

CR-2020-003995

IN THE HIGH COURT OF JUSTICE  
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES  
COMPANIES COURT (ChD)

IN THE MATTER OF TT CLUB MUTUAL INSURANCE LIMITED

AND IN THE MATTER OF UK P&I CLUB NV

AND IN THE MATTER OF PART VII OF THE FINANCIAL SERVICES AND  
MARKETS ACT 2000

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SUMMARY STATEMENT OF THE  
TERMS OF THE SCHEME AND  
SUMMARY OF THE SCHEME REPORT

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## SUMMARY OF THE TERMS OF THE SCHEME

1. TT Club Mutual Insurance Limited (**'TTI'**) is a company limited by guarantee incorporated under the laws of England which has permission under Part 4A of the Financial Services and Markets Act 2000 (the **'Act'**) to effect and carry out certain contracts of general insurance in the United Kingdom.
2. UK P&I Club NV (**'UKNV'**) is a private company with limited liability incorporated under the laws of the Netherlands which is regulated by De Nederlandsche Bank NV and the Dutch Authority for the Financial Markets with a licence under Section 2:27 of the Dutch Financial Supervision Act to effect and carry out contracts of non-life insurance in the Netherlands.
3. TTI and UKNV have entered into a scheme for the transfer of certain of the insurance and reinsurance business written by or on behalf of TTI from TTI to UKNV under Part VII of the Act (**'Scheme'**). The Scheme requires the approval of the High Court of Justice in England (**'Court'**).
4. The Scheme will result in the transfer, on 30 September 2021 (**'Effective Time'**), from TTI to UKNV of the insurance and inwards reinsurance policies of TTI written prior to 1 January 2021 which relate to risks located in the European Economic Area (the **'Transferred Business'**). UKNV will assume all rights and obligations under any such policies of insurance and inwards reinsurance which remain unsatisfied or outstanding on the Effective Time.
5. Certain assets and liabilities will be excluded from the transfer under the Scheme. Such assets and liabilities include all rights and obligations of TTI arising out of or in connection with all outwards reinsurance agreements of TTI.
6. References to TTI in any contract of insurance or inwards reinsurance transferring under the Scheme will after the Effective Time be read as references to UKNV.
7. Any judicial, quasi-judicial or arbitration proceedings or any complaint or claim to any ombudsman or similar or other proceedings for the resolution of a dispute or claim (whether current or future (including to those not yet in contemplation)) relating to the policies of insurance or inwards reinsurance which are transferring under the Scheme or which otherwise relate to the Transferred Business which are pending at, or are

commenced after, the Effective Time will be deemed to be continued or commenced by or against UKNV, and UKNV will after the Effective Time be entitled to the same defences, claims, counterclaims and rights of set-off that would have been available to TTI and TTI shall have no liability under those proceedings.

8. All premium and calls attributable or referable under a contract of insurance transferring under the Scheme will after the Effective Time become payable to UKNV and any mandate or other instruction in force at the Effective Time and providing for the payment by a banker or other intermediary of such premiums and calls will take effect after the Effective Time as if it had provided for and authorised such payment to UKNV.
9. Subject to the approval of the Court at a hearing due to be held on 9 September 2021 the Scheme is expected to come into effect at 24:00 hours Greenwich Mean Time on 30 September 2021.

## **SUMMARY OF THE SCHEME REPORT**

1. Derek Newton of Milliman LLP (the '**Independent Expert**') has been appointed to act as an independent expert to prepare a report (the '**Scheme Report**') in respect of the Scheme. His appointment has been approved by the Prudential Regulation Authority in accordance with section 109 of the Act.
2. Appended hereto is a brief summary of the Scheme Report which has been prepared by the Independent Expert. This summary does not cover all matters dealt with in the Scheme Report, which should be read in full by anyone wishing to have a detailed understanding of its content.

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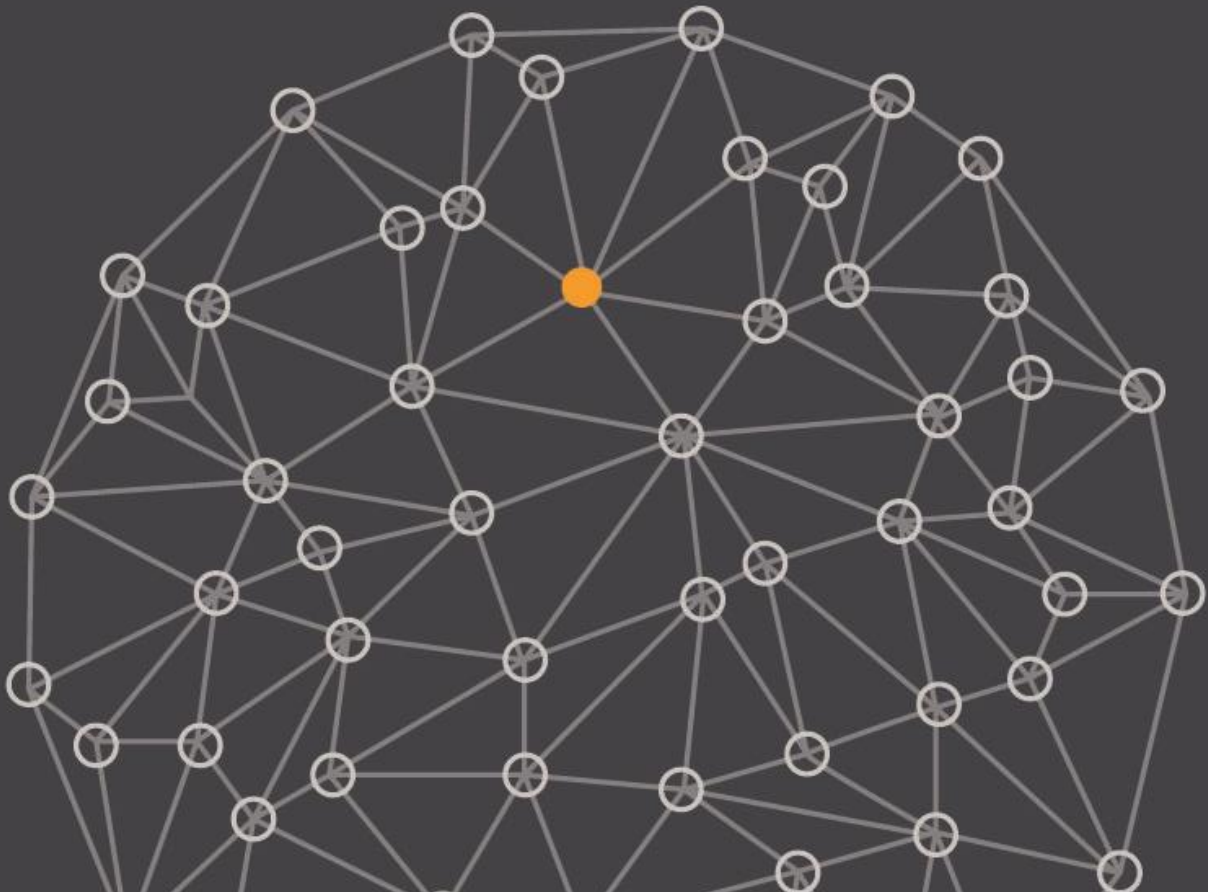
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MILLIMAN CLIENT REPORT

# Summary of the 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

Derek Newton, FIA





## 1. About the Independent Expert's Report and this Summary

- 1.1 I, Derek Newton, am a principal of Milliman LLP and a Fellow of the Institute and Faculty of Actuaries. I have been appointed as the independent expert to provide, in accordance with Part VII of the FSMA, a report on the potential impact of the proposed transfer (the "**Scheme**") on the policyholders of TT Club Mutual Insurance Limited ("**TTI**") and of UK P&I Club N.V. ("**UKNV**") (the "**Scheme Report**"). The Scheme Report is intended to assist the Court in assessing the effect of the proposed transfer on all affected policyholders, in particular to comment on possible material adverse impacts in respect of the security of their benefits under their policies and the levels of service that they could expect to receive after the transfer.
- 1.2 In the Scheme Report, I comment only on the Scheme as presented and do not consider any possible alterations or alternative arrangements.
- 1.3 This is a summary (the "**Summary**") of the Scheme Report, dated 11 May 2021. The Summary is subject to the same limitations on its use as those set out in the Scheme Report. The Scheme Report contains the reasoning behind my conclusions, much of the detail of which I have omitted from this Summary. The Scheme Report also includes further information regarding TTI and UKNV (the "**Companies**"), which I have also not included within this Summary. While I am satisfied that this Summary provides an appropriate synopsis of the Scheme Report, reliance on this Summary alone could be misleading. Copies of the Scheme Report and any subsequent update can be obtained on the TTI and UKNV website pages dedicated to the Scheme (the "**Transfer Websites**").
- 1.4 The document in which this Summary is included contains a description of the proposed Scheme. Therefore, I have not included further description of the proposed Scheme within this Summary. Furthermore, by way of background, the Scheme Report includes material regarding the insurance regulatory environment in the UK and in the Netherlands. Again, I have not included that material within this Summary, which instead focuses on what I perceive to be the likely effect of the proposed Scheme on the security and service levels provided to policyholders of TTI and of UKNV.

## 2. Who will be affected by the Scheme?

- 2.1 I have determined that the following policyholder groups might be affected by the proposed Scheme:
- those policyholders of TTI with policies that will be transferring to UKNV under the Scheme (the "**Transferring Policyholders**");
  - the current policyholders of TTI whose policies will not be transferred under the Scheme (the "**TTI Non-Transferring Policyholders**"); and
  - the current policyholders of UKNV.
- 2.2 I have assessed the circumstances, security and levels of service, separately for each of the groups of policyholders identified in paragraph 2.1 above, and have then similarly considered the changes that the Scheme is likely to cause to those circumstances, security and levels of service. I do not believe that policyholders of any other insurance companies would be affected by the proposed Scheme.

## 3. Will the Scheme affect the Transferring Policyholders?

### SECURITY OF BENEFITS

- 3.1 The Scheme will result in no changes to the terms and conditions of any policy being transferred by the Scheme ("**Transferring Policies**"). The rights and obligations of TTI under the Transferring Policies will be transferred, without alteration, to UKNV.



- 3.2 I have reviewed the level of eligible own funds (“**EOFs**”) held as at 31 December 2019 by TTI (pre-Scheme) and those projected to be held as at the year-ends 2020-2022 by TTI (pre-Scheme). I have also reviewed the level of EOFs held by UKNV as at 20 November 2020 and the projected levels as at 20 February 2021 and as at subsequent 20 Februaries unto and including 2025 (all pre-Scheme). For each company, I have compared the EOFs with the respective solvency capital requirements (“**SCR**”) as at the same dates (actual or projected, as appropriate). I have noted that, over the period 31 December 2019 – 31 December 2022, TTI has maintained, and is expected to maintain, its ratio of EOFs to SCR (“**Capital Cover Ratio**”) at a level consistent with that of a well-capitalised<sup>1</sup> insurer. Similarly, I have noted that over the period 20 February 2020 – 20 February 2025, UKNV has maintained, and is expected to maintain, its Capital Cover Ratio at a level consistent with that of a well-capitalised insurer, becoming and then remaining a very well-capitalised insurer by 20 February 2022. I further note that implementation of the Scheme will not materially alter the Capital Cover ratios in either TTI or UKNV, as the economic risk attached to the business to be transferred under the Scheme (“**Transferring Business**”) will largely remain with TTI, as TTI will 100% reinsure the Transferring Business, post-Scheme, through the **TTI UKNV Reinsurance Arrangement**.
- 3.3 In my analysis, I have considered key components of solvency calculation and of the EOF available to meet the solvency requirements, in particular the technical provisions.
- 3.4 Taking all of these aspects into account, together with the results of some stress tests that I have conducted, I have concluded that, on an on-going basis, the security of the Transferring Policyholders will not be adversely affected to a material extent on implementation of the Scheme by differences in the financial strength between the TTI and UKNV.

## RISK PROFILE

- 3.5 Post-Scheme, 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, primarily credit default risks relating to the business that UKNV fronts on behalf of the other Fronted Clubs. Based on the respective Capital Cover Ratios of the Fronted Clubs, I consider the likelihood of any of them being unable to meet their obligations under their respective reinsurance arrangements with UKNV to be remote. I have concluded that, although the Scheme will result in a change in the risk exposures currently experienced by the Transferring Policyholders, the change will not adversely affect the Transferring Policyholders to a material degree.

## POLICY SERVICING

- 3.6 Post-Scheme, responsibility for servicing the Transferring Business will lie with UKNV, which will delegate that responsibility to Thomas Miller B.V. (“**TMBV**”). TMBV will be advised and assisted in servicing the Transferring Business by Through Transport Mutual Services (UK) Ltd (“**TTMS**”), which currently handles all claims relating to the Transferring Business on behalf of TTI. As such, Transferring Policyholders will enjoy continuity of service post-Scheme in terms of the servicing of their policies.
- 3.7 The administration and servicing of the Transferring Policies will be performed, post-Scheme, using the same processes and systems as currently used, and under the same policy framework as now. There will be no migration of policy data from one administration system to another. Therefore, it is neither intended nor expected that there be any change in the administration or servicing of the Transferring Policies as a result of the Scheme.
- 3.8 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.

<sup>1</sup> In this Summary, I have defined the following terms:

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

## CHANGE IN REGULATORY ENVIRONMENT

- 3.9 Post-Scheme, the primary regulators for the Transferring Business will be the Dutch Central Bank (“**DNB**”) and the Netherlands Authority for the Financial Markets (“**AFM**”), rather than the Prudential Regulation Authority (“**PRA**”) and Financial Conduct Authority (“**FCA**”). The regulators in the Netherlands operate similarly to the PRA and FCA, with broadly the same solvency capital regime (Solvency II) as used in the UK.
- 3.10 The rules in the UK and the Netherlands in the event of an insurer being wound-up are broadly similar. 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 of TTI. However, I consider the likelihood of TTI becoming insolvent post-Scheme to be remote. In the event of the post-Scheme insolvency of UKNV, the security of benefits of the Transferring Policyholders would be protected by the TTI UKNV Reinsurance Arrangement. I consider the likelihood of UKNV becoming insolvent post-Scheme to be remote. Therefore, I am satisfied that the Transferring Policyholders will not be materially adversely affected by the implementation of the Scheme in the event of the insolvency of either TTI or UKNV.
- 3.11 In the Netherlands there is no equivalent to the Financial Services Compensation Scheme (“**FSCS**”). However, I understand that none of the Transferring Policyholders are currently eligible to access the FSCS and so I do not consider that the change in regulatory environment to one with no equivalent of the FSCS affects the Transferring Policyholders.
- 3.12 The Dutch financial services complaints tribunal (“**KiFiD**”) provides a similar service in the Netherlands to that provided in the UK by the Financial Ombudsman Service (“**FOS**”). However, UKNV is not a member of KiFiD and so, post-Scheme, Transferring Policyholders will be unable to bring complaints to an ombudsman service. Bearing in mind that very few Transferring Policyholders are currently eligible to access the FOS and that no TTI policyholder has lodged a complaint with the FOS for at least the last ten years, I am satisfied that the implementation of the proposed Scheme will 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.

## CONCLUSION

- 3.13 I am satisfied that the proposed Scheme will not adversely affect, to a material extent:
- The security of benefits under the Transferring Policies;
  - The benefits that the Transferring Policyholders could reasonably expect to receive; or
  - The standards of administration, service, management and governance that apply to the Transferring Policies.

## 4. Will the Scheme affect the TTI Non-Transferring Policyholders?

### SECURITY OF BENEFITS AND RISK PROFILE

- 4.1 Post-Scheme, the Capital Cover Ratio within TTI is projected to be virtually unchanged.
- 4.2 The risk profile within TTI will also be virtually unchanged as a result of the Scheme, with TTI retaining the risk of the Transferring Business via the TTI UKNV Reinsurance Arrangement.
- 4.3 I have concluded that the TTI Non-Transferring Policyholders will not be adversely affected by the Scheme in terms of the financial security afforded to their benefits from TTI.

### POLICY SERVICING

- 4.4 The existing arrangements for servicing and administering the business of TTI that is not being transferred by the Scheme will remain unchanged post-Scheme. Likewise, the terms and conditions of the policies not being transferred by the Scheme will remain unaltered post-Scheme.

- 4.5 The business that is not transferred by the Scheme will include the Excluded Policies (if there are any). The existing arrangements for servicing and administering the Excluded Policies will remain unchanged post-Scheme, pending expiry of the relevant local run-off permissions. However, as those permissions expire, it might not be possible for TTI to fulfil its obligations to the holders of Excluded Policies without a technical breach of authorisation requirements in the relevant EEA state. The likelihood and impact of this eventuality are not affected by the Scheme.

#### REGULATORY ENVIRONMENT

- 4.6 There will be no change in the regulatory environment for the business of TTI that is not being transferred by the Scheme.
- 4.7 I have concluded that the Scheme would improve the prospects of the TTI Non-Transferring Policyholders in the event of TTI becoming insolvent, post-Scheme. However, as I consider the insolvency of TTI, pre- or post-Scheme, to be only a remote possibility, I do not consider this change to be material.
- 4.8 The Scheme will not affect the eligibility of non-transferring policyholders of TTI to seek compensation from the FSCS or to take complaints to the FOS.

#### CONCLUSION

- 4.9 I am satisfied that the proposed Scheme will not adversely affect, to a material extent:
- The security of benefits of the TTI Non-Transferring Policyholders;
  - The benefits that the TTI Non-Transferring Policyholders could reasonably expect to receive; or
  - The standards of administration, service, management and governance that apply to the policies of TTI that are not being transferred under the Scheme.

## 5. Will the Scheme affect the existing policyholders of UKNV?

#### SECURITY OF BENEFITS AND RISK PROFILE

- 5.1 Post-Scheme, the Capital Cover Ratio within UKNV is projected to decrease relative to its level immediately pre-Scheme, but UKNV is projected to remain a well-capitalised insurer, with the Capital Cover Ratio projected to increase thereafter to a level consistent with UKNV being a very well-capitalised insurer.
- 5.2 The risk profile within UKNV will change as a result of the Scheme, with additional exposure to counterparty risk relating to TTI. However, this change is reflected in UKNV's solvency requirements and I do not consider that it will jeopardise, to a material extent, the security of benefits of the existing policyholders of UKNV.
- 5.3 The security of benefits of the existing policyholders of UKNV is largely dependent on the financial health of the Fronted Clubs, which 100% reinsure the business fronted on their behalf by UKNV. The Fronted Clubs will be unaffected by the Scheme and so the security of benefits of the existing policyholders of UKNV will similarly be (largely) unaffected by the Scheme.
- 5.4 I have concluded that the existing policyholders of UKNV will not be adversely affected by the Scheme in terms of the financial security afforded to their benefits.

#### POLICY SERVICING

- 5.5 The existing arrangements for servicing and administering the policies held by existing policyholders of UKNV will remain unchanged post-Scheme. Likewise, the terms and conditions of the existing UKNV policies will remain unaltered post-Scheme.

#### REGULATORY ENVIRONMENT

- 5.6 There will be no change in the regulatory environment for the existing business of UKNV.
- 5.7 I have concluded that the Scheme does not affect to a material degree the prospects of the existing policyholders of UKNV in the event of post-Scheme insolvency of UKNV.

## CONCLUSION

- 5.8 I am satisfied that the proposed Scheme will not adversely affect, to a material extent:
- The security of benefits of the existing policyholders of UKNV;
  - The benefits that the existing policyholders of UKNV could reasonably expect to receive; or
  - The standards of administration, service, management and governance that apply to the existing policies of UKNV.

## 6. Other matters

### REINSURANCE

- 6.1 I have considered the likely effects of the Scheme on the reinsurers whose reinsurance contracts cover the Transferring Business. No reinsurance contracts will be transferred by the Scheme, rather those that cover the Transferring Business will remain with TTI and will be applied to TTI's liabilities in respect of the TTI UKNV Reinsurance Arrangement. I am satisfied that the Scheme will not have a materially adverse effect on the writers of the reinsurance contracts that are being transferred. The administration of the Transferring Business, including the management and handling of claims, will continue to be performed post-Scheme by the same teams, using the same processes, as it had been pre-Scheme, so the magnitude and timing of recoveries claimed against reinsurance contracts relating to the Transferring Business will be unaffected by the Scheme.

### EFFECT ON MEMBERS

- 6.2 Transferring Policyholders who are currently members of Through Transport Mutual Insurance Association Limited ("TTB") will remain members of TTB post-Scheme, and their rights as members of TTB will remain unaltered. Therefore, the Scheme will result in no loss or dilution of the constitutional rights to which existing members of TTB (whether Transferring Policyholders or otherwise) are currently entitled, including but not limited to their entitlements and obligations as policyholders.

### WHAT WOULD HAPPEN WERE THE SCHEME NOT TO PROCEED?

- 6.3 In the event that the Scheme were not to proceed, the Transferring Business would remain with TTI, with no immediate change to the security of the related benefits or policy servicing standards. However, as and when local run-off permissions expire in the relevant EEA states, local regulations would then prevent TTI from servicing the Transferring Business in those states or providing the Transferring Policyholders with the benefits to which their policies entitle them. Therefore, ahead of the expiry of those permissions, TTI would seek to novate to UKNV each of the Transferring Policies. This would seek to achieve, ultimately, the same result as the Scheme, i.e. all existing TTI contracts that covered EEA risks to be transferred to UKNV, albeit via a more complicated, time consuming and expensive process than that provided by the Scheme.

## 7. Conclusions

- 7.1 I confirm that I have been provided with access to all material facts of which I am aware and which I consider relevant in order to assess the proposals under the proposed Scheme, and I further confirm that all information that I have requested in relation to my review has been provided. In performing my review and in producing the Scheme Report, I have relied, without detailed verification, upon the accuracy and completeness of the data and information provided to me by the Companies. My conclusions depend on the substantial accuracy of this data, information and the underlying calculations. At the time of preparing the Scheme Report, I was unaware of any issue that might cause me to doubt the accuracy of the data and other information provided to me by the Companies. As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the proposed Scheme and in preparing the Scheme Report, but that nonetheless should be drawn to the attention of policyholders in their consideration of the proposed Scheme.

7.2 In summary, in my opinion, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The Transferring Policyholders;
  - Their benefit expectations;
  - The security of their benefits;
  - The level and standards of administration and service that would apply to their policies;
- The TTI Non-Transferring Policyholders;
  - Their benefit expectations;
  - The security of their benefits;
  - The level and standards of administration and service that would apply to their policies;
- The existing policyholders of UKNV;
  - Their benefit expectations;
  - The security of their benefits;
  - The level and standards of administration and service that would apply to their policies.

## 8. Supplementary Report

8.1 My analysis has been based upon the material supplied to me, including balance sheets and other information, which themselves are based on accounting positions as at 31 December 2019 (for TTI) and 20 February 2020 (for UKNV). I have made allowance for developments that have occurred since those dates, insofar as I have been notified of them, in particular the actual and expected effects on the businesses and balance sheets of the Companies of the COVID-19 pandemic

8.2 Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a supplementary report (the "**Supplementary Report**"), covering any relevant matters that might have arisen since the date of the Scheme Report. This will include consideration of updates to the accounting positions. It is intended that the Supplementary Report will be published on the Transfer Websites at least one week before the date of the final Court hearing.



Derek Newton / 11 May 2021

Fellow of the Institute and Faculty of Actuaries