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Summary of the Independent Expert's Report on the Proposed Transfer of a Portfolio of Policies from QBE UK Limited to East West Insurance Company Limited

About the independent expert

My name is Simon Sheaf and I am a Partner at Grant Thornton UK LLP. My current job title is Head of General Insurance Actuarial and Risk. I am a Fellow of the Institute and Faculty of Actuaries and a Fellow of the Society of Actuaries in Ireland. I have more than 25 years of experience working within the general insurance industry. I have previously been a member of both the Council and the Management Board of the Institute and Faculty of Actuaries.

About this document

This document is a summary of my report ("my Report") that has been prepared following my nomination by QBE UK Limited ("QBEUK") and East West Insurance Company Limited ("EWICL") to be the Independent Expert reporting on the proposed insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 to transfer a portfolio of policies from QBEUK to EWICL ("the Scheme"). My appointment has been approved by the Prudential Regulation Authority ("PRA") having consulted with the Financial Conduct Authority ("FCA").

This summary sets out the key findings, methodology, assumptions and analysis from my Report. This summary is subject to the same limitations on its use as those set out in my Report. This summary of my Report must be considered in conjunction with my Report and reliance must not be placed solely on this summary. In the event of real or perceived conflict between this summary and my Report, my Report shall prevail. I have used a number of terms and abbreviations within this summary that are defined in my Report.

Copies of my Report can be obtained at <https://qbeeurope.com/qbeuk-ewicl-part-vii-information/> or www.armorholdings.com/regulatory-and-statutory or by writing to QBEUK at 30 Fenchurch Street, London EC3M 3BD or EWICL at 20 Old Broad Street, London, EC2N 1DP, with the reference "Project Fall PVII Transfer".

Introduction

The proposed Scheme relates to the transfer to EWICL of two portfolios.

The first of these portfolios consists of all UK and Ireland employers' liability and public liability business written by predecessor companies of QBEUK which had incepted on or prior to 31 December 2007, and subject to some specific policies remaining in QBEUK ("the Autumn Portfolio"). Approximately 1.6m policies were written within the Autumn Portfolio and there are approximately 720,000 policyholders. This includes risks located in the Netherlands and Italy.

The substantial majority of the claims remaining in the Autumn Portfolio relate to mesothelioma, other asbestos related diseases and other diseases. The policies remaining in QBEUK also include claims relating to mesothelioma, other asbestos related diseases and other diseases.

The second of these portfolios ("the Chestnut Portfolio") consists of the following (subject to specific liabilities remaining in QBEUK as set out in my Report):

- UK employers' liability policies issued by predecessor companies of QBEUK for Tata Steel Europe Limited ("TSEL") from 1 January 1990 and expiring on or before 31 March 2016
- Global public and products liability, UK motor and UK personal accident issued by predecessor companies of QBEUK for TSEL expiring on or before 31 March 2016

TSEL is the sole policyholder within the Chestnut Portfolio.

I refer to the combination of the Autumn Portfolio and the Chestnut Portfolio as the “Transferring Portfolio”.

As part of the agreement to transfer the Autumn Portfolio to EWICL, QBEUK entered into a reinsurance agreement (the “Autumn LPTA”) with Tokio Millennium Re AG, Bermuda Branch (“TMR”). This agreement provides 100% quota share reinsurance to QBEUK in respect of the Autumn Portfolio. TMR subsequently entered into a reinsurance agreement with the parent company to EWICL, ILS Property & Casualty Re Limited (“ILS”). This agreement provides 100% quota share reinsurance to TMR in respect of the Autumn Portfolio (the “Retrocession Agreement”).

As part of the agreement to transfer the Chestnut Portfolio to EWICL, QBEUK entered into a reinsurance agreement with ILS. This agreement provides 100% quota share reinsurance to QBEUK in respect of the Chestnut Portfolio (the “Chestnut LPTA”).

I refer to the combination of the Autumn LPTA, the Retrocession Agreement and the Chestnut LPTA as “the LPTAs”.

ILS is a segregated accounts insurance company based in Bermuda. Under this structure it operates a number of cells, where the assets of a cell can only be used to meet the liabilities of that cell. The LPTAs have been put in place between QBEUK and Cell G of ILS.

Purpose of the Scheme

The purpose of the Scheme is to transfer the legal obligations relating to the Transferring Portfolio from QBEUK to EWICL.

The purpose of the LPTAs and the resulting Scheme from QBEUK’s perspective is to dispose of a non-core legacy portfolio. I understand from EWICL that it intends to fulfil its contractual obligations in an orderly run-off and, in the process, hopes to make a saving on the current reserves.

Who will be affected by the Scheme?

The policyholders affected by the Scheme include not only the policyholders within the Transferring Portfolio but also the existing policyholders of EWICL and the policyholders remaining within QBEUK at the Effective Date of the Scheme.

I am not required to consider the impact of the Scheme on any policyholders that subsequently effect policies with either QBEUK or EWICL.

My role

An Independent Expert’s Report is required under Section 109 of the Financial Services and Markets Act 2000 in order that the Court may properly assess the impact of the proposed Scheme. My Report describes the proposed transfer of business under the Scheme and considers the potential impact on all affected policyholders, including the security of their policies and the levels of service that policyholders can expect to receive once the Scheme becomes effective.

Overview of my analysis

In considering the impact of the Scheme on policyholders, I have considered both the impact of the Scheme on the financial resources available to support policyholders and also a number of non-financial impacts regarding how the policyholders’ experience may change as a result of the Scheme.

My approach to considering the effect of the Scheme on non-financial service levels experienced by policyholders has been to determine if a change in service arrangements would occur if the Scheme were to proceed, and to compare any changes with the arrangements that would be in place were the Scheme not to proceed.

Will the Scheme impact the security of the policyholders?

Transferring Portfolio

The policyholders in the Transferring Portfolio currently benefit from an excess of loss reinsurance programme. Following the Scheme, these policyholders would continue to benefit from this protection, although both QBEUK and EWICL have informed me that they do not expect any recoveries from this reinsurance.

The transferring policyholders currently benefit from the security of QBEUK as the insurer and TMR and Cell G of ILS as the reinsurers.

Should the Scheme become effective, the transferring policyholders would lose the protection of QBEUK, TMR and Cell G. As a result, the amount of funds that the transferring policyholders have access to would reduce in monetary terms following the Scheme.

However, they would gain the security associated with EWICL. As described in my Report, I am of the opinion that EWICL is sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the existing liabilities of EWICL. Note that this conclusion is predicated on the fact that the parent of EWICL will provide support to EWICL, should additional funds be required. Parental support is discussed further in my Report. However, even if EWICL was not able to receive additional funds from its parent, my view is that the likelihood of EWICL being unable to pay claims as they fall due is remote.

The transferring policyholders would benefit from the same legal protections in the event of wind-up of EWICL post-Scheme compared to the event of wind-up of QBEUK pre-Scheme.

The rights of the transferring policyholders in respect of the Financial Services Compensation Scheme ("FSCS") will not change as a result of the Scheme.

As a result, even though the monetary value of the funds that the Transferring Policyholders will have access to will reduce, my opinion is that I do not expect the Transferring Policyholders to be materially disadvantaged in relation to security, including under insolvency, as a result of the Scheme. As above please note that this conclusion is predicated on the fact that the parent of EWICL will provide support to EWICL, should additional funds be required. However, even if EWICL was not able to receive additional funds from its parent, my view is that the likelihood of EWICL being unable to pay claims as they fall due is remote.

Policyholders remaining in QBEUK

With respect to the policyholders remaining in QBEUK, I do not expect any material adverse impact on policyholder security as a result of the Scheme (including under insolvency) as the Transferring Portfolio is immaterial in the context of QBEUK's overall business. These policyholders are remaining in a company that I believe has a sufficient level of capital in order to meet policyholder obligations.

Existing policyholders of EWICL

EWICL's coverage of its SCR is expected to reduce as a result of the Scheme. However, EWICL will continue to have Own Funds in excess of the SCR and will continue to have enough capital to meet its capital target.

As discussed in my Report, I am of the opinion that EWICL is sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the existing liabilities of EWICL.

Therefore, my opinion is that the existing policyholders of EWICL will not be materially disadvantaged in terms of security, including under insolvency, as a result of the Scheme.

What are the other financial impacts of the Scheme?

In addition, I have considered the impact of the Scheme on each of investment strategy; ongoing expenses; pension arrangements; tax; liquidity; new business strategy; and other transfers. I do not identify any changes in any of these areas as a result of the Scheme that would cause any material adverse impact to any of the three groups of policyholders.

What is the non-financial impact of the Scheme?

Service levels

I have considered the impact on the level of service, specifically claims handling and policy servicing as a result of the Scheme. I do not identify any changes in any of these areas as a result of the Scheme that would cause any material adverse impact to any of the three groups of policyholders.

Other non-financial factors

In my Report, I have also considered the impact of any changes as a result of the Scheme to each of regulatory regime; complaints; the impact of Brexit; and management and governance arrangements. I do not identify any changes as a result of the Scheme in any of these areas that will cause any material adverse impact on any of the three groups of policyholders.

Will the Scheme impact reinsurers?

The Transferring Portfolio does benefit from an excess of loss reinsurance programme that covers multiple areas of QBEUK's business. I understand from QBEUK that no recoveries in respect of the Transferring Portfolio have been made to date from that reinsurance. This reinsurance, which is set out in multiple contracts, is expected to transfer as part of the Scheme, being shared between EWICL and QBEUK and will cover exactly the same risks as prior to the Scheme. Consequently, I do not expect that these reinsurers will be materially disadvantaged by the Scheme.

The reinsurance provided by TMR in respect of the Autumn Portfolio will not transfer along with the gross liabilities. TMR has been aware of the intention to transfer the liabilities to EWICL under the Scheme since the point at which it entered into this agreement. Consequently, I do not believe that there is a material risk that TMR will raise any valid objection to the Scheme.

The reinsurance provided to the Autumn Portfolio and the Chestnut Portfolio by Cell G of ILS will not transfer as part of the Scheme. When the LPTAs were put in place, it was always expected that these arrangements would be superseded by the Scheme and ILS was fully aware of this. Consequently, I do not believe that there is a material risk that Cell G will raise any objection to the Scheme.

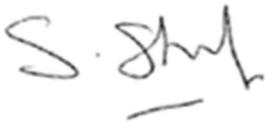
The coverage provided by the existing reinsurers of QBEUK will not change as a result of the Scheme.

There are no existing reinsurers of EWICL.

As a result, my opinion is that the Scheme will have no material adverse impact on the current reinsurers of the Transferring Portfolio. In addition, my opinion is that the Scheme will have no material adverse impact on the other existing reinsurers of QBEUK.

Overall conclusion

I have considered the Scheme and its likely effect on transferring policyholders, policyholders remaining within QBEUK, policyholders currently within EWICL and reinsurers. I do not expect any of these three groups of policyholders or any of the reinsurers to be materially adversely affected by the Scheme and therefore I see no reason why the Scheme should not proceed.



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9 August 2019



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