

EXPLANATORY CIRCULAR

**RELATING TO THE PROPOSED TRANSFER OF MEDICAL MALPRACTICE INSURANCE
BUSINESS IN SPAIN AND ITALY**

by

QBE INSURANCE (EUROPE) LIMITED

to

RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LIMITED

UNDER PART VII OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

INTRODUCTION

QBE Insurance (Europe) Limited (**Transferor**) is transferring part of its general insurance business to Reliance National Insurance Company (Europe) Limited (the **Transferee**) using a mechanism called an insurance business transfer scheme. This is a statutory mechanism provided for under Part VII of the Financial Services and Markets Act 2000.

The business to be transferred (**Transferring Business**) comprises the Transferor's Italian and Spanish medical malpractice policies (**Transferring Policies**) and associated assets and liabilities.

The Transferor and the Transferee are both UK insurance companies, authorised by the Prudential Regulation Authority (**PRA**) and regulated by both the PRA and the Financial Conduct Authority (**FCA**).

Further information about the Transferring Business, the reasons for the transfer and the effect of the transfer are given at page 3 of this Circular. A summary of the terms of the insurance business transfer scheme which will govern the transfer (the **Scheme**) is at Appendix 1.

A report on the terms of the Scheme has been prepared by John Charles of Willis Towers Watson (the **Independent Expert**). Further information about the Independent Expert and his report is given at pages 3 and 4 of this Circular. A summary of the terms of the report is at Appendix 2.

As with all insurance business transfer schemes, Court approval is required before the transfer can proceed. The Transferor and the Transferee have made an application to Court to approve the Scheme which is expected to be heard on 29 October 2018. The Court will consider the Independent Expert's report, reports prepared by the FCA and PRA, and any representations made by affected parties.

Information about the hearing and your right to attend, and how to raise any concerns or objections you have at or before the hearing is given at pages 4 and 5.

You may contact the Transferor or the Transferee for further information by telephone (between 9am and 5pm Monday to Friday) or email us or write to us at:

Transferor

United Kingdom

Neil Sutton
QBE Insurance (Europe) Limited
Plantation Place,
30 Fenchurch Street,
London EC3M 3BD

Phone No: +44 (0)20 7105 4293
Email Address: neil.sutton@uk.qbe.com

Italy

Dina Suriano
Phone No: +39 2 3626 3568
Email Address: QBEMilan@it.qbe.com

Transferee

Reliance National Insurance Company
(Europe) Limited
20 Old Broad Street
London
EC2N 1DP

Ref: Docklow Part VII
Phone No: +44 (0)3332405712
Email Address: rnice@armourrisk.com

Spain

Palma Padron Coig
Phone No: +34 9 1789 3966
Email Address: ppadron@es.qbe.com

Business to be transferred

The Transferring Business comprises medical malpractice insurance underwritten by the Transferor through its Italian and Spanish branches and from its head office in the UK between 1 January 2002 and 31 December 2013, together with associated assets and liabilities. These include rights and obligations under outwards reinsurance policies protecting the business.

All of the Transferring Policies relate to risks located in either Italy or Spain.

Reason for the transfer

The Transferor wishes to dispose of its medical malpractice business in Italy and Spain which is no longer core to its ongoing operations. Accordingly, in 2014 the Transferor entered into an agreement with the Transferee (**Transfer Agreement**) under which the Transferor agreed to transfer, and the Transferee agreed to acquire, the Transferring Business. The Agreement also provided for the Transferor to enter into a reinsurance agreement with Tokio Millennium Re AG and ILS Property and Casualty Re Limited (a company affiliated to the Transferee) under which the Transferor is fully reinsured in respect of the Transferring Business.

The transfer of the Transferring Business pursuant to the Scheme (**Transfer**) will complete the transaction contemplated by the Agreement.

Effect of the Transfer

A summary of the Scheme, the legal document which sets out the terms on which the Transfer will take effect, is provided at Appendix 1 to this Circular.

If the Scheme is approved then there will be no change to the terms and conditions of any transferring policy. In broad terms, the Transferor's rights and obligations under Transferring Policies will be transferred, without alteration, to the Transferee.

Any rights you have under such policies will remain unchanged, but following the Transfer will be exercisable against or owed to the Transferee alone. Valid claims will continue to be paid, although the party liable to make payment will be the Transferee, rather than the Transferor.

There will be no change in the approach to claims handling. The Transferor's rights under its claims handling agreement with Armour Risk Management Limited (**Armour**), which currently handles claims with the assistance of local claims handlers in Italy and Spain, will transfer to the Transferee under the Scheme.

The Independent Expert

The Independent Expert, John Charles, is a Director of Willis Towers Watson and has more than 25 years' experience working in the general insurance industry in the UK including undertaking roles related to insurance business transfers under UK legislation.

His appointment and the form of his report have been approved by the PRA (in consultation with the FCA).

The Independent Expert has an overriding duty of responsibility to the Court, and not to the parties involved in the Transfer, and is independent of the parties to the Scheme.

The Independent Expert Report

The Independent Expert's report must be impartial and based on a thorough scrutiny of the Scheme and the businesses of the Transferor and the Transferee. The Transferor and the Transferee have each provided the Independent Expert with access to key staff and any information he has requested, both private and public.

In his report, the Independent Expert has considered the likely effect of the Scheme on policyholders, including whether the Scheme will result in material detriment to any policyholders affected by the Scheme, relative to their current situation.

The Independent Expert's report concludes in summary that:

1. The Scheme does not materially adversely affect the security of any of the groups of policyholders affected by it.
2. The Scheme is expected to have no significant impact on service levels experienced by any of the groups of policyholders affected by it.
3. The Scheme is expected to have no significant effect on expense levels.
4. The Scheme is expected to have no significant effect on the level of investment risk (which is the risk that policyholder security could be adversely affected by fluctuations in the market value of investments) for policyholders remaining with the Transferor.
5. There may be an increase in investment risk for the policyholders transferring to, and the existing policyholders of, the Transferee but notwithstanding this the Independent Expert remains of the view that the Scheme does not materially adversely affect the security of these policyholders.
6. The Scheme has no significant effect on the reinsurers whose contracts of reinsurance are to be transferred under the Scheme.

A full copy of the Independent Expert's report (translated into Spanish or Italian, if requested) will be provided free of charge on request to the contact details given on pages 2 and 3 of this Circular. An untranslated full copy of the report may also be downloaded from the following websites:

<http://www.armorholdings.com/client-resources/rnice-qie-part-vii/>
<https://qbeurope.com/qie-rnice-part-vii-information/>
<https://qbeitalia.com/qie-rnice-parte-vii-informazioni/>
<https://qbeespana.com/qie-rnice-parte-vii-informacion/>

A summary of the report, giving further details of the Independent Expert's conclusions and the assumptions on which they are based, is at Appendix 2 to this Circular.

The Independent Expert will submit a supplemental report shortly before the Court hearing explaining whether there have been any relevant developments, including significant developments in the financial position of the Transferor, the Transferee and the Transferring Business, since his initial report and if so whether they affect his conclusions.

Where and when will the Court hearing take place?

The Court hearing is scheduled to take place on 29 October 2018 at the High Court, The Rolls Building, 7 Rolls Buildings, Fetter Lane, London EC4A 1NL. Formal notice of the hearing is at Appendix 3 to this Circular.

Who can attend?

Any person may attend the hearing. Policyholders, and any other party who believes they may be adversely affected by the Scheme, are entitled to be heard at the hearing and to raise objections to the Scheme by stating how they may be adversely affected. Further details of what to do if you wish to raise objections at the hearing are given in the "Next Steps" section below.

When will the Transfer take effect?

If approved by the Court, it is expected that the Transfer will become effective at 23:59 on 31 October 2018 (the **Effective Date**).

Next Steps

We hope this document provides you with the information to allow you to understand what is proposed, and answer any questions that you may have. If you do have any questions, you can contact us using the contact details on page 1 of this Circular.

If you do not think you are adversely affected and have no objections to the Scheme you do not have to do anything.

However, if you consider you may be adversely affected by the Scheme or object to the Scheme or if you need any further information, then please let us know. You can call us between 9am and 5pm Monday to Friday, email us or write to us at the contact details provided on page 1 of this Circular.

If you have an objection to the proposals or if you believe you will be adversely affected as a result of the Schemes, you can also attend (in person or by a legal representative with advocacy rights), and make representations at the Court hearing. If you intend to do so, you are requested to notify Bryan Cave Leighton Paisner LLP, the solicitors acting for the Transferor and the Transferee, of your intention and the reasons why you consider you will be adversely affected by the Scheme. You should contact them by writing to Bryan Cave Leighton Paisner LLP (Reference: Geraldine Quirk), Adelaide House, London Bridge, London, EC4R 9HA United Kingdom as soon as possible and ideally before 22 October 2018. This will allow us to keep you informed of any changes to the hearing date and where possible address your concerns.

If you do not give the requested notice you will still be entitled to attend the hearing, or to instruct someone to appear on your behalf.

If you would rather make representations in writing, these will be drawn to the attention of the PRA and the FCA prior to the hearing, and will be submitted to the Court at the hearing. You are requested to send any written representations to Bryan Cave Leighton Paisner LLP at the address and contact details given in the preceding paragraph before the hearing, and ideally by 22 October 2018.

We will keep a careful record of all the objections and representations received and will include these in the evidence to be considered by the Court at the hearing.

Contact details

You can call us, email us or write to us at the contact details given on page 1 of this Circular.

You may also contact the PRA or FCA at the following address:

Prudential Regulation Authority
Bank of England
20 Moorgate
London
EC2R 6DA
Ref: The Insurance Risk and Transactions Team

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN
Ref: Transfers of Business Team / Authorisations

Appendix 1: Summary of the Scheme

This summary sets out the principal provisions of the Scheme. Unless otherwise defined in this summary, capitalised terms used in this summary have the meanings given to them in this Circular.

It is anticipated that, if sanctioned by the Court, the Scheme will take effect on the 31 October 2018 (the **Effective Date**), subject to the Transferee having received cash and securities of an aggregate value sufficient to provide it, on the Effective Date, with surplus assets covering the Capital Amount (referred to in the Scheme as Transfer Funds). The Capital Amount is arrived at by calculating 75% of the Best Estimate element of the Transferee's Technical Provisions (excluding the Risk Margin) and then deducting the Risk Margin, in each case calculated as at 31 March 2018 on the assumption that the transfer of the Transferring Business had taken place at that date.

Technical Provisions are the Transferee's insurance liabilities (including those arising from the Transferring Business) as determined for regulatory purposes. The Best Estimate element is in broad terms, the sum required to settle the insurer's insurance liabilities over their lifetime. The Risk Margin is the sum which an insurer is required to hold under regulatory rules in excess of the Best Estimate, and is designed to represent the amount of capital a third party would require to take on the obligations of the insurer.

If the Transfer Funds have not been received by the Transferee by 31 October 2018, the Scheme will not become effective until the date on which the Transfer Funds are received.

The directors of the Transferor and the Transferee may resolve that the Scheme will become effective on a later date, which must be no later than 30 November 2018 (**Longstop Date**). The Scheme also contains provision for the Transferor and the Transferee to apply to Court to extend the Longstop Date, provided that they give notice to the PRA and FCA of any such application. It is not anticipated that any such application will be required. If the Scheme does not take effect on or before 30 November 2018 (or any later date approved by the Court) it will lapse.

On the Effective Date:

1. The Transferee will assume the Transferor's rights and obligations arising out of the Transferring Policies.
2. The liabilities of the Transferor so far as they relate to the Transferring Business will be transferred to and become liabilities of the Transferee and will cease to be liabilities of the Transferor. This will include liabilities arising under each Transferring Policy, whether that policy is governed by English law or the law of another jurisdiction.
3. The Transferor's interests in outwards reinsurance contracts which protect the Transferring Business will be transferred to the Transferee.
4. The Transferor's rights and obligations under its claims handling agreement with Armour Risk Management Limited (**Armour**) which governs the terms on which Armour handles claims arising under Transferring Policies will transfer to the Transferee.

There will be no change in the terms and conditions of the Transferring Policies.

The Scheme provides for the unlikely contingency that certain liabilities or assets may not be, or may not be capable of being, transferred on the Effective Date (**Retained Business**). Retained Business will transfer subject to the terms of the Scheme if and when the impediment to transfer is removed. In the meantime, the Transferee will be under an obligation to indemnify the Transferor in respect of any losses or liabilities arising out of the Retained Business, and to perform the Transferor's obligations in respect of the Retained Business. It is not anticipated that there will be any Retained Business.

Following the Effective Date:

1. The Transferor must account to the Transferee for all sums or benefits received after the Effective Date in respect of the Transferring Business and/or any outwards contracts of reinsurance attributable to it.
2. All premiums attributable to the Transferring Business will from the Effective Date be payable to the Transferee.
3. Any proceedings for the resolution of a dispute or claim brought against or by the Transferor, and any complaint or claim to any ombudsman, in each case relating to the Transferring Business (**Proceedings**) will:
 - a. If commenced before the Effective Date, be continued by or against the Transferee;
 - b. If commenced after the Effective Date, be commenced against or by the Transferee.
4. Any order or judgment made in any Proceedings against the Transferor which remains outstanding at the Effective Date or which is made after the Effective Date will be deemed to have been made and will be enforceable against the Transferee.

The Transferee may, with the consent of the Transferor, agree to any modification of or addition to the Scheme or any further condition or provision in the Scheme which the Court may approve or impose. In the case of an amendment affecting the substance of the Scheme, the consent of the PRA having consulted the FCA will also be required. The PRA and FCA must be notified of any application to modify the Scheme after the Effective Date.

The Scheme will be governed by and construed in accordance with English law.

Appendix 2: Summary of the Independent Expert's Report

Summary of the Independent Expert Report on the Proposed Insurance Business Transfer Scheme from QBE Insurance (Europe) Limited to Reliance National Insurance Company (Europe) Limited under Part VII of the Financial Services and Markets Act 2000

4 July 2018

Prepared by John Charles, Independent Expert



Introduction

- 1.1 When a scheme for transferring insurance business from one company to another is put to the High Court of Justice in England and Wales (“High Court”) for approval it has to be accompanied by a report on the terms of the scheme from an independent expert (“the Independent Expert”). The Independent Expert’s Scheme Report (“Scheme Report”) is a requirement under Part VII of the Financial Services and Markets Act 2000 (“FSMA”).
- 1.2 This document is a summary of the Scheme Report (“Summary”) and this Summary may be distributed to policyholders and any other person entitled to receive a copy under applicable law or regulation. The Scheme Report contains detailed information that is not shown in this Summary.
- 1.3 This Summary, and the Scheme Report, have been prepared on the joint instruction of QBE Insurance (Europe) Limited (“QIE”) and Reliance National Insurance Company (Europe) Limited (“RNICE”) for the benefit of the High Court solely for the purposes of satisfying FSMA requirements for Part VII transfers. I owe a duty to the High Court to help the High Court on matters within my expertise. This duty overrides any obligation to any person from whom I have received instructions or by whom I am paid.
- 1.4 This Summary is subject to the same limitations as those set out in the Scheme Report and in the event of any real or perceived conflict between this Summary and the Scheme Report, the Scheme Report shall prevail.
- 1.5 This Summary and the Scheme Report have been prepared for the benefit of the High Court and may be relied on by the High Court. Neither the Independent Expert nor Willis Towers Watson accepts any responsibility or liability to any third party in relation to the Scheme Report or this Summary. Any reliance placed by such third parties on the Scheme Report or this Summary is entirely at their own risk.

About the Independent Expert

- 1.6 I, John Charles, am a Fellow of the Institute and Faculty of Actuaries, having qualified in 1991. I am a Senior Director in the firm of Towers Watson Limited (“Willis Towers Watson”). I have experience of the types of business written by each of QIE and RNICE.
- 1.7 I consider that I have no conflict of interest or involvement, current or historical, with QIE or RNICE which would affect my suitability to act as the Independent Expert for the Proposed Scheme (as defined below).
- 1.8 Willis Towers Watson, globally, has relationships with QIE; however, I do not consider that the nature and size of these involvements impact on my ability to act as Independent Expert for the Proposed Scheme. I have provided details of these relationships directly to the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”).
- 1.9 My appointment as the Independent Expert in connection with the Proposed Scheme was approved by the PRA, after consultation with the FCA, on 23 February 2018. In connection with this appointment there is an engagement letter dated 12 September 2016 in place between Willis Towers Watson, QIE and RNICE. In conducting this work, I have been supported by a number of other Willis Towers Watson personnel (“my team”).

Background

1.10 In 2014 QIE, Tokio Millennium Re AG, Bermuda Branch (“TMR”) and ILS Property and Casualty Re Limited (“ILS P&C Re”) entered into arrangements that effectively transfer QIE’s economic policyholder obligations relating to the Transferring Portfolio to ILS P&C Re. The arrangements included TMR acting as a fronting reinsurer, collateral, a claims handling agreement and a commitment by QIE and RNICE, an ILS P&C Re subsidiary, to pursue a Part VII transfer of the Transferring Portfolio. This proposed Part VII transfer is intended to give legal effect to the economic transfer implied by those arrangements by formally transferring QIE’s policyholder obligations to RNICE. The Scheme ends QIE’s policyholder obligations in respect of the Transferring Portfolio and eliminates TMR’s role as fronting reinsurer.

The Proposed Scheme

Purpose of the Proposed Scheme

1.11 I have been informed by QIE and RNICE (“the Parties”) that:

- RNICE entered into an agreement with QIE on 15 August 2014 to acquire its Italian and Spanish medical malpractice portfolio (in run-off), with the Parties obliged to endeavour to transfer the portfolio from QIE to RNICE by an insurance portfolio transfer pursuant to Part VII of the FSMA.
- The staff managing the portfolio transferred from QIE to Armour Risk Management Limited (“ARM”) with effect from 5 September 2014 pursuant to the Loss Portfolio Transfer Agreement (“LPTA”). ARM entered into a Claims Handling Agreement with QIE to manage the run-off of the portfolio, and the portfolio was 100% reinsured by TMR and ILS P&C Re.
- The Proposed Scheme is therefore the final part of the acquisition process to transfer the portfolio from QIE to RNICE. The Proposed Scheme is intended to fulfil the Parties’ contractual obligations. No further consideration will be paid between the Parties in respect of the Proposed Scheme.

Summary of the Proposed Scheme

1.12 The intended date of the Proposed Scheme is 31 October 2018 (the “Effective Date”).

1.13 I understand from QIE and RNICE that the Proposed Scheme will involve transferring from QIE to RNICE:

- The entire liabilities of the Transferring Portfolio (i.e. the portfolio of Italian and Spanish medical malpractice policies, which were placed in run-off during 2013).
- Entitlement to a small number of facultative reinsurance (“Facultative Reinsurance”) contracts which attach to the Transferring Portfolio.

1.14 I also understand that, in combination with the Proposed Scheme, the following further actions will all take place:

- The reinsurance contract, as part of the LPTA, between RNICE (transferred from QIE) and TMR, with an aggregate limit of €335,980,711 in respect of unpaid claims from the Transferring Portfolio from 1 July 2014 onwards, will terminate.
- The reinsurance contract, as part of the LPTA, between RNICE (transferred from QIE) and ILS P&C Re in respect of its segregated account A (“Cell A”), in excess of an aggregate amount of €335,980,711, will terminate.

- The Custody Agreement (“Custody Agreement”) will terminate.
- The Retrocession Agreement (“Retrocession Agreement”) between TMR and ILS P&C Re in respect of Cell A will terminate.
- The Trust Agreement (“Trust Agreement”) will terminate.
- The total amount of funds in the Secured Accounts (comprising the Cash Secured Account and the Securities Secured Account, which were established by the LPTA) will be transferred directly to RNICE before the Effective Date of the Proposed Scheme but following sanction of the Proposed Scheme.
- The Claims Float Account, including the TPA Claims Float Accounts, (which was established by the Claims Handling Agreement) will continue to be held by ARM on trust for RNICE, instead of QIE.
- A pre-defined amount of funds will be transferred from the Trust Account (which was established by the Trust Agreement) directly to RNICE before the Effective Date of the Proposed Scheme but following sanction of the Proposed Scheme. The amount of funds to be transferred from the Trust Account to RNICE is defined by the following process:
 - A capital amount (“Capital Amount”) in respect of the Transferring Policies is to be calculated, which is equal to A less B plus C where:

A = 75% of the best estimate element (“Best Estimate”) of the Solvency II Technical Provisions (“SII Technical Provisions”) of RNICE.

B = the Risk Margin (“Risk Margin”) component of RNICE’s SII Technical Provisions.

C = Deductible asset balances in respect of amounts due for more than 6 months.

A and B are calculated as at a fixed date of 31 March 2018 as if the transfer had taken place as at that date. Item C is calculated as at the date of the transfer.
 - The total amount of funds to be transferred to RNICE from the combination of the Secured Accounts, Claims Float Account and Trust Account before the Effective Date of the Proposed Scheme will have the effect that the available capital resources (“Available Capital Resources”) of RNICE following the Proposed Scheme will be equal to the Capital Amount.
- To the extent reasonably practicable:
 - The assets of RNICE which correspond to the best estimate component of the Solvency II Technical Provisions of RNICE following the Proposed Scheme will be converted to Euro-denominated investments before the Effective Date of the Proposed Scheme to the extent that they are not already denominated in Euros.
 - The assets of RNICE which correspond to the Available Capital Resources of RNICE plus the Risk Margin component of the Solvency II Technical Provisions following the Proposed Scheme will be converted to US dollar-denominated investments before the Effective Date of the Proposed Scheme to the extent that they are not already denominated in US dollars.

- 1.15 My conclusions are predicated on the assumption that the Parties will present evidence to the Sanction Hearing to confirm that the following important assumptions, on which the report is based, are true:
- The Proposed Scheme and all of the actions described in 1.14 will take place in combination with each other.
 - RNICE's investment policy will remain consistent with that indicated by its SCR calculation.
 - The LPTA has not been cancelled prior to the Sanction Hearing.
 - That the Capital Amount remains appropriate and reasonable on the basis of the information available prior to the Sanction Hearing.
- 1.16 The Claims Handling Agreement, which is an outsourcing arrangement, will continue to apply between RNICE, in place of QIE, and ARM following the Proposed Scheme. The existing Claims Handling Agreement will be novated in its exact current form after the transfer so no change to claims handling is expected to arise because of the Proposed Scheme.

Scope of my review

- 1.17 In the Scheme Report I consider the likely effects of the Proposed Scheme on three distinct groups of affected policyholders:
- The policyholders remaining with QIE;
 - The policyholders transferring from QIE to RNICE ("the Transferring Policyholders"); and
 - The current policyholders of RNICE.
- 1.18 In performing my review, I considered each of the following areas:
- Financial strength. The level of claims reserves together with the required, as well as any excess, capital that a company holds is a key measure of financial security for the policyholders as it indicates whether there is a reasonable expectation that the company will be able to absorb losses in both normal as well as adverse scenarios.
 - Policyholder treatment. Whether the Proposed Scheme will have any effect on matters such as claims handling service levels, investment management, new business strategy, management, administration, governance arrangements and expense levels in so far as these will affect the security of policyholders' contractual rights or the levels of service provided to policyholders.

Summary of findings

Security of the policyholders remaining with QIE

- 1.19 The policyholders remaining with QIE have policies with a well-capitalised company, QIE, whose level of shareholders' funds provides a security level in excess of the Solvency II capital requirement. This means that QIE is estimated to have sufficient capital to meet its obligations over a one year period in more than 99.5% of cases. In other words, before the Proposed Scheme, the shareholders' funds of QIE are estimated to be more than sufficient to absorb the financial impact of a 1-in-200 year event.
- 1.20 The QIE Solvency Capital Requirement ("SCR") is calculated using a PRA approved Internal Model ("IM"). Under Solvency II, companies may, subject to the approval of the insurance supervisor determine the SCR using an IM. For the sake of clarity, I refer to the QIE SCR as the "IM SCR".
- 1.21 There are no guarantees protecting the policyholders of QIE.
- 1.22 The risk profile of the policyholders remaining with QIE will not change significantly following the Proposed Scheme as:
- The Transferring Portfolio, gross of reinsurance, is small relative to the total business of QIE being 3.5% of QIE's gross claims outstanding reserves as at 31 December 2016.
 - The net of reinsurance liabilities of QIE in relation to the Transferring Portfolio are zero, as the Transferring Portfolio is 100% reinsured by a combination of TMR and ILS P&C Re.
- 1.23 The Proposed Scheme is expected to slightly increase the QIE IM SCR Solvency Cover ratio for the policyholders remaining with QIE. This is because:
- The QIE Technical Provisions, net of reinsurance, in respect of the Transferring Portfolio are zero as at 31 December 2016 before the Proposed Scheme. This means that the QIE total Technical Provisions, net of reinsurance, and Available Capital Resources as at 31 December 2016 will not be changed by the Proposed Scheme.
 - The QIE SCR as at 31 December 2016 will reduce slightly following the Proposed Scheme as QIE will no longer be exposed to counterparty default risk in respect of the aggregate reinsurance contracts protecting the Transferring Portfolio.
- 1.24 This means that, following the Proposed Scheme, the policyholders remaining with QIE will continue to have policies with a well-capitalised company, whose level of shareholders' funds imply a security level in excess of the SCR. I consider that this is satisfactory.
- 1.25 On this basis, I consider that the security of the policyholders remaining with QIE is not materially adversely impacted by the Proposed Scheme.

Security of the policyholders transferring from QIE to RNICE

- 1.26 The Transferring Policyholders currently have policies with a well-capitalised company, QIE, whose level of shareholders' funds provides a security level in excess of the SCR.
- 1.27 The risk profile of the Transferring Policyholders will change following the Proposed Scheme as follows:
- The Transferring Policyholders will move to a company, RNICE, which is expected to have a Solvency Cover ratio of 157% on the basis of my tailored assessment of the required capital. Under the Solvency II Standard Formula SCR ("SII SF SCR"), the transferring policyholders will have a Solvency Cover ratio of 201%. My tailored assessment of the SCR for the Transferring Policyholders is based on the SII SF SCR with an adjustment to reflect my view of the increased reserve risk volatility applicable to the portfolio instead of the assumption that would apply under the SII SF SCR.
 - Provided that the ultimate loss cost underlying the reserve estimates does not increase materially, the Solvency Cover ratio on both the tailored and regulatory bases is expected to increase significantly during the next three to five years as the Transferring Portfolio runs-off, before allowing for any dividend payments. As a UK run-off company, RNICE will only be permitted to pay dividends or extract capital if the PRA confirms that it does not object to such actions.
 - The Transferring Policyholders will move to a company, RNICE, with a significantly lower level of diversification of its business, and which is only protected by a small amount of Facultative Reinsurance. Against this, the Transferring Policyholders will no longer be exposed to underwriting risks from new business.
 - RNICE will not have the benefit of the following arrangements which were previously available to QIE in respect of the Transferring Portfolio:
 - The aggregate reinsurance contracts currently provided to QIE by TMR and ILS P&C Re.
 - The Custody Agreement and the Trust Agreement which currently provide collateral in respect of the aggregate reinsurance contracts underwritten by TMR and ILS P&C Re for the benefit of QIE.

However, in this context it should be understood that the above arrangements were put in place as part of the LPTA and there is no obligation for such arrangements to continue in the event that the LPTA were to be cancelled.

- 1.28 Subject to RNICE maintaining an appropriate investment policy that is consistent with that indicated by its Post-Scheme SCR calculations, based on the above analysis I consider that the security of the Transferring Policyholders is not materially adversely impacted by the Proposed Scheme.

Security of RNICE's current policyholders

- 1.29 As at 31 December 2016, the current policyholders of RNICE have policies with a small company whose level of shareholders' funds provides a security level in excess of the Solvency II required capital which in this case is the AMCR.

- 1.30 In light of the small size of RNICE's reserves, I consider that the SF SCR would understate the underlying capital requirement because the Standard Formula is calibrated in the context of larger more diversified entities. RNICE's SF SCR falls below the Absolute Minimum Capital Requirement ("AMCR") which the lowest prescribed amount of the Minimum Capital Requirement ("MCR") under Solvency II. I consider the AMCR as a more appropriate, albeit prudent, indication of security because this capital level would allow for the emergence of material unanticipated losses that could arise under remote scenarios and I have adopted this measure as my tailored SCR.
- 1.31 The risk profile of the current policyholders of RNICE will change following the Proposed Scheme. The current policyholders of RNICE will be exposed to material additional risks in respect of the Transferring Portfolio, including:
- The risk that the Technical Provisions in respect of the Transferring Portfolio will not be sufficient to cover the run-off of outstanding claims.
 - The risk that RNICE will be unable to reclaim outstanding deductible amounts from policyholders in respect of the Transferring Portfolio.
 - The risk that there will be significant adverse movements in the value of assets, including any currency exchange rate risk, to be transferred to RNICE in connection with the Proposed Scheme.
- 1.32 Against the assumption of additional risk, the current policyholders of RNICE will potentially benefit from:
- A significant increase in the tailored SCR Solvency Cover ratio from 114% to 157%.
 - A significant increase in the scale of RNICE's operations which means that the volatility that could arise from RNICE's current policyholders would be far less material to RNICE in the context of its capital resources.
- 1.33 In the event of insolvency, current RNICE policyholders would have access to the Financial Services Compensation Scheme ("FSCS") which provides cover for 100% of losses for compulsory policies and 90% of losses for non-compulsory insurances with no upper limit. There are 16 non-compulsory policies and 4,336 compulsory policies. As of 31 December 2016, RNICE had been advised of potential claims on 10 of the 4,336 compulsory policies and no active claims on the 16 non-compulsory policies.
- 1.34 Subject to RNICE maintaining an appropriate investment policy that is consistent with that indicated by its Post-Scheme SCR calculations, I consider that the security of the current policyholders of RNICE is not materially adversely impacted by the Proposed Scheme for the following reasons:
- RNICE's Solvency Cover ratio on the basis of my tailored capital assessment will increase substantially post-transfer.
 - RNICE's business will be substantially more diversified and the scale of its capital resources in excess of regulatory requirements and my tailored capital assessment will have increased significantly beyond the extent of expected claims from RNICE's current policyholders.
 - Post-transfer there is a significant increase in the scale of RNICE's available capital resources in excess of regulatory requirements.
 - The policyholders will continue to have access to the FSCS in the event of a failure.

Brexit

- 1.35 QBE EO has established a newly incorporated (re)insurer, QBE Europe SA/NV domiciled in Belgium. This entity is scheduled to underwrite 2019 renewals of EEA business. In the event that QIE is no longer able to rely on passporting rights in respect of pre-Brexit EEA policies, QIE is also undertaking a portfolio transfer of the majority of its European branch business to this new entity (“the QIE Brexit Portfolio Transfer”). I understand that the Transferring Policyholders are excluded from the QIE Brexit Portfolio Transfer, in light of an expectation that both the Proposed Scheme and the QIE Brexit Portfolio Transfer are expected to be sanctioned in Q4 2018.
- 1.36 I understand that RNICE intends to obtain any authorisation which may be necessary from the Italian and Spanish regulators in order to permit it to continue to service the Transferring Policies following Brexit. There is currently a lack of clarity as to the approach that will be taken in relation to UK authorised insurers in run-off whose sole activity will be the payment of claims under pre-existing policies covering risks in Spain or Italy. RNICE is taking legal advice from local counsel with the intention of ensuring that when the position becomes clearer, it can address any requirements of local law and regulation, including applying for any authorisation that may be required on a timely basis.
- 1.37 QIE and RNICE are both UK authorised insurance companies and are therefore in similar positions regarding Brexit in needing to take steps to ensure that they can continue to service EEA policyholders after Brexit in the event that authorised UK insurance firms are no longer permitted to service EEA pre-Brexit run-off policies originally written on a passporting basis without fulfilling additional requirements.
- 1.38 In light of the uncertainties affecting Brexit and the potential implications for the ability of UK insurers to service EEA pre-Brexit run-off policies originally written on a passporting basis, it is not possible to draw definitive conclusions as to the effect of Brexit on the Transferring Policyholders at this time.
- 1.39 As QIE and RNICE are both UK authorised insurance companies and the Transferring Policyholders are excluded from the scope of the QIE Brexit Portfolio Transfer, the impact of Brexit on the Transferring Policyholders is expected to be similar, whether the Proposed Scheme proceeds or not under the assumption that each of QIE and RNICE takes appropriate steps to minimise potential disruption to policyholders that could arise from Brexit. On this basis I conclude that at the current time the Proposed Scheme can reasonably be expected not to have a material adverse effect on the Transferring Policyholders because of Brexit.

Effect of QIE Brexit Portfolio Transfer on policyholder security

- 1.40 The QIE Brexit Portfolio Transfer could affect the security of:
- Transferring Policyholders if the Proposed Scheme is not sanctioned.
 - Policyholders remaining with QIE.
- 1.41 The financial projections in the Scheme Report do not explicitly consider the effect of the QIE Brexit Portfolio Transfer. However, on the basis that the QIE Brexit Portfolio Transfer takes place in a manner that does not materially disadvantage the main groups of the affected policyholders then I consider that it is reasonable to infer that the conclusions of the report will be unaffected with respect to policyholder security.

Other considerations

Other considerations: Overview

- 1.42 In the following paragraphs, I consider the potential effect of the Proposed Scheme on the arrangements for managing policies and claims, investment risk and expense levels in so far as these are expected to affect the security of policyholders' contractual rights and the levels of service provided to policyholders. My review of these matters is based on my consideration of the information provided to me and my team.
- 1.43 I understand from QIE that the Proposed Scheme will not cause any change in the management of policies and claims for policyholders remaining with QIE.
- 1.44 I understand from QIE and RNICE that the Proposed Scheme is not expected to cause any change in the management of policies and claims for Transferring Policyholders, as these policies will continue to be managed by ARM. The existing Claims Handling Agreement will be novated in its exact current form after the proposed transfer so no change to claims handling is expected to arise because of the Proposed Scheme.
- 1.45 I understand from RNICE that the Proposed Scheme is not expected to cause any change in the management of policies and claims for the current policyholders of RNICE.

Other considerations: Policyholders remaining with QIE

- 1.46 In respect of policyholders remaining with QIE, my view is that the Proposed Scheme is expected to have no effect on service levels, expense levels and the level of investment risk.

Other considerations: Transferring Policyholders

- 1.47 In respect of policyholders transferring from QIE to RNICE, my view is that the Proposed Scheme is expected to have no significant effect on service levels or expense levels.
- 1.48 There may be an increase in investment risk for the Transferring Policyholders, reflecting:
- The elimination of collateral arrangements related to the cancellation of the aggregate reinsurance contracts currently provided by TMR and ILS P&C Re to QIE in respect of the Transferring Portfolio.
 - The transfer of material funds to RNICE which will be exposed to potential future fluctuations in market value. This will depend on RNICE's prospective investment strategy.
- 1.49 Subject to RNICE maintaining an appropriate investment policy that is consistent with that indicated by its Post-Scheme SCR calculations, I consider that this possible increase in investment risk taken in the context of the expected capitalisation of RNICE after the Proposed Scheme does not change my conclusion that the security of this group of policyholders is not materially adversely impacted by the Proposed Scheme.

Other considerations: Current policyholders of RNICE

- 1.50 In respect of current policyholders of RNICE, my view is that the Proposed Scheme is expected to have no significant effect on service levels or expense levels.

- 1.51 As the Proposed Scheme envisages the elimination of collateral arrangements related to the aggregate reinsurance contracts currently provided by TMR and ILS P&C Re to QIE in respect of the Transferring Portfolio, there will be a transfer of material funds to RNICE. RNICE's asset portfolio will therefore be exposed to potential future fluctuations in market value to an increased extent, although this will depend on RNICE's prospective investment strategy. It is therefore reasonable to expect that there may be an increase in investment risk for the current policyholders of RNICE.
- 1.52 Subject to RNICE maintaining an appropriate investment policy that is consistent with that indicated by its Post-Scheme SCR calculations, I consider that this possible increase in investment risk taken in the context of the expected capitalisation of RNICE after the Proposed Scheme does not change my conclusion that the security of this group of policyholders is not materially adversely impacted by the Proposed Scheme.

Other considerations: Affected reinsurers

- 1.53 The Proposed Scheme includes the transfer from QIE to RNICE of entitlement to a small number of Facultative Reinsurance contracts which attach to the Transferring Portfolio. I am satisfied that the Proposed Scheme will not have any significant effect on the reinsurers whose contracts of reinsurance are to be transferred by the Proposed Scheme.
- 1.54 The Proposed Scheme includes the transfer from QIE to RNICE of entitlement to a small number of Facultative Reinsurance contracts which attach to the Transferring Portfolio. I am satisfied that the Proposed Scheme is not expected to have any financial effect on the single reinsurer whose contracts of reinsurance are to be transferred by the Proposed Scheme.

Proposed approach to communications with policyholders

- 1.55 The proposed approach to policyholder communication is described in Appendix D of the Scheme Report. I have been asked to comment on the appropriateness of the proposed approach to policyholder communication. My comments are set out in the following paragraphs.

Communication: Content of circular to policyholders

- 1.56 I consider that the draft circular to policyholders contains an appropriate summary of:
- The Proposed Scheme, including appropriate references to the further actions which will take place in combination with the Proposed Scheme, described in paragraph 1.14 of the Scheme Report
 - The conclusions of this Independent Expert report.

Communication: Policyholders remaining with QIE

- 1.57 It is proposed that policyholders remaining with QIE will not receive individual notification of the Proposed Scheme in view of QIE's limited exposure to the Transferring Portfolio which is currently 100% reinsured by a combination of TMR and ILS P&C Re, and the immaterial effect of the Proposed Scheme on the policyholders remaining with QIE. I understand that, given the large number of policyholders remaining with QIE, the cost of individual notification of each QIE policyholder would be substantial.

Communication: Transferring Policyholders

- 1.58 It is proposed that notification of the Proposed Scheme will only be sent to the Primary Named Insureds under each policy within the Transferring Portfolio, and that no notification will be sent to Named Additional Insureds and Unnamed Additional Insureds (these terms are defined in Appendix D of the Scheme Report).
- 1.59 I consider that this approach is appropriate, reasonable and proportionate, given that:
- The Primary Named Insured was responsible for purchasing the policies in each case.
 - All communications in relation to the policies are sent to the Primary Named Insured.
 - QIE does not have contact details for each Named Additional Insured or for any Unnamed Additional Insureds.
 - This approach is consistent with the basis under which the policies operate, with the central management of claims by the Primary Named Insured.
- 1.60 The Transferring Policyholders also include a small portfolio covering dentists and private practitioners in Italy that was written under a delegated authority through a coverholder. I understand that QIE has contact details for all insureds with open claims and is proposing to notify all such insureds and the coverholder. Contact details are unavailable for other policyholders without open claims. I consider that the proposed communication approach for these policies is appropriate, reasonable and proportionate.

Communication: Claimants in respect of the Transferring Portfolio

- 1.61 It is proposed that no notifications will be sent to claimants in respect of policies within the Transferring Portfolio.
- 1.62 I consider that this is reasonable because claimants are not policyholders and are therefore not entitled to payment under the terms of the policies. QIE has no contractual relationship with claimants. There are also difficulties in obtaining contact information for claimants, and there is a risk of increasing the liability of policyholders (who are liable for deductibles or SIRs) by making direct contact with claimants.

Communication: Current policyholders of RNICE

- 1.63 It is proposed that notification of the Proposed Scheme will be sent to all current policyholders of RNICE for whom RNICE has been able to obtain contact details. I consider that this approach is appropriate, reasonable and proportionate, based on my understanding that RNICE has undertaken a thorough review of its available records in order to identify its remaining policyholders. It is usually difficult to obtain up-to-date contact details for a run-off portfolio such as that represented by the current policyholders of RNICE.

Communication: Other interested parties

- 1.64 It is proposed that notification of the Proposed Scheme will be sent to:
- The co-insurers of two Italian policies
 - The single outwards reinsurer whose reinsurance policies are transferring.
- 1.65 Notifications of the scheme will not be sent to brokers who originally placed the business with QIE. I consider this reasonable because I understand that claims are handled directly through the Primary Named Assureds and the brokers are currently not involved in communications related to claims.

Change of Scheme Date

- 1.66 The financial projections of the effect of the Scheme were prepared on the basis of a planned Scheme Date of 30 September 2018. The Effective Date has since changed to 31 October 2018. If I were to update the calculations to the Effective Date, my conclusions related to the Proposed Scheme would remain unaltered. However, I note that the RNICE Post-Scheme Solvency Cover Ratios would be expected to increase because of the fixed date of 31 March 2018 used in the determination of the Capital Amount.

Change to QIE Internal Model

- 1.67 I have been informed that the QIE IM SCR as at 31 December 2016 was altered from £909 million, as stated in the analysis underlying the Scheme Report, to £883 million. I understand that the change related to reinsurance credit risk. The difference is a 2.9% reduction in the IM SCR for QIE. If I were to incorporate the updated IM SCR into my analysis of the Proposed Scheme, the Solvency Cover Ratios for QIE would be expected to increase slightly. However, this change would not affect my conclusions related to the Proposed Scheme.

Supplementary report

- 1.68 This Independent Expert report is based on financial information in respect of QIE, RNICE and the Transferring Portfolio as at 31 December 2016.
- 1.69 I expect to produce a supplementary report in due course, based on the financial positions of QIE, RNICE and the Transferring Portfolio as at an appropriate date, which will take into account actual developments between 1 January 2017 and that date. The appropriate date will be the latest quarter-end for which data is available to allow preparation of the supplementary report in time for the Sanction Hearing ahead of the proposed date of the transfer of 31 October 2018.
- 1.70 In addition to updated financial information, the supplementary report will also consider, amongst other things, updates on Brexit developments and confirmation of RNICE's prospective investment policy.

Duty to the Court

- 1.71 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court, I have complied with that duty and I will continue to do so.

Statement of truth

- 1.72 I confirm that insofar as the facts stated in my report are within my own knowledge I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.



John Charles
Independent Expert
Fellow of the Institute and Faculty of Actuaries

Towers Watson Limited
51 Lime Street
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EC3M 7DQ

4 July 2018

Phone: 0207 170 3075
Fax: 0207 170 2222

Appendix 3: Legal notice

IN THE HIGH COURT OF JUSTICE

CR – 2018- 004721

BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES

COMPANIES COURT (ChD)

IN THE MATTER OF

QBE INSURANCE (EUROPE) LIMITED

AND

IN THE MATTER OF

RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LIMITED

AND

IN THE MATTER OF

PART VII OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

TRANSFER OF INSURANCE BUSINESS

NOTICE IS HEREBY GIVEN that, by application dated 4 July 2018, QBE Insurance (Europe) Limited (the **Transferor**) and Reliance National Insurance Company (Europe) Limited (the **Transferee**) (together the **Applicants**), applied to the High Court of Justice of England and Wales for, amongst other things, an order under Section 111(1) of the Financial Services and Markets Act 2000 (the **Act**) sanctioning an insurance business transfer scheme (the **Scheme**) providing for the transfer of insurance business by the Transferor to the Transferee and for an order making provision under Section 112 of the Act.

The business included in the proposed transfer comprises medical malpractice insurance business covering risks in Italy or Spain and underwritten by the Transferor through its Italian or Spanish branches or from its head office in the United Kingdom.

If you are in any doubt as to whether your insurance policy is included in the proposed transfer please contact the parties at the contact details set out below.

Copies of a report on the terms of the Scheme prepared by an independent expert in accordance with section 109 of the Act (the **Scheme Report**) and copies of a statement setting out the terms of the Scheme and containing a summary of the Scheme Report may be obtained, free of charge, by contacting:

Transferor**United Kingdom**

Neil Sutton
QBE Insurance (Europe) Limited
Plantation Place,
30 Fenchurch Street,
London EC3M 3BD

Phone No: +44 (0)20 7105 4293
Email Address: neil.sutton@uk.qbe.com

Italy

Dina Suriano
Phone No: +39 2 3626 3568
Email Address: QBEMilan@it.qbe.com

Spain

Palma Padron Coig
Phone No: +34 9 1789 3966
Email Address: ppadron@es.qbe.com

Transferee

Reliance National Insurance Company
(Europe) Limited
20 Old Broad Street
London
EC2N 1DP

Ref: Docklow Part VII
Phone No: +44 (0)3332405712
Email Address: rnice@armourrisk.com

or may be downloaded from the following websites:

<http://www.armourholdings.com/client-resources/rnice-qie-part-vii/>
<https://qbeeurope.com/qie-rnice-part-vii-information/>
<https://qbeitalia.com/qie-rnice-parte-vii-informazioni/>
<https://qbeespana.com/qie-rnice-parte-vii-informacion/>

Anyone who has any concerns or objections regarding the proposed transfer or who requires any further information regarding the transfer may also contact Neil Sutton at the above address and reference or appear in Court or both.

The application will be heard on 29 October 2018 before a Judge of the Chancery Division of the High Court at The Rolls Building, 7 Rolls Buildings, Fetter Lane, London, EC4A 1NL, United Kingdom. The Act provides that any person (including an employee of the Transferor or the Transferee) who alleges that he or she would be adversely affected by the carrying out of the Scheme is entitled to:

1. make representations in writing;
2. appear at the hearing and make representations in person; or
3. instruct a barrister or solicitor advocate to appear at the hearing and make representations on his/her behalf.

If you intend to appear at the hearing in person, or to instruct someone to appear on your behalf, you are requested to give notice of your intention to do so in writing, setting out the reasons why you believe you may be adversely affected.

You are requested to send such notice, or if you are not intending to appear in person or by your legal representative, any written representations that you may have, to:

Bryan Cave Leighton Paisner LLP
Adelaide House, London Bridge
London, EC4R 9HA
(ref: MRGF/GQUI).

Please provide such notice or such written representations by close of business on 22 October 2018. If you do not give the requested notice you will still be entitled to attend the hearing and to instruct someone to appear on your behalf.

If the Scheme is sanctioned by the Court, it will result in the transfer of all the contracts, property, assets and liabilities of the Transferor within the scope of the Scheme to the Transferee, notwithstanding that a person would otherwise be entitled to:

1. terminate, modify, acquire or claim an interest or right; or
2. treat an interest or right as terminated or modified;

as a result of the transfer of business effected by the Scheme. Any such entitlement will only be enforceable to the extent the order of the Court makes provision to that effect.

Bryan Cave Leighton Paisner LLP, Adelaide House, London Bridge, London, EC4R 9HA
Solicitors to the Applicants.