring a high, effective and consistent level of regulation and supervision taking account of the varying interests of all Member States and the different nature of financial institutions; greater harmonisation and coherent application of rules for financial institutions & markets across the European Union; strengthening oversight of cross-border groups; and promoting coordinated European Union supervisory responses.

ENID	In estimating the technical provisions under Solvency II, insurers must make allowance for events not in data (“ENID”), i.e. those possible future events or developments that have not been seen in the historic claims experience of the insurer.
EOF	Eligible Own Funds, i.e. the funds available in an insurer to meet its regulatory SCR.
EU	European Union.
Excluded Policy	A contract of insurance written or assumed by TTI under which any liability remains unsatisfied or outstanding as at the Effective Date and which would have formed part of the Transferring Business but which, for any reason, is not transferred by order of the Court pursuant to Part VII of FSMA on the Effective Date.
FCA	The Financial Conduct Authority (“FCA”) is the UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
FG18/4	Guidance published by the FCA in May 2018 relating to Part VII insurance business transfers.
FIN-NET	An international partnership of financial complaint institutes.
FOS	Set up by the UK Parliament, the Financial Ombudsman Service (“FOS”) is the UK’s official expert in sorting out problems with financial services.
Fronted Clubs	The collective term for UKM, ITIC, PAMIA Limited, UKWR and TTI, on behalf of whom UKNV writes cover for risks resident in EEA member states, and who then each provide 100% reinsurance for the business written by UKNV on their behalf.
FSCS	The Financial Services Compensation Scheme (“FSCS”) is the compensation fund of last resort for customers of UK authorised financial services firms.
FSMA	Financial Services and Markets Act 2000, the legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
FSMA Report	A report on the terms of a transfer under Part VII of FSMA, to be prepared by an independent person. The FSMA Report is required in order that the Court may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question.
GAAP	Generally accepted accounting principles (“GAAP”) form the standard framework of guidelines for financial accounting used in any given jurisdiction.
GMT	Greenwich Mean Time.
IBNR	Incurred but not reported.
IBNR reserves	These are reserves in respect of claims that relate to claim events that have occurred before the valuation date but which were still to be reported to the insurer as at that date. For the purposes of this Report they also include reserves in respect of any perceived shortfall between the projected ultimate costs and the case estimates for claims already notified.
IDD	The Insurance Distribution Directive, which has applied in the UK (and in all other EU Member States) with effect from 1 October 2018.
IFoA	The Institute and Faculty of Actuaries, the professional body for actuaries in the UK.
IFRS	International Financial Reporting Standards (“IFRS”) form a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
IID	International Insurers Department, a department within the NAIC.
Independent Expert	The Independent Expert prepares the FSMA Report and provides it to the Court in order that it may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. In the case of the Scheme, I have been appointed as the Independent Expert.

Independent Peer Review	Work Review undertaken by one or more individual(s) who is, or are, not otherwise involved in the work in question and who would have had the appropriate experience and expertise to take responsibility for the work themselves.
International Group	The International Group of P&I Clubs, an unincorporated association of thirteen principal protection and indemnity underwriting associations (the P&I Clubs) and their affiliated associations and reinsured entities.
Keep-Well Agreement	An agreement between UKM and UKNV that provides comfort that UKM will support UKNV with additional funds if needed, after taking into account the best interests of UKNV, UKNV's policyholders and other stakeholders. There are additional specific covenants, in particular that UKM will ensure that UKNV's Capital Cover Ratio in respect of its SCR is at least 150% on the date of any inwards portfolio transfer from a Fronted Club.
MCR	The Solvency II Minimum Capital Requirement ("MCR") is lower than the SCR, and defines the point of intensive regulatory intervention. The MCR calculation is less risk sensitive than the SCR calculation and is calibrated to a confidence level of 85% over one year (compared to 99.5% for the SCR).
Milliman	Milliman LLP, a member of the Milliman Group.
The Milliman Group	The group of entities whose ultimate parent is Milliman, Inc.
ORSA	The Own Risk Solvency Assessment ("ORSA") is a fundamental set of processes under Solvency II constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.
OSNA	Own Solvency Needs Assessment.
Own Funds	In Solvency II terminology, the amount of capital or excess assets of an insurance company. Own funds are divided into basic own funds and AOFs (e.g. additional premiums from members), which require regulatory approval.
P&I	Protection and indemnity insurance for ship owners.
Parental Guarantee	A guarantee provided by TTB to TTI whereby TTB is ultimately responsible for the liabilities of TTI and guarantees payment of all of TTI's obligations to its policyholders so as to ensure that they are promptly and adequately discharged in circumstances where TTI does not or is unable to do so.
Part VII Transfer	An insurance business transfer scheme performed in accordance with the requirements set out in Part VII of FSMA.
The Policy Statement	The Statement of Policy issued by the PRA entitled The Prudential Regulation Authority's approach to insurance business transfers, issued in April 2015.
PRA	The Prudential Regulation Authority ("PRA") is part of the Bank of England and carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
QRTs	Quantitative Reporting Templates, which must be completed by insurers and submitted to the regulator on a regular basis in accordance with Solvency II. The QRTs cover a wide range of quantitative financial information about the insurer including details of its balance sheet, capital requirements and reserves.
Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (for example the SCR).
Reinsurance	An arrangement with another insurer whereby risks are shared (or passed on). If reinsurance is termed as being "inwards" then the reinsurer in question has accepted risk from an(other) (re)insurer; if reinsurance is termed as being "outwards" then the (re)insurer in question has passed risk to a(nother) reinsurer.
Report	References to the "Report" refer to this report.

Report Summary	The summary of this Report, prepared specifically to be included in a document that also summarises the Scheme and which will be made available to policyholders of the Companies and to others who might be affected by the Scheme.
Reserving Actuaries	The actuarial team within a global risk management, insurance brokerage and advisory company to which the Actuarial Function of the TT Club outsourced the estimation of the outstanding claims costs for the TT Club as at 30 November 2019 and also as at earlier dates.
RPPD	The Responsibilities of Providers and Distributors for the Fair Treatment of Customers, a guidance document published by the FCA in January 2018.
SBO	Scottish Boatowners' Mutual Insurance Association Limited.
SBO DB Scheme	The defined benefit pension scheme that was set up for SBO employees and which was transferred to TTI when SBO's assets and liabilities were transferred to TTI in June 2019.
The Scheme	In the context of this Report, the proposal that the transferring business of TTI be transferred to UKNV under the provisions of Part VII of FSMA.
Scheme Document	The document that sets out the terms of the Scheme.
SCR	Solvency Capital Requirement, which, under Solvency II, is the amount of capital required to ensure continued solvency over a one-year trading time frame with a likelihood of 99.5%.
SFCR	Solvency and Financial Condition Report, which, under Solvency II, each insurer is expected to publish annually, and which will contain certain qualitative and quantitative information, the quantitative information being in the format of certain prescribed QRTs.
SIRA	Systematic Integrity Risk Analysis.
Solvency II	The system for establishing (among other things) minimum capital requirements for EU (re)insurers under the Solvency II Directive 2009/138/EC.
Standard Formula	The standard formula for calculating an insurer's SCR, as specified in detail in the Solvency II legislation to be used by all insurers other than those who have an approved internal model.
SUP18	Section 18 of the FCA Supervision Manual.
Supplemental Report	A report I will prepare in advance of the Court hearing to sanction the Scheme covering any relevant matters that might have arisen since the date of this Report.
TCF	The TCF ("treating customers fairly") principles aim to raise standards in the way firms carry on their business by introducing changes that will benefit consumers and increase their confidence in the financial services industry. Specifically, TCF aims to: help customers fully understand the features, benefits, risks and costs of the financial products they buy; and minimise the sale of unsuitable products by encouraging best practice before, during and after a sale.
Technical Provisions	Liabilities determined for regulatory purposes. In particular, the provisions for the ultimate costs of settling all claims arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for future claims (and premiums) arising on unexpired periods of risk (see Appendix H for further details).
Thomas Miller Group	The collective term for those companies whose ultimate parent is Thomas Miller Holdings Limited.
TMBV	Thomas Miller B.V., a member of the Thomas Miller group of companies.
TPs	Technical provisions as calculated for Solvency II purposes. As such, they differ from technical provisions calculated on an IFRS basis.
Transferee	The entity to which business is being transferred – in the case of the Scheme, this is UKNV.
Transferor	The entity from which business is being transferred – in the case of the Scheme, this is TTI.

Transferring Business	The business of TTI that is to be transferred to UKNV under the Scheme.
Transferring Policyholders	The policyholders of the Transferring Business.
Transition Period	The period between the UK leaving the EU (31 January 2020) and the UK subsequently leaving the single market (31 December 2020) during which almost all existing trading arrangements between the UK and EU continued to apply.
TTB	Through Transport Mutual Insurance Association Limited.
TTB ARC	The TTB Audit & Risk Committee.
The TT Club	The collective term in this Report for TTB and TTI.
TT Club ARCs	The collective term for the TTI ARC and the TTB ARC.
TT Club EQMS	The Electronic Quality Management System that sets out the processes and controls in place in the TT Club.
TT Club ORSA 2020	The report entitled *"TT Club ORSA Overview",* dated November 2020**.**
TTI	TT Club Mutual Insurance Limited.
TTI ARC	The TTI Audit & Risk Committee.
TTI Management Agreement	The agreement by which TTI outsources all functions, including controlled functions, to TTMS.
TTI Non-Transferring Policyholders	Those holders of TTI policies that are not being transferred to UKNV. Essentially, this comprises all TTI policyholders whose policies cover risks that are located in the UK and other non-EEA countries.
TTI UKNV Reinsurance Agreement	The agreement between TTI and UKNV whereby UKNV ceded to TTI 100% of the premiums and liabilities in respect of the business that it fronts on behalf of TTI.
TTMS	Through Transport Mutual Services (UK) Ltd.
UKB	The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited.
UK Club	The group of companies for which UKM is the ultimate parent.
UKM	The United Kingdom Mutual Steam Ship Assurance Association Limited.
UKM Transferred Business	EEA business written by UKM on or before 20 February 2020 which was transferred to UKNV via a Part VII Transfer that became effective on 31 December 2020.
UKNV	UK P&I Club N.V.
UKNV ARC	The UKNV Audit & Risk Committee.
UKNV ORSA 2020	The report entitled "*UK P&I Club N.V. – ORSA Overview*", dated December 2020**.**
UKWR	The United Kingdom Mutual War Risks Association Limited.
ULAE	Unallocated loss adjustment expenses, i.e. claim-related costs that cannot be allocated specifically to individual claims, such as the costs of running a claims team.
UPR	Unearned premium reserve.
Work Review	Process by which a piece of actuarial work is considered by at least one other individual for the purpose of providing assurance as to the quality of the work in question.
XoL	Excess of Loss, a type of reinsurance.

Appendix B CV for Derek Newton

B.1 Derek Newton is a principal and actuarial consultant in Milliman's London office. He is leader of Milliman's UK General Insurance practice. He joined the firm in 2003.

B.2 Derek started his actuarial career in 1983. Since 1994 he has worked exclusively within General Insurance, where he has experience with reserving, mergers and acquisitions (M&A) activity, portfolio transfers, Solvency II, the underwriting process, management reporting, designing and evaluating risk transfer mechanisms, premium rating, risk modelling, and capital and solvency evaluation. His experience includes:

B.2.1 Leading teams reviewing reserves (and the internal reserving processes) for various insurers and reinsurers, including, where relevant providing statements of actuarial opinion for Lloyd's, for the Central Bank of Ireland, for the Bermudan Monetary Authority and for the relevant US insurance departments.

B.2.2 Assisting insurers with the preparation of solvency capital assessments, both internal and in accordance with prevailing regulatory requirements.

B.2.3 Leading assignments to review the underwriting effectiveness of several insurance operations, both commercial and personal lines, resulting in improved efficiency and additional profits to the insurers.

B.2.4 Providing independent expert support to insurers arranging transfers of business between themselves (see below).

B.2.5 Providing Chief Actuary / Actuarial Function support to several insurers.

B.2.6 Leading the evaluation of the reinsurance strategy and reinsurance programme for a major insurer.

B.2.7 Leading the review of various European insurers as part of due diligence assignments.

B.3 Of particular relevance in this context, Derek acted as the independent expert in respect of the following Part VII transfers:

B.3.1 The transfer of the general insurance business of RL(CIS) Limited to CIS General Insurance Limited, a transfer that was sanctioned in 2014;

B.3.2 The transfer of general insurance business relating to the Tower pool from Royal & Sun Alliance Insurance PLC to Knapton Insurance Limited, a transfer that was sanctioned in 2015;

B.3.3 The transfer of the general insurance business of Dowa Insurance Company (Europe) Limited to Aioi Nissay Dowa Insurance Company of Europe Limited, a transfer that was sanctioned in 2016;

B.3.4 The transfer of general insurance business relating to the Ridgwell, Fox & Partners pool from QBE Insurance (Europe) Limited and from Moorgate Insurance Company Limited to Bothnia International Insurance Company Limited, a transfer that was sanctioned in 2017;

B.3.5 The transfer of general insurance business from Royal & Sun Alliance Insurance PLC and from The Marine Insurance Company Limited to Mercantile Indemnity Company Limited, a transfer that was sanctioned in 2019.

B.3.6 The transfer of EEA general insurance business from Assurant General Insurance Limited and from London General Insurance Company Limited to Assurant Europe Insurance N.V., a transfer that was sanctioned in 2020.

B.3.7 The transfer of general insurance business from Sunderland Marine Insurance Company Limited to The North of England Protecting and Indemnity Association Limited, a transfer that was sanctioned in 2020.

B.4 In addition, Derek has been peer reviewer to the Independent Expert in the following transfers:

B.4.3 The general insurance business of various UK-regulated subsidiaries of the Royal Sun Alliance Insurance Group to a smaller number of UK-regulated subsidiaries of Royal Sun Alliance Insurance Group. The transfers were approved by the Court on 12 December 2011;

B.4.4 The general insurance business of PA(GI) Limited to Royal Sun Alliance Insurance and to Marine Insurance Company Limited. The transfers were approved by the Court on 12 December 2011;

B.4.5 Certain general insurance business of the Italian branch of Sompo Japan Insurance Company of Europe Limited to Berkshire Hathaway International Insurance Limited. The transfer was effective 31 March 2013;

B.4.6 The general insurance business of Chevanstell Limited to R&Q Insurance (Malta) Limited. The transfer was effective 31 December 2013;

B.4.7 The European branch general insurance business of Mitsui Sumitomo Insurance Company (Europe) Limited to MSIG Insurance Europe AG. The transfer was effective 31 December 2013;

B.4.8 The EEA general insurance businesses of Sompo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sompo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited. The transfer was effective 31 December 2018;

B.4.9 The business of the Irish, Dutch, French and German branches of Travelers Insurance Company Limited to Travelers Insurance DAC. The transfer was effective 1 October 2019.

B.5 Before joining Milliman, Derek was:

- A director of Heath Lambert's ART division (2002-2003)
- A partner within Ernst & Young's UK property & casualty consulting practice (1998-2001)
- In a variety of roles within Prudential plc (1983-1998), culminating in finance director and actuary for Prudential's UK general insurance operation.

B.6 Derek was awarded Fellowship of the Institute of Actuaries in 1988. He was a member of the General Insurance Board of the Institute & Faculty of Actuaries (2002-2014) and chaired the Board 2005-2007. He also served on the Council of the Institute of Actuaries (2005-2010). He has chaired various actuarial working parties and authored or co-authored several papers. In 2013, Derek received a special award from the profession to mark his Outstanding Contribution to General Insurance Research.

Appendix C Scope of the Work of the Independent Expert in relation to the Scheme

The following was included within the letter of engagement that was agreed between the Companies, Milliman and me, and which was shown to the PRA prior to the approval by the PRA and FCA of my appointment as the Independent Expert in respect of the Scheme. As such the following constitutes my terms of reference in respect of this assignment.

> *"The Independent Expert's report (the Scheme Report) will consider the terms of the Scheme generally and the effect that the Scheme will have on the holders of (re)insurance policies of the Companies.*
>
> *His review and Scheme Report will address generally the way in which the Companies have conducted their (re)insurance business but taking into account the particular circumstances of each of the different groups of policyholders of the Companies involved in the Scheme. It will deal inter alia with the following aspects:*
>
> - *The likely scope for deteriorations in each of the Companies' claims reserves (i.e. the likelihood and extent to which each of the Companies' reserves may prove inadequate);*
> - *The impact of the Scheme on the security of / financial strength afforded to the different groups of policyholders of the Companies involved in the Scheme;*
> - *The corporate governance structures operating in the Companies involved in the Scheme and the impact on the different groups of policyholders in the Companies involved in the Scheme;*
> - *The impact of the Scheme on the levels of service provided to the different groups of policyholders of the Companies involved in the Scheme;*
> - *The relative solvency margins of the Companies;*
> - *The future business plans and the capital management policy to be adopted by the Companies following implementation of the Scheme;*
> - *The existing and proposed agreements between the Companies and their reinsurers;*
> - *Guarantees and/or agreements (if any) between the Companies;*
> - *Guarantees and/or agreements (if any) between each of the Companies and their respective parent company;*
> - *Transactions (outside the Scheme) that impact upon one or both of the Companies;*
> - *The terms and conditions (if any) expected to be imposed by the Scheme to be presented to the Court;*
> - *The matters required by applicable provisions of the PRA's April 2015 Statement of Policy on its approach to insurance business transfers and of Chapter 18 of the supervision manual in the FCA's Handbook (including the guidance contained within the FCA's May 2018 paper on Part VII Transfers (FG18/4));*
> - *A review of the communications made to policyholders;*
> - *Any other matters drawn to my attention by the Regulators or which are required by the Regulators to be addressed within the report.*
>
> *The above list is not intended to be exclusive to any other aspects that may be identified during the completion of the project and which are considered to be relevant.*
>
> *The Independent Expert shall not be directly involved in the formulation of the proposed transfers although he should expect to give guidance during the evolution of the detailed proposals on those issues that concern him, or that he considers unsatisfactory.*
>
> *The Independent Expert will meet with the Companies at an early stage to identify key issues and will also discuss the initial findings in respect of the Scheme with the Companies.*
>
> *The Independent Expert will support the Companies in their liaison with and provision of information to the Regulators and will also participate in discussions with the Regulators as required.*

The Independent Expert will produce (i) the Scheme Report for submission to the Court; (ii) a supplemental report to the Scheme Report for submission to the Court at the final court hearing; and (iii) a summary of the Scheme Report that forms part of the Scheme summary for inclusion within letters to policyholders (or approve such a summary if prepared by the Companies). He will share the Scheme Report (and drafts) and any supplemental report with those noted at paragraph 7(b) of the engagement letter.

If required, the Independent Expert will attend the Court hearings. For the avoidance of doubt, Milliman's fee estimates included in this agreement include its attendance at the directions court hearing and final court hearing for the Scheme.

The Independent Expert will not provide any advice with respect to the merits of the proposed Scheme."

Appendix D General Considerations of the Independent Expert in relation to the Scheme

INTRODUCTION

D.1 I have compiled my Report in accordance with the Policy Statement, with SUP18 and with FG18/4.

D.2 Under FSMA, the concept of TCF must be applied. To help ensure that customers are treated fairly in the future it is necessary to understand how they have been treated in the past. From the policyholders' perspective, the acceptability of the Scheme must be on the basis that it will not have a materially adverse effect on their benefits or fair treatment.

D.3 In order to fulfil my obligations as Independent Expert I have considered the terms of the Scheme generally and how the different groups of policyholders are likely to be affected by the Scheme. In particular, I have considered:

- The likely effects of the Scheme on the security of the policyholders' benefits, including the likelihood and potential effects of the insolvency of the insurer; and
- The likely effects of the Scheme on policyholder servicing levels (e.g. claims handling).

MATERIALITY

D.4 After considering the effects of the Scheme on each of the different groups of policyholders affected by the Scheme (as identified in paragraph 5.11, above), I have drawn conclusions as to whether I believe the Scheme will materially adversely affect that group of policyholders. It should be recognised that the Scheme will affect different policyholders in different ways, and, for any one group of policyholders, there may be some effects of the Scheme that are positive, and others that are adverse. If some effects of the Scheme are adverse, that does not necessarily mean that the Scheme is unreasonable or unfair, as those adverse effects may be insignificant or they may be outweighed by positive effects.

D.5 In order to determine whether any effects of the Scheme on any group of policyholders are *materially* adverse it has been necessary for me to exercise my professional judgement in the light of the information that I have reviewed.

D.6 When assessing the financial security of policyholders, I have looked at the solvency position of the companies involved in the Scheme, on both pre- and post-transfer bases, relative to regulatory solvency requirements, and also at the nature of the assets that constitute each company's capital and surplus. It should be noted that a company may have capital considerably in excess of its regulatory requirements, but that the directors of a company could legitimately reduce that level of capital (for example through the payment of dividends, and subject to regulatory approval) and still leave the company appropriately capitalised. In circumstances where the Scheme has adversely affected the financial security of a group of policyholders, in order to determine whether that impact is material, I have considered whether the level of financial security projected to be in place after the transfer would have been acceptable and permissible before the transfer had taken place. I would determine that any adverse impact to a particular group of policyholders is material if the level of financial security afforded to them after the transfer would not have been acceptable under the normal constraints under which the company's capital position was managed before the transfer.

SECURITY OF POLICYHOLDER BENEFITS

D.7 As noted above, I need to consider the security of policyholder benefits, i.e. the likelihood that policyholders will receive their benefits when due.

D.8 In considering and commenting upon policyholder security, I shall consider the financial strength of each entity. Financial strength is provided by the margins for prudence in the assumptions used to calculate the technical provisions, by the shareholder capital and by any specific arrangements for the provision of financial support. In considering policyholder security, it is also necessary to take into account the potential variability of future experience (including claim frequency and severity). Security is also affected by the nature and volume of future new business.

D.9 The main factors that determine the risks to which a policyholder is exposed are:

- Size of company;
- Amount of capital held, other calls on that capital and capital support currently available to the company;
- Reserve strength;
- Mix of business written; and
- Company strategy – for example, whether it is open or closed to new business.

D.10 I also need to consider the impact on policyholders' security in the event of the default of an insurer (e.g. the role of the FSCS).

EFFECT ON MEMBERS

D.11 SUP 18.2.38 requires that I describe the effect of the Scheme on the proprietary rights of the members of each of the Companies, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes that could affect their entitlements as policyholders. I should also consider and comment on the appropriateness of any compensation paid under the Scheme to members for any diminution of proprietary rights.

TREATING CUSTOMERS FAIRLY

D.12 As Independent Expert I also need to consider the impact of the Scheme on levels of service provided to policyholders, including those resulting from changes in administration, claims handling, expense levels and regulation.

D.13 Further, I have considered the proposals in the context of applicable conduct rules/regulation, e.g. the fair resolution of complaints between an insurer and its customers (policyholders).

OTHER CONSIDERATIONS

D.14 Paragraph 2.34(4)(b) of the Policy Statement and paragraph 2.36 of SUP18 both require me, as Independent Expert, to consider the likely effects of the Scheme on matters such as investment management, new business, administration, expense levels and valuation bases insofar as they might impact on levels of service to policyholders or on the security of policyholders' benefits.

D.15 I am also required to consider the cost of the Scheme and the tax effects of the Scheme insofar as they might impact on the security of policyholders' benefits.

D.16 I have also considered whether there are any further requirements specific to P&I clubs and P&I club policyholders.

Appendix E Compliance with the PRA Policy Statement

The table below indicates how I have complied with the provisions of the PRA Policy Statement ("*The Prudential Regulation Authority's approach to insurance business transfers*", dated April 2015) that pertain to the form of the Report. I have not included references to paragraphs in the Executive Summary of this Report; there should be nothing in the Executive Summary that has not been stated or explained in other parts of the Report.

I note that, in preparing this Report, I have also been mindful of the contents of SUP18 and FG18/4.

PRA Policy Statement Reference	Requirement	Scheme Report paragraph reference
2.30 (1)	Who appointed the Independent Expert and who is bearing the costs of that appointment	1.3, 1.12, 1.18, 5.8, 5.42, 9.31
2.30 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator	1.3, 1.12
2.30 (3)	A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role	1.13, Appendix B
2.30 (4)	Whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties that might be thought to influence his independence, and details of any such interest	1.14-1.16
2.30 (5)	The scope of the report	1.19-1.32
2.30 (6)	The purpose of the Scheme(s)	5.10
2.30 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	5.1-5.9
2.30 (8)	What documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided	Appendix F
2.30 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others	1.35, 6.67, 6.89, 10.2
2.30 (10)	The people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable	6.67, 6.89
2.30 (11)	His 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	 Section 6 Section 7 Section 8
2.30 (12)	His 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	None of the contracts of reinsurance of the transferor are transferred by the scheme
2.30 (13)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to policyholders' consideration of the scheme	None of which I am aware.

2.30 (14)	For each opinion that the independent expert expresses in the report, an outline of his reasons	2.1, 2.11, 2.15, 2.18, 2.24, 6.26, 6.30, 6.36, 6.53, 6.74, 6.92, 6.113, 6.128-6.130, 6.136, 6.137-6.147, 7.2-7.6, 8.2-8.4, 8.5-8.8, 8.9-8.10,8.11-8.14, 8.15, 9.7-9.12,9.13-9.15, 9.16-9.23, Section 10
2.32 (1)	The summary of the terms of the scheme should include a description of any reinsurance agreements that it is proposed should pass to the transferee under the scheme	Not applicable.
2.32 (2)	The summary of the terms of the scheme should include a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	4.29-4.32
2.33 (1)	The independent expert's opinion of the likely effects of the scheme on policyholders should include a comparison of the likely effects if it is or is not implemented	9.25-9.27
2.33 (2)	The independent expert's opinion of the likely effects of the scheme on policyholders should state whether he considered alternative arrangements and, if so, what	1.20
2.33 (3)	The independent expert's opinion of the likely effects of the scheme on policyholders should, where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences he considers may be material to the policyholders	5.11, Section 6, Section 7, Section 8
2.33 (4)	The independent expert's opinion of the likely effects of the scheme on policyholders should include his views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; (b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and (c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations	 (a) 6.113, 6.130, 6.147, 7.6, 8.15 (i) 6.93-6.113, 7.6, 8.15 (ii) 6.131-6.136 (iii) Not applicable (c) 9.30, 9.31
2.35 (1)	For any mutual company involved in the scheme, the report should 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 that could affect their entitlements as policyholders	9.13-9.15

2.35 (2)	For any mutual company involved in the scheme, the report should state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights	Not applicable, as there would be no diminution
2.35 (3)	For any mutual company involved in the scheme, the report should comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without	Not applicable, as there would be no diminution
2.36 (1)	For a scheme involving long-term insurance business, the report should describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits	Not applicable
2.36 (2)	For a scheme involving long-term insurance business, the report should, if any such rights will be diluted by the scheme, how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders	Not applicable
2.36 (3)	For a scheme involving long-term insurance business, the report should describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and (b) the levels of any discretionary charges	Not applicable
2.36 (4)	For a scheme involving long-term insurance business, the report should describe what safeguards are provided by the scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm	Not applicable
2.36 (5)	For a scheme involving long-term insurance business, the report should include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders	Not applicable
2.36 (6)	For a scheme involving long-term insurance business, the report should state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders	Not applicable
2.36 (7)	For a scheme involving long-term insurance business, the report should state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented	Not applicable

Appendix F Key Sources of Data

F.1 In writing this Report, I relied upon the accuracy of certain documents provided by TTI and UKNV. These included, but were not limited to, the following:

Background

- TTI Annual Report and Financial Statements as at 31 December 2019
- UKNV Annual report for the year ended 20 February 2020
- UKNV Management Report Q3, dated 11 January 2021
- UK P&I Club 2020 Directors' Report & Financial Statements for the year ended 20th February 2020
- TT Club Mutual Insurance Limited Annual Report & Financial Statements for the year ended 31 December 2019

Scheme and Restructuring

- Several drafts of the Scheme Document (most recently dated 9 March 2021)
- Analysis of the impact of the Scheme on TTI
- Analysis of the impact of the Scheme on UKNV
- TTI data migration plan
- TTI and UKNV Fronting Agreement
- TTI and UKNV Fronting Fee Agreement
- TTI and UKNV Reinsurance Agreement

Reserving

- Actuarial review of the claims reserves for business written by the TT Club as at 30 November 2019, prepared by Reserving Actuaries of Willis Towers Watson
- Actuarial review of the claims reserves for business written by the TT Club as at 30 November 2018, prepared by Reserving Actuaries of Willis Towers Watson
- TTI Summary of the Actuarial Reserve Review as at 30 November 2019
- TTI Summary of the Actuarial Reserve Review as at 30 November 2018
- TTI Actuarial Function Report December 2020
- TTI Appendix: Solvency II Technical Provisions as at 31 December 2019
- UKNV Actuarial Claims Reserve Review as at 20 February 2020
- Spreadsheet file containing the data and figures used in the above Review
- UKNV Actuarial Function Report November 2020
- UKNV Solvency II Technical Provisions as at 20 February 2020

Risks and Solvency Capital

- TTI SFCR for the year ended 31 December 2019
- UKNV SFCR for the year ended 20 February 2020
- UKM SFCR for the year ended 20 February 2020
- QRTs for UKNV as at 20 November 2020
- QRTs for TTI as at 20 November 2020
- QRTs for TTI as at 20 August 2020
- QRTs for TTI as at 20 May 2020
- QRTs for TTI as at 20 February 2020 (annual submission)
- TT Club ORSA overview November 2020
- UKNV ORSA overview December 2020
- UKNV Business Plan 2021 page 5

Reinsurance and Guarantees

- TTI Summary of Reinsurance Arrangements for 2021
- TTI Summary of reinsurers for 2021 by line size

- UKNV Summary of Reinsurance Arrangements as at 2 January 2020
- UKNV Summary of reinsurers for 2021 by line size – the International Group
- UKNV Summary of reinsurers for 2021 by line size – UKNV own programme
- UKNV Reinsurance credit risk assessment follow-up note to incorporate Fronting for TT Club and UK War
- UKNV Reinsurance credit risk assessment October 2020

Governance and related policies

- TTI Reserving Policy
- TTI ORSA Policy
- TTI Financial Management Policy
- TTI Risk Appetite statement
- TTI Conduct Risk Policy
- TT Club Investment Mandate
- TT Club Governance and Risk Management Documentation
- TT Club Underwriting Policy
- TT Club Risk Management framework
- UKNV Capital Management Policy
- UKNV Risk Appetite Statement
- UKNV Investment Mandate
- UKNV Audit and Risk Committee Rules
- UKNV Governance document
- UKNV Management Board Rules
- UKNV Risk Management Policy
- UKNV Supervisory Board Rules
- UKNV Claims Procedure Version 31.12.2020

Other

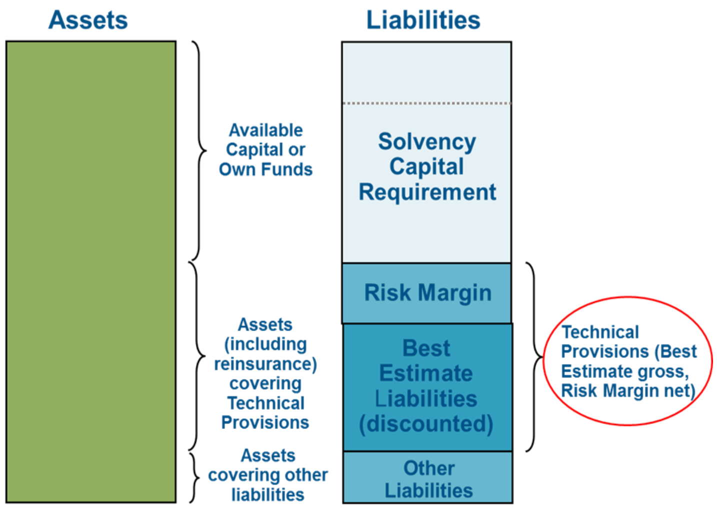
- Keep-well agreement between UKM and UKNV
- Co-operation between TMBV and TTMS
- SBO Trustee's report and financial statements Year ended 31 August 2019
- SBO Unit statement January 2021

F.2 Information relating to the items listed above was also gathered during discussions with staff of UKNV and TTI.

Appendix G Solvency II Balance Sheet

G.1 A simplified illustration of a Solvency II balance sheet is shown in Figure G.1, below.

FIGURE G.1 SOLVENCY II BALANCE SHEET



G.2 The Solvency II balance sheet is intended to be a tool for management to assess an entity's solvency and hence an important consideration for significant decisions. It is also a tool for regulators to assess the solvency of an insurer.

G.3 A key consideration for management in making significant decisions will be the excess of assets over TPs, other liabilities and the Solvency Capital Requirement (SCR). This excess of Own Funds over the SCR will determine whether the entity can expand existing business, move in to new areas, undertake mergers/acquisitions (with less capital rich entities) etc. or whether they need to consider reducing business volumes, moving out of capital intensive lines of business, purchasing additional reinsurance and so on. The level of Own Funds will also likely impact the credit rating of an entity.

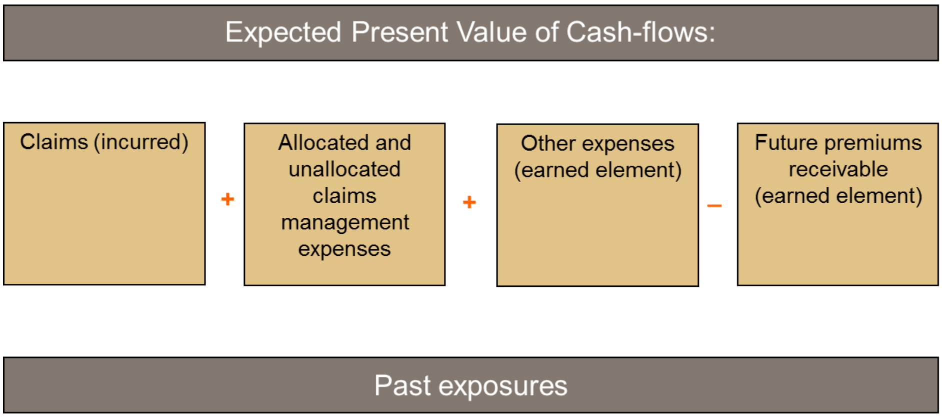
G.4 The TPs are a direct input to the balance sheet, and are therefore a fundamental input in to the SCR calculation that models the potential movement in the balance sheet over a one-year time horizon.

G.5 Solvency II requires the TPs (as at the valuation date) to be determined using a market consistent valuation of the liabilities relating to insurance contracts. In practice, a market consistent liability valuation cannot be calculated by reference to market prices, because such prices are not (for practical purposes) available. Therefore TPs are presently estimated on a proxy to a market value basis, i.e. a 'best estimate' of the liabilities relating to insurance contracts allowing (i.e. discounting) for the time value of money supplemented by a risk margin. More specifically the TPs are made up as follows:

Claims provision + Premium provision + Risk margin

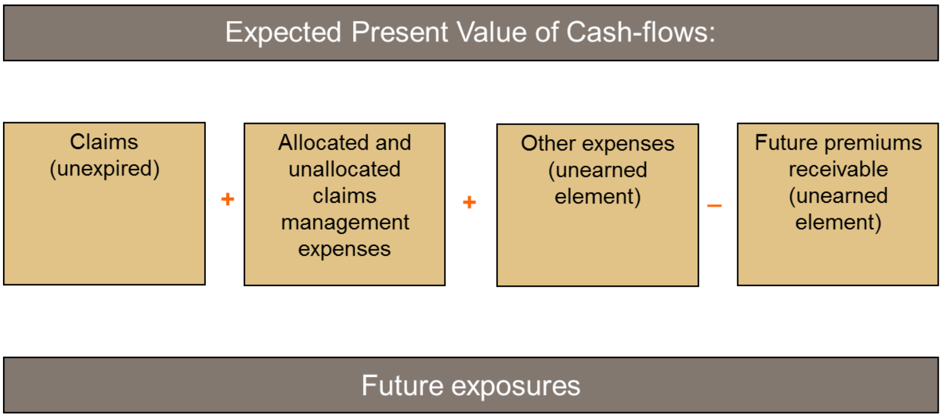
G.6 The claims provision is the expected present value/discounted 'best estimate' of all future cash-flows (claim payments, expenses and future premiums due) relating to claim events prior to the valuation date. G.2, below, illustrates the components of the claims provision calculation.

FIGURE G.2 CLAIM PROVISION



G.7 The premium provision is the expected present value/discounted 'best estimate' of all future cash-flows (claim payments, expenses and future premiums due) relating to future exposures arising from policies that the insurer is obligated to at the valuation date. Figure G.3, below, illustrates the components of the premium provision calculation.

FIGURE G.3 PREMIUM PROVISION



G.8 The risk margin ("'RM") is intended to be the balance that another (re)insurer taking on the liabilities at the valuation date would require over and above the discounted 'best estimate'. Under Solvency II, the RM is calculated using a cost-of-capital ("CoC") approach (presently employing a 6% CoC parameter as provided by EIOPA). More specifically, the calculation is as follows:

$$RM = CoC \times \sum_{t \geq 0} \frac{SCR(t)}{(1+r_{t+1})^{t+1}}$$

where:

- SCR(t) as employed for the RM formula consists of underwriting risk (with respect to existing business); counterparty risk (e.g. reinsurance); operational risk; and market risk (if unavoidable, i.e. not hedge-able); and
- rt is the risk-free discount rate(s) at time t, as provided by EIOPA for all major currencies.

Appendix H Key Differences Between GAAP and Solvency II Technical Provisions

H.1 A summary of the key differences between GAAP reserves and Solvency II TPs is set out in the table below:

Area of change	UK GAAP Reserves	Solvency II Technical Provisions	Balance sheet impact
Earned business	Claims reserve = point estimate within a reasonable range ("not insufficient")	Claims provision = probability weighted average of future cash flows	Reduces liabilities (removes margins)
Unearned business	UPR, net of Deferred Acquisition Costs	Premium provision = probability weighted average of future cash flows	Reduces liability (expected profit)
Risk Margin	n/a	Explicit item, based on cost of capital approach	Increases liabilities
Discounting	Undiscounted	Discounted cash flows	May reduce or increase liabilities depending on currency and duration.
Contract recognition	Policies written	Policies written and legally bound BBNI policies	Reduces liabilities (due to expected profit on BBNI policies)
Expenses	Claims handling expense reserve	More explicit treatment of expenses	Increases liabilities
Events Not In Data (''ENIDs'')	Limited allowance for contingent liabilities	New concept allowance for extreme outcomes (which are ''not in the data'' used for reserving)	Increase liabilities
Reinsurance Bad Debt Provision	n/a	Explicit provision required for reinsurer bad debt	Decreases assets