Proposed Part VII Insurance Business Transfers relating to:

QBE Insurance (Europe) Limited
QBE Re (Europe) Limited
and
QBE Europe SA/NV

Report of the Independent Expert

17 August 2018

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Key acronyms and definitions

This Report contains various acronyms, shorthand names for companies and technical terms. To aid readability, these are defined in a consolidated glossary in Appendix 9. Where used, the first letter has been capitalised. The bold items below are key items from the glossary that I have used in Section A of this Report.

Companies	**QBE Limited**	QBE Insurance Group Limited, ultimate owner of all of the companies within the **QBE Group**; including QBE EO, QIEL, QBE Re and QBE Europe.
	QBE EO	QBE European Operations plc, a wholly-owned subsidiary of QBE Limited. A UK-regulated insurance holding company. QBE EO and all of its wholly-owned subsidiaries make up the QBE EO Group.
	QBE EO Staff	Employees of QIEL, QBE Re, QMIL and QMSUK acting on behalf of QBE EO.
	QIEL	QBE Insurance (Europe) Limited, a wholly-owned subsidiary of QBE EO. Following the **QIEL Transfer**, it will be renamed QBE Insurance (UK) Limited. It is a UK-regulated non-life insurance company. Where I am comparing QIEL's position before and after the Transfers, QIEL refers to its state before the QIEL Transfer and **QBE UK** its state afterwards.
	QBE Re	QBE Re (Europe) Limited, a wholly-owned subsidiary of QBE EO. The QBE Re Transfer will accompany the Cross-Border Merger of QBE Re into QBE Europe. A UK-regulated life and non-life reinsurance company.
	QBE Europe	QBE Europe SA/NV, the **Transferee** and a wholly-owned subsidiary of QBE EO. A Belgian-domiciled and regulated non-life insurance and life and non-life reinsurance company.
	QBE UK	This abbreviation refers to QIEL post-Transfers.
	QSCC	QBE Strategic Capital Company Pty Limited, the central treasury entity for the QBE Group. An Australian-domiciled company. QBE EO has a £175 million Contingent Capital Facility from QSCC to enable QBE EO to restore its capital and thereby ensure that QIEL, QBE Re and QBE Europe are able to meet the Capital Appetite Framework requirements.
	Equator Re	Equator Reinsurances Limited (Bermuda), QBE Group's captive reinsurer, providing reinsurance protection to all divisions within the QBE Group in conjunction with other external reinsurance programs. A reinsurer domiciled in Bermuda.
	QMSUK	QBE Management Services (UK) Limited, a wholly-owned subsidiary of QBE EO. A UK-domiciled service company.
	QMIL	QBE Management (Ireland) Limited, a wholly-owned subsidiary of QBE EO. An Ireland-domiciled service company.
Legal, regulatory and Pt. VII Transfer Terms	**Brexit**	The departure of the UK from the European Union; or the date of departure.
	Court	The High Court of Justice of England and Wales, which is responsible for approving the Transfers.
	Cross-Border Merger	The cross-border merger by absorption in accordance with the Companies (Cross-Border Mergers) Regulations 2007 (SI 2007/2974) and other laws of QBE Re into QBE Europe.
	European Business	Business currently written by QIEL in EEA States on either a Freedom of Services basis or via an EEA branch operating on a Freedom of Establishment basis.
	FCA and **PRA**	The two insurance regulators in the UK (the Financial Conduct Authority and the Prudential Regulation Authority). Both are consulted prior to the Transfers going ahead. References to **SUP18** and the **SoP** are references to regulatory guidance that set out respectively the expectations of each regulator for the Report.
	Freedom of Services	In the context of insurance business, the permission for a firm authorised in one EEA state to underwrite insurance business anywhere within the EEA as if they were an authorised firm in the EEA state where the risk in underwritten.
	Freedom of Establishment	In the context of insurance business, the permission for a firm authorised in one EEA state to establish a branch office in any other state within the EEA to underwrite insurance business while remaining supervised by the prudential regulator of its home state.
	FSMA 2000	The UK legislation enabling the Transfers to take place. Its full name is the Financial Services and Markets Act 2000. Part VII of FSMA relates to insurance business transfers, commonly referred to as **Part VII Transfers.**

Legal, regulatory, Pt. VII contd.	**Report** and **Supplemental Report**	The report of the **Independent Expert** prepared for the Court in accordance with FSMA 2000 setting out the effect of the Transfers on policyholders affected by it. The Supplemental Report will be prepared for the Court shortly before it is asked to approve the Transfers. This is to update the Court on any significant matters arising since the Report was prepared.
	Transfers	Together, the QIEL Transfer and the QBE Re Transfer. These are set out in the **Scheme** submitted to the **Court**. These will take place on the **Transfer Date**, expected to be 31 December 2018.
	QIEL Transfer	The transfer of certain assets and liabilities of QIEL into QBE Europe.
	QBE Re Transfer	The transfer of all of the assets and liabilities of QBE Re into QBE Europe.
Policyholder groupings	**Affected Policyholders**	These comprise the **Remaining Policyholders**, the **Transferring QIEL Policyholders** and the **Transferring QBE Re Policyholders**.
	Excluded QIEL Policies	Policies of Policyholders that fall within the definition of the Transferring QIEL Policyholders but that QIEL and QBE Europe agree should be excluded from the QIEL Transfer.
	Remaining Policyholders	The policyholders of QIEL who will remain with QIEL following the Transfers. It includes policyholders of the Excluded QIEL Policies.
	Transferring QIEL Policyholders	The policyholders of QIEL who will transfer to QBE Europe under the QIEL Transfer. Essentially these will be the policyholders whose policy was written by an EEA branch of QIEL.
	Transferring QBE Re Policyholders	The policyholders of QBE Re who will transfer to QBE Europe under the QBE Re Transfer, ie all of the policyholders of QBE Re.
Other Insurance Terminology	**CAF** or **Capital Appetite Framework**	A statement by the Board of QBE EO setting out the target level and minimum threshold level of capital of all of QBE EO, QIEL, QBE Re and QBE Europe. It guides the Board of QBE EO in determining dividend levels and when steps need to be taken to restore the financial position of each company.
	CCR or **Capital Cover Ratio**	A quantitative measure of financial strength used in this Report, formally: $$Capital\ cover\ ratio\ \% = \frac{financial\ resources}{capital\ requirements}$$ EOFs are normally used for measuring financial resources; and SCR for capital requirements.
	Coverholder Business	Business written by coverholders of QIEL under delegated underwriting authority agreements.
	EOF or **Eligible Own Funds**	This is the surplus of assets over liabilities as determined under Solvency II. There are limits on the proportion of the SCR that can be met by certain types of Eligible Own Funds.
	GAAP	Generally Accepted Accounting Principles. Statutory Financial Statements are prepared using GAAP.
	GWP	Gross written premium.
	SCR or **Solvency Capital Requirement**	The regulatory capital requirement for a firm under Solvency II. Most firms use the prescribed **Standard Formula SCR** to determine their SCR. QBE EO, QIEL, QBE UK, QBE Re and QBE Europe, use their sophisticated risk modelling capabilities in the **QBE EO Internal Model** to determine an **Indicative Internal Model SCR** at a given point in time. At the time of writing, only QBE EO, QIEL and QBE Re have approval from the PRA to use its results to determine their SCR, referred to as an **Approved Internal Model SCR**.
	Technical Provisions	These are essentially the amounts set aside by insurance companies, at a given date, to pay for all potential future cash-flows that would be incurred in meeting liabilities to policyholders from existing insurance and reinsurance contracts. The principles which are followed to calculate these provisions will differ depending on their purpose e.g. regulatory (Solvency II) or annual accounts reporting (GAAP). In this report, used interchangeably with **Reserves**.
	Comparative terms	I use the term **remote** to describe terms that I believe are sufficiently unlikely so as to be immaterial to my conclusions. This is discussed in greater detail in Section 6.

All amounts in this Report have been converted to Sterling at £1 = €1.13 = US$1.35 = A$1.73

Contents

A. Introduction and Executive Summary

1. Introduction

1.1. Background

1.1.1. This Report covers the proposed Part VII Insurance Business Transfers relating to QBE Insurance (Europe) Limited, QBE Re (Europe) Limited and QBE Europe SA/NV. The project was initiated by QBE EO in response to the uncertainty created by Brexit in relation to the legality of continuing to carry on writing and servicing (re)insurance contracts for EEA-based policyholders after the UK leaves the EU.

1.1.2. On 29 March 2017, the UK Government informed the Council of the European Union that it intended to leave the European Union. Under Article 50 of the Lisbon Treaty, the UK will leave the European Union on the first to occur of: (a) the date of entry into force of any withdrawal agreement negotiated between the UK and the European Union; and (b) 29 March 2019. Currently the UK and the European Union are negotiating the terms on which the UK's exit will take place and the nature of the ongoing relationship between them, including the way in which trade will operate. An in-principle agreement regarding the terms and time-frame of a transition period was reached on 19 March 2018. This agreement envisages a continuation of the existing trading arrangements and will run from 29 March 2019 to 31 December 2020.

1.1.3. Unless an agreement is put in place to maintain the current trading arrangements that cover (re)insurance business following the end of the transition period, UK-domiciled (re)insurance companies that write (re)insurance contracts throughout the EEA will no longer be able to do so using their current Freedom of Services and/or Freedom of Establishment permissions. These permissions allow firms to write and administer (re)insurance contracts throughout the EEA as if they were a locally established (re)insurance firm (Freedom of Services) or to establish a branch office anywhere in the EEA that can carry out these functions (Freedom of Establishment).

1.1.4. At the time of writing my Report, no final agreement has been reached between the UK and the European Union regarding the future trading arrangements between the UK and EU regarding the issuing and administration of insurance business post-Brexit and the transition period.

1.1.5. In the absence of a final agreement, I have been told by QBE EO Staff that it may not be legal for UK-domiciled (re)insurance companies to administer policies and settle claims in many of the EEA states in which it operates. This is because these are activities that require a firm to have prior supervisory authorisation. As a result, there is a risk that there will be disruption to the services provided to many of the Transferring Policyholders.

1.2. Purpose of the Scheme

1.2.1. To avoid the risk of disruption to its business and to provide certainty to its policyholders, QBE EO intends to reorganise two of its UK (re)insurance companies, QIEL and QBE Re. This will enable QBE EO to continue to service its European (re)insurance clients and underwrite new business for them even if the current Freedom of Services and Freedom of Establishment permissions cease to apply to UK-domiciled (re)insurance companies following Brexit.

1.2.2. The method chosen by QBE EO to reorganise its business is to establish a new insurance and reinsurance company, QBE Europe, in Belgium. It will then carry out two Part VII Transfers and a Cross-Border Merger:

- The first Part VII Transfer will move the entirety^ of the business of QIEL's EEA branches to QBE Europe.
- Simultaneously, the second Part VII Transfer will move all of the business of QBE Re to QBE Europe.
- The Cross-Border Merger will follow immediately after the second Part VII Transfer and merge QBE Re into QBE Europe. This avoids QBE EO having to liquidate QBE Re.

QBE EO currently intends for QIEL to continue to service its business written pre-Transfers in EEA countries on a Freedom of Services basis in the period prior to the expiry of the agreed transition period.

1.2.3. After these steps, there will be two (re)insurers carrying on the business of QIEL and QBE Re:

- QBE UK, which will continue the UK-domiciled and non-EEA business of QIEL and the run-off of business written in EEA countries on a Freedom of Services basis in the period prior to the expiry of the agreed transition period; and
- QBE Europe, which will underwrite all of the EEA-domiciled business formerly of QIEL, administer policies and settle claims for all of the former EEA branches of QIEL and carry out all of the reinsurance business formerly of QBE Re.

1.2.4. In connection with the QIEL Transfer, an amount of the order of £170 million of Eligible Own Funds will transfer from QIEL to QBE Europe and all of the Eligible Own Funds of QBE Re, expected to be of the order of £501 million, will transfer from QBE Re to QBE Europe. The exact amounts will be determined close to the Transfer Date.

1.2.5. Immediately prior to the Transfers, QBE Europe will issue equity/subordinated debt to QBE EO in return for cash and high-quality debt securities in order to increase its Eligible Own Funds to ensure that it has sufficient financial resources to comply with the Capital Appetite Framework post-Transfers. The amount of Eligible Own Funds injected will depend upon whether both Transfers proceed as intended, or if it is only possible for one of them to go ahead. The Eligible Own Funds are presently intended to be cash and high-quality debt securities.

1.2.6. The purpose of the Scheme is to request that the Court uses its powers under FSMA 2000 to bring into effect the two Transfers. Under FSMA 2000, QBE EO must obtain a report prepared for the Court by an independent expert, which comments on the effects of the Scheme.

1.3. Independent Expert

1.3.1. I, Alex Marcuson, have been appointed by QIEL, QBE Re and QBE Europe to act as the Independent Expert for the Transfers. This role, established under Part VII of FSMA 2000 (along with supporting regulations), is described in the PRA's SoP and SUP18 of the FCA's Handbook. The PRA (in consultation with the FCA) approved my appointment on 30 August 2017. A copy of relevant sections from my letter of engagement appointing me to act in this role is included in Appendix 1.

1.3.2. I am the Managing Director of Marcuson Consulting Ltd, a specialist non-life actuarial consulting firm. I am a Fellow of the Institute and Faculty of Actuaries with over twenty years of experience advising non-life insurers and reinsurers. I have experience in loss reserving and capital modelling for non-life (re)insurance companies and have previously acted as an independent expert and advised a number of firms carrying out Part VII transfers. A copy of my curriculum vitae is included in Appendix 4.

^ This symbol is used in this Section A to indicate immaterial exceptions that are set out later in this Report.

1.3.3. To carry out this role, I am required to be able to act independently in performing a review of the Transfers. I believe I can do so for the following reasons:

- Neither I nor Marcuson Consulting Ltd has any direct shareholding or have identified any other direct financial interest in or relationship with any entity within the QBE Group.
- Neither I nor Marcuson Consulting Ltd has any insurance policy with any entity within the QBE Group.
- Subject to the paragraph below, none of the members of the team who have assisted me in performing my review (including carrying out peer review of my work) have any shareholding or other direct financial interest in or relationship with or any insurance policy with any entity within the QBE Group.
- While my peer reviewer has a minority participation in a limited liability Lloyd's underwriting vehicle which provides underwriting capacity to a Syndicate managed by QBE Underwriting Limited (Syndicate 386), he has no financial interest in the QBE Group. As no aspect of the QBE Lloyd's operation is part of the Transfers, I have no reason to believe that his independence is impaired.
- I am not aware of any other conflicts of interest that might impair my ability to act.

1.3.4. Marcuson Consulting Ltd has not previously undertaken any work for QIEL, QBE Re, QBE Europe or any other entity within the QBE Group.

1.3.5. My review has been carried out between October 2017 and August 2018, making use of data available to me during these dates. My fees incurred in the preparation of this Report are payable by QBE Management Services (UK) Limited, a wholly owned subsidiary of QBE EO.

1.3.6. I anticipate preparing a Supplemental Report close to the Transfer Date that updates the Court on information arising since I finalised this Report and confirming my conclusions.

1.4. Role

1.4.1. My role as Independent Expert is to review the terms of the Scheme and produce this Report for the Court describing its effects. In doing so, I am required to consider the financial and non-financial effects of the Transfers on the Affected Policyholders, and the effects of the Transfers on the Reinsurers of the Transferring QIEL Policyholders and of the Transferring QBE Re Policyholders. The Affected Policyholders can be sub-divided amongst:

- the Transferring QIEL Policyholders;
- the Transferring QBE Re Policyholders; and
- the Remaining Policyholders.

1.4.2. As a newly established and authorised (re)insurer, there will be no policyholders of QBE Europe prior to the Transfers. There are not expected to be any policyholders remaining in QBE Re following the QBE Re Transfer, although the Scheme caters for this possibility (these will then transfer to QBE Europe pursuant to the Cross-Border Merger). Therefore, except where I have stated otherwise, the term Remaining Policyholders refers only to those remaining in QIEL.

1.5. Structure of the Report

1.5.1. This Report contains the following sections:

Section A: Introduction and Executive Summary	
1.	Introduction
2.	Executive Summary

Section B: Overview of the Transfers		
	3.	Description of the Transfers and the Transferring Policyholders
	4.	Description of the Companies
	5.	QBE EO Group Perspective
	6.	Approach – additional description
Section C: Detailed Review – Financial effects		
	7.	Introduction
	8 – 9.	Review of company Technical Provisions and Balance Sheets
	10 – 14.	Qualitative and quantitative risk and capital analysis
	15.	Analysis of scenarios where only one of the Transfers is approved
	16.	Summary of financial position of the Affected Policyholders
Section D: Detailed Review – Non-financial effects, notification and publicity		
	17.	Non-financial aspects of the Transfers
	18.	Notifications and publicity arrangements
Section E: Appendices		

1.5.2. The Report should be considered in its entirety as parts taken out of context could be misleading.

1.6. Purpose and use of the Report

1.6.1. This Report has been prepared to set out my findings in respect of the Transfers to the Court following the guidance set out in the SoP and SUP18. It should not be used for any other purpose, for any other insurance business transfer or in any other legal forum.

1.6.2. Marcuson Consulting Ltd and I do not owe or accept any duty to any party other than the Court or to any party seeking to use the Report for any purpose other than in connection with the Transfers. We shall not be liable for any loss, damage or expense (including interest) of whatever nature that is caused by any party choosing to rely on this Report for any other purpose.

1.7. Compliance with SoP, SUP18 and UK Actuarial Standards

1.7.1. This Report has been prepared in line with the relevant regulations and guidance of the PRA and FCA.

1.7.2. This Report has been prepared in compliance with the FRC's Framework for FRC Technical Actuarial Standards and relevant Technical Actuarial Standards (TAS 100 and TAS 200) together with the relevant Actuarial Profession Standard of the IFoA (APS X2: Review of Actuarial Work).

1.7.3. The PRA (in consultation with the FCA) has approved the form of this Report in the context of the Transfers.

1.8. Reliances

1.8.1. In preparing this Report I have been assisted in performing the analysis by my colleagues at Marcuson Consulting Ltd. Where I refer to work that I have carried out, this may have been performed by members of the team working under my supervision. The conclusions and opinions expressed in this Report are however my own.

1.8.2. There is a small portfolio of life reinsurance business that is subject to the QBE Re Transfer. I have sought assistance from an actuary specialising in life insurance in forming my conclusions as this field falls outside my core area of expertise and I have placed reliance upon her analysis and conclusions.

1.8.3. I have also relied upon legal advice from QBE external lawyers regarding the following matters. In both cases the lawyers confirmed that I can place reliance upon it.

- Application of the Financial Ombudsman Service to Transferring Policyholders; and
- Ranking of insurance and reinsurance creditors under Belgian Law.

1.8.4. I have relied upon the data, reports and other information provided to me by QBE EO staff. A list of this information is contained in Appendix 3. QBE EO Staff have checked the information contained in this Report for factual accuracy and confirmed the accuracy of the data and other information provided to me. I have relied upon the confirmation to the Court of this in the Witness Statement.

1.8.5. Although I have not sought to verify independently each item of data, I have sought to perform reasonableness checks on the material received so as to satisfy myself that I could rely upon it for the purposes of reaching the conclusions in this Report. Where necessary I have sought clarification from QBE EO Staff. Where possible, this has included reconciling information to audited financial information.

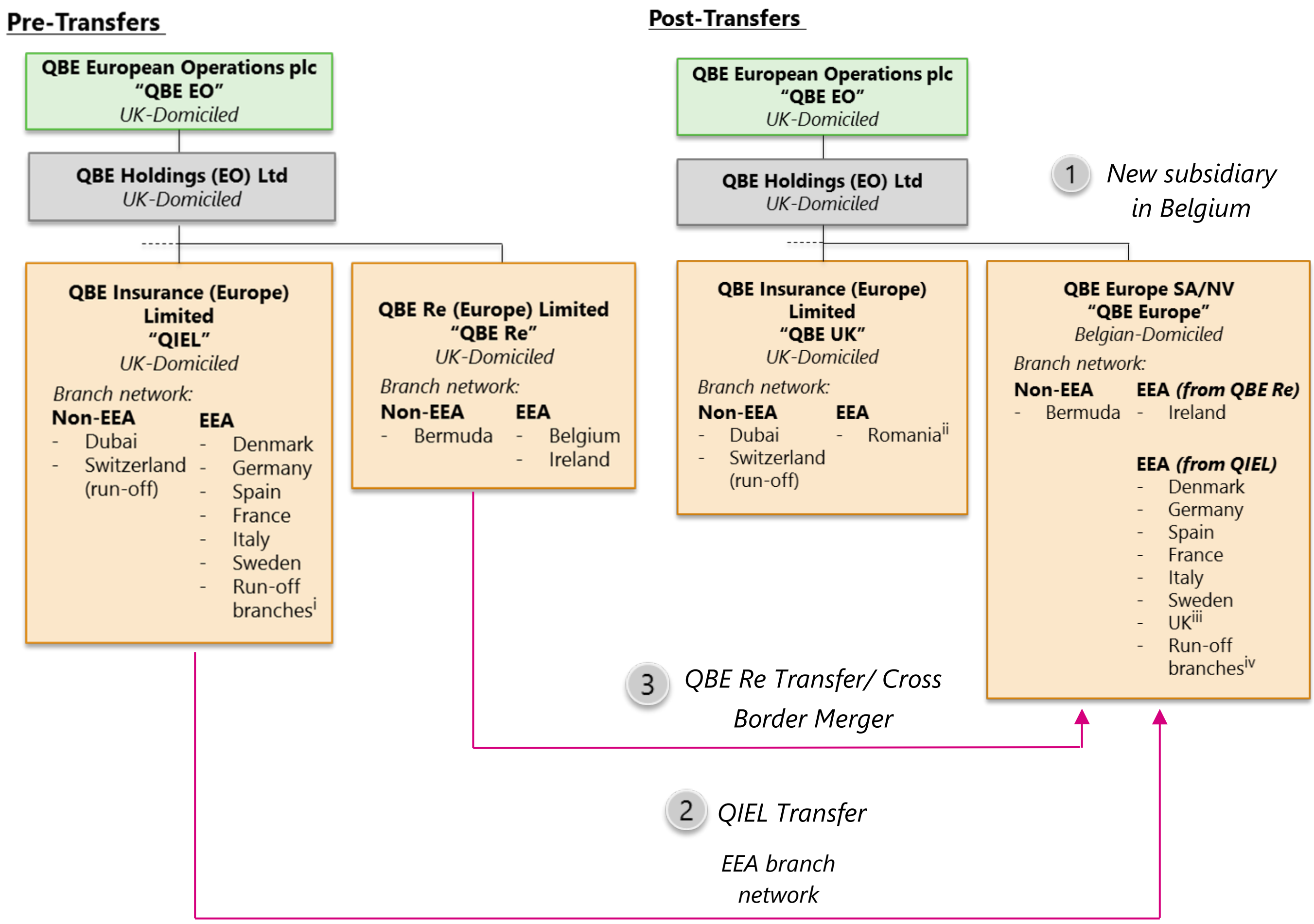
2. Executive Summary

2.1. Overview of the Scheme, Transfers and Cross-Border Merger

2.1.1. The Scheme is an internal reorganisation within the QBE Group of part of its European (re)insurance operations, all of which are wholly owned subsidiaries of QBE EO. QBE Group is one of the twenty largest global non-life insurance and reinsurance groups in the world, with shareholders' equity of approximately £6.6 billion and an Insurer Financial Strength Ratings from Standard & Poor's of A+/Stable. QBE EO has Solvency II net assets of approximately £1.7 billion and all of its (re)insurance subsidiaries have Insurer Financial Strength Ratings of A+/Stable from Standard & Poor's. The Transfers bring about no change to the position at a consolidated level of either QBE Group or QBE EO.

2.1.2. Figure 1 is a schematic diagram setting out the components of the Scheme, Transfers and Cross-Border Merger.

Figure 1 - Schematic summary of the Transfers



(i) QIEL's EEA run-off branches are located in Belgium, Bulgaria, Estonia, Ireland, Norway and Romania.

(ii) Romanian branch expected to be closed before Brexit.

(iii) Post-Brexit arrangements for UK branch subject to PRA guidance.

(iv) As (i) but excludes Romania (see (ii)) and Ireland, which will be serviced by the Irish branch of QBE Europe.

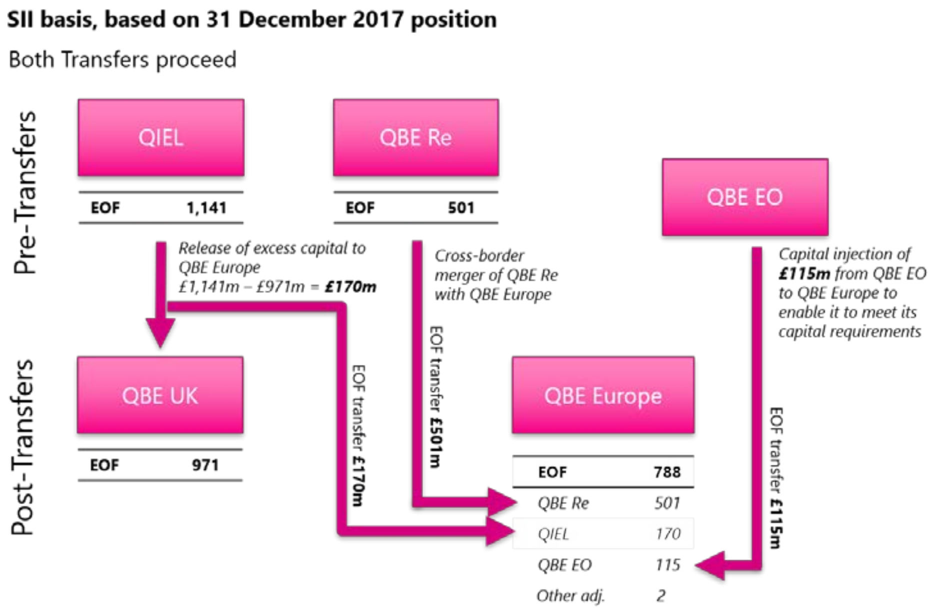
2.1.3. **(1) New subsidiary in Belgium:** QBE Europe was incorporated on 12 February 2018 as a Belgian-domiciled public limited company (*Société Anonyme/Naamloze Vennootschap*). On 22 May 2018, it received authorisation from the NBB to underwrite classes 1 – 17 non-life insurance business, and both life and non-life reinsurance.

2.1.4. **(2) QIEL Transfer:** This will move all of QIEL's business written: (a) by QIEL's branches operating on a Freedom of Establishment basis in Denmark, France, Germany, Italy, Spain and Sweden to corresponding new branches that will operate on a Freedom of Establishment basis in the same EEA states; and (b) its run-off branches in Belgium, Bulgaria, Estonia, Ireland and Norway, from QIEL to be serviced by QBE Europe on a Freedom of Services basis (other than those in Belgium and Ireland).

2.1.5. **(3) QBE Re Transfer / Cross-Border Merger:** This will move all of QBE Re's business to QBE Europe. Business written by QBE Re's branch in Belgium will be underwritten and serviced by QBE Europe's head office in Belgium. QBE Re's business written by its branches in Ireland and Bermuda will transfer to new branches of QBE Europe operating in the same countries. The Cross-Border Merger will transfer QBE Re's remaining assets and liabilities, including any policies that could not be moved under the QBE Re Transfer.

2.1.6. Both of the Transfers will move the assets and liabilities associated with the Transferring Policies. At the same time, additional Eligible Own Funds will be extracted from QIEL and injected (via QBE EO Group companies) into QBE Europe, and injected into QBE Europe from QBE EO, to enable QIEL and QBE Europe to comply with the Capital Appetite Framework. Figure 2 shows the sources of Eligible Own Funds for QBE Europe assuming both Transfers proceed. The amounts shown are to indicate the order of magnitude of the movements required and reflect the expectation that initially QBE Europe will use the Standard Formula SCR. QBE EO Staff will calculate the actual amounts closer to the Transfer Date and I will note and comment on them in my Supplemental Report.[2]

Figure 2 - Eligible Own Funds flow (£m) - both Transfers proceed (post-2018 dividend payments)



[2] Note that of the indicated amounts shown here and elsewhere in the Report, QBE EO has already provided initial equity capital of €3.7 million, the minimum MCR requirement, to QBE Europe.

2.1.7. The Transfers are not conditional upon one-another. This means that either of the Transfers can be approved without the other. In this event, the requirement for and source of Eligible Own Funds for QBE Europe will differ. This is shown in Figures 3 and 4.

Figure 3 - Source of QBE Europe Eligible Own Funds (£m) - Only QIEL Transfer proceeds (post-2018 dividend payments)

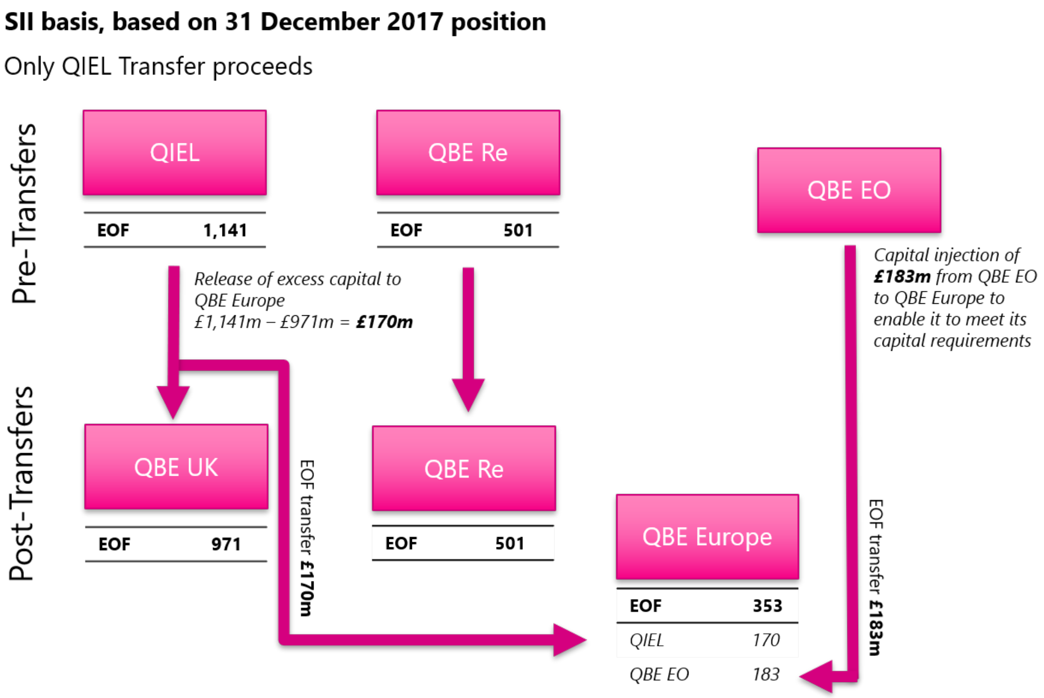
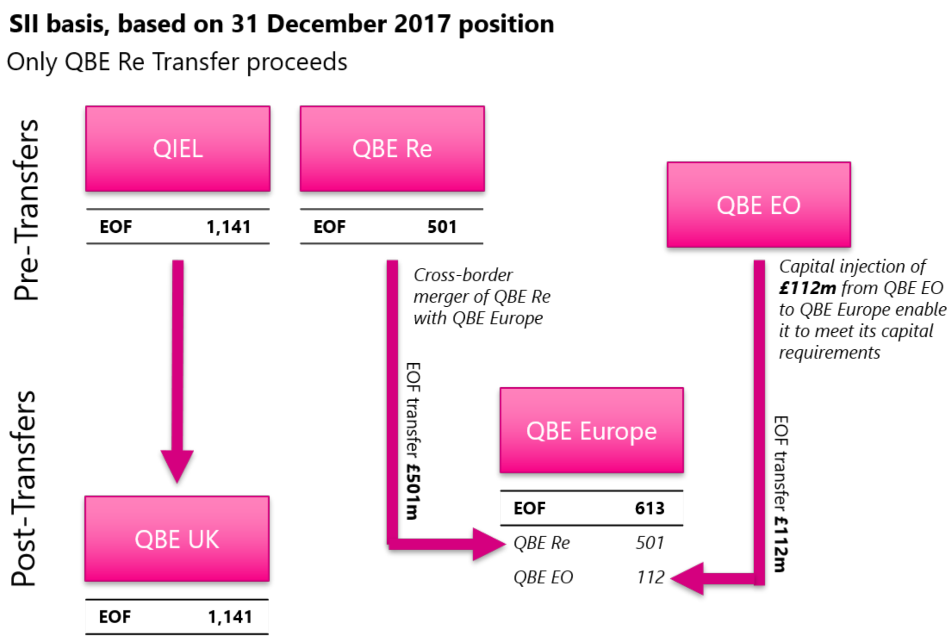


Figure 4 - Source of QBE Europe Eligible Own Funds (£m) - Only QBE Re Transfer proceeds (post-2018 dividend payments)



2.1.8. QBE EO Staff have told me that whilst there are no alternative plans in place in respect of historic business if either or both of the Transfers do not proceed, the present intention is that European Business (both new and renewal) will be underwritten by QBE Europe from the Transfer Date.

2.2. Description of QIEL and QBE Re business

2.2.1. The business of QIEL comprises:

- UK-domiciled business underwritten from the UK targeting large and middle-market corporates. Core product-lines include property, casualty, motor and financial and specialty lines.
- Cross-border business written from the UK under QIEL's Freedom of Services rights, covering the same core product-lines as referred to above. This business will not transfer to QBE Europe under the QIEL Transfer, but from the Transfer Date, all future underwriting of this business will be carried out by QBE Europe. In the period prior to the expiry of the agreed transition period, QBE UK will handle the administration and claims handling of all of the business underwritten on or before the Transfer Date. As at 31 December 2017, the net Technical Provisions associated with this Freedom of Services business have been estimated by QIEL to be £186 million (6.8% of the total for QIEL); the 2017 gross written premium was £148 million (11% of the total for QIEL).
- Business underwritten by the EEA branch network of QIEL under its Freedom of Establishment rights. This business targets large and middle market corporates. Core product-lines include property, casualty, motor and financial and specialty lines.
- Business underwritten by the Dubai and Swiss branches of QIEL (the Swiss branch is currently in run-off).

2.2.2. The business of QBE Re comprises:

- Business written through its Belgian branch under its Freedom of Establishment rights and consisting of:
    - o Short-tail proportional (fire and motor) and non-proportional (risk excess of loss, catastrophe excess of loss, stop loss and aggregate excess of loss) business, focused on continental Europe.
    - o Long-tail proportional business typically written in continental Europe as part of a global QBE Group relationship with a client; and non-proportional business predominantly focused on third-party motor and general liability business and written in Belgium, France and the Netherlands.
    - o Credit and transport business focused on continental Europe.
    - o Life (mortality and morbidity) and accident business, including personal accident and workers' compensation. Core markets are in continental Europe and Latin America.
- Business written through its Irish branch under its Freedom of Establishment rights and consisting of international property (catastrophe and pro rata treaty business outside the USA) and casualty (largely Japanese credit and surety, but also including Latin American and worldwide multi-line casualty treaties).
- Business written through its Bermudan branch and consisting of:
    - o International property risk and catastrophe excess of loss business outside the USA and Canada.
    - o North American property (mostly catastrophe) excess of loss.
    - o USA casualty treaty – mostly quota-share reinsurances of motor portfolios.

2.3. Scope of Report and Approach

2.3.1. The scope of this Report is to consider and set out my findings on the following four matters:

- The financial impact of the Transfers on the Affected Policyholders;

- The non-financial impact of the Transfers on the Affected Policyholders;
- The impact of the Transfers on the Reinsurers of QIEL and QBE Re;
- The approach adopted by QBE EO to notifying Affected Policyholders of the Scheme and its proposed publicity arrangements.

2.3.2. To assess the financial impact of the Transfers on the Affected Policyholders, I have:

- Reviewed the process for determining, and the amount of, the Technical Provisions of QIEL and QBE Re as these are typically the largest items and sources of, the most uncertainty on a (re)insurer's balance sheet.
- Reviewed the process for, and results of, splitting the Technical Provisions of QIEL between QBE UK and QBE Europe.
- Reviewed the actual and/or projected balance sheets of QIEL, QBE UK, QBE Re and QBE Europe. This seeks to understand the financial resources of each company and identify the risks present on the balance sheet.
- Considered the reported position of other related companies to understand the implicit and explicit financial resources and liquidity available to support QIEL, QBE UK, QBE Re and QBE Europe. For the Transfers, the companies of interest to me are: QBE EO, QBE Limited, Equator Re and QSCC.
- Reviewed the QBE EO Internal Model to determine the reliability of required capital resulting from the QBE EO Internal Model. This comprised a review of model documentation and results, as well as performing sensitivity, scenario and reverse stress tests on the model.
- Compared the risks, capital requirements and available financial resources of each of QIEL, QBE UK, QBE Re and QBE Europe. I used results from the Standard Formula SCR, the Approved Internal Model SCR and the Indicative Internal Model SCR for each company. This review is to (i) confirm that QBE UK and QBE Europe will hold sufficient financial resources to exceed their regulatory capital requirements; and (ii) compare the financial strength of QIEL, QBE UK, QBE Re and QBE Europe to identify whether any of the Affected Policyholders are in a company post-Transfers with a materially lower Capital Cover Ratio than their existing position, which would thereby increase the probability of insolvency.

2.3.3. To review the non-financial impact of the Transfers on the Affected Policyholders I have looked at how the Transfers will affect matters including differences in the way in which the companies are managed, policies are administered, and changes in the legal and regulatory protections provided to policyholders. I have also looked at the governing law of each of the policies of the Transferring Policyholders and whether there is a risk that the Transfers and Cross-Border Merger may not be recognised under it.

2.3.4. To review the impact on Reinsurers of QIEL and QBE Re, I have considered how the Scheme treats reinsurance policies, and whether differences between the companies before and after the Transfers could affect the level of claims arising under reinsurance policies being transferred.

2.3.5. To review notification and publicity arrangements I have considered whether the proposed communications strategy for the scheme is appropriate for the policyholders and give my opinion on any waivers from the requirements of FSMA 2000 being sought.

2.3.6. While the Transfers have been initiated due to uncertainty over Brexit, when weighing up the effect of the Transfers on the Affected Policyholders, I have set aside the risk of a "cliff-edge" outcome. This would result in UK-domiciled (re)insurers being unable to administer EEA policies or settle EEA claims following Brexit. The reasons for setting this issue to one side are that:

- There is a possibility that an agreement will be reached between the EU and the UK in advance of the UK leaving the EU that eliminates these cliff-edge issues.
- Were I to include such arguments, it might be possible to support quite disadvantageous arrangements for EEA policyholders on the grounds that this would be preferable to non-payment of a legitimate claim.
- QBE EO has not sought to take advantage of this potential cliff-edge risk in the Transfers.

2.4. Conclusions – Financial Impact of the Transfers on Affected Policyholders

2.4.1. I have concluded that the methodology and level of Technical Provisions for QIEL and QBE Re is appropriate in the context of the Transfers. This is based on a detailed review of the internal and external actuarial reserving reports, as well as my own high-level independent testing of a sample of the Reserves of each company. (See Section 8.)

2.4.2. I have concluded that the process for, and results of, splitting the Technical Provisions of QIEL between QBE UK and QBE Europe are appropriate. As Technical Provisions are already calculated separately by branch, this is a straightforward exercise to perform.

2.4.3. I have concluded that it is appropriate to use the balance sheets prepared by QBE EO Staff for QIEL, QBE UK, QBE Re and QBE Europe without requiring any material adjustments. To do this I reviewed each of the main items on the balance sheets both pre- and post-Transfers and sought clarification from QBE EO Staff where necessary. (See Section 9.)

2.4.4. The Transfers are in essence an internal reorganisation within the QBE Group, and within the wholly-owned subsidiary European group owned by QBE EO. QBE Group and QBE EO both have 100% ownership of QIEL, QBE Re, QBE UK and QBE Europe. As a result, they each have a clear strategic commercial rationale for supporting all of the companies and restoring their financial strength in the event that they experience losses.

2.4.5. QIEL, QBE Re, QBE UK and QBE Europe all benefit from the Capital Appetite Framework in which the QBE EO Board commits to restore their financial strength to what I consider to be an appropriate level. This position is unchanged by the Transfers. QBE EO's ability to provide this support is backed-up by:

- Its own excess capital.
- The £175 million Contingent Capital Facility (in the region of 20%-30% of the SCR of each of QBE UK and QBE Europe) from QSCC. This can be accessed by QBE EO, if it has insufficient excess capital to support its subsidiaries. QSCC is the QBE Group's central treasury entity with approximately £0.7 billion of net assets held in liquid investments.
- £333 million in collateral, held in cash and high-quality securities, in respect of the reinsurance liabilities of Equator Re to QIEL, QBE Re and QBE's Lloyd's operations. This represents approximately 50% of the Equator Re liabilities to QBE EO subsidiaries. Equator Re holds capital in excess of its regulatory capital requirements and has an A+/Stable rating from Standard & Poor's.
- For the group-wide reinsurance purchased by Equator Re, clearly defined rights of cut-through for QBE EO subsidiaries to Equator Re's reinsurers in the event of Equator Re's insolvency.

2.4.6. From this, I have concluded that QBE Group and QBE EO have:

- sufficient capital to support QIEL, QBE Re, QBE UK and QBE Europe;

- put in place appropriate arrangements to commit additional financial resources and promptly made such financial resources available to QIEL, QBE Re, QBE UK and QBE Europe in the event that they are needed; and
- taken appropriate steps to manage risks facing QIEL, QBE Re, QBE UK and QBE Europe arising from the failure of Equator Re. (See Section 5.)

2.4.7. Based on the sensitivity, stress and scenario testing of the model, together with my desk-based review of its documentation, I am satisfied that the QBE EO Internal Model provides an appropriate and comparable measure of the capital requirements for QIEL, QBE UK, QBE Re and QBE Europe for the purposes of my review of the Transfers. (See Sections 10-14.)

2.4.8. Using the results of this testing, I have also concluded that QBE UK and QBE Europe will be able to meet their regulatory capital requirements and the chance of their policyholders not having claims paid in full as they fall due is very remote. (See Section 14.)

2.4.9. The sensitivity tests have enabled me to draw my conclusions while recognising that the QBE EO Internal Model will continue to be developed and balance sheets, Technical Provisions and business plans change over time, in particular during the period during which I have carried out my review and the Transfer Date. (See Sections 11 and 14.)

2.4.10. Finally, the results of the Standard Formula SCR, the Approved Internal Model SCR and the Indicative Internal Model SCR, supported by those of the scenario and reverse stress tests performed for me on QIEL, QBE UK, QBE Re and QBE Europe show that none of the groups of Affected Policyholders will be materially adversely affected by the Transfers. (See Sections 10-14.)

2.4.11. These conclusions also apply in the event that only one of the Transfers proceeds. (See Section 15.)

2.4.12. Based on this analysis, I have concluded that the Transfers will not have a materially adverse impact on the financial position of the Affected Policyholders. I will confirm in my Supplemental Report that this conclusion is unchanged as a result of new information made available to me in the intervening period.

2.4.13. The tables in Figure 5 show some key financial metrics before and after the Transfers in support of these conclusions. Greater detail is set out in Part C of this Report.

2.4.14. For a period of time[3] after the Transfers, both QBE UK and QBE Europe are required by regulation to calculate their SCR using an approach that provides a different measure of risk compared to the approach used pre-Transfers for QIEL and QBE Europe. This approach, which is in my view more conservative than the approach that the companies are permitted to use pre-Transfers, provides what I consider to be a less appropriate risk measure for each company than is provided by the Indicative Internal Model SCR. Details of the approaches, the reasons why each are necessary and why the regulatory SCR risk measures are in my view less appropriate are set out in Sections 11 – 15.

2.4.15. The consequence of this required change in approach is that the Capital Cover Ratio resulting from using the regulatory SCR reduces for both QBE UK and QBE Europe compared to QIEL and QBE Re. When using the Indicative Internal Model SCR, which I consider provide a consistent measure for comparison of the position of the firms pre- and post-Transfers, the Capital Cover

[3] Being until each company receives approval to use its Internal Model from its supervisor, currently expected by QBE EO Staff to be during the first quarter of 2019.

Ratio increases. While I believe that the Indicative Internal Model SCR provides an appropriate Capital Cover Ratio for me to use when comparing the position of the Affected Policyholders before and after the Transfers, for completeness, I have included both sets of figures in Figure 5.

Figure 5 – Key metrics pre- and post-Transfers – as at 31 December 2017

Pre-Transfers

QIEL	
GAAP accounts	
2017 GWP	£1.3bn
Gross Reserves	£3.8bn
Net Reserves	£2.7bn
Solvency II accounts	
SII Eligible Own Funds	£1.1bn
SCR[1]	£0.9bn
Capital Cover Ratio	129%

QBE Re	
GAAP accounts	
2017 GWP	£0.4bn
Gross Reserves	£1.2bn
Net Reserves	£1.1bn
Solvency II accounts	
SII Eligible Own Funds	£0.5bn
SCR[1]	£0.4bn
Capital Cover Ratio	129%

Post-Transfers

QBE UK	
GAAP accounts	
GWP (2018 plan)	£1.0bn
Gross Reserves	£3.0bn
Net Reserves	£2.1bn
Solvency II accounts	
SII Eligible Own Funds[2]	£1.0bn
Regulatory basis	
SCR[3]	£0.9bn
Capital Cover Ratio	110%
Indicative Internal Model basis	
SCR	£0.7bn
Capital Cover Ratio	131%

QBE Europe	
GAAP accounts	
GWP (2018 plan)	£0.8bn
Gross Reserves	£2.0bn
Net Reserves	£1.7bn
Solvency II accounts	
SII Eligible Own Funds[2]	£0.8bn
Regulatory basis	
SCR[4]	£0.7bn
Capital Cover Ratio	110%
Indicative Internal Model basis	
SCR	£0.5bn
Capital Cover Ratio	145%

1 *SCR figures pre-Transfers use QBE EO's Approved Internal Model.*

2 *The post-Transfers Eligible Own Funds have been determined by the requirements of the CAF and the SCRs which, for a short time post-Transfers, will be calculated on a different basis to those pre-Transfers.*

3 *QBE UK is initially required to continue to use its Approved Internal Model SCR even though both its premiums and Technical Provisions have reduced materially.*

4 *QBE Europe will initially be required to use the Standard Formula SCR.*

2.5. Conclusions – Non-Financial Impact of the Transfers on Affected Policyholders

2.5.1. I identified two aspects of the Scheme which are potentially disadvantageous to the Transferring QIEL Policyholders and one which is potentially disadvantageous to the Transferring QBE Re Policyholders. I do not consider any of them to be material in the context of the Transfers.

2.5.2. Some of the Transferring QIEL Policyholders will lose some of their rights that they had under the Policyholder Protection Scheme[4]. While there is a compensation scheme that operates for

[4] The details of which rights are lost are described in Section 17.4

insurance companies domiciled in Belgium, I have identified that it is not as comprehensive as the Policyholder Protection Scheme.

2.5.3. Other than for Coverholder Business, this will only affect a small proportion of policyholders because only individuals and very small businesses can benefit from the Policyholder Protection Scheme. Other than Coverholder Business, QIEL does not underwrite personal lines business^ and the majority of QIEL's customers are medium to large corporate clients^.

2.5.4. QBE EO Staff have told me that QIEL has 20 coverholder agreements which are actively underwriting business across its European branches. They have estimated[5] that this makes up 30,495 policies issued to approximately 28,500 policyholders with the vast majority (approximately 90%) of these being to businesses that are sufficiently small so as to be currently eligible for protection from the Policyholder Protection Scheme. In addition, a small proportion of these policyholders are individual consumers.

2.5.5. As I have concluded that the position of QBE Europe at the Transfer Date indicates that the chance of non-payment to the Affected Policyholders is very remote, I do not in any case believe that this is a material loss to any eligible policyholders.

2.5.6. Some of the Transferring QIEL Policyholders may lose their rights to access the Financial Ombudsman Service to resolve complaints they have relating to the manner in which their policy has been administered or their claim has been handled. While I have identified dispute resolution arrangements for insurance policyholders in Belgium, these are not in my view as comprehensive as the UK arrangements.

2.5.7. I believe that this may only be a theoretical disadvantage to the Transferring QIEL Policyholders because:

- Only those branch policyholders who had met the QBE EO criteria for referral to the UK for claims, complaint or administration assistance by UK-domiciled staff would be eligible to access the Financial Ombudsman Service;
- Other than for Coverholder Business, only individuals and very small businesses can benefit from the Financial Ombudsman Service. Other than Coverholder Business, QIEL does not underwrite personal lines business^ and the majority of its customers are medium to large corporate clients^.
- QBE EO staff have told me that there have not been any referrals from any of its European branches during the last five years to QIEL's head office in the UK for raising with the Financial Ombudsman Service. All instances of policyholder complaints in European branches have been handled under local arrangements, which will continue unchanged post-Transfers.

2.5.8. As a result, I think the chance of a Transferring QIEL Policyholder losing the opportunity to access the Financial Ombudsman Service as a result of the Transfers is remote.

2.5.9. For the reasons described more fully in Section 17.4, it is not possible to give a precise estimate of the number of policyholders affected by the change as eligibility can only be determined (for most of QIEL's policyholders) at the time at which support from the Policyholder Protection Scheme or the Financial Ombudsman Service is sought.

[5] These estimates by QBE EO Staff are based upon high-level information only using policy counts at the last renewal of each delegated underwriting authority and assuming all policies will renew. While the estimates may change by the Transfer Date, they provide an adequate order of magnitude measure of the numbers of affected policies and policyholders for the purposes of this Report.

2.5.10. As all of the policyholders of QBE Re are insurance companies, none of them are eligible to access either the Policyholder Protection Scheme or the Financial Ombudsman Service and therefore there is no change for them under the Transfers. This only arises if the QIEL Transfer proceeds.

2.5.11. The Transferring QBE Re Policyholders will be disadvantaged by the Transfers because pre-Transfers they will be policyholders of a pure reinsurance company and post-Transfers, they will be policyholders of a company with both insurance and reinsurance policyholders. As reinsurance policyholders rank behind insurance policyholders (in both UK and Belgian law) they will have a theoretical reduction in their benefit in the event of QBE Europe becoming insolvent. This does not apply if the QBE Re Transfer does not proceed.

2.5.12. I do not believe that this effect is material because I have concluded that the chance QBE Europe becoming insolvent is very remote.

2.5.13. A very small proportion of the Transferring QIEL Policyholders (<1%) but a significant minority (between 20% and 40%) of the Transferring QBE Re Policyholders have policies governed by a law other than that of an EEA State. As a result there is a risk that the governing law of the policy will not recognise the Transfers and the Cross-Border Merger.

2.5.14. I am satisfied that there is no adverse impact on the Affected Policyholders because QBE Europe has confirmed in the Witness Statement that prior to the Transfer Date it will enter into a deed poll documenting its commitment to:

- pay any valid claim and not seek to rely on the non-recognition of the Transfers under the governing law of the relevant policy as a basis for avoiding the policy; and
- meet any reasonable legal costs and expenses incurred by the policyholder in question to the extent they relate to the enforcement of a policy in a jurisdiction which does not recognise the Transfer or Cross-Border Merger.

2.5.15. Based on this analysis I have concluded that while there are some adverse or potentially adverse non-financial impacts on the Affected Policyholders, I do not believe that they are material in the context of the Transfers.

2.6. Conclusions – Impact of the Transfers on Reinsurers

2.6.1. I do not believe that the Transfers will have any material impact on reinsurers of the Affected Policyholders because:

- *Their commercial relationship will remain with subsidiaries of QBE EO;*
- *There are no changes proposed to the manner in which reinsurance is to be managed by QBE UK or QBE Europe from the approach of QIEL and QBE Re.*
- *The only change to reinsurance policies brought about by the Scheme is to split certain reinsurance policies. This is to enable the same underlying business to continue to make use of the existing outwards reinsurance contracts and will not change the claims submitted to these contracts.*

2.7. Conclusions – Notification and publicity arrangements

2.7.1. I have reviewed the notification and publicity arrangements and believe that they are appropriate. In addition to seeking general waivers from requirements to notify policyholders and reinsurers where QBE EO has not been able to locate contact information or could not do so given the wide legal definition of policyholders under FSMA 2000, QBE EO are seeking two waivers:

- For the Remaining Policyholders, on the grounds of the extremely high costs relative to the benefit to these policyholders of receiving the notification materials. To compensate for this, QBE EO are proposing some additional targeted advertising.

- For the Transferring Policyholders, where they have performed analysis that suggests that the likelihood of their giving rise to a claim is very low.

2.7.2. For the former, I have reviewed the cost estimates and the reasons why the benefit to the Remaining Policyholders will be limited. Taking into account the additional advertising, I have concluded that the arguments for this waiver are appropriate.

2.7.3. For the latter, I have reviewed the analysis performed and the additional sign-off from the QBE EO Actuarial Function, and concluded that the arguments for this waiver are appropriate.

2.7.4. I have reviewed the method and content of the proposed approach to notifying the Affected Policyholders and concluded that they are appropriate.

2.7.5. I have reviewed the publicity arrangements proposed by QBE EO for the Transfers and, taking into account the additional advertising, consider them to be appropriate.

2.7.6. I have therefore concluded that the notification and publicity arrangements for the Transfers are appropriate.

2.8. Conclusions – Summary

2.8.1. I have concluded that the Transfers will not have a materially adversely impact on the financial position of the Affected Policyholders.

2.8.2. I have concluded that while there are some theoretical adverse non-financial impacts on the Affected Policyholders, I do not believe that they are material in the context of the Transfers.

2.8.3. I do not believe that the Transfers will have any material impact on reinsurers of the Affected Policyholders.

2.8.4. I have concluded that the notification and publicity arrangements for the Transfers are appropriate.

2.9. Important Limitations

2.9.1. My role as Independent Expert is not to provide an independent estimate of the Technical Provisions or the capital requirements of any of QIEL, QBE UK, QBE Re or QBE Europe, nor should this Report be considered a validation report of the QBE EO Internal Model. This Report should therefore not be used for either of these purposes.

2.9.2. (Re)insurance companies are exposed to a wide range of risks which can lead to failure. This Report does not provide any form of guarantee against the failure of any of the companies considered in it.

2.9.3. My work is not an audit of any of the companies considered and should not be taken as providing any form of audit assurance.

2.9.4. This Report should not be taken as providing any form of investment advice relating to any of the companies considered.

2.9.5. This Report does not provide a legal opinion on the effectiveness of the Scheme, Transfers or Cross-Border Merger.

2.9.6. My opinion relates to the totality of the position of each of QIEL, QBE UK, QBE Re and QBE Europe, their ability to meet policyholder claims as they fall due, and the comparative position of the Affected Policyholders as a result of the Transfers.

2.9.7. Other more general limitations and assumptions are set out in Appendix 2.

2.10. Expert's declaration

2.10.1. I confirm that I fully understand my overriding duty to the Court and that I must help the Court on matters within my expertise. My duty to the Court overrides any obligation to those from whom I have received instructions or by whom I am paid. I believe that I have complied, and will continue to comply, with this duty.

2.10.2. I confirm that I am aware of the requirements of Part 35 and Practice Direction 35 of the Civil Procedure Rules, and the Guidance for the Instruction of Experts in Civil Claims 2014.

2.10.3. I confirm that I have made clear which facts and matters referred to in this Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

Alex Marcuson .... Alex Marcuson MA FIA 17 August 2018

B. Overview of the Transfers

3. Description of the Transfers and the Transferring Policyholders

3.1. Introduction

3.1.1. Part B of my Report provides more detail regarding the Transfers. It contains the following elements:

- This section provides a detailed description of the Transfers and the Transferring Policyholders.
- Section 4 provides a description of each of the companies within the QBE Group that are relevant to my consideration of the effects of the Transfers. It does not provide an in-depth review of any of them, as this is reserved for my analysis in Part C.
- Section 5 sets out my analysis of the Transfers from a group-wide perspective, reflecting the fact that this is an internal reorganisation within the QBE EO Group, which is itself part of the wider QBE Group. It does not provide an in-depth review of the (re)insurance companies with which the Affected Policyholders have policies, as this is reserved for my analysis in Part C.
- Section 6 provides additional description and supporting explanation for the approach I have adopted, including how I have segmented the Affected Policyholders and where I have placed reliance on QBE EO Staff and other specialists.

3.1.2. In this Section, the elements covered are:

- Description of the Transfers;
- Purpose of the Transfers;
- Subsequent plans;
- The Transferring Policyholders;
- Transferring branches, Licences and Service Companies;
- Reinsurance;
- Alternative arrangements should the Transfers not go ahead; and
- Policy administration and claims handling.

3.2. Description of the Transfers

3.2.1. The Transfers bring about an internal reorganisation of the assets and liabilities within QBE EO Group. They are not inter-conditional, such that if one is delayed or not sanctioned by the Court the intention is for the other to go ahead.

QIEL Transfer

3.2.2. The QIEL Transfer comprises the transfer from QIEL to QBE Europe of all of the non-UK domiciled European (re)insurance business of QIEL currently written on a Freedom of Establishment basis.

3.2.3. The business written on a Freedom of Establishment basis comprises business currently written by QIEL through its active European branches in Denmark, France, Germany, Italy, Spain and Sweden, and previously written by QIEL through its run-off branches[6] in Belgium, Bulgaria, Estonia, Ireland and Norway and includes all of the associated assets and liabilities.

[6] QIEL also previously wrote business through a branch in Romania which is expected to be closed prior to 29 March 2019 (i.e. Brexit).

3.2.4. QBE EO currently intends for QIEL to continue to service its business written pre-Transfers in EEA countries on a Freedom of Services basis in the period prior to the expiry of the agreed transition period.

3.2.5. Also transferred to QBE Europe at the same time pursuant to appropriate legally-binding agreements, will be:

- A proportion of the other assets of QIEL calculated so as to leave QBE UK with Eligible Own Funds compliant with the Capital Appetite Framework; and
- Assets of QBE EO calculated so as to ensure that QBE Europe has Eligible Own Funds compliant with the Capital Appetite Framework.

QBE RE TRANSFER

3.2.6. The QBE Re Transfer comprises the transfer of the entirety of the business, including all of the assets and liabilities of QBE Re[7], to QBE Europe. This comprises life and non-life reinsurance business currently written through its branches in Belgium, Bermuda and Ireland.

3.3. Purpose of the Scheme

3.3.1. QBE EO is carrying out two Transfers in response to Brexit. It is consolidating its non-Lloyd's insurance and reinsurance companies in Europe by incorporating a new authorised firm in Belgium, QBE Europe, to write both insurance and reinsurance business in Belgium and across the EEA on a Freedom of Services and Freedom of Establishment basis, mirroring the permissions presently enjoyed by QIEL and QBE Re. QBE EO currently intends for QIEL to continue to service its business written pre-Transfers in EEA countries on a Freedom of Services basis in the period prior to the expiry of the agreed transition period.

3.3.2. QBE EO has told me that it undertook a thorough analysis before deciding to establish QBE Europe in Belgium. Key considerations it took into account were that:

- The QBE Group has had a prominent presence in Belgium since 2010, when QBE EO acquired the Belgian-based reinsurer, Secura NV, from the KBC Group. The majority of its reinsurance business continues to derive from historic relationships managed from Brussels.
- It enables QBE's EEA customers to be serviced post-Brexit from a continental European headquartered firm;
- Existing infrastructure and people are already employed by QBE Re in Belgium;
- Both insurance and reinsurance can be underwritten by the same firm;
- QBE EO has a long-standing history of what it considers to be effective engagement with the Belgian prudential regulator, the NBB; and
- It is possible for QBE Europe to make use of work already undertaken in conjunction with the PRA on QBE EO's approved Internal Model.

3.4. Subsequent Plans

3.4.1. At the same time as the QBE Re Transfer, the Cross-Border Merger will result in any remaining QBE Re business being absorbed into QBE Europe.

3.4.2. After the completion of the Transfers, QBE UK expects to commence the Project Autumn Part VII Transfer. There is a further portfolio (Project Docklow) that is expected to have been transferred to another (re)insurer by the Transfer Date. These are both described in Section 5.

[7] Some assets will be retained by QBE Re to enable it to continue to meet any ongoing minimum capital requirements. These retained assets will transfer pursuant to the Cross-Border Merger (see paragraph 3.4).

3.4.3. There are currently no other plans for QBE EO or QBE Europe to acquire or dispose of significant portfolios of business.

3.5. The Transferring Policyholders

3.5.1. Other than the policyholders of the Excluded QIEL Policies and the Residual QIEL Policies, the QIEL Transferring Policyholders refer to any and all policyholders[8] holding policies written by or on behalf of QIEL on or before the Transfer Date through all[9] of its EEA country branches in:

- Belgium;
- Bulgaria;
- Denmark;
- Estonia;
- France;
- Germany;
- Ireland;
- Italy;
- Norway
- Spain; and
- Sweden.

3.5.2. The QBE Re Transferring Policyholders refer to any and all policyholders[10] of policies written by or on behalf of QBE Re on or before the QBE Re Transfer Date through its branches in:

- Belgium;
- Ireland; and
- Bermuda.

3.5.3. The Excluded QIEL Policies are those policies that would otherwise fall within the definition of the Transferring Policyholders but the parties to the transfer have agreed should be excluded or which cannot be transferred for another reason[11]. Other than policies that are subject to Project Docklow (which have been listed as Excluded QIEL Policies in case that transfer has not taken place by the Transfer Date), no Excluded QIEL Policies have been listed in the Scheme.

3.5.4. The Residual QIEL Policies are policies that it is not possible to transfer at the relevant Transfer Date, for example because further steps need to be taken by the parties prior to their being transferred. At the time of writing no Residual QIEL Policies have been identified.

3.5.5. Table 3.1 sets out the number of Transferring Policies of QIEL and QBE Re as at 31 March 2018.

Table 3.1 – QIEL and QBE Re Transferring Policy Count Breakdown as at 31 March 2018	
QIEL[12]	1,359,880
QBE Re	91,076

3.6. Transferring branches, Licences and Service Companies

3.6.1. Prior to the Transfers, QBE Europe will obtain permission from the NBB (and the relevant home state regulators) to establish branches in Bermuda, Denmark, France, Germany, Ireland, Italy,

[8] Using the meaning of policyholder given by the FSMA Order.
[9] The Romania branch is expected to be closed prior to the 29 March 2019 (i.e. Brexit).
[10] Using the meaning of policyholder given by the FSMA Order.
[11] For example, owing to a policyholder being on a Sanctions List.
[12] Excludes Coverholder Business which has approximately 55,000 policies written as at 31 March 2018.

Spain, Sweden and the UK. Business from each of the respective QIEL or QBE Re branches will then transfer to the corresponding branch of QBE Europe with the exception of:

- Business from the Belgian branch of QIEL and QBE Re, which will be undertaken by the head office of QBE Europe;
- Business from the Bulgarian, Estonian and Norwegian branches of QIEL, which are now in run-off, which will be serviced on a Freedom of Services basis.

3.6.2. QBE Europe has applied to the BMA to establish a branch in Bermuda mirroring that of QBE Re. QBE EO Staff have told me that they do not foresee any difficulties arising in the authorisation of the branch and they will confirm its authorisation to the Court at the Sanction Hearing.

3.6.3. To mirror the licences of QBE Re, QBE Europe will obtain licences to undertake reinsurance activities in the following countries: Argentina, Bolivia, Chile, Colombia, Dominican Republic, Ecuador, Egypt, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay and Venezuela. For Azerbaijan, China and India, QBE Europe does not currently intend to underwrite new business and QBE EO Staff have told me that they believe that QBE Europe is not required to hold reinsurance licences in these countries (on the basis that no licence is required in these jurisdictions to service or run-off existing reinsurance business).

3.6.4. QIEL and QBE Re expect to confirm to the Court at the Sanction Hearing that all necessary permissions and licences are in place.

3.6.5. No subsidiaries of QIEL and QBE Re are being transferred to QBE Europe under the Transfers or Cross-Border Merger. QBE Re currently has one subsidiary, QBE Services (Europe) Limited, a service company jointly owned by QIEL and QBE Re who each hold one share in the entity. If no further action were taken QBE Re's share would transfer to QBE Europe under the Cross-Border Merger, however QBE Re intends to transfer its share in QBE Services (Europe) Limited to QIEL prior to the Transfer Date. This will result in QBE Services (Europe) Limited becoming a wholly-owned subsidiary of QIEL pre-Transfers. For the avoidance of doubt its shares will be retained by QIEL post-Transfers.

3.7. Reinsurance

3.7.1. Attached to the Scheme at Schedule 1 is a list of the reinsurance agreements to be transferred under the Scheme. These agreements are split into four parts: A to D.

3.7.2. Part A lists out the reinsurance agreements where QIEL is the sole reinsured, that will transfer in their entirety to QBE Europe.

3.7.3. Part B lists out the reinsurance agreements where QBE Re is the sole reinsured, that will transfer in their entirety to QBE Europe.

3.7.4. Part C lists out the reinsurance agreements where either QIEL is not the sole reinsured pre-Transfers or it will not be the sole reinsured post-Transfers.

3.7.5. Part D lists out the reinsurance agreements where QBE Re is not the sole reinsured pre-Transfers.

3.7.6. Under the Scheme:

- All of the rights, benefits and powers of QIEL under all of the reinsurance contracts listed in Schedule 1, Part A of the Scheme and all or part of the rights, benefits and powers of QIEL under all of the reinsurance contracts listed in Schedule 1, Part C of the Scheme will transfer to QBE Europe.

- All of the rights, benefits and powers of QBE Re under all of the reinsurance contracts listed in Schedule 1, Part B and D of the Scheme will transfer to QBE Europe.

3.7.7. Paragraphs 59 to 61 of the Witness Statement confirm that:

- The benefit of inuring outwards reinsurance contracts (both with reinsurers within the QBE Group, including Equator Re, and external reinsurers) will be transferred to QBE Europe under the Scheme to the extent that they relate to the Transferred Business. Where an outwards reinsurance contract relates both to the Transferred Business and other business underwritten by QIEL, the benefit of such outwards reinsurance contract shall be split in accordance with the terms of the Scheme Document.
- In respect of those treaties entered into as part of the 'QBE Group Reinsurance Programme' (the Programme), the definition of the reinsured not only encompasses all underwriting entities within the QBE Group as at the date of the treaty but includes all new entities and operations. Consequently, QBE Europe will automatically be reinsured under the Programme.
- In accordance with the QBE Divisional Allocation Document (referred to as Q-DADI), all costs and recoveries under the Programme will be allocated to Equator Re. Costs and recoveries will be allocated on this basis as, where an underwriting entity suffers a loss that is covered by the Programme, it will claim under its relevant reinsurance contract with Equator Re. Equator Re will then pay the claim and recover under the Programme. To mitigate any potential credit risk, provision is made in Q-DADI for a cut-through in the event of Equator Re's insolvency.

3.8. Alternative arrangements should the Transfers not go ahead

3.8.1. QBE EO Staff have advised me that in the event that one of the Transfers does not proceed, the intention is for the other to go ahead.

3.8.2. Should either or both of the Transfers not proceed, QBE EO Staff have told me that the present intention is that European Business (both new and renewal) will be underwritten by QBE Europe from the Transfer Date.

3.9. Policy administration, staffing and claims handling

3.9.1. All staff based in the UK or Ireland carrying out work for QBE EO and its subsidiaries are employed in the UK by QMSUK and in Ireland by QMIL. QIEL and QBE Re therefore have no UK or Ireland based employees.

3.9.2. QBE Europe will enter into a new service agreement mirroring the agreements currently in place at the time of the Transfers between (i) QMSUK, QIEL and QBE Re and (ii) QMIL, QIEL and QBE Re.

3.9.3. Each of the active underwriting branches of QIEL and the Belgian and Bermudan branches of QBE Re employ staff directly. Employment of these members of staff will, subject to appropriate employee consultation, transfer at the time of the respective Transfers as follows:

- Employees of the Belgian branch will become employees of the QBE Europe head office in Belgium;
- Employees of the Bermudan branch and actively underwriting EEA branches will become employees of the corresponding branch of QBE Europe.

3.9.4. Including the UK staff employed by QMSUK and the Irish staff employed by QMIL but working for QBE Europe, there are anticipated to be 344 full-time equivalent members of staff of QBE Europe.

3.9.5. I have been told by QBE EO Staff that no changes to policy and claims outsourcing arrangements are anticipated to be made as a result of the Transfers (and, where claims handling is currently outsourced to third party administrators, QBE Europe will maintain these arrangements). This has been confirmed in paragraph 64 of the Witness Statement.

3.9.6. Accordingly, my understanding of the proposed arrangements is that the same people (whether QBE EO Staff or external providers of services to QBE EO Group companies) will continue to perform the same tasks after the Transfers as before the Transfers.

3.9.7. I note that pre-Transfers, the Affected Policyholders are exposed to the possibility of changes to claims outsourcing arrangements and claims-handler staffing levels. I have not identified any changes to this position arising from the Transfers. QBE EO Staff have told me that other than the changes described here that are necessary as a result of the Transfers, there are no current planned changes to outsourcing arrangements and claims handling staffing levels.

4. Description of the Companies

4.1. Introduction

4.1.1. This section describes the three companies who are parties to the Transfers: QIEL, QBE Re and QBE Europe, together with QBE EO and QBE Limited, their European parent and ultimate parent company respectively.

4.1.2. Some high-level commentary is also included for Equator Re and QBE Strategic Capital Company Pty Limited, owing to the former being a material reinsurer of QIEL, QBE Re, QBE UK and QBE Europe and the latter a provider of contingent capital to QBE EO.

4.1.3. Sections 8 – 9 contain my review of the Technical Provisions and balance sheets of each of QIEL, QBE Re and QBE Europe. In particular, Section 8.3 contains a detailed description of the (re)insurance portfolios of QIEL and QBE Re.

4.2. QBE Insurance Group Limited (QBE Limited)

4.2.1. QBE Limited is the ultimate parent company for the QBE Group. It is domiciled in Australia and listed on the Australian Securities Exchange. It is one of the twenty largest global non-life insurance and reinsurance companies in the world and is subject to prudential supervision by the Australian Prudential Regulation Authority.

Table 4.1 - QBE Limited - £ billion, as at 31 December 2017					
P&L		**Balance sheet**		**S&P Insurer Rating**	
Net earned premium	8.9	Net assets	6.6	FSR	A+
Net profits after tax	(0.9)	Net Technical Provisions	15.8	Outlook	Stable

Source: Group accounts 2017 year-end

4.2.2. It was established in 1973 to bring about the merger of three companies: (i) Queensland Insurance, (ii) Bankers' and Traders' Insurance Company, and (iii) Equitable Life and General Insurance Co.

4.2.3. Appendix 5 contains a simplified company structure chart setting out where the companies mentioned in this Report lie within the QBE Group. This shows that all of the companies that I refer to in this Report are wholly-owned subsidiaries of QBE Limited.

4.2.4. The principal nature of the subsidiary undertakings within the QBE Group is the underwriting of general insurance, long-term insurance and reinsurance risks, management of Lloyd's syndicates and investment management.

4.2.5. On 26 February 2018, QBE Limited declared a dividend of £31.2 million to be paid on 20 April 2018. The 2017 annual accounts reported a post-tax loss of £0.9 billion. This reflected the major natural catastrophe events that occurred in the second half of 2017.

4.3. QBE European Operations Plc (QBE EO)

4.3.1. QBE EO is a mixed financial holding company and is the top level European (re)insurance holding company within the QBE Group. Its main regulated subsidiaries are QIEL, QBE Re and QBE Underwriting Limited. A further subsidiary, QBE Corporate Limited, provides underwriting capacity to QBE EO's two Lloyd's syndicates: 386 and 2999. These syndicates are managed by QBE Underwriting Limited.

4.3.2. The principal activity of QBE EO's subsidiary undertakings are the transaction of specialist commercial insurance and reinsurance business operating through Lloyd's and company markets.

4.3.3. QBE EO receives prudential supervision from the PRA, which acts as group supervisor for QBE EO and its European Subsidiaries and Lloyd's operations.

4.3.4. Table 4.2 sets out the former names of QBE EO since its incorporation in 1991.

Table 4.2 – QBE EO – Former Company Names	
Period	Company Name
29/08/1991 – 26/02/1992	Minmar (175) Limited
27/02/1992 – 19/07/2001	QBE International Holdings (UK) Public Limited Company
20/07/2001 – 28/12/2011	QBE International Holdings (UK) PLC.
29/12/2011 – Current	QBE European Operations plc

4.3.5. All of QBE EO's (re)insurance subsidiaries have Insurer Financial Strength Ratings of A+/Stable from Standard & Poor's.

4.3.6. QBE EO has a Contingent Capital Facility with QSCC. This is a contractually binding agreed arrangement providing access to up to £175 million of capital at short notice, in the event that it is needed to restore its capital to the target minimum level of capital set out in the Capital Appetite Framework. The Capital Appetite Framework, is discussed further in Section 12 and the Contingent Capital Facility in Section 5.

4.3.7. QBE EO is guarantor for three defined benefit pension schemes: the Iron Trades Scheme, the Janson Green Scheme and the QBE Re (Europe) Ltd Pension & Life Assurance Plan. As at 31 December 2017, the schemes' assets and liabilities are valued at approximately £388 million and £376 million, respectively, giving rise to a net surplus of £12 million.

4.4. QBE Insurance (Europe) Limited (QIEL)

4.4.1. QIEL is an insurance company domiciled and regulated in the UK. It is a limited company and a wholly-owned subsidiary of QBE EO. It is authorised by the PRA to write non-life insurance and reinsurance business and receives insurance prudential supervision from the PRA and conduct supervision from the FCA. It has branches writing on-going business in Denmark, Dubai, France, Germany, Italy, Spain and Sweden. It has run-off branches in Belgium, Bulgaria, Estonia, Ireland, Norway, Romania and Switzerland. QBE EO staff have told me that QIEL anticipates that it will have closed its branch in Romania by 29 March 2019.

Table 4.3 – QIEL Key financials - £ million, as at 31 December 2017					
P&L		**Balance sheet**		**S&P Insurer Rating**	
Net earned premium	1,130	Net assets	1,404	FSR	A+
Net profits after tax	189	Net Technical Provisions	2,737	Outlook	Stable

Source: Audited GAAP accounts 2017 year-end, QBE Group website

4.4.2. In addition to its branch business, QIEL writes business in the Republic of Ireland and other European countries using its Freedom of Services passporting rights.

4.4.3. Table 4.4 sets out the former names of QIEL since its incorporation in 1983.

Table 4.4 – QIEL – Former Company Names	
Period	Company Name
14/10/1983 – 10/04/1984	Legibus 373 Limited
11/04/1984 – 02/02/1987	Delta International Reinsurance Company Limited
03/02/1987 – 13/10/1988	Imperial Chemicals Reinsurance Limited
14/10/1988 – 03/03/1992	QBE Reinsurance (London) Limited
04/03/1992 – 29/09/2005	QBE International Insurance Limited
30/09/2005 – Current	QBE Insurance (Europe) Limited

4.4.4. In addition to issuing products branded using various QBE-prefixed names, QIEL issues products using the trading name British Marine.

4.4.5. The majority of QIEL's insurance business is liability, property, financial lines and motor insurance. The remainder is inwards reinsurance and marine, aviation and transport insurance. Approximately 78% of QIEL's gross written premiums written in 2017 related to UK and other European risks, 13% related to world-wide covers and the remainder related to risks in a variety of non-EEA countries around the world. More detail on its business profile is contained in Section 8.

4.5. QBE Re (Europe) Limited (QBE Re)

4.5.1. QBE Re is a reinsurance company domiciled and regulated in the UK. It is a limited company and a wholly-owned subsidiary of QBE EO. It is authorised by the PRA to write life and non-life reinsurance business and receives prudential supervision from the PRA and conduct supervision from the FCA. It has branches in Belgium, Bermuda and the Republic of Ireland. The Bermuda branch is separately authorised and regulated by the Bermuda Monetary Authority.

Table 4.5 – QBE Re Key financials - £ million, as at 31 December 2017

P&L		Balance sheet		S&P Insurer Rating	
Net earned premium	337	Net assets	613	FSR	A+
Net profits after tax	37	Net Technical Provisions	1,078	Outlook	Stable

Source: Audited GAAP accounts 2017 year-end, QBE Group website

4.5.2. Table 4.6 sets out the former names of QBE Re since its incorporation in 1978.

Table 4.6 – QBE Re – Former Company Names

Period	Company Name
17/07/1978 – 22/11/1982	Allstate Reinsurance Company (U.K.) Limited
23/11/1982 – 14/11/1996	Allstate Reinsurance Co. Limited
15/11/1996 – 10/04/2012	QBE Reinsurance (UK) Ltd
11/04/2012 – Current	QBE Re (Europe) Limited

4.5.3. With effect from 30 September 2012, QBE Re merged its business with former companies Secura NV (a Belgian company) and QBE Reinsurance (Europe) Limited (an Irish company). QBE Re has retained the use of the trading name Secura.

4.5.4. QBE Re writes International Property and Casualty from its Irish branch, European non-life multiline reinsurance and worldwide life business from its Belgian branch and North American Property, International Property and US Casualty from its Bermudan branch. More detail on its business profile is contained in Section 8.

4.5.5. As at 31 December 2017, QBE Re's total net assets were £0.6 billion and its net of reinsurance GAAP Technical Provisions were £1.1 billion. During 2017, its net earned premium was £0.3 billion. The annual accounts report a post-tax profit in 2017 of £0.04 billion. This result is after the effect of the major natural catastrophe losses arising during the second half of 2017. More detail from its financial statements is contained in Section 9.

4.5.6. QBE Re operates a small defined benefit pension scheme, the Secura NV Scheme. In its 2017 statutory accounts, QBE Re discloses that the fair value of the scheme's assets is £10 million, the present value of its liabilities is £15 million, giving rise to a deficit of £5 million. QBE Re is also committed to pay medical expenses of certain former employees on retirement, and has disclosed a deficit of £0.5 million in its 2017 statutory accounts.

4.6. QBE Europe

4.6.1. QBE Europe was incorporated on 12 February 2018 as a Belgian-domiciled public limited company (*Société Anonyme/Naamloze Vennootschap*). On 22 May 2018, it received authorisation from the NBB to underwrite classes 1 – 17 non-life insurance business, and both life and non-life reinsurance.

4.6.2. It is in the process of obtaining permission to underwrite insurance and reinsurance business across the EEA on both a Freedom of Services and Freedom of Establishment basis and expects to have received these permissions by the Sanction Hearing. QBE Europe will also obtain permission to write reinsurance on a branch basis from Bermuda and is in the process of obtaining reinsurance licenses in a number of other jurisdictions. I will confirm in my Supplemental Report that the Freedom of Services and Freedom of Establishment permissions, and the Bermudan branch permission have been received by QBE Europe.

4.6.3. A pro forma balance sheet for QBE Europe had the Transfers taken place before 31 December 2017 is contained in Appendix 7.

4.7. Equator Re

4.7.1. Equator Re is a Class 3B insurer domiciled in Bermuda since 1984 and supervised by the BMA.

4.7.2. It is QBE Group's captive reinsurer, and provides reinsurance protection to all divisions within the QBE Group in conjunction with other external reinsurance programs.

Table 4.7 - Equator Re Key financials - £ million, as at 31 December 2017					
P&L		**Balance sheet**		**S&P Insurer Rating**	
Net earned premium	1,650	Net assets	693	FSR	A+
Net profits after tax	(339)	Net Technical Provisions	1,929	Outlook	Stable

Source: Audited accounts 2017 year-end, QBE Group website

4.7.3. During 2017 it had net earned premium of £1.7 billion and disclosed a loss of £0.3 billion. This reflected the effect of the major natural catastrophes that occurred during the second half of 2017 and subsequent recapitalisation by QBE Limited.

4.7.4. In Section 13 I have considered a scenario in which Equator Re goes insolvent. In this severe scenario, I have assumed that there is no recovery made on its liabilities including taking no credit for the balances held in collateral by each company. While the modelled results of this scenario are extremely severe for both companies, each having insufficient financial resources to meet their respective SCR requirements, none of QIEL, QBE Re, QBE UK or QBE Europe becomes insolvent.

4.8. QBE Strategic Capital Company Pty Limited (QSCC)

4.8.1. QSCC is a limited company incorporated and domiciled in Australia. It is a wholly owned subsidiary of QBE Limited. It acts as the central treasury entity and manages the Group's foreign exchange exposures with external counterparties.

4.8.2. QSCC is a separate group company with approximately £0.7 billion of net assets. Its role within the QBE Group is to act as a centralised treasury company, providing economies of scale across the group for obtaining bank financing and foreign exchange hedging needs.

4.8.3. QSCC is the counterparty to the £175 million Contingent Capital Facility with QBE EO, providing a source of additional short-notice Eligible Own Funds to QBE EO should it require them to enable it to meet the target capital levels presented by the Capital Appetite Framework for itself and its (re)insurance company subsidiaries: QIEL, QBE Re, QBE UK and QBE Europe.

5. QBE EO Group Perspective

5.1. Introduction

5.1.1. This Section sets out the QBE EO Group level perspective to the Transfers. This includes a description of how QBE EO manages its and its subsidiaries' exposures to risks arising from losses or events experienced elsewhere in the QBE Group. This section is arranged in four parts:

- An overview of the Transfers from a QBE EO Group (and through this, from a QBE Group) perspective.
- How QBE EO's Capital Appetite Framework and Contingent Capital Facility ensure additional financial resources can be made available promptly for QIEL, QBE Re, QBE UK and QBE Europe when needed.
- How QBE EO manages the risk, to itself and its subsidiaries, of the default of Equator Re, QBE Group's captive reinsurer.
- Other Part VII Transfers being undertaken by QBE EO.

5.1.2. This section does not compare the financial security provided by QIEL, QBE Re, QBE UK and QBE Europe as this is addressed in detail in Part C of this Report.

5.2. Overview of the Transfers from a QBE EO Group perspective

5.2.1. The Transfers bring about an internal reorganisation of liabilities and future business of two companies, both of which are wholly-owned subsidiaries of QBE EO. As such, the consolidated balance sheet and risk position of QBE EO is not materially changed. Any change in the risks arising from one firm are offset by a corresponding movement in the risks from the other. The Transfers are not extracting any assets to meet future claims liabilities from one subsidiary firm unless they are to be placed in another, so the aggregate amount of these assets held across QBE UK and QBE Europe after the Transfers will be no less than is held across QIEL and QBE Re before the Transfers. In fact, owing to the short-term effect of how the SCR will initially be determined for QBE UK and QBE Europe following the Transfers, there will be a short period, expected to be less than six months, during which there will be in aggregate more net assets held on the balance sheets of QBE UK and QBE Europe than before the Transfers. (See Figure 5 in Section 2.4.)

5.2.2. At an overall QBE EO level there is no material change in risk profile; this is essentially an internal reorganisation of assets and liabilities between wholly-owned subsidiaries.

5.2.3. QBE EO is itself a wholly-owned subsidiary of QBE Limited, one of the world's largest insurance and reinsurance groups, with high-quality financial strength ratings. At 31 December 2017, QBE Limited has GAAP net assets of approximately £6.6 billion. At this date, and allowing for dividends paid to date in 2018, QBE EO has Solvency II net assets of £1.5 billion and Solvency II Eligible Own Funds of approximately £1.7 billion, being 141% of its consolidated Group SCR using its Approved Internal Model. In my view, QBE EO has no interest in allowing its (re)insurance subsidiaries to fail, and in response, it makes sure that they all hold capital comfortably in excess of their regulatory minimum. Similarly, as QBE EO is a major part of the QBE Group and the holding company for its European operations, it is in QBE Limited's interest to restore QBE EO's financial position in the event that QBE EO or one of its subsidiaries were to get into financial difficulty.

5.2.4. Given the size of QBE Limited and the size and capitalisation level of QBE EO I have therefore concluded that QBE Group and QBE EO have sufficient capital with which to provide financial support should it be needed to QIEL, QBE Re, QBE UK and QBE Europe.

5.3. QBE EO's Capital Appetite Framework and Contingent Capital Facility

5.3.1. To formally articulate their common approach to holding appropriate levels of capital in each firm, the Boards of each of QBE EO, QIEL, QBE Re and QBE Europe have each adopted a consistent Capital Appetite Framework. This sets out the level at which each will be capitalised and the approach to determining the level at which dividends will be paid.

5.3.2. Supported by a resolution made by QBE EO Group's Boards, the Capital Appetite Framework commits it to support QIEL, QBE UK, QBE Re and QBE Europe by maintaining more than 120% of their Approved Internal Model SCR and targeting 130%. Owing to differences in the way in which the SCR for QBE UK and QBE Europe will be calculated post-Transfers, this threshold and target will change to the greater of:

- 110% of SCR and
- 120% (threshold) and 130% (target) of its Indicative Internal Model SCR.

The reasons and consequences of this change are discussed in greater detail in Section 12, but I am satisfied that they do not adversely affect the Affected Policyholders, because this change is as a result of changes in the SCR calculation method and not as a result of changes to the underlying risk profile of either company. Once the QBE EO Internal Model is approved for use in calculating the SCR of QBE UK and QBE Europe, the effect of this change will no longer apply, as the 120% and 130% thresholds will by definition give the higher amount.

5.3.3. From a QBE EO perspective, the Capital Appetite Framework commits QBE EO to ensuring that its insurance subsidiaries are funded to this level of capitalisation. Injecting capital into a subsidiary does not change QBE EO's consolidated net assets. QBE EO can however clearly be constrained by the assets that it can provide to its subsidiaries, particularly if they are tied up in one of its other subsidiaries.

5.3.4. QBE EO therefore has in place a Contingent Capital Facility with another company in the QBE Group, QSCC, that enables it to raise up to £175 million of additional capital (equal to approximately 20%-30% of the individual SCR of each of QBE UK and QBE Europe) in immediately available funds. This capital is provided to QBE EO at short notice and on agreed terms in the event that losses arising at one of its subsidiaries brings QBE EO's capital down to below 120% of its SCR, the threshold capital set out in its Capital Appetite Framework. QSCC is a separate group company with approximately £0.7 billion of net assets. Its role within the QBE Group is to act as a centralised treasury company, providing economies of scale across the group for obtaining bank financing and foreign exchange hedging needs.

5.3.5. These arrangements to restore the capital of subsidiaries adopt what in my view is a common-sense approach to the capital management of the firms; but they are not the same as legally binding agreements. In the event of the most extreme losses, those in which policyholders' claims cannot be met, it can be hard to predict whether future Boards will honour the decisions and commitments taken by their predecessors or if changed circumstances may mean that they are unable to. With no certain means of legal enforcement by the subsidiary, it is therefore important to consider the picture in the absence of the assumed parental support. I consider this in detail in Part C, focussing on:

- Whether QIEL, QBE Re, QBE UK and QBE Europe are appropriately capitalised
- How the financial strength of QIEL, QBE Re, QBE UK and QBE Europe compare before and after the Transfers. Through this I have considered the financial impact of the Transfers on the Affected Policyholders.

5.3.6. My review of these arrangements led me to conclude that QBE EO and QBE Group have put in place appropriate arrangements to commit additional financial resources to QIEL, QBE Re, QBE UK and QBE Europe in the event that they are needed and that funds can be made available promptly.

5.4. Management of the risk of default by Equator Re to QBE EO and its subsidiaries

5.4.1. Equator Re provides a material quantity of reinsurance to QIEL and QBE Re. It holds capital that is more than 120% of its regulatory capital requirements under the Bermudan insurance regulatory regime. The Bermudan regulatory regime has been deemed by the European Union to be an equivalent regulatory regime to Solvency II. Equator Re has an A+/Stable rating from Standard & Poor's.

5.4.2. At the time of writing this Report, QBE EO holds £330 million of collateral in respect of amounts owed by Equator Re to QIEL, QBE Re and QBE's Lloyd's Syndicates. The collateral is held in cash and highly rated securities. The amount of collateral is managed with reference to QBE EO's credit risk appetite, in order that the total exposure net of collateral of QBE EO to Equator Re is less than one third of the total of the entities' Indicative Internal Model SCRs.

5.4.3. In the event of Equator Re's insolvency, QBE EO (on behalf of its subsidiary (re)insurers) has clearly defined rights of cut-through to Equator Re's reinsurers of the QBE Group-wide reinsurance programmes purchased by Equator Re, comprising catastrophe excess of loss, risk excess of loss and aggregate excess of loss programmes. These ensure that QBE EO's share of recoveries are preserved in this scenario.

5.4.4. Based on my review of the arrangements put in place by QBE EO with respect to its exposure to the risk of failure of Equator Re, I have concluded that:

- *QBE EO has taken appropriate steps to manage the risks facing QIEL, QBE Re, QBE UK and QBE Europe arising from the failure of Equator Re; and*
- *The Transfers do not result in any change to the arrangements.*

5.5. Other Part VII Transfers being undertaken by QBE EO

5.5.1. QBE EO staff have told me that there are currently two other insurance business transfer Schemes which impact the Transfer (one of which is ongoing). These are both described in the Witness Statement at paragraph 62.

- Project Docklow is the transfer from QIEL of a run-off portfolio of Italian and Spanish medical malpractice liabilities to Reliance National Insurance Company (Europe) Limited. This is scheduled to have its sanction hearing on 29 October 2018 and the business is expected to transfer on 31 October 2018. All of this business is European branch business, but as Project Docklow is intended to complete prior to the Transfers, it is not expected to form part of the Transferring QIEL Policyholders.
- Project Autumn is the transfer from QIEL to East West Insurance Company Limited, of QIEL's UK and Irish-based employers' liability and public liability exposures arising in relation to policies underwritten prior to 31 December 2007. It is also expected to transfer the employers' liability, general public and products liability, motor and personal accident business previously underwritten by QIEL up to a £1,000,000 limit for each and every loss and reinsured by Tata Steel's captive insurer, Crucible Insurance Company Limited. This business is mostly UK-based, however some risks are situated in the Netherlands.

5.5.2. Project Autumn is expected to commence after the Transfers are completed.

5.5.3. All of the business that is subject to Project Docklow or Project Autumn has already been fully reinsured to the relevant transferee company. I therefore do not believe that either Project Docklow or Project Autumn has any effect on the Transfers because:

- There is minimal residual exposure to QIEL or QBE UK;
- There are no plans to include the business subject to either Project Docklow or Project Autumn within the Transfers; and
- There are no plans to include these policyholders within the communications surrounding the Transfers as they are all Remaining QIEL Policyholders. This waiver is discussed in Section 18.

5.5.4. I am therefore satisfied that neither Project Docklow or Project Autumn have any bearing on the Transfers.

6. Approach – additional description

6.1. Introduction

6.1.1. This section provides additional description and supporting explanation for the approach I have adopted. It covers the following matters:

- The language and terminology used to describe concepts relating to risk and uncertainty;
- Measures of financial resources and capital requirements used in my analysis;
- Comparison criteria for financial effects of the Transfers;
- Comparison criteria for non-financial effects of the Transfers;
- Evaluation of QBE EO's approach to communications relating to the Transfers;
- Segmentations of the Affected Policyholders used in my analysis;
- Reliance on data from QBE EO Staff;
- Reliance on other experts;
- Contact with regulators during my review.

6.2. Language and terminology

6.2.1. For some of the financial consequence analysis, the conclusions rely on judgements regarding very remote scenarios (often estimated as being less likely than 1 outcome in every 200). Because of the uncertainty inevitably associated with the assessment of such events, I do not believe it is appropriate to use language that overstates the precision or reliability of such forecasts.

6.2.2. I therefore use the term "unlikely" to indicate that there remains a degree of residual uncertainty in my comparative measurement of non-payment of policyholder claims. While this is a subjective test, as a guide I have adopted a 5% chance as a suitable threshold of an outcome being something that I would consider for these purposes as "unlikely".

6.3. Measure of financial resources and capital requirements used in my analysis

6.3.1. I calculate financial resources and regulatory capital requirements of the entities considered using the approach established under Solvency II. I have adopted this approach because:

- It seeks to value assets and liabilities consistently and, where possible, using a fair market value. The approach recognises that for some assets and liabilities, no market price exists and so an approach must be used that provides a value consistent with a market price.
- It has been adopted by all firms across the European Union and therefore provides a consistent and widely recognised means of framing the financial strength of a firm using a risk-based measure tailored to the needs of insurance.
- This is an approach that QBE EO, QIEL, QBE Re, QBE Europe, the PRA, the NBB and other European prudential insurance regulators all use.
- The regulatory capital of QBE EO and its subsidiaries have been calculated using the QBE EO Internal Model. Pre-Transfers, QBE EO, QIEL and QBE Re have an Approved Internal Model SCR. The PRA, as QBE EO's lead prudential supervisor, has determined that the QBE EO Internal Model provides a suitable approach for calculating the regulatory capital requirements of these firms.
- An Internal Model is a model that estimates the potential financial losses that a firm might suffer over a prospective one-year period. This is the minimum amount of capital that a firm must hold to provide what is generally considered to be a sufficiently low chance of the company going insolvent. It requires a sophisticated level of financial modelling capability together with extensive obligations on the firm to govern, document and validate their model on an ongoing basis. This includes resubmitting the model for approval by the regulator when methods or assumptions change significantly.

- If an Internal Model is not approved by the prudential regulator, or approval is withdrawn, firms must fall back upon a prescribed formulaic approach, the Standard Formula SCR, to calculate their regulatory capital requirements. While the Standard Formula SCR approach may give rise to a higher or lower regulatory capital requirement than an Internal Model, it is important to note that the nature of the underlying risks is not changed.
- Following the Transfers, QBE UK must continue to use QIEL's Approved Internal Model SCR, as the model approval constrains the extent to which its SCR can change methods or assumptions before re-approval is required. QBE Europe will not have an Approved Internal Model SCR until one has been approved by the PRA and NBB.
- To maintain consistency with the calculation approach pre-Transfers, QBE UK and QBE Europe have been calculating an Indicative Internal Model SCR. This models the risks facing each business in the same way as the Approved Internal Model SCR but makes use of assumptions which have been changed to reflect the post-Transfers position.

6.3.2. The Solvency II prudential capital requirements have been set to target a high chance of companies being able to meet all policyholder claims, providing a confidence level of 199 times out of every 200, or 99.5%, over a one-year period. In addition, to satisfy Solvency II Pillar 2 prudential requirements, companies have policies in place to ensure a certain buffer of capital is in place in excess of their regulatory minimum. This buffer is to cover short-term fluctuations in asset or liability values, or to take into account the uncertainty in making some of the judgements required in establishing the prudential capital requirements.

6.3.3. Under Solvency II, companies use their ORSA to consider the position over a longer period and risks not captured in scope of the Internal Model SCR. In doing so, companies will also express their medium-term capital plans, which for QBE EO and its subsidiaries is through its Capital Appetite Framework. This explains the firm's approach to capital target levels and dividend strategy.

6.4. Comparison Criteria – financial effects

6.4.1. My comparison of the effects of the Scheme comprises both a qualitative review of the changes brought about by the Scheme and quantitative testing of its effects.

6.4.2. The qualitative review (contained in Section 10) compares the risks each segment of the Affected Policyholders face before and after the Transfers and describes the main elements that change.

6.4.3. It also considers the overall size of the balance sheet and net assets of the companies that are party to the Transfer. This provides an indication of changes in the absolute size of adverse loss event that each company can withstand and hence whether the Affected Policyholders are materially adversely affected in terms of their financial security.

6.4.4. My quantitative testing is presented in Sections 13 and 14. The key measure used for this testing is the CCR. This is the ratio of a company's financial resources to the quantitative measure of risk used to determine regulatory capital and it provides an objective and generally recognised measure of the absolute financial strength of a company and a means of comparing the relative financial strength of companies with each other.

6.4.5. Interpreting the CCR needs to take into account the size and nature of the business of an insurer, however a company with a CCR of below 100% would be under-capitalised as it would be failing to meet its regulatory capital requirements.

6.4.6. In practice, for me to consider a company to be adequately-capitalised, it would need to hold a margin or buffer of capital in excess of a CCR of 100%. This is to allow for:

- Short-term fluctuations in asset and liability values;
- The inherent uncertainty in valuing assets and liabilities; and
- The range of reasonable assumptions and methods that might be used in quantifying the regulatory capital requirements of a firm.
- The passage of time between my review and the Transfer Date.

6.4.7. To test the target buffer that QBE EO sets for itself and each of its subsidiary companies using the Capital Appetite Framework, I have performed a number of sensitivity tests in Section 14. This testing enables me to form a view as to the appropriateness of the margin and therefore whether the parties to the Transfers maintain a level of capital that is at least adequate and also shows whether there is a material change in the size of margin that is appropriate for each of the parties as a result of the Transfers.

6.4.8. In Section 14 I have also performed the following tests:

- Assessing how the CCR changes for each of the parties under a set of scenarios. These scenarios address each of the main risks facing the companies.
- Performing a Reverse Stress Test on each of QIEL, QBE Re, QBE UK and QBE Europe to understand the impact of multiple severe scenarios coinciding.

6.4.9. Looking at and comparing the impact of the scenarios on the CCR and the Reverse Stress Test and assessing the Capital Appetite Framework help me to form a view on:

- the reliability of the SCR calculations of each company; and
- the effects of the Transfers on the absolute and relative level of security that each company provides to the Affected Policyholders.

6.5. Comparison Criteria – non-financial effects

6.5.1. The non-financial consequences of the Transfers are less clearly defined. In this Report I have considered the following elements, many of which relate to matters of conduct:

- Governance, strategy and operational matters.
- Policyholder priority on insolvency and winding-up and set-off rights.
- Policyholder protection schemes, policyholder complaints and Employers' Liability Tracing Office.
- Impact on reinsurers.
- Supervisory authorisations, Internal Model approvals and other waivers.
- Insurance law and governing law considerations.
- Cost and tax effects of the Scheme.
- Pension funds and employee benefit plans.

6.5.2. If needed, I also flag specific areas of concern relating to conduct risk.

6.5.3. For these non-financial matters, I have indicated where my comparisons rely upon my subjective judgements rather than what I consider to be a more straightforward interpretation of the facts. My conclusions for these non-financial topics make use of my general understanding of the issue based upon my experience working in the general insurance and reinsurance industry over a number of years.

6.6. Evaluation of approach to communications

6.6.1. I have looked at the approach proposed by QBE EO to communicating details of the Transfers to the Affected Policyholders.

6.6.2. In doing so, I have looked at:

- The rationale for any waivers being sought from the Court by QBE EO in respect of their obligations to notify all of the Affected Policyholders. This includes consideration of the reasons for excluding certain policyholders from communications, and the way in which QBE EO has identified them (including how policyholder segmentation has been carried out and other analysis in support of the waivers.)
- The mode and content of communication proposed by QIEL, QBE Re and QBE Europe to the policyholders they intend to notify of the Transfers.
- Where Brokers and Coverholders are being asked by QBE EO to carry out the communication, I have enquired into the extent to which QBE EO can reasonably rely on these intermediaries to comprehensively carry out this communication.
- The suitability of arrangements put in place by QIEL, QBE Re and QBE Europe to handle enquiries arising from the notified policyholders.
- The suitability of the publicity and advertising arrangements proposed by QIEL, QBE Re and QBE Europe given the nature of the Affected Policyholders.

6.6.3. I have also considered:

- The likelihood of those affected by waivers giving rise to a claim;
- The materiality of changes arising from the Transfers for the policyholders excluded by the waiver;
- The cost saving from the waiver to QBE EO vs. the benefit to the policyholders excluded by the waiver; and
- Whether any compensating arrangements have been proposed by QIEL, QBE Re and QBE Europe to make up for the more waivers from full notification requirements, such as use of a level of advertising that is greater than the regulatory minimum required for the Transfers.

6.7. Segmentations considered

6.7.1. For my review, the principal segmentation of the Affected Policyholders that I have adopted is between:

- Transferring QIEL Policyholders;
- Remaining QIEL Policyholders; and
- Transferring QBE Re Policyholders.

6.7.2. This segmentation covers all of the policyholders of the three companies.

6.7.3. The other segmentations that I have considered are:

- Personal consumers (ie individuals) and small businesses – this is because under UK regulation, these policyholders have additional protections in the event of insurer failure or a complaint against the administration of their policy or claim. I consider this specific subset of policyholders in Section 17 when I review these matters.
- Reinsurance policyholders – this is because these policyholders rank behind direct insurance policyholders on wind-up and QBE Europe is a mixed insurance and reinsurance company, whereas QBE Re is a pure reinsurer. I have considered the issue in Section 17.
- Policyholders with policies governed by the laws of a non-EEA member state. This specific issue is covered earlier in this Section 17.
- Life reinsurance business. Owing to some of the specific characteristics of life insurance and reinsurance business, I have retained specialist assistance regarding this portfolio to confirm that the risks presented by them do not materially affect my conclusions. The life reinsurance portfolio is discussed in Section 8 and the exposure of QIEL, QBE Re, QBE UK and QBE Europe to it in one of the scenarios considered in Section 16.

6.7.4. I considered but did not explicitly segment long-tail policyholders from short-tail policyholders. As the name indicates, long-tail business takes longer for claims to be reported and settled than short-tail business. This means, for example, that these policyholders are exposed to risks that may emerge some time after the Transfers, and not just in the immediate aftermath. I did not use an additional segmentation for these types of policyholders as I concluded that their position was not being affected by the Transfers. All of the Affected Policyholders are already, and will remain, exposed to a mixture of long-tail and short-tail risks. In my scenario testing in Section 16 I have considered the impact of loss scenarios associated with both short-tail and long-tail classes of business.

6.8. Reliance on data and information from QBE EO

6.8.1. My analysis has made use of material prepared by and for QBE EO and its subsidiaries. This data is listed in Appendix 3. There were no material data items requested that QBE EO were not able to provide.

6.8.2. I believe it is appropriate for me to rely upon the data and information supplied to me by QBE EO Staff because:

- The data and information appeared to me to be reasonable, based upon my (re)insurance knowledge and experience. I have not, however, performed an audit of the data nor have I sought to test the controls surrounding their preparation.
- I performed the following additional tests to provide myself with comfort that the data supplied was appropriate:
  - Reconciliation checks of claims information to published accounts to check for completeness.
  - Independent tests of certain calculations or review of the interpretation of their results. These have been described in the relevant parts of this Report.
  - Inspection of various aggregated and individual data items supplied to confirm that they were consistent with my understanding.
  - Where calculation results were supplied, performing approximate checks of the results to test for any anomalies.
  - Where my testing highlighted features or anomalies that had not been explained, I sought clarification from QBE EO Staff.
- I have considered the statements made to the Court by Mr. David Winkett in his witness statement at paragraphs 71 to 73 and that are included as part of the Transfers documents. In his witness statement made to the Court, Mr. Winkett confirms (at paragraph 72) the reliability of the data and information (including those that are based upon opinions, views or forecasts) that has been provided to me.
- I consider that Mr. Winkett is suitably placed to provide such confirmation as he is the Chief Financial Officer of QIEL and QBE Re, an approved person on the Financial Services Register, maintained by the FCA, and an experienced insurance professional. Within QBE EO, the individuals who have provided me with information report, either directly or indirectly, to Mr. Winkett.

6.8.3. The data provided also includes material relating to future business plans for QBE EO and its subsidiaries. Other than those explicitly referred to in this Report, I have not been advised of any material changes to these plans, for example, future major Internal Model changes, other new Part VII transfers or changes to the level of capital targeted by the company.

6.9. Reliance on others

Legal Advice

6.9.1. I received copies of two pieces of legal advice prepared for QBE EO. In both cases, the lawyers providing the advice were happy for me to receive a copy of the advice and have stated in writing that I could rely upon it in my role as Independent Expert. The advice related to the following matters:

- The Financial Ombudsman Service from Maria Ross of Norton Rose Fulbright LLP, dated 15 March 2018.
- Ranking of insurance and reinsurance creditors under Belgian Law - from Dorothée Vanderhofstadt of NautaDutilh BVBA/SPRL, dated 18 July 2017.

6.9.2. For each piece of legal advice, I have considered the advice carefully and used it to form my own view regarding the matter. In both cases, the nature of the advice is in my view of a factual nature, setting out in summary form the legal position. While the lawyers providing the advice have both been retained as legal advisers by QBE EO or its subsidiaries, I did not identify any subjective matters in them or perceive that the advice sought to provide an advantageous interpretation for QBE EO or its subsidiaries. I am therefore satisfied that I have been able to use the material prepared by the law firms in forming the conclusions set out in this Report without impairing my independence. In the relevant sections of the Report I have briefly explained my understanding of the matter so that if Affected Policyholders have concerns regarding the interpretations then they can draw this to the Court's attention so that I can consider the matter further.

Life Reinsurance Portfolio

6.9.3. QBE Re underwrites a small portfolio of life reinsurance business. To review the Technical Provisions, risks and capital requirements arising from this portfolio, I retained the assistance of Alison Carr. Before retaining Alison's assistance I reviewed a copy of Alison's CV and satisfied myself that she had sufficient relevant experience to assist me on these matters.

6.9.4. Alison is a senior consultant actuary and client manager at Steve Dixon Associates LLP, an actuarial consulting firm. She has 24 years of experience as a consultant in the UK life assurance industry dealing with a wide variety of products and insurers in the UK and overseas. She qualified as an actuary in 1998 and has held practising certificates since 2007. She currently holds practising certifications for Chief Actuary (Life) and With Profits Actuary.

6.9.5. She has assisted Independent Experts on a number of Part VII transfers and a transfer of engagements between two friendly societies. She has also been involved in other transfers of engagement, advising the insurer directly on the preferred partner and/or assisting the Actuarial Function Holder and With-Profits Actuary. In all the transfers of engagement, she led the projects under the assigned actuary.

Translation of documents

6.9.6. QBE Staff have told me that some of the material sent to policyholders notifying them of the Transfers will be written in foreign languages. These will have been professionally translated for QBE EO and I anticipate confirming in my Supplemental Report that QBE EO has obtained certificates provided by each translator verifying the accuracy of the material translated.

Other Matters

6.9.7. There were no other matters where I considered seeking other specialist advice:

6.10. Contact with regulators

6.10.1. I have attended meetings with the PRA and FCA relating to the Transfers. Both the PRA and FCA have had the opportunity to review this Report before it was finalised and ask me questions relating to it. The PRA, in consultation with the FCA, has approved the form of my Report.

6.10.2. I have met with a representative of the NBB regarding the Transfers and provided them with my contact details in the event that they had any matters regarding the Transfers that they wished to raise with me directly. In the normal course of events, I would anticipate that such matters would be raised initially with QBE EO staff directly, or with the PRA and FCA.

6.10.3. QBE EO staff have told me that in their correspondence with the BMA, they have included my contact details in the event that the BMA have any matters regarding the Transfers that they wish to raise with me directly.

6.10.4. I will comment in my Supplemental Report on any matters raised with me by the NBB or BMA.

C. Detailed Review – Financial Effects

7. Introduction

7.1.1. This part of my Report, Part C, contains my in-depth analysis of the financial strength of the companies before and after the Transfers. It is presented in the sections listed below.

7.2. Technical Provisions and Balance Sheets

7.2.1. Section 8 sets out my review of the Technical Provisions of QIEL and QBE Re as at year-end 2017.

7.2.2. Section 9 summarises the remainder of the balance sheets pre- and post-Transfers for each company, together with QBE EO, as at year-end 2017.

7.3. Qualitative Review of Capital Requirements

7.3.1. Section 10 draws on my analysis in Sections 8 and 9, together with the QBE EO ORSA report and summarises the key risks for QIEL and QBE Re pre-Transfers, and how I believe that these will change under the Transfers.

7.3.2. Section 11 reviews the QBE EO Internal Model and the approaches taken by QIEL, QBE Re, QBE UK and QBE Europe to determining their SCR and Indicative Internal Model SCR. I comment on the QBE EO Internal Model approach, its coverage of risks and the governance, validation and model change cycle surrounding the QBE EO Internal Model.

7.3.3. Section 12 sets out how QIEL, QBE Re, QBE UK and QBE Europe determine the financial resources that they need to hold so that their stakeholders can have sufficient confidence that claims and other liabilities will be met as they fall due.

7.4. Quantitative Review of Capital Requirements

7.4.1. Sections 13 and 14 contain my quantitative analysis of the risks and capital requirements for QIEL, QBE UK, QBE Re and QBE Europe. In Section 13 I have set out the capital requirements calculated for each firm pre- and post-Transfers on a number of bases and compared them with their Eligible Own Funds. In Section 14 I set out the results of a number of additional tests on the quantitative financial strength of QIEL, QBE UK, QBE Re and QBE Europe. These tests, incorporating existing scenario tests used by QBE EO Staff and supplemented by some additional tests requested by me, provide me with an alternative perspective on the financial strength of the companies from the SCR calculations in Section 13.

7.4.2. Section 15 considers whether my conclusions would change under scenarios in which only one of the Transfers goes ahead.

7.5. Summary

7.5.1. Section 16 summarises this portion of my analysis to reach my conclusions regarding the financial effects of Transfers.

8. Review of Company Technical Provisions

8.1. Introduction

8.1.1. The Technical Provisions of each of the QBE companies are one of the largest items on each company's balance sheet and the largest source of risk. They are therefore a key component for me to consider in my analysis. This section:

- Provides a description of the (re)insurance portfolios of QIEL and QBE Re.
- Sets out the matters that I have reviewed and my conclusions from reviewing the Technical Provisions of both companies.
- Highlights the main sources of uncertainty associated with the Technical Provisions of the two companies and identifies which will be transferring between companies as a result of the Transfers.

8.2. Conclusions regarding the Technical Provisions

8.2.1. Overall, I have concluded that the Technical Provisions of each company and the allocation of Technical Provisions provide me with a suitable basis upon which to perform my review of the Transfers.

8.2.2. There are two key judgements underpinning the Reserves that dominate the uncertainty in the reserve estimates, namely:

- Estimates of expected profitability in current and recent underwriting years. For longer-tailed classes, reserving techniques often place greater weight upon initial profitability assumptions where it is too early to estimate the ultimate loss experience based solely upon the losses reported to date; and
- The extent to which claims will continue to develop in future, particularly for long-tail classes of business. This may arise because QBE EO Group, QIEL and QBE Re do not have experience of the full run-off of the claims arising from this type of business, or because the rate at which these claims develop changes materially over time. As a result claims experience may differ from assumptions and mean that future claims costs are underestimated.

8.2.3. Both of these:

- Can lead to a risk of future adverse loss development should assumptions change in future, or if emerging claims experience exceeds the level anticipated in each company's Reserves.
- Are issues faced by all insurers that write similar lines of business, but are exacerbated by the current (re)insurance market environment where rating levels suggest minimal levels of profitability across many lines of business.

8.2.4. I have tested the resilience of QIEL, QBE Re and QBE Europe to more conservative judgements in these two areas in Section 13.

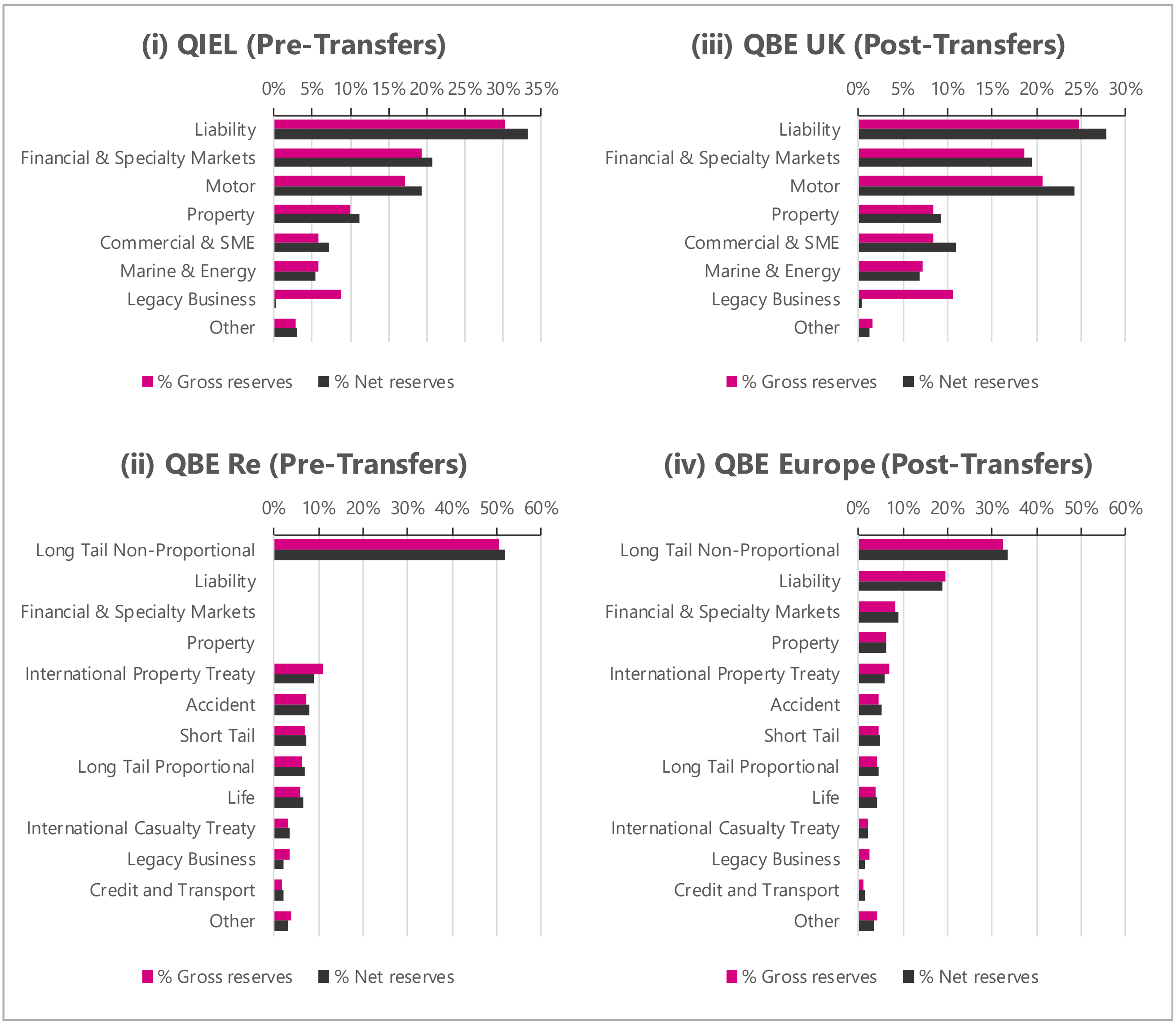
8.3. Description of portfolios

8.3.1. Table 8.1 sets out the gross and net Technical Provisions on a GAAP basis of the two companies (QIEL and QBE Re) as at 31 December 2017 and the corresponding position post-Transfers, were they to have already taken place.

8.3.2. Figure 7 provides a graphic illustration of the approximate breakdown of Reserves by class of business for each entity before and after the Transfers. While the exact proportions will differ at the date of the Transfers, I do not anticipate that such changes will be material.

Table 8.1 – Summary of GAAP Technical Provisions as at 31 December 2017, £ billion						
	Pre-Transfers			**Post-Transfers**		
	(i) QIEL	**(ii) QBE Re**	**Total**	**(iii) QBE UK**	**(iv) QBE Europe**	**Total**
Gross	3.8	1.2	**5.0**	3.0	2.0	**5.0**
Reinsurance	(1.1)	(0.1)	**(1.2)**	(0.9)	(0.3)	**(1.2)**
Net	**2.7**	**1.1**	**3.8**	**2.1**	**1.7**	**3.8**

Figure 7[13] - Reserves as at 30 September 2017 - Approximate Breakdown by class of business



8.3.3. Table 8.1 shows how the net GAAP Technical Provisions of QIEL will reduce significantly, while QBE Europe will have Technical Provisions substantially greater than those of QBE Re.

8.3.4. Table 8.1 also shows that the total net GAAP Technical Provisions across the two companies do not change as a result of the Transfers.

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[13] Illustration is prepared on an underwriting year basis and net of reinsurance figures are before application of DLRC aggregate reinsurance protection, discussed in Section 8.7, and other group reinsurance recoveries.

8.3.5. Figure 7 shows that approximately 84% of the net Technical Provisions of QIEL fall within the liability, motor, financial and specialty markets and property segments, with 7% arising from the commercial and SME package business portfolio, 5% from marine and energy business and the remainder from a range of other classes.

8.3.6. Approximately 9% of the gross of reinsurance Technical Provisions arise within a segment referred to as legacy business; these liabilities are almost entirely reinsured.

8.3.7. Figure 7 shows that the composition of QBE UK's Technical Provisions by segment is similar to that of QIEL pre-Transfers.

8.3.8. For QBE Re, Figure 7 shows that approximately half of the Technical Provisions arise from the long tail non-proportional segment. This is a portfolio of excess of loss reinsurance business; approximately half of which stems from French business.

8.3.9. Most of the remainder of QBE Re's Technical Provisions arise from five other segments (all of which are reinsurance business): international property treaty, accident, short tail, long tail proportional and life. About 10% is made up of an assortment of other classes.

8.3.10. Figure 7 shows that QBE Europe's business mix differs markedly from QBE Re's through the addition of the European branch business of QIEL. This results in approximately one quarter of the post-Transfers net Technical Provisions being made up of liability and financial and specialty markets insurance liabilities and a little over 5% being property insurance liabilities.

8.3.11. The proportion of QBE Europe's business arising from the existing QBE Re liabilities is reduced, so that the long tail non-proportional segment's liabilities reduces to a little under 35% of the total and the net Technical Provisions of the other five segments listed in paragraph 8.3.9 reduces to approximately 25%. The overall effect is a more balanced portfolio that theoretically should be more stable.

QIEL Portfolio Segments – Detailed description of Pre-Transfers Portfolios

8.3.12. The liability segment has two parts:

- London Market division business written mostly on a direct and facultative basis from countries around the world. This comprises a diverse mix of industries and coverages.
- Retail division business written through UK, Ireland and continental European branches covering employers' liability, public liability, general liability, accident and health, and French construction (Dommages-Ouvrage and Decennial).

8.3.13. The financial and specialty markets segment is written through both the London Market and branch network, and covers a diverse mix of lines, including professional indemnity, financial lines, management liability, directors' and officers' liability, medical malpractice, construction, after-the-event legal expenses, environmental impairment liability and kidnap and ransom.

8.3.14. Motor insurance is written through the branch network and QIEL's UK head office and covers commercial policyholders, bus and coach accounts and motor trade businesses.

8.3.15. Commercial and SME package business comprises property, employers' liability and public liability risks and is written via QIEL's branches.

8.3.16. The property segment includes business interruption and some packaged liability risks and is written in both the London Market and through QIEL's branches.

8.3.17. The marine and energy segment includes some small vessel P&I business, as well as London Market cargo, hull and marine and energy liability risks.

8.3.18. The Legacy Business segment comprises:

- A portfolio that is the subject of 100% reinsurance agreement and that QIEL intends to transfer under Project Autumn to the current reinsurer. This is discussed in Section 5.
- A mix of aviation, casualty, credit, property and reinsurance portfolios in run-off.
- There is a further portfolio that is expected to have been transferred (under Project Docklow) to another (re)insurer by the Transfer Date.

8.3.19. The other portfolios include: motor extended warranty and asset protection risks, political violence, trade credit and surety risks.

QBE RE PORTFOLIO SEGMENTS – DETAILED DESCRIPTION OF PRE-TRANSFERS PORTFOLIOS

8.3.20. QBE Re's portfolios are written within three divisions: global reinsurance, legacy business and non-divisional. The ongoing global reinsurance business underwriting is split between QBE Re's Belgian, Irish and Bermudan branches.

8.3.21. Approximately 85% of the net of reinsurance claims Reserves arise from its Belgian branch global reinsurance portfolio, with approximately three-quarters of the remainder arising from the Irish branch global reinsurance operations. The rest is from legacy business, the Bermudan branch global reinsurance operations and various other small portfolios.

8.3.22. The Belgian branch share of the 2017 gross ultimate premium volume is lower at approximately 65%, reflecting the relatively shorter tailed nature of the business written through the Irish and Bermudan branches.

8.3.23. The Belgian branch portfolio comprises five reinsurance segments:

- Credit and transport – including aviation, credit and bonds, and transport business;
- Life and accident – including short-term and long-term mortality and morbidity business as well as proportional and non-proportional reinsurance of workers' compensation insurance;
- Long tail non-proportional business – segmented into reinsurance of casualty business in Belgium, France, the UK and other territories;
- Long tail proportional – split between motor and general third party liability reinsurance; and
- Short-tail reinsurance – property written on a non-proportional basis and fire and motor written on a proportional basis.

8.3.24. The Irish and Bermudan branch portfolios comprise North American and international property and casualty treaty business, marine and personal accident excess of loss reinsurance.

8.3.25. The legacy business is made up of a diverse mix of property, casualty, motor, credit and surety business in run-off. It includes a portfolio of risks exposed to US asbestos, pollution and health hazard liabilities written between 1977 and 1991, however the total size of these liabilities is less than 2% of the liabilities of QBE Re.

8.4. Approach to my review

8.4.1. My review of the companies' Technical Provisions has comprised the following elements:

- A review of the processes followed to prepare the Technical Provisions, including the data and other information used, the actuarial and other estimation methodologies applied and the documentation and sign-off performed.

- A high-level review of the Technical Provisions to assess the appropriateness of the key reserving judgements made.
- Specific elements of the reserving calculations where I carried out testing of a sample of models in greater depth.
- Life reinsurance reserving.

8.4.2. My work has been performed using the position of QIEL and QBE Re as at 2017 year-end. I anticipate updating the Court in my Supplemental Report to confirm whether there have been any material developments in the Technical Provisions in the intervening period.

8.5. Review of the documentation, reserving process, methodology, data, and sign-off process

8.5.1. The following paragraphs in this sub-section describe the review I carried out on the QBE EO reserving process for QIEL and QBE Re.

Documentation

8.5.2. The year-end reserving exercise is documented in the following material that I received and reviewed:

- Internal and external actuarial reserve reports (using data as at 30 September 2017) for QIEL and QBE Re pre-Transfers.
- The QBE EO Actuarial Function Reports regarding Technical Provisions, Underwriting and Reinsurance. These are prepared each year and for this Report, I have reviewed the reports regarding Technical Provisions as at 2016 and 2017 year-end, and the reports regarding Underwriting and Reinsurance issued in late-2017.
- Roll-forward report translating actuarial estimates as at 30 September 2017 to the booked GAAP Reserves at 2017 year-end.
- Reconciliations between the booked GAAP Reserves and the Solvency II Technical Provisions at 2017 year-end for QIEL and QBE Re.
- Validation report of the Solvency II Technical Provisions as part of QBE EO's Internal Model Validation at 2016 year-end.

8.5.3. Each year, as part of the independent validation of the Internal Model, a validation report is prepared covering the Solvency II Technical Provisions. At the time of writing my Report this exercise has not yet been completed, however I have reviewed the report for the 2016 year-end exercise.

8.5.4. I am satisfied that the year-end process for setting Technical Provisions for QIEL and QBE Re as at year-end 2017 is appropriately documented for the purposes of enabling me to reach my conclusions in this Report.

Reserving Process

8.5.5. Internal actuarial estimates for the Reserves for QIEL and QBE Re are prepared at a highly granular level. The main annual review is carried out as at 30 September to set estimates of ultimate premiums and claims for each underwriting year.

8.5.6. These estimates are then rolled-forward to year-end allowing for the earning of exposure between 30 September and year-end, adjustments for major claim movements and events arising and deduction of any claim payments made.

8.5.7. I have reviewed the key elements of this roll-forward process and sought explanations from QBE EO Staff for the material components of this.

8.5.8. Based on the explanations received from QBE EO Staff, I have concluded that the roll-forward exercise from the 30 September to year-end estimates prepared by QBE is suitable for use in my analysis in this Report.

8.5.9. The GAAP Technical Provisions are then translated to Solvency II Technical Provisions making allowance for the differences between these two calculation bases.

8.5.10. I have reviewed this translation in order to be comfortable with the adjustments made as at 2017 year-end. I anticipate confirming in my Supplemental Report that there are no material changes arising in the intervening period for either QIEL or QBE Re.

8.5.11. I have reviewed the steps performed to translate the GAAP Technical Provisions to the Solvency II Technical Provisions that I have used in forming my opinion. Where I believed it necessary, I have performed additional checks, noted below, on the calculations performed. Based on this, I have satisfied myself that an appropriate process has been used to prepare the Technical Provisions that enables me to use them as the basis for forming my opinions in this Report.

METHODOLOGY

8.5.12. QBE has applied standard non-life actuarial techniques in estimating the Reserves for QIEL and the non-life portion of QBE Re pre-Transfer, including the use of chain-ladder and Bornhuetter-Ferguson techniques, the use of rate-monitoring systems to estimate the profitability of new risks and the use of benchmark development data from external market sources or similar business written in other QBE classes.

8.5.13. When calculating the position net of reinsurance, an initial estimate is made of reinsurance recoveries as a proportion of gross claims. This is derived originally from the reinsurance pricing basis and the business plan, along with a review that considers catastrophe/ large/ attritional losses and non-treaty cover. Any known large outstanding claims are considered on a case by case basis. Reinsurance IBNR is unwound in line with the gross to maintain a suitable net provision.

8.5.14. The approach used by the internal and external actuaries to determine the best estimate GAAP Reserves as described in the reports appear to me to be appropriate and consistent with good practice. Standard techniques appear to be consistently applied and where they are likely to be unsuitable, alternative approaches have been adopted.

8.5.15. The Actuarial Function Reports highlight extensive rate monitoring and technical rate pricing of new and renewal business and provide detailed statistics for each company. This information is used to inform reserving assumptions for the more recent underwriting periods, where there is insufficient claims experience to assess business performance.

8.5.16. I am satisfied that the methodology used to estimate the non-life component of the Technical Provisions is appropriate.

8.5.17. Similar approaches (based on non-life reserving techniques) are adopted for the life reinsurance portfolio of QBE Re, with an initial expected loss ratio used in recent years based upon pricing assumptions, with the pricing using a mixture of life and non-life techniques depending upon the available data. Adjustments to this core approach are made for specific treaties where required. While these are acknowledged to be approximate, this is accepted by QBE Re on grounds of materiality.

8.5.18. My conclusions regarding the life reinsurance portfolio Reserves are contained later in sub-section 8.7.18.

DATA

8.5.19. The estimates are calculated using data extracted as at the end of September for both QIEL UK and QBE Re business, and during the last week of August for the European branch business of QIEL.

8.5.20. The data from the claims and underwriting systems are extracted and prepared by the Data Management & Analytics department and stored in an actuarial reserving database. This process makes allowance for various adjustments and allocations. Examples of these provided to me are:

- Segmentation of data to allow for policies written on a non-conventional basis, such as where an aggregate deductible applies.
- Segmentation of data to split property damage claims from personal injury claims, or to separate out disease claims. This is because the loss development behaviour of each type can differ.
- Allowance for third party, non-reinsurance recoveries.
- Reconciliation differences and other data errors.

8.5.21. QBE EO has a process in place whereby the Actuarial Function query and resolve any unusual data movements with the Data Management & Analytics department. Data issues that may affect specific classes are noted clearly within QBE's internal actuarial reports.

8.5.22. The Actuarial Function Reports confirm that data is appropriate for use, although they highlight that a significant amount of manual intervention is required. For my review:

- QBE have provided me with a reconciliation between claims and accounting information, and
- QBE EO staff were able to answer all of the queries I raised to my satisfaction.

8.5.23. I did not identify anything in the independent review of some of the portfolios (described below in 8.6) that suggested that the data was inappropriate for my analysis. For a business of the size and scale of QIEL and QBE Re, it is inevitable that data issues exist, and in my view the actuarial analysis appears to have taken an appropriate approach to addressing them. As a result, I do not believe that data issues that exist materially limit the reliability of the estimated Reserves.

8.5.24. For the longer-tailed classes of business, in particular the Long Tailed Non-proportional reinsurance classes, QBE Re has extensive claims history to support its Technical Provisions model parameter choices.

8.5.25. I have concluded that the data used for estimating the Technical Provisions is appropriate for me to reach my conclusions in this Report.

SIGN-OFF PROCESS

8.5.26. As part of my review of reserving documentation I have considered the sign-off process adopted by QBE EO staff, and the experience and qualifications of the members of staff responsible for each key stage of setting Technical Provisions.

8.5.27. The actuarial reserve estimates appear to have been prepared by suitably qualified and experienced individuals, with clear accountability and reporting lines in place.

8.5.28. The use of an external, independent actuarial review aligns with good practice for a large firm with diverse risks such as QBE EO. The external review adopts a differing segmentation of the portfolios from the internal analysis. This provides some comfort that the estimates in aggregate do not appear to be particularly sensitive to the decisions taken regarding the segmentation of the portfolio.

8.5.29. I have concluded that an appropriate process is in place for the sign-off of the estimates for the Technical Provisions for the two companies that are prepared by the Actuarial Function.

8.6. High-level review of the Technical Provisions

8.6.1. To gain additional comfort regarding the level at which the companies have set their Technical Provisions, I have carried out a limited review of some of the loss development experience of a subset of the Technical Provisions. This review covered over 75% of the net GAAP Technical Provisions of QIEL, QBE Re and QBE Europe.

8.6.2. My review was performed on data that had been aggregated to a relatively small number of classes of business with similar characteristics. Using data at this level of aggregation removes some of the distortions that arise from individual claim volatility caused by all but the largest claims. As it is performed at a high level it may not detect detailed portfolio features and is not intended to be a substitute for this.

8.6.3. This limited, high-level review contrasted with the QBE internal analysis, which is carried out at a very granular level. While well-suited to taking account of portfolio features, a granular approach risks being overly affected by volatility that can arise in smaller portfolio segments.

8.6.4. I draw comfort from the consistency of results arising from the less granular reviews performed by the independent actuarial review and my own independent tests that the risks associated with under-reserving have been appropriately managed.

8.6.5. My review looked at:

- The appropriateness of the allowance for future loss development in the more mature underwriting years;
- The consistency over time in the level of future loss development across underwriting years;
- The consistency of assumed profitability levels in the most recent underwriting periods with the level and trend of profitability in the recent past; and
- Diagnostics relating to the proportion of gross Technical Provisions that were assumed to be ceded to reinsurers. Where I considered necessary, I have requested additional information[14] from QBE EO Staff around their reinsurance assumptions and I have received adequate explanation around these. QBE EO management have also confirmed that they are not aware of any major reinsurance disputes as at 31 December 2017.

8.6.6. While this review cannot, and should not, be taken as providing assurance regarding the level at which the Reserves have been set, nor is it an exhaustive test of the Reserves, it provides me with:

- additional comfort surrounding the manner in which, for a sufficient proportion of the Reserves, the results of the methodologies and assumptions described in the actuarial reports translate to the Reserves held by the companies; and
- a useful perspective on the degree of uncertainty arising in the estimation of Reserves by the actuarial teams.

8.6.7. My quantitative review of the portfolios provided me with comfort regarding the level of the Technical Provisions, their suitability for my purposes of considering the Transfers and that no adjustment is necessary in respect of them to the QIEL or QBE Re balance sheets.

[14] For example for large or unusual ceded IBNR amounts or in respect of specific losses.

8.7. Review of Specific Elements of Technical Provisions

8.7.1. There were three further elements of the Technical Provisions for which I performed a more in-depth review. These were:

- Translation of GAAP Technical Provisions to Solvency II Technical Provisions; and
- Calculation of recoveries for various aggregate outwards reinsurance protections.

SOLVENCY II TECHNICAL PROVISIONS

8.7.2. I have reviewed the translation steps between the GAAP and Solvency II Technical Provisions for QIEL pre-Transfers and QBE Re performed by QBE EO. The main steps include allowances for the following:

- *Future premium receipts on incepted contracts:* These are accounted for within Technical Provisions under Solvency II.
- *Unearned premium (incepted and unincepted) and associated claims costs:* Provision for unearned premiums under GAAP is removed and replaced with provisions for only the expected claims on unearned premiums under Solvency II. Future cashflows for business bound at the valuation date but not yet incepted are also included here.
- *Discounting:* cashflows are discounted at a prescribed rate under Solvency II to allow for the time value of money.
- *Risk margin:* an amount required within the Technical Provisions under Solvency II to support the cost of a notional run-off of the insurance obligations.

8.7.3. My review comprised a combination of tests, including reconciliation of data to other sources, diagnostic tests, comparison of the 2017 adjustments with those applied at 2016 year-end (which have been subject to independent validation as part of the Internal Model validation exercise) and other sense checks.

8.7.4. I have also reviewed the pro forma post-Transfers translation between the GAAP and Solvency II Technical Provisions by comparing it with the pre-Transfers calculation. In aggregate, the translations were consistent between pre- and post-Transfers entities.

8.7.5. Appendix 8 sets out a summary of the pre- and post-Transfers translations from GAAP to Solvency II

8.7.6. These tests led me to conclude that the pre- and post-Transfers Solvency II Technical Provisions were appropriate for me to use in my analysis in this Report.

AGGREGATE REINSURANCE PROTECTIONS AND 2017 HURRICANE EXPOSURES

8.7.7. QBE EO makes use of aggregate excess of loss reinsurance contracts with Equator Re to reduce the volatility of its net Technical Provisions and underwriting exposures. Placing reinsurance with its internal captive reinsurer alongside the other underwriting operations within the QBE Group enables the group to achieve economies of scale, as Equator Re can then purchase matching outwards reinsurance.

8.7.8. For the 2015 to 2017 accident years, QBE EO benefits from three DLRC contracts from Equator Re: The first DLRC contract covers insurance business of QIEL and QBE EO's Lloyd's operations. The second DLRC contract covers reinsurance business of QBE Re, QBE EO's Lloyd's operations and the reinsurance operations of North America (across the 2016 and 2017 accident years). The third DLRC covers credit and surety lines. The policies cover large and catastrophe losses equal to or above USD$2.5 million subject to an aggregate retention, and subject to per claim, event and yearly limits.

8.7.9. As at 31 December 2017, QIEL and QBE Re recoveries from DLRC were £235 million (12% of net claims outstanding) and £12m (1% of net claims outstanding) respectively.

8.7.10. I have reviewed a sample of the DLRC modelling files which the QBE EO actuarial team used to determine the recoveries to QIEL and QBE Re under these contracts.

8.7.11. Based on my tests of a sample of the calculations, I did not identify any issues in the approach or calculations that led me to modify my conclusions regarding the Transfers.

8.7.12. During the second half of 2017, QBE EO incurred significant gross losses arising from Hurricanes Harvey, Irma and Maria that gave raise to substantial market-wide insurance claims, particularly from damage arising in Texas, Florida and Puerto Rico.

8.7.13. As at 31 December 2017, the hurricane losses were at a relatively early stage of development and therefore subject to a degree of uncertainty gross of reinsurance. The effect of the DLRC is to transfer this uncertainty to Equator Re and significantly reduce the net exposure to QIEL and QBE Re. For each company, the aggregate cost from all three hurricanes net of reinsurance (but before DLRC) is less than £16 million.

8.7.14. These losses, combined with other catastrophe losses during the year, exhausted the catastrophe sub-limits on the DLRC protecting QBE EO's insurance and reinsurance businesses for the 2017 accident year. To test whether the exhaustion could give rise to a material impact on the net loss, QBE EO staff have calculated for me the impact on QIEL and QBE Re of a 10% increase in gross ultimate losses for the three hurricanes. This shows that the net Reserves of QIEL and QBE Re (after allowing for reinstatement premiums) both increase by less than the gross deterioration. The impact on net technical provisions is less than 1% for each entity. Given the size of the net losses (before the benefit of any DLRC recoveries are applied) relative to the overall Reserves of each company, I do not anticipate that uncertainty in the final cost of the hurricane losses adds materially to the uncertainty in the Reserves.

8.7.15. QBE EO Staff have also confirmed to me that QIEL and QBE Re will continue to be covered by reinsurance coverage (e.g. worldwide catastrophe cover) other than DLRC and that there has been no adverse movement in the hurricane estimates (based on QBE's reserve review carried out as at 31 March 2018) emerging since 2017 year-end.

8.7.16. QBE EO has purchased a number of other aggregate outwards reinsurance contracts from Equator Re to cover deterioration in its outstanding claims Reserves:

- DAR1: An aggregate excess of loss reinsurance policy protecting accident years 2011 to 2014 from adverse movements in bodily injury claims as a result of changes to the discount rate used by the Court to determine lump sum awards for loss of earnings and cost of care. These are typically awards made to individuals suffering the most severe injuries.

  During 2017 the Ministry of Justice announced a change to the rate of interest (Ogden Rate) that materially increased the size of such claims, and subsequently brought forward legislative proposals that may reduce them. On 20 March 2018 the Ministry of Justice formally published the Civil Liability Bill which includes these reforms to the Ogden Rate to be used by the Court and other reforms to small bodily injury claims. It remains unclear whether and when the new laws will be approved by the UK Parliament and come into force.

Currently the Ogden rate set by the Lord Chancellor is -¾%, but the proposals published by the Ministry of Justice suggest that the new approach to setting the Ogden rate may give rise to a rate of between 0% and 1%. QIEL has taken account of this in its choice of assumed discount rate at +¼% for reserving purposes and in Section 14 I have considered the impact of a reduction of the rate used by QIEL to calculate its Technical Provisions to -1% (Scenario S.4) from the current level.

- DAR2: An aggregate excess of loss reinsurance policy to cover deterioration in the large risk losses for QBE EO's financial and specialty lines portfolios. Incurred claims experience was higher than expected on this portfolio during the first half of 2017 and this was reflected in QIEL Reserves at year-end 2017. QBE EO Staff have told me that they believe that this may have arisen from changes to claims handling processes, which meant that loss estimates were recorded more quickly than previously. Based on the actuarial reserve estimates from the internal and external actuarial review, together with my high-level review of the Technical Provisions, I believe that the Reserves for this portfolio are appropriate for my use, but I note the uncertainty present.

  As at 31 December 2017, approximately 60% of the cover across all accident years had been utilised, however I have been told by QBE EO Staff that the 2013 and 2014 underwriting years were close to or fully utilised. Therefore, further deterioration across these years would not be protected from the DAR2 aggregate covers. In Section 14, I have considered the impact of a deterioration in Reserves on the financial strength of pre- and post-Transfers entities. This tests (under Scenario S.10) the effect of applying to classes that make up over 80% of the non-property reserves of QIEL and QBE Re:
  - a 5% increase in the net of reinsurance Reserves; together with
  - a 5% increase in the planned loss ratio for the new underwriting year.

8.7.17. *Based on my analysis of the aggregate reinsurance protections purchased by QIEL and QBE Re, potential exhaustion of this reinsurance and the effects of the 2017 hurricanes, I identified scenarios for further testing in Section 14, but did not identify any issues that led me to modify my conclusions regarding the Transfers.*

8.7.18. QBE EO Staff have told me that, to date, no decision has been reached by QBE Group regarding renewal of the group-wide DLRC reinsurance arrangement. While the current QBE EO Approved Internal Model assumes its renewal, QBE EO Staff have performed for me a sensitivity run showing the effect of its non-renewal on the SCR. This shows an increase in the Indicative Internal Model SCR of less than 1% for each of QBE UK and QBE Europe.

8.8. Life Reinsurance Reserving

8.8.1. To review this portfolio I retained the assistance of Alison Carr from Steve Dixon Associates LLP to review the life reinsurance business of QBE Re. Her review noted that the methodology used by QBE EO staff to estimate Reserves is unusual for life insurance business, but can be reasonably applied to the business in the portfolio with short durations and which makes up a large proportion of the Reserves.

8.8.2. For the longer-term business, she was able to obtain an understanding of the nature of business in the portfolio and form a view as to the potential uncertainty in the Technical Provisions for it.

8.8.3. While her review was relatively high level, and not suitable to provide an opinion on the Technical Provisions to a high degree of accuracy, she was able to conclude that she did not believe that there was any bias in the reserve estimates.

8.8.4. Based on her work, Mrs. Carr was able to confirm that the Technical Provisions for the Life Reinsurance portfolio was within a €50 million materiality limit, or 2.5% of the net Technical Provisions of QBE Re as a whole. While this is clearly a wide range in the context of the portfolio, I was satisfied that this was sufficient assurance for the purposes of my considering the Transfers.

8.8.5. I am satisfied that any under or over-estimation in the Reserves for the Life Reinsurance portfolio will not lead me to modify my conclusions regarding the Transfers.

8.9. Sources of uncertainty in the Technical Provisions

8.9.1. This final part of my review of the Technical Provisions summarises my observations on various sources of uncertainty in the Technical Provisions of QIEL and QBE Re, and how they compare with those of QBE UK and QBE Europe. These elements are based on my review of the internal and external actuarial reserving reports together with my wider market experience and my own observations from reviewing the Technical Provisions.

8.9.2. I have not provided an exhaustive list, but highlighted key elements of uncertainty and whether they will move between or remain with one or more of QIEL, QBE UK, QBE Re and QBE Europe under the Transfers.

8.9.3. These observations below do not include sources of uncertainty associated with other areas of risk facing the company, such as credit, group or operational risks. Therefore, failure of key insurance counterparties do not appear on this list. Similarly, because the list is net of reinsurance, the low loss retention for risk and catastrophe claims for both QBE Re and QIEL, removes certain types of risk from this list.

8.9.4. The following general sources of uncertainty affect the Technical Provisions of QIEL, QBE UK, QBE Re, and QBE Europe:

- Inadequate allowance for claims development of long tail insurance and reinsurance classes in reserve estimates.
- Profitability of recent underwriting years proving to be lower than assumed in projection techniques.
- Emergence of new types of latent claim.
- Macro-economic effects including Brexit, and repeats of systemic financial market events such as the global financial crisis and sub-prime mortgage crisis.
- Weaknesses in QBE EO data quality and / or errors arising from complexity of the Technical Provisions calculation process.

8.9.5. The following specific sources of uncertainty affect QIEL, QBE UK, QBE Re and QBE Europe:

- For large bodily injury claims that are settled by means of annuities, mainly arising in the UK, and France, the rate at which costs are increased each year is uncertain, as is the future lifespan of the annuitant. Even with a reasonable number of such annuitants, improvements in medical science and population mortality gives rise to a systemic exposure to increased life expectancies. In the UK, the increase in costs each year is normally linked to an index published by the UK Office for National Statistics. In France and Belgium the rate is set each year by the government.
- UK large bodily injury claims are currently subject to increased levels of uncertainty whether they are settled as a lump sum or by means of an annuity. The Ogden Rate of interest being used to calculate lump sum awards for the most seriously injured victims was reduced in early-2017 and this change materially increased the cost of these awards. While the UK government has brought forward proposals for legislation that may increase the rates (and

thereby reduce the level of awards), it is currently unclear when or whether these proposals will be enacted into law.

- Portfolios where volatility in foreign exchange rates following the decision for the UK to leave the European Union may give rise to greater levels of inflation. This could be as a result of changes to the cost of importing goods, disruptions to supply chains or the availability of workers. Where this inflation feeds through to an increased cost of claims over time, ultimate claims costs may exceed the levels currently forecast.

8.9.6. The following specific sources of uncertainty affect QIEL or QBE UK and do not particularly affect QBE Re or QBE Europe:

- Trends in UK small bodily injury claims, including legislative changes.
- Surety business. This is a portfolio written within QIEL. The key risk is the failure of multiple clients at the same time either as a result of an economic shock or a contagion effect between surety clients. The risk is mitigated by the $10m per client limit provided by the internal group reinsurance arrangement.

8.9.7. The following specific sources of uncertainty affect QBE Re, but not QIEL. Post Transfers they will affect QBE Europe:

- The QBE Re Life reinsurance portfolio contains an element of life business for which Reserves are evaluated using non-life techniques. While the size of the portfolio is small (at approximately 2.5% of QBE Re's Reserves), there is the risk that the approximate approach of using non-life insurance valuation techniques may misestimate the overall Reserves. As this is a portfolio that QBE Europe is intending to grow, this risk may increase over time subject to changes in reserving approach.
- Long-tail reinsurance business written by QBE Europe where by their nature, the claims which affect excess of loss reinsurers are the larger ones that are typically more complex and may be subject to significant litigation and appeal. As a result, they can take very many years to fully settle.

8.9.8. The following specific sources of uncertainty affect QIEL pre-Transfers, but will affect only QBE Europe post-Transfers.

- The Dommages-Ouvrage and Decennial Liability business written to protect property owners in France. This class of business provides cover for 10 years following the completion of the project. For both portfolios, claims can take much longer to report and settle than the 10-year policy period, particularly for larger contractors.

8.9.9. Based on this analysis of changes in sources of uncertainty for each company, I have concluded that the portfolios are exposed to a diverse range of risks associated with Technical Provisions. Some of these are common to all of the portfolios, while others do not. As a result:

- *QBE UK will have a greater concentration to certain risks of UK origin, but will lose its exposure to other types of risk, including those arising from the Dommages-Ouvrage and Decennial Liability portfolio. This change will affect the Remaining Policyholders.*
- *Compared to QIEL, QBE Europe will lose exposures to some types of risks, notably those arising from small UK bodily injury claims, but acquire exposure to others, notably the reinsurance risks written by QBE Re. This change will affect the Transferring QIEL Policyholders.*
- *Compared to QBE Re, QBE Europe will become exposed to the European risks transferring from QIEL, but will benefit from the diversification it brings from the reinsurance exposures of QBE Re. This change will affect the Transferring QBE Re Policyholders.*

8.9.10. I have taken account of these changes when considering and comparing the capital requirements of each firm in Sections 10 – 15, including through use of scenarios in Section 14 which test the impact of adverse changes in Technical Provisions for each set of Affected Policyholders.

9. Review of Company Balance Sheets

9.1. Introduction

9.1.1. This section of my Report reviews the remainder of the items on the balance sheets of the companies, QIEL, QBE Re and QBE EO. The purpose of this review is to explain the main elements on the balance sheet on the two accounting bases used, the reasons for the differences between them and to identify any material uncertainties relevant to my consideration of the Transfers.

9.1.2. This review should not be taken as an audit of any of the company balance sheets.

9.1.3. Based on this review, I have concluded that the company balance sheets provide a suitable basis upon which to perform my review of the Transfers.

9.2. QIEL balance sheet and commentary

9.2.1. Table 9.1 shows the summary balance sheet for QIEL on both a GAAP and Solvency II basis as at 31 December 2017.

Table 9.1
QIEL Balance Sheets Pre-Transfer – £ million
As at 31 December 2017

ASSETS	GAAP	SII	Diff (GAAP - SII)	Paragraph reference
Investments & Cash in hand	3,654	3,880	(226)	9.2.2 – 9.2.4
Reinsurers' share of Technical Provisions	1,052	870	182	9.2.5 – 9.2.7
Debtors, prepayments & other assets	1,006	445	560	9.2.8
	5,711	**5,194**	**517**	
LIABILITIES AND CAPITAL				
Technical Provisions	3,789	3,495	295	9.2.9
Creditors & other liabilities	518	453	66	9.2.10
Total Liabilities	**4,308**	**3,947**	**360**	
Net assets	1,404	1,247	157	9.2.11
	5,711	**5,194**	**517**	
Net TPs	**2,737**	**2,625**	**112**	

9.2.2. Investments & Cash in hand. £3.1 billion of this is debt and other fixed income securities, £0.2 billion is cash, and the remainder is listed shares, infrastructure loans and other unlisted variable yield securities. 87.4% of total fixed interest and cash investments are with counterparties having an S&P rating of A or better.

9.2.3. The currency of QIEL's investment assets is 79% Sterling and 15% Euro denominated. The remainder is mostly US dollar denominated. QIEL has exposure to currency risk i.e. net asset exposure in non-Sterling currencies. They also have exposure to interest rate movements with average asset duration of 1.3 years, compared to a liability duration of 3.2 years.

9.2.4. The additional Solvency II assets are almost all amounts owing from other QBE Group companies which are treated as Debtors under GAAP.

9.2.5. **Reinsurers' share of Technical Provisions** In Section 8 I have described QBE EO's approach to calculating this item and my review of its approach and calculations.

9.2.6. Approximately 47% of this reinsurance asset is provided by Equator Re, with the remainder from external reinsurers. Almost all of the remainder have an S&P rating of A- or greater.

9.2.7. QBE EO holds £333 million of collateral in respect of amounts owed to its (re)insurance subsidiaries (including its Lloyd's operations) by Equator Re. QIEL also holds £314 million in letters of credit as security to mitigate credit risk exposure to its external reinsurers.

9.2.8. **Debtors, prepayments & other assets**. The main elements are:

- Debtors from direct and reinsurance operations (typically premium receivables and reinsurance recoverables) of £496 million on a GAAP basis. £193 million of this is treated as Technical Provisions under Solvency II.
- £252 million of loans to other QBE Group companies; most of these loans are treated as investments under Solvency II.
- £195 million of prepayments & accrued income. Over 90% of this is deferred acquisition costs which are excluded under Solvency II.
- £52 million of other debtors.
- Under Solvency II a deferred tax asset of £33 million is recognised.

9.2.9. Technical Provisions are discussed in Section 8.

9.2.10. **Creditors & other liabilities**. The main elements are:

- Creditors from direct and reinsurance operations (amounts owing on claims and outwards reinsurance premiums) of £372 million on a GAAP basis. £68 million of this is treated as Technical Provisions under Solvency II.
- £127 million of other creditors including taxation and social security.

9.2.11. On 27 March 2018 QIEL declared a dividend of £96 million that was paid on 16 April 2018 following profits after tax for 2017 of £189 million. This dividend payment is not reflected in Table 9.1.

9.3. QBE Re balance sheet and commentary

9.3.1. Table 9.2 shows the summary balance sheet for QBE Re on both a GAAP and Solvency II basis as at 31 December 2017.

Table 9.2
QBE Re Balance Sheets Pre-Transfer – £ million
As at 31 December 2017

ASSETS	GAAP	SII	Diff (GAAP - SII)	Paragraph reference
Investments & Cash in hand	1,571	1,578	(8)	9.3.2 - 9.3.3
Reinsurers' share of Technical Provisions	134	95	39	9.3.4 - 9.3.6
Debtors, prepayments & other assets	251	60	191	9.3.7
	1,955	**1,733**	**222**	
LIABILITIES AND CAPITAL				
Technical Provisions	1,212	1,083	130	9.3.8
Creditors & other liabilities	130	71	58	9.3.9
Total Liabilities	**1,342**	**1,154**	**188**	
Net assets	613	579	34	9.3.10
	1,955	**1,733**	**222**	
Net TPs	**1,078**	**988**	**91**	

9.3.2. **Investments & Cash in hand.** £1.2 billion of this is debt and other fixed income securities. The remainder is listed and unlisted shares, deposits with cedants, infrastructure loans, unlisted variable yield securities, foreign currency derivatives and cash. 92.4% of its total fixed interest and cash investments are with counterparties having an S&P rating of A or better.

9.3.3. The currency of its investment assets is 75% Euro and 20% US dollar denominated, with the remainder being a mixture of other currencies including Sterling. QBE Re has exposure to currency risk i.e. net asset exposure in non-Euro currencies. QBE Re also has exposure to interest rate movements with average asset duration of 1.4 years, compared to a liability duration of over 6 years.

9.3.4. **Reinsurers' share of Technical Provisions** In Section 8 I have described QBE EO's approach to calculating this item and my review of its approach and calculations.

9.3.5. Approximately 30% of this reinsurance asset is provided by Equator Re, with the remainder from external reinsurers. Almost all of the remainder have an S&P rating of A or greater.

9.3.6. QBE EO holds £333 million of collateral in respect of amounts owed to its (re)insurance subsidiaries (including its Lloyd's operations) by Equator Re. QBE Re also holds £24 million in letters of credit as security to mitigate credit risk exposure to its external reinsurers.

9.3.7. **Debtors, prepayments & other assets.** £204 million is premiums receivable, with 93% of this reclassified on a Solvency II basis to be part of the Technical Provisions. The remainder is other trade debtors, corporation tax and deferred acquisition costs. Under Solvency II a deferred tax asset of £15 million is recognised.

9.3.8. **Technical Provisions** are discussed in Section 8.

9.3.9. **Creditors & other liabilities**. The main elements are:

- Creditors from reinsurance operations (amounts owing on claims or outwards reinsurance premiums, or holdings of deposits from QBE Re's reinsurers) of £97 million on a GAAP basis. £58 million of this is treated as Technical Provisions under Solvency II.
- £25 million of other creditors including accruals, deferred income, taxation and social security.
- £6 million of pension benefit obligations.

9.3.10. On 27 March 2018 QBE Re declared a dividend of £68 million (€76 million) that was paid on 16 April 2018 following profits after tax for 2017 of £37 million. This dividend payment is not reflected in Table 9.2.

9.4. QBE EO balance sheet and commentary

9.4.1. Table 9.3 sets out a simplified consolidated group balance sheet for QBE EO on a Solvency II basis. These are based on its latest audited regulatory solvency submissions. Note that QBE EO has exemption from preparing audited consolidated financial statements on a GAAP basis as at 31 December 2017.

9.4.2. QBE EO's SII balance sheet includes the consolidation of its main insurance regulated entities, QIEL and QBE Re, and treats its subsidiary Lloyd's member, QBE Corporate Limited as an investment.

9.4.3. QBE EO's creditors and other liabilities includes £1.1 billion of subordinated debt which contributes towards the Eligible Own Funds of QBE EO. Only £420 million of this subordinated debt is eligible in the EOF calculation (and as noted in 13.6.2 is Tier 2 EOF) because approximately £0.7 billion of it (which is recorded under Investments & Cash in Hand and Debtors) is considered to constitute reciprocal financing under solvency II rules and therefore ineligible.

9.4.4. QBE EO's other debtors, prepayments and other assets (excluding the QIEL and QBE Re amounts) relate to non-insurance related receivables, deferred tax assets, property, and plant and equipment assets.

9.4.5. The pre-dividend Eligible Own Funds (EOF) of QBE EO is 12% greater than its net assets because of the net effect of approximately £420 million of issued subordinated debt, less approximately £150 million of ineligible net assets and £45 million of deferred tax assets. It also includes the consolidation of adjustments to the EOF of QIEL and QBE Re, each of which have approximately £10 million for ring-fenced funds that are not eligible for inclusion in the EOF calculation.

Table 9.3
QBE EO Consolidated Solvency II Balance Sheets Pre-Transfer – £ million
As at 31 December 2017

ASSETS	**QBE EO**	**QIEL**	**QBE Re**	**Paragraph reference**
Investments & Cash in hand	6,060	3,880	1,578	
Reinsurers' share of Technical Provisions	964	870	95	
Debtors, prepayments & other assets	864	445	60	9.4.6
	7,888	**5,194**	**1,733**	
LIABILITIES				
Technical Provisions	4,577	3,495	1,083	
Creditors & other liabilities	1,674	453	71	9.4.6
Total liabilities	**6,251**	**3,947**	**1,154**	
Net assets	1,637	1,247	579	9.4.7 – 9.4.9
	7,888	**5,194**	**1,733**	
Capital coverage				
Adjustment to Net Asset Value for EOF	*+197*	*-10*	*-10*	9.4.5
EOF (pre-dividend)	1,834	1,237	569	9.4.5
EOF (post-dividend)	1,691	1,141	501	9.2.11, 9.3.10, 9.4.7

9.4.6. QBE EO's debtors and creditors include an allowance for the net surplus of £6 million across the five defined-benefit pension and other employee benefit schemes as at 31 December 2017. The total present value of the liabilities of the five schemes as at this date is £400 million.

9.4.7. QBE EO reported post-tax profits of £242 million for 2017 in its GAAP legal entity stand-alone accounts. QBE EO declared and paid interim dividends of £143 million during June 2018.

9.4.8. On a consolidated basis, QBE EO's EOF (post-dividend) are 141% of its Approved Internal Model SCR. This provides QBE EO with considerable excess assets to absorb losses, support the capital requirements of QBE's Lloyd's operations and inject additional capital into QBE UK and QBE Europe to support their post-Transfers capital requirements.

9.4.9. In the event that QBE EO requires additional capital, it has access to the £175 million of Eligible Own Funds on demand under the Contingent Capital Facility described in Section 5.

9.5. Post-Transfers Balance Sheet Commentary

9.5.1. Appendix 7 shows the balance sheet position of the two entities on an "as-if" basis using the position as at 31 December 2017 on a GAAP and Solvency II basis.

9.5.2. QBE EO have told me that the investment profile for QBE UK will be nearly 90% in Sterling, with almost all of the remainder in US dollars. For QBE Europe, nearly 90% will be denominated in Euros, with almost all of the remainder in US dollars.

9.5.3. Both companies will have approximately 85% of their investments in A rated or better-quality assets. The mean term for QBE UK will be 1.3 years, and for QBE Europe 1.4; in both cases considerably lower than the mean term of the liabilities.

9.5.4. The Technical Provisions (including the Reinsurers' share of Technical Provisions) of QBE Europe comprise the combination of the EEA branches of QIEL with the totality of the Technical Provisions of QBE Re.

9.5.5. QBE EO Staff have identified the debtors and creditors of the EEA branches of QIEL from the individual accounting system ledgers of those branches; and the totality of balances for QBE Re. The intra-branch balances receivable/payable between the non-transferring part of QIEL and the QIEL EEA branches are expected to be settled on the same day as the Transfers.

10. Summary of key risks and qualitative appraisal of impact of the Transfers

10.1. Introduction

10.1.1. This Section sets out my qualitative appraisal of the financial impact of the Transfers on each set of Affected Policyholders.

10.1.2. I provide an overview of the key risks I have identified that affect each of QIEL, QBE Re and QBE Europe[15] and provide a qualitative description of the impact of the Transfers on each group of Affected Policyholders by comparing the risks faced by their (re)insurer before and after the Transfers.

10.1.3. Next I note the impact of changes to the size of the relevant (re)insurers and finally, I note that the Transfers present little change to the overall risk profile of QBE EO.

10.2. Key risks identified

10.2.1. From my review of the latest QBE EO ORSA report, the Technical Provisions and balance sheets of each company and taking account of my wider experience, I believe that the list below details the material risks facing QIEL, QBE Re and QBE Europe. Other than where associated with regulatory uncertainties, this list excludes strategic risks facing these firms. Strategic risks do not fall within the scope of the QBE EO Internal Model and are therefore not considered in setting the SCR. This is because they are perceived by QBE EO to emerge over a longer time horizon than the one-year over which the SCR is calculated and permit corrective management action.

- **Deterioration in Reserves**: This can occur from greater numbers of claims or larger claims than expected. Consequences can be particularly severe where arising from causes that affect multiple lines of business (e.g. claims inflation being worse than expected, legislative changes, or reserve estimation uncertainty possibly arising from weaknesses in data or from biases in the reserving processes (intentional and unintentional)).

  This uncertainty can result in aggregate claims costs exceeding their expected settlement values. Classes of business where claims take longer to be notified and to settle (notably casualty and reinsurance classes) are more exposed to this risk.

- **Impact of ongoing competitive market environment**: Competitive pressures can have a three-fold effect:
  - Lower profitability than expected in the business plans of the relevant company, owing to lower premium rates or wider policy terms and conditions.
  - Under-reserving of recent underwriting years as a result of overestimation of current market profitability. For longer-tailed classes, reserving techniques often place greater weight upon initial profitability assumptions than shorter-tail classes, and do so for a longer period of time.
  - Weaker reserving as a result of wider pressures on the profitability of a firm. Historically, Reserves set in times of adverse trading conditions have experienced greater degree of adverse loss development.

[15] Section 11 looks at how these are addressed in the QBE EO Internal Model and Sections 13 and 14 provide quantitative testing of them.

The second and third of these effects give rise to an increased risk of adverse reserve deteriorations arising.

- **Natural and man-made catastrophe events**: These include hurricanes, earthquakes, floods, pandemics, cyber-triggered events (such as blackouts), product contamination recalls or terrorism-related losses.

  While QBE EO and its subsidiary (re)insurers experienced significant natural catastrophe losses during the second half of 2017, the fact that QBE EO, QIEL and QBE Re all reported profits during 2017 indicates a degree of resilience to such severe loss scenarios;

- **Market risk:** Losses arising from falls in asset values, changes in the risk-free yield curve and movements in foreign exchange rates can give rise to losses to each of the companies. The current environment of economic and political uncertainty following the Brexit decision, including the perceived risk of negative risk-free interest rates increases the size of this risk. The average asset durations of the company's investment funds are shorter than their average liabilities durations and this helps to mitigate against increases in the yield curve.
- **Reinsurer counterparty default**: The failure of a major reinsurer can result in a significant reduction in the associated asset value. This could be particularly severe if coinciding with a major catastrophe loss event that is reinsured. With a large amount of reinsurance placed with Equator Re its failure is the largest part of this type of risk, notwithstanding QBE EO's arrangements to mitigate the risk described in Section 5.4.
- **Regulatory uncertainties**: Uncertainties such as the impact of Brexit can disrupt each company's ability to write new business and settle claims. Other current regulatory challenges that the firms recognise relate to the FCA's investigation into the wholesale broking market, and preparation for the forthcoming Europe-wide General Data Protection Regulation.

  Regulatory action can lead to fines, unplanned remediation costs and additional capital requirements or loss of profits from restrictions on writing new business.

  QBE EO's project to reorganise its European businesses by means of the Transfers is intended to mitigate some of the risks arising from Brexit.

- **Other risks:** QBE EO, QIEL and QBE Re are also exposed to a number of other, less material risks. These include risks arising from losses elsewhere in the QBE Group, risks associated with deficits emerging in the pension schemes guaranteed by QBE EO or QBE Re and various operational risks.

10.2.2. I have concluded that these material risks have been appropriately considered in the QBE EO ORSA and incorporate the key elements that I would expect to see facing these firms. Other than strategic elements of regulatory uncertainties identified above, I believe that the QBE EO Internal Model captures these material risks.

10.2.3. I have considered each of these material risks further in my quantitative testing of the capital requirements and the effect of the Transfers in Sections 12-15.

10.3. Impact of the Transfers on the Affected Policyholders – risk profile of (re)insurer

REMAINING POLICYHOLDERS

10.3.1. The Remaining Policyholders will remain exposed to all of the key types of risk outlined in Section 10.2. Changes will arise from changes to the portfolios to which QIEL remains exposed. In summary I expect these changes to be:

- An increased focus on UK liability risks owing to the removal of the European risks that are not directly exposed to the effects of higher UK claims inflation. This means that there will be less diversification in the business. Examples include the incidence and valuation of PPO claims, the Ogden rate of interest and ongoing trends in UK work-related injury and disease claims. Although QBE EO has an ongoing program of transactions to reduce some of this exposure by disposing of historic employers' liability and public liability claims portfolios, the remaining business within these classes are by their nature exposed to these trends and to the emergence of new classes of claim.
- A removal of exposure to risks from certain types of non-UK liability business, in particular French Dommages-Ouvrage and Decennial Liability business, both of which have 10-year policy exposure periods and owing to the long period required for all claims to be settled, are subject to greater levels of reserve risk than many classes underwritten by QIEL.
- An increased focus on UK property risks, in particular the effect of peak loss exposures arising from UK natural and man-made catastrophe events, and less geographic diversification from other European locations.

10.3.2. Qualitatively, I do not believe that these changes to the risk profile represent a materially favourable or unfavourable change to the position of the Remaining Policyholders.

TRANSFERRING QIEL POLICYHOLDERS

10.3.3. The Transferring QIEL policyholders will remain exposed to all of the key types of risk outlined in Section 10.2. Changes will arise from the benefits of diversification within QBE Europe that can serve to increase stability in the experience of a (re)insurance portfolio. Whereas the Transferring QIEL Policyholders benefitted pre-Transfers from diversification between the European and UK parts of the portfolio, following the Transfers they will benefit from the mixing of insurance and reinsurance liabilities within QBE Europe. In summary I expect these changes to relate be:

- The longer-tailed nature of the QBE Re reinsurance liabilities (with an approximate mean term of 6 years) compared to the average of the QIEL liabilities (closer to 3 years).
- The geographically diverse property, casualty and life reinsurance risks underwritten by QBE Re compared to those within the Transferring QIEL Policyholders' portfolio.

10.3.4. Offsetting these benefits arising from diversification are an exposure to new risks within QBE Europe's portfolio. The Transferring QIEL policyholders will become exposed to certain new risk types, such as mortality and morbidity risks and increases those arising from major US hurricanes and earthquakes.

10.3.5. Qualitatively, I do not believe that these changes to the risk profile represent a materially favourable or unfavourable change to the position of the Transferring QIEL Policyholders.

TRANSFERRING QBE RE POLICYHOLDERS

10.3.6. The Transferring QBE Re policyholders will remain exposed to all of the key types of risk outlined in Section 10.2. Changes will arise from more diversity in the portfolios to which their (re)insurer is exposed:

- The significantly shorter-tailed nature of pre-Transfers QIEL liabilities (with an approximate mean term of 3 years) by comparison to those of QBE Re (at closer to 6 years).
- Exposure to the classes of insurance Transferring from QIEL.

10.3.7. Qualitatively, I do not believe that these changes to the risk profile represent a materially favourable or unfavourable change to the position of the Transferring QBE Re Policyholders.

10.4. Impact of the Transfers on the Affected Policyholders – size of balance sheet of (re)insurer

REMAINING POLICYHOLDERS

10.4.1. QIEL will have a smaller balance sheet after the Transfers, with reduced premium income and Technical Provisions. The excess financial resources held by the firm will also reduce but remain at a level targeting a similar, very low, risk of being unable to meet policyholder claims.

10.4.2. The smaller balance sheet means that the magnitude of any individual cause of loss that can be absorbed by their insurer, without recourse to other funds within the wider QBE EO or QBE Group, is significantly reduced. QIEL will however remain a large, well-diversified (re)insurer.

10.4.3. A smaller balance sheet presents some disadvantage to the Remaining Policyholders owing to QIEL's reduced size, but I do not consider this on its own to have a material impact on policyholder security.

TRANSFERRING QIEL POLICYHOLDERS

10.4.4. QBE Europe will have a smaller balance sheet than pre-Transfer QIEL, with reduced premium income and Technical Provisions. The excess financial resources of QBE Europe will be less than those of pre-Transfer QIEL, but remain at a level targeting a similar, very low, risk of being unable to meet policyholder claims

10.4.5. The smaller balance sheet means that the magnitude of any individual cause of loss that can be absorbed by their insurer, without recourse to other funds within the wider QBE EO or QBE Group, is significantly reduced. QBE Europe will however be a large, well-diversified (re)insurer.

10.4.6. A smaller balance sheet presents some disadvantage to these policyholders owing to QBE Europe being smaller than pre-Transfer QIEL, but I do not consider this on its own to have a material impact on policyholder security.

TRANSFERRING QBE RE POLICYHOLDERS

10.4.7. QBE Europe will have a larger balance sheet than QBE Re, with increased premium income and Technical Provisions. The excess financial resources held by the firm will remain at a level targeting a similar, very low, risk of being unable to meet policyholder claims.

10.4.8. The larger balance sheet means that the magnitude of any individual cause of loss that can be absorbed by their (re)insurer, without recourse to other funds within the wider QBE EO group or QBE Group, is significantly increased.

10.4.9. A larger balance sheet presents some benefit to these policyholders owing to QBE Europe's size relative to QBE Re, but I do not consider this on its own to have a material impact on policyholder security.

10.5. Qualitative impact of Transfers on QBE EO

10.5.1. For QBE EO, the Transfers represent a rearrangement of which subsidiary (re)insurers writes and meets claims for each risk. There are no material aggregate changes anticipated in the aggregate assets, liabilities or risks.

10.5.2. I anticipate that the reorganisation of its subsidiaries will bring about some short-term operational risks (for example arising from management time being devoted to ensuring its successful execution, or possible effects on policyholder renewal or claim behaviour as a result of receiving correspondence from QBE EO relating to the Transfers). I do not anticipate that these are likely to be material for an organisation of the size of QBE EO or likely to persist over time.

10.5.3. Were the reorganisation not to take place, QBE EO would face significant risks from disruption to QIEL and QBE Re's ability to issue policies to new and existing customers and meet claims on existing policies, should Brexit negotiations not provide a legal mechanism for UK-domiciled insurers to do so.

10.5.4. I therefore believe that the Transfers appear unlikely to have any material adverse impact on QBE EO.

11. Approach to determination of capital requirements

11.1. Introduction

11.1.1. This section reviews the QBE EO Internal Model and the approaches taken by QIEL, QBE Re, QBE UK and QBE Europe to determine their SCR and Indicative Internal Model SCR.

11.1.2. The QBE EO Internal Model provides a means of quantifying risk for QBE EO, QIEL, QBE Re, QBE UK and QBE Europe. It has been adopted by QBE EO because it believes that the Standard Formula approach to setting the SCR is not appropriate to it and its subsidiaries. Approval has been sought, and granted, from the PRA for QBE EO and each of its subsidiaries to use the QBE EO Internal Model to calculate the SCRs. QBE EO Staff regularly update the model and its parameters and, where required by the Model Change Policy, seek re-approval of the model from the PRA.

11.1.3. In Section 12 I discuss how these companies use the results of the QBE EO Internal Model to assess the amount of financial resources that they need to hold so that their stakeholders can have sufficient confidence that claims and other liabilities will be met as they fall due.

11.1.4. In Sections 13 and 14 I set out my quantitative testing of the QBE EO Internal Model and the effect of the Transfers on the Affected Policyholders.

11.2. Model Approval

11.2.1. Due to the complexities and time required for each cycle of regulatory approval of the QBE EO Internal Model, as with many other companies, QBE EO uses both an approved and unapproved version of the model. In this Report, when I refer to the QBE EO Internal Model this covers both the tools, processes and procedures to calculate the Approved Internal Model SCR and to calculate an Indicative Internal Model SCR (which, while not a version of the model approved for calculating the SCR, uses the same underlying approach).

11.2.2. In order to gain approval, the regulator must not only approve the calculation methodology and the parameter inputs, but also the conditions and thresholds on which changes would trigger a Major Model Change. Any Major Model Change requires approval from the regulator and hence introduces a period of up to six months between their being prepared by the company and their being approved by the PRA.

11.2.3. Typically, QBE EO conduct a full Internal Model Approval cycle annually and the most recent changes to the model were approved by the PRA in February 2018.

11.2.4. In May 2018, QBE EO applied to the PRA (who acts as the lead supervisor for QBE EO within the European college of supervisors) for a Major Model Change to the QBE EO Internal Model to extend its scope to recognise its new insurance subsidiary QBE Europe.

11.2.5. In August 2018, QBE EO anticipates[16] seeking approval from the PRA and the NBB for a further Major Model Change to the QBE EO Internal Model. This will:

- Update it for model inputs, including the 2017 year-end balance sheet and Technical Provisions, and the 2018 business plans;
- Update the model parameters and introduce refinements to the calculation methodology; and
- Reflect changes brought about as a result of the Transfers.

[16] It is possible that at the date that this Report is finalised this application will have just taken place.

11.2.6. Approval of a new, or major change to, an internal model can take up to six months and require extensive internal prior preparation by firms. This means that in the short-term:

- QBE Europe will not have obtained an Approved Internal Model SCR by the Transfer Date, and will use the Standard Formula SCR to determine its SCR.
- QBE UK, being the same company as QIEL, will use its existing Approved Internal Model SCR. This is likely to overstate capital requirements, as this version of the model does not reflect the significant reduction in Reserves, premium income and risk exposures arising as a result of the QIEL Transfer.

11.2.7. In the medium-term, I expect that both QBE UK and QBE Europe will use an Approved Internal Model SCR that better reflects their ongoing business.

11.3. The Standard Formula SCR

11.3.1. The Standard Formula SCR is a model used by many firms under Solvency II to determine their SCR. It uses a prescribed methodology and parameters and while it provides an objective measure of the capital requirements for a (re)insurer, and can be applied consistently to the companies before and after the Transfers, it is not calibrated to its particular features.

11.3.2. In Section 13 I show the impact of the Transfers on the financial strength of QIEL, QBE Re, QBE UK and QBE Europe using the Standard Formula SCR as an alternative to the QBE EO Internal Model.

11.4. QBE EO's Approved Internal Model SCR and Indicative Internal Model SCR

11.4.1. QBE EO has developed a model to calculate the capital requirements both at the QBE EO level and for each of its subsidiaries including QIEL and QBE Re. The key outputs from the model for each firm are:

- the SCR for QBE EO and each underlying entity, (being for QIEL and QBE Re the Approved Internal Model SCR); and
- an Indicative Internal Model SCR, being the QBE EO Internal Model output using updated model inputs.

11.4.2. The key inputs to the model include the balance sheet, Technical Provisions and business plans for each entity. The model is sufficiently flexible that, by using relevant expected model inputs (including balance sheets, Technical Provisions and business plans for each entity) it will produce SCRs for each company both before and after the effect of the of the Transfers. Where these Indicative Internal Model SCRs are produced using the same model and on a consistent basis, they provide directly comparable results.

11.4.3. QBE EO regularly updates its model input parameters and, where necessary, makes changes to the underlying calculations to ensure that the model and its outputs continue to reflect the individual features of the companies as closely as possible.

11.4.4. Whilst the model can be used for internal purposes by the companies without approval from the regulator, in order to use the Indicative Internal Model SCR as the SCR, QBE EO must receive approval from the PRA. This approval was granted by the PRA with respect to QBE EO, QIEL and QBE Re most recently in February 2018. Unless a model has been approved by the regulator its results are called Indicative Internal Model SCRs. If a model has been approved by the regulator its output are called Approved Internal Model SCRs and act as the SCR.

11.4.5. It is important to understand that the regulator's approval of an internal model includes not only the calculation within the model but also the parameters and model inputs used in the model (including the balance sheet, Technical Provisions and Business plan for each entity) along with qualitative areas such as governance and areas of model use. Any significant changes to the model, its parameters or its inputs require the model to be resubmitted to the regulator for approval as a Major Model Change. Therefore, the modelled changes that will arise as a result of the Transfers have not, at the time of writing received approval from the PRA. Comparison of the effects of the Transfers cannot therefore be conducted using Approved Internal Model SCRs. There is also an inconsistency arising temporarily in relation to the calculation of the SCR as:

- QBE UK, being the post-Transfers name I have used for QIEL, will set its SCR using the Approved Internal Model SCR for QIEL and which does not take account of the reduced size of the entity and changes to its risks. As a result I expect this to overstate the SCR; and
- The new company QBE Europe has not yet had any model approved and will have to set its SCR using the Standard Formula.

11.4.6. This state of affairs will remain until QBE UK and QBE Europe receive approval from the PRA (coordinating where necessary with the NBB) following the application in August 2018 by QBE EO for approval of a Major Model Change. Based on QBE EO's experience over the last few years, I believe that it is realistic to anticipate that this approval may arise within six months of the Transfers.

11.4.7. In my analysis in this Section 11 and testing in Section 13 I have considered both the Approved Internal Model SCR and the Indicative Internal Model SCR. My testing of the QBE EO Internal Model in Section 14 makes use of Indicative Internal Model SCRs for each company post-Transfers that is consistent with the pre-Transfers Approved Internal Model SCRs.

11.4.8. The remainder of this Section 11 contains my review of the QBE EO Internal Model. This shows the steps that I have taken to satisfy myself that it is suitable for my analysis. After describing my approach to reviewing the QBE EO Internal Model, it is divided into sub-sections addressing each of the following aspects of it:

- Scope and design
- Governance
- Change and validation

11.5. Approach to Review of QBE EO Internal Model

11.5.1. My review on the QBE EO Internal Model has considered:

- Key parts of the QBE EO Internal Model documentation and validation reports.
- The methodology description and calculations that QBE EO proposes to use to split existing QIEL business classes where these will straddle QBE UK and QBE Europe.
- A schedule of data and model input items used by the model to understand the timeliness and appropriateness of the inputs.
- A sample of primary model validation tests, including reconciliation checks for key data / model input items.
- The results of the additional tests described in Section 14.
- Summary model output for each firm (both Indicative Internal Model SCR and Approved Internal Model SCR).
- Summary business plans for the 2017 and 2018 underwriting years.

11.5.2. I have also held a number of meetings with QBE EO staff in the capital modelling team to discuss the QBE EO Internal Model.

11.6. Scope and Design

11.6.1. QBE EO has developed the QBE EO Internal Model applicable to and appropriate for both itself and all of its (re)insurance subsidiaries: QIEL, QBE Re, QBE UK, QBE Europe and QBE EO's Lloyd's operations separately. This approach enables risks shared by all of them (for example major catastrophe events) to be modelled consistently, and where necessary, features of shared outwards reinsurance arrangements to be modelled appropriately.

11.6.2. While the QBE EO Internal Model includes the business underwritten at Lloyd's by QBE Underwriting Limited, for the purposes of calculating the SCR for QBE EO, QBE Corporate Limited (which owns the capacity of QBE Underwriting Limited) is treated in the QBE EO Internal Model as an investment and an additional amount of capital is included in the SCR for the full value of this asset. The model does, however, take account of the sharing of outwards reinsurance between QIEL, QBE Re and QBE's Lloyd's syndicates.

11.6.3. The model covers all of the non-strategic risks faced by QBE EO and its (re)insurance subsidiaries: insurance risk, market risk, credit risk, operational risk, liquidity risk, group risk and pension risk.

Insurance Risk

11.6.4. The QBE EO Internal Model allows for 73 distinct classes of business. During 2018 this is being increased to 79 classes post-Transfers to avoid material classes of business being split across more than one underwriting entity. The large number of classes of business reflects the diverse range of underwriting performed by QBE EO subsidiaries.

11.6.5. Insurance risk is split between future underwriting, unexpired periods of cover arising on past underwriting and expired periods of cover on past underwriting. Risk exposures arising from future underwriting periods and unexpired periods of cover include elements relating to catastrophes (both natural and man-made), large claims (typically where explicit outwards reinsurance protections may apply) and small or attritional claims. The model allows for the risk that premium rate levels may not be as profitable as anticipated in the business plan and volumes of business written may deviate from the plan.

11.6.6. Natural catastrophe risk modelling makes use of third party software widely used across the insurance market that enables exposures to be aggregated by their geographic location, and the impact of the effects of patterns of events tested. The patterns of events have been calibrated to historic catastrophes and current scientific understanding of their incidence. Overlaid upon the third-party software is QBE EO's own in-house underwriting and catastrophe modelling expertise, to allow for shortfalls in third-party software when applied to QBE EO's portfolio and the firm's own judgements regarding the characteristics of the risks. These adjustments are important to enable the QBE EO Internal Model to take account of perils or regions that are not included in the third-party software models.

11.6.7. Non-natural catastrophes make use of in-house technical underwriting and exposure modelling techniques to allow for man-made disasters as individual shock losses. As these risks tend to be diverse and complex, they rely on significant amounts of judgement taken by the firm.

11.6.8. For future underwriting risk, outwards reinsurance recoveries are modelled explicitly, including the effects of sharing reinsurance between QBE EO (re)insurance entities.

11.6.9. Reserving risk is modelled using statistical and actuarial models fitted to historic loss data overlaid with in-house expert judgements. Judgement is applied to adjust the variability selected to take account of the effect of group aggregate excess of loss reinsurance.

11.6.10. Claims costs allow for uncertainty over risks arising from common causes. Examples of elements considered include future claims inflation, changes in the legislative or political outlook and model or parameter specification errors. Whilst some allowance is made in the Technical Provisions for these issues, this uncertainty can result in greater increases in losses than assumed. As these factors can affect multiple lines of business at the same time, systemic drivers of losses are parameterised and modelled within insurance risk.

11.6.11. Allowance is included in the model for the emergence of risks over time, with losses from catastrophe claims assumed to be recognised in full during the first year.

11.6.12. Post-Transfers, many classes map without adjustment to either QBE UK or QBE Europe. For some however, it is necessary to split them so that aggregated results can be obtained for each company post-Transfers.

11.6.13. A relatively simple approach has been adopted for this splitting, under which an assumed level of correlation is assumed to exist between the sub-divided elements. The standalone variability of each is then assumed to scale inversely relative to their size (so that a smaller portfolio will become more volatile than a larger one). The scaling is set so that the combined distribution when the subdivided portfolios are combined has approximately the same variability as it did before sub-division.

11.6.14. I believe that this approach is an appropriate method to adopt, having the suitable characteristics of giving greater volatility to smaller portfolios and recombining to match the previous result. Prior to the updated QBE EO Internal Model being submitted to the PRA, a full model re-parameterisation exercise is scheduled, along with a full independent validation of the proposed QBE EO Internal Model. To provide me with additional assurance, I requested that QBE EO staff perform a sensitivity test showing the impact of an alternative choice of correlation parameter. This did not give rise to a materially different SCR for each of QIEL and QBE Europe.

11.6.15. For the QBE EO Internal Model, when used to calculate either the Approved Internal Model SCR or the Indicative Internal Model SCR, I am satisfied that it:

- *Has taken an appropriate approach to modelling of insurance risk.*
- *Covers appropriately the key risks relating to natural and man-made catastrophe events.*
- *Covers appropriately the key risks relating to deterioration in Reserves and the impact of the ongoing competitive market environment.*
- *Has made use of an appropriate methodology to sub-divide classes of business for use post-Transfers.*

Market Risk

11.6.16. Market risk allows for the variability of the value of assets, and mismatches in the movements in values of assets and liabilities in response to changes in foreign exchange rates and yield curves. The QBE EO Internal Model makes use of a third-party economic scenario generator that indicates the range of possible changes in the value of investments, yield curves and foreign exchange rates over time. The economic scenario generator is calibrated to market values at a particular point in time.

11.6.17. I am satisfied that market risk is covered appropriately within the QBE EO Internal Model.

Credit Risk

11.6.18. Credit risk allows for the potential for each firm's reinsurers and other debtors (including broker balances) to be downgraded or default. The credit risk modelling allows for risk mitigation arrangements in place, such as collateralised funds.

11.6.19. I am satisfied that credit risk and in particular reinsurance counterparty default risk is covered appropriately within the QBE EO Internal Model.

Other Risks

11.6.20. Operational risk considers the range of possible events and losses that could arise under each risk taken from the QBE EO risk register as applied to each firm and adopts an appropriate structure. Regulatory fines, remediation costs and costs arising from increased regulatory capital requirements are modelled as scenarios within the Internal Model.

11.6.21. Group risk incorporates the costs from scenarios such as a ratings downgrades of QBE Limited and arising from failure of group-wide systems and processes shared by QBE EO, QIEL and QBE Re. Other risks originating from elsewhere in the group such as default by Equator Re, on loans to other group companies are modelled under credit risk.

11.6.22. Liquidity risk considers the increased costs arising from short-term borrowing needs to meet cashflow liquidity requirements. Liquidity risk is modelled as scenarios in a similar fashion to operational risk.

11.6.23. Pension risk considers scenarios relating to changes in the value of assets in the underlying defined benefit pension funds, along with changes in the level of benefit inflation and scenarios of changes in the level of future mortality experienced by each pension fund. QIEL does not have any liability to meet deficits arising from defined benefit pension funds, but QBE Re has liability for one such fund, as well as for a very small unfunded post-retirement medical scheme. There are three other defined benefit pension funds considered in the QBE EO Internal Model. QBE EO is liable for making good any deficit arising in these funds, with no liability falling to QIEL, QBE Re or QBE Europe. Modelled surpluses arising on the pension funds are assumed in the Internal Model not to be available to meet losses arising elsewhere in the business.

11.6.24. I am satisfied that an appropriate approach is adopted in the QBE EO Internal Model to address each of these other risks.

Dependencies

11.6.25. The QBE EO Internal Model recognises that there is a significant amount of overlap between the risks that each company faces. It incorporates an allowance for linkages and dependencies between such risk elements in the model through a combination of explicit assumptions regarding the correlation of variables within the model and through the use of shared variables within the model. Examples of this include inflation (affecting asset values, claims and pension liabilities) and the volume of business or loss exposures (affecting the size of aggregate claims and credit risks). The modelling approach adopted by the QBE EO Internal Model relating to the dependency relationship in modelled extreme scenarios is consistent with good market practice. Assumptions relating to the correlations and dependencies make considerable use of expert judgement.

11.6.26. I am satisfied that an appropriate approach is adopted in the QBE EO Internal Model to allow for the correlations and dependencies between risks.

11.6.27. The QBE EO Internal Model seeks to calculate the financial resources needed by the firms under consideration to be able to remain solvent over one year into the future 99.5% of the time. This aligns with the capital requirements of the SCR under Solvency II.

11.6.28. To perform the calculations, the QBE EO Internal Model uses the Monte Carlo simulation technique. This statistical technique generates many simulated possible versions of the prospective year. The approach enables the combined effect of assumptions that describe how each of the Internal Model's risk elements to be calculated. From this, the threshold within which 99.5% of the simulated versions of the future year's results lie can be derived directly.

11.6.29. From my review I have concluded that the QBE EO Internal Model:

- *Adopts an approach that is consistent with what I would consider to be good market practice.*
- *Provides estimates of capital requirements on an appropriate and consistent basis for each of the three companies that I consider under the Transfers: QIEL, QBE Re, QBE UK and QBE Europe, without any material bias.*
- *Includes within its scope each of the material risks identified in Section 10.2 in order to calculate the regulatory capital required by each firm.*
- *Includes within its scope, the business covered by each of the entities of relevance for the Transfers (noting that some modifications have been required to class structure and parameters to enable calculation of capital requirements for QBE UK and QBE Europe).*

11.7. Governance

11.7.1. The QBE EO Internal Model is governed by the Risk and Capital Committee. Its role is to support the QBE EO's Board in overseeing the integration and effectiveness of the risk and capital management framework. This includes ensuring that adequate capital is maintained against the risks associated with business activities and responsibility for changes in the Internal Model.

11.7.2. The Risk and Capital Committee members are appointed by the Boards of each company and comprise the senior executive managers and non-executive directors of QBE EO and its underlying underwriting subsidiaries.

11.7.3. The Risk and Capital Committee is supported by:

- The Chief Risk Officer (who is also a member of the Risk and Capital Committee) in the role of leading the firms' risk management functions.
- The Economic Capital Model Technical Review Group – a technical team responsible for making recommendations to the Chief Risk Officer regarding relevant aspects of the ORSA, SCR and capital allocation processes.
- The Head of Model Validation who has responsibility for overseeing all of the validation of regulatory capital requirements across all legal entities within QBE EO. This role is responsible for giving senior management confidence that the internal model is fit for purpose when it is used.

11.7.4. Having reviewed the governance framework for the QBE EO Internal Model, I can conclude that a structure is in place:

- *For it to be overseen at an appropriate level in the business; and*
- *To include a robust, independent validation and change cycle that operates through the year so that the model can operate effectively and respond to changes as the business evolves.*

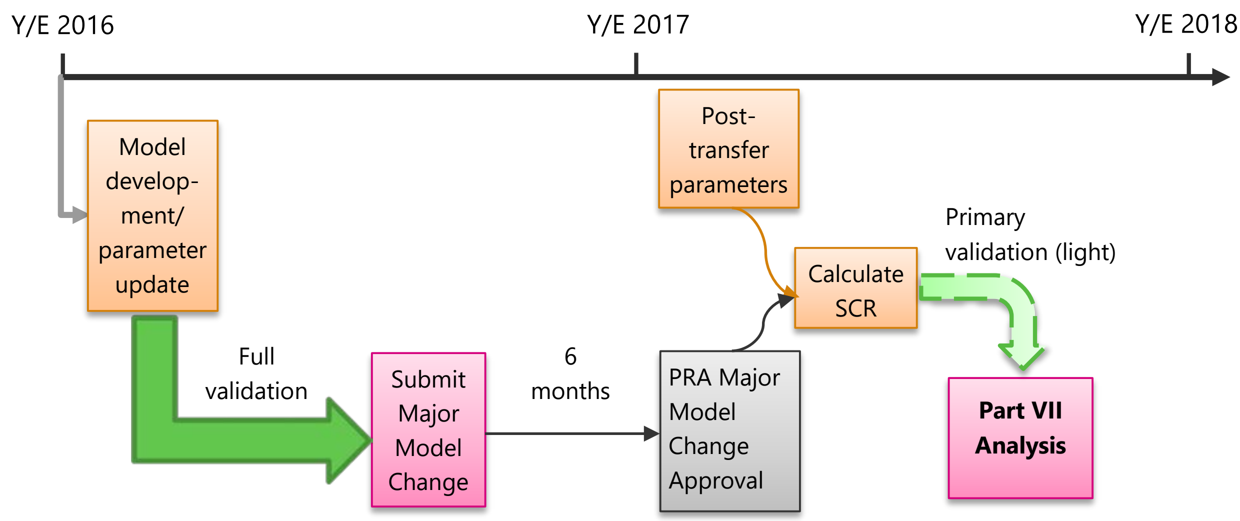
11.8. Change and Validation

11.8.1. There is a single overall validation and model change process for the QBE EO Internal Model used by QBE EO and its underwriting subsidiaries. Figure 6 provides a schematic diagram of the model change and validation stages arising for the Internal Model since the end of 2016. The diagram shows how the version of the QBE EO Internal Model that gives as output the Approved Internal Model SCRs was re-parameterised and enhanced during early-2017, based on year-end 2016 data. This was then followed by a period during which a detailed independent validation exercise was carried out. The validation sought to provide assurance to the company Boards and the Risk and Capital Committee regarding the performance of the updated QBE EO Internal Model prior to QBE EO seeking approval from the PRA for a Major Model Change.

11.8.2. The parameterisation process involves analysing data and fitting statistical models that are then used in the QBE EO Internal Model to represent the features of the insurance company, for example the number and size of claims arising over a period or the volatility in asset values. It is a distinct process from updates to the model to allow for the more recent model inputs (including balance sheets, Technical Provisions or business plans).

11.8.3. When the parameterisation exercise results in an SCR movement of greater than 10%, it is deemed to be a Major Model Change. As such, PRA approval is required in order for QBE EO, QIEL and QBE Re to use this updated QBE EO Internal Model to set their SCR. Following the updates during early-2017, the application for changing the QBE EO Internal Model was submitted to the PRA in August 2017 and approval granted by the PRA in February 2018.

Figure 6 - Model change and validation cycle 2017-18



11.8.4. The consequence of this extended cycle of update and regulatory approval of the QBE EO Internal Model is that it is the previous version of the QBE EO Internal Model (being the version approved by the PRA in early-2017) that was the version underlying the Approved Internal Model SCRs as at year-end 2017. This is the version of the model whose results appear in the QBE EO, QIEL and QBE Re SFCR, published on 14 June 2018.

11.8.5. In Figure 6, "primary validation" indicates tests that are mostly performed internally by members of the QBE EO capital modelling team. Similar primary validation tests would be repeated during the "full validation" exercise later in the year. The key differences between "full validation" and "primary validation" are:

- the number of elements reviewed;
- the more in-depth challenge and review carried out;
- the greater detail contained in the validation documentation; and
- the increased independent oversight and governance of the process and the subsequent feedback arising, which occurs during the planning, testing and reporting stages of the work

by the independent validation teams, Head of Model Validation and the Risk and Capital Committee.

11.8.6. For the recent model validation cycle, QBE EO made use of an experienced, independent actuary from outside the QBE Group to act as Head of Model Validation and oversee the full validation process.

11.8.7. Having reviewed the model change and validation process, I have identified the following limitations with using the Approved Internal Model SCR to assess the effect of the Transfer:

- There are time-lags between the Transfer Date and the data used as input to the Approved Internal Model SCR. Material model input items with time-lags include:
  - Technical Provisions are based on 2016 year-end;
  - Business plan is based on planned underwriting year 2017.
- There is a time-lag between the Transfer Date and the 2016 year-end data used to parameterise the QBE EO Internal Model.

11.8.8. Lags of this nature are a common feature of such models; an inevitable result of the time taken to update a model for emerging data. I believe however that the lags arising in this situation are longer than is desirable and have therefore needed to be satisfied that the conclusions that I have reached regarding the Transfers are appropriate when making use of the results of the Internal Model.

11.8.9. To accommodate this effect, I have presented Approved Internal Model SCRs for pre-Transfers entities alongside what I believe are consistent Indicative Internal Model SCRs for post-Transfers entities in the analysis I present in Section 13 and for the purposes of showing pro-forma balance sheets and Eligible Own Funds injections in this report. I have also checked that the impact of updates to year-end 2017 balance sheets and Technical Provisions, as well as 2018 business plans, will not materially alter my conclusions for the reasons set out in the remainder of this Section 11.

QBE EO Internal Model Testing Arrangements for Output used for Transfers

11.8.10. Given the importance for QBE EO of having reliable estimates of capital requirements in each of its entities post-Transfers, the primary validation being performed in early 2018 has been enhanced with a wider set of tests.

11.8.11. To satisfy myself that using less up-to-date model inputs were unlikely to affect my conclusions on the Transfer, I confirmed that changes in the business plan from underwriting year 2017 to 2018 and in the Technical Provisions and balance sheets from 2016 to 2017 year-end were not likely to materially affect the conclusions drawn from outputs using the current version of the QBE EO Internal Model for each company.

11.8.12. It is currently not possible for me to comment on the impact of any updated parameters or other model changes that QBE EO Staff are considering making during 2018. I expect that doing so will change the Indicative Internal Model SCR and will form part of the Major Model Change this year. If necessary, the Capital Appetite Framework will guide the QBE EO Board in any additional capital required for QIEL, QBE Re, QBE UK and QBE Europe. I expect to review the updated position in my Supplemental Report.

11.8.13. To satisfy myself that my conclusions based on the Internal Model were appropriate, I have:

- Looked at a number of other measures of risk, including the Standard Formula SCR (Section 12).

- Allowed for the fact that the Capital Appetite Framework used by QBE EO and its underwriting subsidiaries contains a margin over and above what I would expect it to hold to meet its regulatory capital objectives.
- Noted that the EOFs for QBE UK and QBE Europe will exceed the SCRs and Indicative Internal Model SCRs for each. I discuss this further in Section 13.
- Agreed with QBE EO staff a set of additional tests that seek to complement the other assurance work performed by and for QBE EO and its subsidiaries. While it should not be seen as equivalent to full Internal Model validation, it is intended to provide me with an additional means of confirming that the Transfers will not materially adversely affect the Affected Policyholders. This analysis is set out in Section 14.

11.8.14. Based on the approach I have followed, I am satisfied that I am able to reach my conclusions in the later sections of this Report through the use of the QBE EO Internal Model results and the Indicative Internal Model SCR.

11.8.15. Prior to the scheme being sanctioned by the Court, I anticipate that QBE EO will have carried out a full, independent validation exercise of the model changes introduced to enable it to model QIEL and QBE Europe post-Transfers. I anticipate confirming to the Court in my Supplemental Report that this has not given rise to any material issues or advising the Court of any changes proposed by QBE EO to address them.

12. Approach to determination of financial resources

12.1. Introduction

12.1.1. This section describes the approaches taken by QIEL, QBE Re, QBE UK and QBE Europe to determine the financial resources that they need to hold under the Capital Appetite Framework.

12.2. Capital Appetite Framework

12.2.1. The QBE EO Capital Appetite Framework sets out the approach that QBE EO, QIEL, QBE Re, QBE UK and QBE Europe will take in determining whether it is appropriate to pay a dividend, and the size of any such dividend declared. Equally, it provides a framework for the firms to determine whether additional capital is required.

12.2.2. The Capital Appetite Framework sets out to provide a sufficient capital buffer so that each company can continue trading under their existing business models following foreseeable major adverse insurance (or other) losses. It also takes into account known Internal Model limitations and the uncertainty inherent in the modelling process for capital and valuation of assets and liabilities.

12.2.3. Under the Capital Appetite Framework, QIEL, QBE Re, QBE UK, QBE Europe and QBE EO all have a target level of Eligible Own Funds expressed in the form of a CCR.

12.3. Pre-Transfer Financial Resources under the Capital Appetite Framework

12.3.1. Prior to the Transfers, the target capital level is 130% of SCR. Below this threshold, the firms will consider restricting dividend payments and other activities to reduce capital requirements or raise additional finance. There is a second lower capital level threshold, which is 120% of SCR. Below this second threshold, the relevant Board will seek to undertake a more formalised approach to restoring capital coverage levels.

12.3.2. Examples of activities to restore capital coverage levels include: reduction or suspension of dividend payments, seeking capital support from other QBE Group companies (including in the case of QBE EO, the Contingent Capital Facility described in Section 5) reviewing business risk profile, slowing down growth in or reduce premium volumes, disposing of portfolios and monetising assets that are not admissible for Solvency II valuation purposes.

12.4. Post-Transfer Financial Resources under the Capital Appetite Framework

12.4.1. Immediately post-Transfers:

- QIEL will continue to use its Approved Internal Model SCR. This version of the model assumes that its pre-Transfers balance sheet, Technical Provisions and business plan continue, regardless of the changes arising as a result of the Transfers[17]. This means that QBE UK will be required to hold the same SCR as QIEL even though its premium income and Reserves have fallen materially. The reason for using the previous SCR is because QIEL's Approved Internal Model SCR is not permitted to change by more than 10% before further supervisory approval is required.
- QBE Europe will use the Standard Formula SCR.

12.4.2. The Boards of each company and the Risk and Capital Committee have identified that under these conditions, the SCRs for QBE UK and QBE Europe are likely to be significantly higher than from the Indicative Internal Model SCR. To avoid what they believe to be an excessive level of Eligible Own Funds for these companies post-Transfers, in June 2018 the Board of QBE EO approved an

[17] Note that provided that the SCR does not change by more than 10%, the Approved Internal Model SCR will be updated to reflect the year-end 2017 balance sheet and Technical Provisions and the 2018 business plan.

update to the Capital Appetite Framework. The updated Capital Appetite Framework sets the target level of Eligible Own Funds as the greater of 130% of the Indicative Internal Model SCR and 110% of the SCR, and the lower threshold level of Eligible Own Funds as the greater of 120% of the Indicative Internal Model SCR and 110% of the SCR.

12.4.3. I have reviewed the firms' CAF and concluded that it provides a reasonable basis for decision-making by the firms regarding dividends and restoring capital coverage. My additional testing in Section 13 seeks to assess quantitatively whether the target level of capital is appropriate and its implications for the Transfers.

12.5. Medium Term Evolution of Financial Resources under the Capital Appetite Framework

12.5.1. QBE EO Staff have told me that once the relevant applications are ready, and in line with its annual cycle of updating the QBE EO Internal Model and applying for regulatory approval of changes to it, QBE EO will apply to the PRA and NBB in August 2018:

- For QBE UK to have an Approved Internal Model SCR based upon its updated balance sheets, Technical Provisions and business plans.
- For QBE Europe to have an Approved Internal Model SCR.

12.5.2. As the QBE EO Internal Model has been successfully approved by the PRA in the past and QBE EO therefore has experience of successfully applying for supervisory approval for new and updated Internal Models and major model changes, I believe it is a reasonable assumption that both QBE UK and QBE Europe will obtain approval to use their Internal Models from the PRA and NBB. While the timing of any approval will depend upon whether the applications meet the respective supervisory requirements, if approved in line with the normal model change cycle for the QBE EO Internal Model, both firms anticipate obtaining model approval in January or February 2019.

12.5.3. Once both QBE UK has an updated Approved Internal Model SCR and QBE Europe has an Approved Internal Model SCR, the Capital Appetite Framework will revert to a target of 130% (and threshold of 120%) of the SCR. In my view, such a course of events will put the Affected Policyholders in a very similar position to their position pre-Transfers.

12.5.4. I have therefore concluded that over the medium-term, the financial resources of QBE UK and QBE Europe will be set on a consistent basis with the position pre-Transfers. Therefore in the medium-term the financial security provided to the Affected Policyholders is unlikely to change as a result of the Transfers.

13. Comparison of capital requirements and Eligible Own Funds

13.1. Introduction

13.1.1. This section contains a comparison of the SCR and Eligible Own Funds for each company pre- and post-Transfers. This comparison is carried out using the Capital Cover Ratio.

13.1.2. Three methods of calculating the SCR are used for these comparisons, all calculated using an as-at year-end 2017 position adjusted for post-year-end dividend payments:

- Indicative Internal Model SCR. For the pro forma presentation of this calculation for post-Transfers QBE UK and QBE Europe, the SCR has been calculated on a consistent basis[18] with the Approved Internal Model SCR.
- Standard Formula SCR pre- and post-Transfers.
- SCR (i.e. approved for regulatory capital-setting purposes) pre- and post-Transfers. This is a combination of the Approved Internal Model SCR pre-Transfers, and post-Transfers for QBE UK, and the Standard Formula SCR post-Transfers for QBE Europe.

13.1.3. Note that the EOF remains the same under each comparison as these are determined by the Capital Appetite Framework.

13.1.4. This Section also addresses the following items:

- The structure of the Eligible Own Funds for each firm;
- The effect of the Transfers on each firm's ability to cover its MCR; and
- The existence of any restricted assets in any of the firms and whether these affect the Transfers.

13.2. Post Year-End adjustments

13.2.1. As at 2017 year-end there were a number of loans to QIEL from its branches. If these loan assets were transferred to QBE Europe, they would attract a high capital charge in the Standard Formula SCR calculation. QBE EO Staff have told me that they intend to clear these balances at the time of the Transfers. Therefore the 2017 year-end pro-forma post-Transfers Standard Formula SCR I have considered in this Report replaces these loan assets with cash and investments. I will indicate any changes to the anticipated position at the Transfer Date in my Supplemental Report.

13.2.2. No allowance is made in the Eligible Own Funds shown in this section for any emerging profits arising during 2018. The business plans of each company anticipate there being profits arising in each company prior to the Transfers.

13.3. Financial impact of the Transfers – Internal Model basis for calculating SCR

13.3.1. Table 13.1 compares the position of the companies pre- and post-Transfers using the Approved Internal Model SCR (for pre-Transfers entities) and the Indicative Internal Model SCR (for post-Transfers entities). These SCRs being calculated on a consistent and hence comparable basis.

[18] This means that the Technical Provisions, balance sheets and business plans for the post-Transfer companies have been substituted for the equivalent figures of the pre-Transfers companies.

Table 13.1 – EOF vs Approved / Indicative Internal Model SCR - £ million as at 31 December 2017				
	Pre-Transfers		Post-Transfers	
Company	**QIEL**	**QBE Re**	**QBE UK**	**QBE Europe**
A Approved / Indicative Internal Model SCR	883	388	740	544
B EOF	1,141	501	971	788
C CCR = B/A	129%	129%	131%	145%
D = B - A	258	113	232	244

13.3.2. Table 13.1 shows that following the Transfers the CCR calculated on this basis is greater than or approximately the same for both QIEL and QBE Europe than for either company pre-Transfers.

13.3.3. Using this measure, I have concluded that there is no adverse impact on the Affected Policyholders since the companies appear as well or better capitalised after the Transfers than before.

13.3.4. There is a small reduction in the absolute amount of excess capital arising from the Transfers for the Remaining QIEL Policyholders, consistent with the reduction in the overall risk measure (i.e. the Approved / Indicative Internal Model SCR). I do not consider this reduction to be material.

13.4. Financial impact of the Transfers – Standard Formula basis for calculating SCR

13.4.1. Table 13.2 compares the position of the companies pre- and post-Transfers following the Transfers.

Table 13.2 – EOF vs Standard Formula - £ million as at 31 December 2017				
	Pre-Transfers		Post-Transfers	
Company	**QIEL**	**QBE Re**	**QBE UK**	**QBE Europe**
A Standard Formula SCR	960	557	783	717
B EOF	1,141	501	971	788
C CCR = B/A	119%	90%	124%	110%
D = B - A	181	(56)	188	72

13.4.2. Table 13.2 shows that following the Transfers the CCR calculated on this basis is greater than or approximately the same for both QIEL and QBE Europe than for either company pre-Transfers.

13.4.3. Using this measure, I have concluded that there is no adverse impact on the Affected Policyholders since the companies appear as well or better capitalised after the Transfers than before.

13.4.4. Under this measure the absolute amount of excess capital in QBE Europe is greater than for QBE Re, and for QBE UK than QIEL. Comparing QIEL and QBE Europe shows little change under this measure.

13.4.5. The differences under this measure arise from features of the Standard Formula SCR that are identified as sources of difference between the Standard Formula SCR and Internal Model SCR for QBE Re and are described in the QBE EO ORSA Report and the QBE Re SFCR.

13.4.6. Two material sources of differences are:

- QBE Re uses a modelled volatility in its Approved Internal Model SCR for its non-proportional casualty reinsurance Reserves that is lower than the level assumed in the Standard Formula

SCR assumption. This is supported by the parameter calibration and model validation work performed by QBE EO Staff. This is material for QBE Re given the size of its Reserves for this class of business.

- The Internal Model gives greater credit for the diversification of risks arising within each company than the Standard Formula SCR.

13.4.7. These features of QBE Re will persist in QBE Europe, however because the SCR for QBE Europe is based on the Standard Formula, it is required under the Capital Appetite Framework to hold EOF in excess of 110% of the Standard Formula SCR.

13.5. Financial impact of the Transfers – SCR basis

13.5.1. Table 13.3 compares the position of the companies pre- and post-Transfers following the Transfers using the SCR for the relevant company.

Table 13.3 – EOF vs SCR - £ million as at 31 December 2017

	Pre-Transfers		Post-Transfers	
Company	**QIEL**	**QBE Re**	**QBE UK**	**QBE Europe**
A SCR	883	388	883	717
B EOF	1,141	501	971	788
C CCR = B/A	129%	129%	110%	110%
D = B - A	258	113	88	72

13.5.2. Table 13.3 shows that following the Transfers the CCR calculated on this basis is considerably reduced for both QBE UK and QBE Europe, falling from 129% of SCR to 110%.

13.5.3. As discussed above, this reflects the change in method used to calculate the SCR pre- and post-Transfers:

- For QBE UK it is required to continue to use its pre-Transfers exposures in calculating its Approved Internal Model SCR even though its premiums and Technical Provisions have both reduced materially.
- For QBE Europe, it is required to use the Standard Formula SCR.

13.5.4. Once supervisory approval is obtained for the updated QBE EO Internal Model applicable to both QBE UK and QBE Europe I expect the SCR to revert to being calculated on a consistent basis and each companies' CCR will move back into line with their pre-Transfers values.

13.5.5. I do not consider that this measure indicates any adverse impact to the Affected Policyholders as it is in line with what I would expect to see in these circumstances.

13.5.6. I note that post-Transfers, both QBE UK and QBE Europe will have EOF in excess of their SCR.

13.6. Structure of Eligible Own Funds

13.6.1. Almost all of the Eligible Own Funds of QIEL, QBE UK, QBE Re and QBE Europe are graded as sufficient quality to meet the requirements of Tier 1 Eligible Own Funds. These are the highest grade of financial resources recognised under Solvency II and are predominantly shareholders' equity.

13.6.2. Table 13.4 shows the breakdown of post-dividend Eligible Own Funds for QBE EO.

Table 13.4 – QBE EO Eligible Own Funds as at 31 December 2017 - £m	
Tier 1	1,258
Tier 2	419
Tier 3	14
Total	**1,691**

13.7. The effect of the Transfers on each company's ability to cover its MCR

13.7.1. I have looked at the MCRs and EOFs for QIEL, QBE Re, QBE UK and QBE Europe. The ratio of MCR to EOF for all of these companies is in excess of 240%.

13.7.2. As such I have concluded that all of the companies will continue to have financial resources to cover their MCR following the Transfers.

13.8. Restricted assets

13.8.1. Restricted assets are those that have some constraint on their use, which means that they may not be available to meet all policyholder claims as they fall due. Examples of restricted funds are assets held in trust funds, pledged as letters of credit, or held on deposit by cedants.

13.8.2. QBE EO Staff have confirmed that both QIEL and QBE Re have approximately £10 million of restricted assets. These have been excluded from their EOF.

13.8.3. Both QIEL and QBE Re have made allowance for restricted funds in their EOF. For both companies, the amount held in restricted assets is very small compared to their EOF and therefore do not materially affect my conclusions regarding the effect of Transfers.

14. Additional testing of financial strength

14.1. Introduction

14.1.1. This section sets out the results of additional quantitative tests performed on the financial position of QIEL, QBE Re and QBE Europe.

14.1.2. The purpose of this testing is four-fold:

- To provide some additional independent testing of the Internal Model results as applied to each company to allow for the fact that:
  - (i) QBE EO have only performed a primary validation[19] exercise on the results provided to me; and
  - (ii) The QBE EO Internal Model post-Transfers will not have received supervisory approval for use to calculate the SCR of QBE UK or QBE Europe.
- Time will have elapsed between my analysis and the Transfer Date which means that the capital requirements and EOF used in my analysis to reach my conclusions have changed. I therefore wish to have confidence that there is an additional cushion in the financial resources that means that my conclusions are unlikely to change.
- To help me to assess whether the target level of excess capital under the Capital Appetite Framework is appropriate given the sensitivity of the Internal Model SCR to alternative expert judgements.
- To compare the position of the Affected Policyholders before and after the Transfers.

14.1.3. There are four groups of additional tests performed:

(i) Sensitivity tests on key parameters used in the Internal Model. These are to confirm that the Internal Model results do not change materially as a result of using what I consider to be plausible alternative management judgements. These also provide an examination of the adequacy of the excess capital held by the companies under their Capital Appetite Framework.

(ii) Assessment of the impact of a set of adverse, but not extremely adverse, scenarios. Typically these are scenarios that I might expect to arise once in every 5 – 20 years ("Low Return Periods"). They may significantly reduce profits or cause a small loss, but not require a material injection of capital.

(iii) Assessment of the impact of a set of severe adverse scenarios. Typically these are scenarios that I might expect to arise once in every 20 – 100 years or more (or "High Return Periods"). They have the potential to cause a significant loss to (re)insurers and require an injection of capital.

(iv) Reverse stress tests. These test how extreme an adverse scenario needs to be in order to render the company insolvent.

14.1.4. Using the test results, comparisons are made between the risks to which each company is exposed for the purposes of understanding the impact on each group of Affected Policyholders.

- To compare the impact of the Transfers on the:
  - o Remaining QIEL Policyholders, I compare the risks facing QIEL with those facing QBE UK.

[19] See Section 11.5 for description of primary validation.

- Transferring QIEL Policyholders, I compare the risks facing QIEL with those facing QBE Europe.
- Transferring QBE Re Policyholders, I compare the risks facing QBE Re with those facing QBE Europe.

14.1.5. Comparing risks in this manner assists me with understanding the aggregate effect of the Transfers on each group of Affected Policyholders.

14.2. Sensitivity tests

14.2.1. QBE EO staff have performed a set of sensitivity tests on the QBE EO Internal Model for QIEL, QBE UK, QBE Re and QBE Europe. A description of the tests performed are set out in Appendix 6.

14.2.2. These tests show that:

- *The CCR reduced for all tests for each firm. This was as expected as each parameter change was more conservative than the base model.*
- *None of the sensitivity tests reduced the CCR by more than 20%. 120% of SCR is the lower threshold for Eligible Own Funds used in the Capital Appetite Framework for each of the companies. Therefore none of the sensitivities causes the Eligible Own Funds of any of the companies to fall below their Internal Model SCR.*

14.2.3. I have therefore concluded that the Capital Appetite Framework provides a sufficient buffer of excess capital to cater for:

- *Uncertainty in some of the parameter choices used in the Indicative Internal Model SCRs;*
- *The period of time between the effective date of the Indicative Internal Model SCRs and the Transfer Date.*

14.2.4. As a result, I have concluded that it is appropriate for me to rely upon the results of the tests in this and other Sections using Indicative Internal Model SCRs in reaching my conclusions.

14.3. Scenario tests

14.3.1. QBE EO staff tested the impact of a set of low and high return period scenarios on each of QIEL, QBE UK, QBE Re and QBE Europe. These tests, incorporated existing scenario tests used by QBE EO Staff and were supplemented by some additional tests requested by me, based on my understanding of the key risks faced by each firm (as summarised in Section 10.2) to provide a set of tests across the risk profile of QIEL, QBE Re, QBE UK and QBE Europe. The Low Return Period scenarios are described in Table 14.1 and the High Return Period scenarios in Table 14.2.

Table 14.1 – Description of Low Return Period Scenario Tests

Model	Short Description
S.1	Underwriting losses
S.2	Reinsurer failure – Equator Re
S.3	Reinsurer failure – external reinsurer
S.4	UK Bodily injury claims increase
S.5	Natural catastrophe scenario – North America
S.6	Natural catastrophe scenario – UK / Europe
S.7	Major emerging risk event
S.8	Life catastrophe
S.9	Claims inflation stress
S.10	Stress on Reserves related to liability and casualty classes
S.11	Stress on liquidity

Table 14.2 – Description of High Return Period Scenario Tests	
Model	**Description**
S.12	Severe reinsurer failure – Equator Re
S.13	Severe reinsurer failure – external reinsurer
S.14	Eurozone economic crisis

14.3.2. A full description of these scenarios is contained in Appendix 6.

14.3.3. Using the scenario test results, I compared how the CCR changed as a result of each scenario between:

- QIEL and QBE UK;
- QIEL and QBE Europe; and
- QBE Re and QBE Europe.

14.3.4. Table 14.3 sets out the changes in risk exposures arising from these scenarios that I consider material. Where a scenario caused the fall in the CCR to increase by more than 10% for a given pairing in 14.3.3 I have described this as an increase in risk exposure, and conversely if the scenario caused the fall in the CCR to decrease by more than 10% I have described this as a decrease in risk exposure.

Table 14.3 – Material increase/ reduction in risk exposure after the Transfers		
Firm comparison and associated group of Affected Policyholders	**Increased risk exposure**	**Reduced risk exposure**
QIEL vs. QBE UK (Remaining QIEL Policyholders)	None	None
QIEL vs. QBE Europe (Transferring QIEL Policyholders)	Natural catastrophe scenario – UK / Europe Eurozone economic crisis Life catastrophe scenario	Reinsurer failure - Equator Re Reinsurer failure – external reinsurer
QBE Re vs. QBE Europe Transferring QBE Re Policyholders	None	None

14.3.5. The changes are consistent with my expectations, as QBE Re has greater natural catastrophe exposure than QIEL and makes less use of outwards reinsurance.

14.3.6. I note that all of the companies stay above 100% of the Indicative Internal Model SCR following the various natural catastrophe events considered. This is consistent with neither QIEL nor QBE Re making a loss during 2018. Table 14.4 identifies those scenarios under which any of the companies were modelled as having Eligible Own Funds that fall below their Indicative Internal Model SCR.

Table 14.4 – Scenarios giving rise to breach in Indicative Internal Model SCR	
Firm	**Scenario**
QIEL	Reinsurer failure - Equator Re Reinsurer failure – external reinsurer
QBE Re	None
QBE UK	Reinsurer failure - Equator Re Reinsurer failure – external reinsurer
QBE Europe	None

14.3.7. I noted that:

- Most of the scenarios tested, even the severe ones, did not result in the firms breaching their Indicative Internal Model SCR;
- None of the scenarios tested (even the failure of Equator Re with no recovery or benefit from collateral held by QBE EO) caused QIEL or QBE Re to become insolvent.

14.3.8. Based on these scenario tests I have concluded that:

- *The model is giving rise to results in line with my expectations from my qualitative review (see Section 10);*
- *All of QIEL, QBE Re, QBE UK and QBE Europe appear to be sufficiently well capitalised to withstand a wide range of adverse scenarios.*
- *Those policyholders experiencing changes in the risk profiles of their (re)insurers benefit from some reductions in risk to compensate for increases in risk.*

14.4. Reverse stress test

14.4.1. I designed with QBE EO Staff and reviewed the results of a Reverse Stress Test applied to each firm to illustrate the severity of scenarios that would need to arise for each to exhaust, or nearly exhaust all of their EOF. The idea of a Reverse Stress Test is to cause each firm to be unable to meet all of its policyholders' claims without recourse to additional capital support from QBE EO or QBE Limited.

14.4.2. This type of test complements the scenario tests above, by looking at the resilience of firms to the most extreme circumstances, focussing on the most material risks.

14.4.3. Under this Reverse Stress Test, the following combination of scenarios is applied for each firm. Note that no second order effects have been taken into account. This combination of scenarios was chosen so that it resulted in all of QIEL, QBE Re, QBE UK and QBE Europe having close to nil EOF.

- Failure of Equator Re with no recoveries (as Scenario S.2);
- Claims inflation (Scenario S.9);
- The largest catastrophe scenario, as per the highest of scenario tests S.5, S.6 and S.7;
- 5% reduction in premium rates;

14.4.4. After the application of the above stresses, the residual EOF is calculated for each firm; this residual EOF is then expressed as % of total cash and investments, and as % of Technical Provisions. These percentages respectively represent the % deterioration in cash and investment and % reserve deterioration required to exhaust the residual EOF, and are shown in table 14.5 below.

Table 14.5 – Reverse Stress Test results (£ million) Both Transfers proceed				
	Pre-Transfers		Post-Transfers	
	QIEL	QBE Re	QBE UK	QBE Europe
EOF	**1,141**	**501**	**971**	**788**
Impact of stresses in 14.4.3	994	257	832	461
Residual EOF	147	245	140	327
Residual EOF as % Investment and Cash	**4%**	**16%**	**5%**	**14%**
Residual EOF as % Technical Provisions	**6%**	**25%**	**7%**	**22%**

14.4.5. Based on this Reverse Stress Test, I have concluded that:

- *For each firm, it requires a combination of severe stress events occurring simultaneously to lead its being unable to pay policyholder claims in full;*
- *Comparing the position of the firms before and after the Transfers, the Remaining QIEL Policyholders have little change in their exposure, and the Transferring QIEL Policyholders are less exposed to the effects of this Reverse Stress Test. While the Transferring QBE Re Policyholders are slightly more exposed to its effects, I do not believe that the reductions in the EOF (as a percentage of Investments and Cash or of Technical Provisions) represents a material increase.*

14.4.6. This test therefore supports a conclusion that the Affected Policyholders are not materially adversely affected.

14.5. Conclusions

14.5.1. I have drawn the following overall conclusions from this analysis:

- The Internal Model has behaved as I expected.
- The Capital Appetite Framework provides resilience to alternative and more conservative parameter choices in the QBE EO Internal Model.
- QIEL, QBE Re, QBE UK and QBE Europe are all sufficiently well capitalised to withstand a wide range of scenarios and severe scenarios. To exhaust their capital, a combination of scenarios are required, consistent with a very remote combination of events being required to render them insolvent.
- Most tests showed that the position of policyholders was similar to their position pre-Transfers.
- Where some policyholders were more exposed to a scenario as a result of the Transfers, they received some compensating reduction in their exposure to one or more other scenarios.

14.5.2. Overall I have concluded that:

- *The QBE EO Internal Model provides a suitable basis for the companies for the purposes of my review.*
- *There do not appear to be any material adverse financial effects arising from the Transfers.*

15. Scenarios where only one Transfer is approved

15.1. Overview

15.1.1. In this section, I consider the financial impact of the Scheme if only one of the Transfers goes ahead.

15.1.2. This is because the Scheme permits both the QIEL Transfer and the QBE Re Transfer to proceed without the other.

15.2. Only QIEL Transfer approved

15.2.1. In this scenario, the European branch business of QIEL transfers to QBE Europe, but none of the QBE Re business transfers. New and renewal business of QBE Re will not be underwritten by QBE Europe. The position of QBE Re is therefore unchanged.

FINANCIAL IMPACT OF THE TRANSFERS – INTERNAL MODEL BASIS FOR CALCULATING SCR

15.2.2. Table 15.1 compares the position of the companies pre- and post-Transfers using the Approved Internal Model SCR (for pre-Transfers entities) and the Indicative Internal Model SCR (for post-Transfers entities). These SCRs being calculated on a consistent and hence comparable basis.

Table 15.1 – EOF vs Approved / Indicative Internal Model SCR - £ million as at 31 December 2017 Only QIEL Transfer proceeds

	Pre-Transfer		Post-Transfer		
Company	**QIEL**	**QBE Re**	**QBE UK**	**QBE Re**	**QBE Europe**
A Approved / Indicative Internal Model SCR	883	388	740	388	271
B EOF	1,141	501	971	501	353
C CCR = B/A	129%	129%	131%	129%	130%
D = B - A	258	113	232	113	81

15.2.3. Under this scenario, the Indicative Internal Model SCR indicates no material adverse impact on the Affected Policyholders.

15.2.4. I reviewed a sample of sensitivity tests using the Indicative Internal Model SCR carried out for QBE Europe under this scenario (tests A, D, E and F in Table E.6.1). These were selected as they gave the largest SCR movements for QIEL. As none of the sensitivity tests reduced the CCR by more than 20%, my conclusions in Section 14.2 regarding the lower target capital threshold in the Capital Appetite Framework remain appropriate under this scenario.

15.2.5. I have therefore concluded that this scenario will not have any material adverse financial impact on the Affected Policyholders.

FINANCIAL IMPACT OF THE TRANSFERS – STANDARD FORMULA BASIS FOR CALCULATING SCR

15.2.6. Table 15.2 compares the position of the companies pre- and post-Transfers using the Standard Formula.

Table 15.2 – EOF vs Standard Formula SCR - £ million as at 31 December 2017 Only QIEL Transfer proceeds					
	Pre-Transfer		Post-Transfer		
Company	**QIEL**	**QBE Re**	**QBE UK**	**QBE Re**	**QBE Europe**
A Standard Formula SCR	960	557	783	557	231
B EOF	1,141	501	971	501	353
C CCR = B/A	119%	90%	124%	90%	152%
D = B - A	181	(56)	188	(56)	121

15.2.7. Table 15.2 shows that following the Transfers, QIEL's CCR calculated on this basis is greater than both QBE UK and QBE Europe. QBE Re's CCR remains approximately the same.

15.2.8. Using this measure, I have concluded there is no adverse impact on the Affected Policyholders since the companies appear as well or better capitalised after the Transfers than before.

15.2.9. Using the Standard Formula SCR, QBE Re's CCR remains below 100% after the Transfers. This is because under this scenario, both before and after the QIEL Transfer, QBE Re's SCR will use its Approved Internal Model SCR and not the Standard Formula SCR.

FINANCIAL IMPACT OF THE TRANSFERS – SCR BASIS

15.2.10. Table 15.3 compares the position of the companies pre- and post-Transfers.

Table 15.3 – EOF vs SCR - £ million as at 31 December 2017 Only QIEL Transfer proceeds					
	Pre-Transfer		Post-Transfer		
Company	**QIEL**	**QBE Re**	**QBE UK**	**QBE Re**	**QBE Europe**
A SCR	883	388	883	388	231
B EOF	1,141	501	971	501	353
C CCR = B/A	129%	129%	110%	129%	152%
D = B - A	258	113	88	113	121

15.2.11. Table 15.3 shows that following the Transfers, the CCR calculated on this basis is considerably reduced for QBE UK. This is because it is required to continue to use its pre-Transfers exposures in calculating its Approved Internal Model SCR even though its premiums and Technical Provisions have both reduced materially.

15.2.12. Once supervisory approval is obtained for the updated QBE EO Internal Model applicable to QBE UK, I expect the SCR to revert to being calculated on a consistent basis and QBE UK's CCR will move back into line with their pre-Transfers values.

15.2.13. I do not consider that this measure indicates an adverse impact to the Affected Policyholders as it is in line with what I would expect given the requirement to calculate QBE UK's regulatory capital on a more conservative basis after the QIEL Transfer (as in the scenario where both Transfers proceed.)

15.2.14. I note that post-Transfers, all of QBE UK, QBE Re and QBE Europe will have EOF in excess of their SCR.

15.3. Only QBE Re Transfer approved

15.3.1. Under this scenario:

- Only new and renewal business formerly of QBE Re will be underwritten by QBE Europe.
- the financial position of QIEL Policyholders is unchanged;
- QBE Europe will have the same business and risks as QBE Re (owing to all of this being transferred and the subsequent Cross-Border Merger). It will not however have the benefit of falling within the scope of the PRA's approval for the QBE EO Internal Model, so will need to calculate its SCR using the Standard Formula SCR.

FINANCIAL IMPACT OF THE TRANSFERS – INTERNAL MODEL BASIS FOR CALCULATING SCR

15.3.2. Table 15.4 compares the position of the companies pre- and post-Transfers using the Approved Internal Model SCR (for pre-Transfers entities) and the Indicative Internal Model SCR (for post-Transfers entities). These SCRs being calculated on a consistent and hence comparable basis.

Table 15.4 – EOF vs Approved / Indicative Internal Model SCR - £ million as at 31 December 2017
Only QBE Re Transfer proceeds

	Pre-Transfers		Post-Transfers	
Company	**QIEL**	**QBE Re**	**QIEL**	**QBE Europe**
A Approved / Indicative Internal Model SCR	883	388	883	388
B EOF	1,141	501	1141	613
C CCR = B/A	129%	129%	129%	158%
D = B - A	258	113	258	224

15.3.3. Under this scenario, the Indicative Internal Model SCR indicates no adverse impact on the Affected Policyholders. No extra sensitivity tests are required under this scenario as the underlying assets and liabilities of QBE Europe are the same as those of QBE Re.

15.3.4. I have therefore concluded that this scenario will not have any material adverse financial impact on the Affected Policyholders.

FINANCIAL IMPACT OF THE TRANSFERS – STANDARD FORMULA BASIS FOR CALCULATING SCR

15.3.5. Table 15.5 compares the position of the companies pre- and post-Transfers.

Table 15.5 – EOF vs Standard Formula SCR - £ million as at 31 December 2017
Only QBE Re Transfer proceeds

	Pre-Transfers		Post-Transfers	
Company	**QIEL**	**QBE Re**	**QIEL**	**QBE Europe**
A Standard Formula SCR	960	557	960	557
B EOF	1,141	501	1141	613
C CCR = B/A	119%	90%	119%	110%
D = B - A	181	(56)	181	56

15.3.6. On this basis, following the Transfers, the CCR calculated on this basis will be greater than or approximately the same as pre-Transfers.

15.3.7. Using this measure, I have concluded there is no adverse impact on the Affected Policyholders since the companies appear as well or better capitalised after the Transfers than before.

Financial impact of the Transfers – SCR basis

15.3.8. Table 15.6 compares the position of the companies pre- and post-Transfers.

Table 15.6 – EOF vs SCR - £ million as at 31 December 2017
Only QBE Re Transfer proceeds

	Pre-Transfers		Post-Transfers	
Company	**QIEL**	**QBE Re**	**QIEL**	**QBE Europe**
A SCR	883	388	883	557
B EOF	1,141	501	1,141	613
C CCR = B/A	129%	129%	129%	110%
D = B - A	258	113	258	56

15.3.9. Table 15.6 shows that following the Transfers, the CCR calculated on this basis is considerably reduced for QBE Europe. This arises due to QBE Europe having to calculate its SCR based on the Standard Formula SCR.

15.3.10. Once supervisory approval is obtained for the updated QBE EO Internal Model applicable to QBE Europe, I expect the SCR to revert to being calculated on a consistent basis and QBE Europe's CCR will move back into line with their pre-Transfers values.

15.3.11. I do not consider that this measure indicates any adverse impact to the Affected Policyholders as for the reasons given in Section 13.5, this is in line with what I would expect to see in these circumstances.

15.3.12. *I note that post-Transfers, both QBE UK and QBE Europe will have EOF in excess of their SCR.*

16. Summary of financial positions of Affected Policyholders

16.1.1. This section summarises the conclusions from my detailed review in Part C of the financial implications of the Transfers. Other than looking at the balance sheet of QBE EO (which does not change as a result of the Transfers), the analysis in Part C sets aside the support that is available to QIEL, QBE Re, QBE UK and QBE Europe from QBE EO and looks at the companies on a standalone basis.

16.1.2. In Sections 8 and 9 I concluded that the balance sheets, including the Technical Provisions provided me with an appropriate basis with which to assess the Transfers. This review also helped me to identify some of the key risks affecting the companies.

16.1.3. In Section 10 I summarised the key risks that I saw as affecting the companies and performed a qualitative review of the impact of the Transfers. I noted that while QIEL policyholders would be policyholders of a smaller company post-Transfers (whether they transferred or remained) this was not on its own a sufficiently material change for me to conclude it would adversely affect them.

16.1.4. I also noted that each group of policyholders would have changes to the risks facing their insurer, but that, qualitatively, these changes in risk profile did not represent a materially favourable or unfavourable change to any of them.

16.1.5. Finally, I noted that the Transfers would reduce the regulatory risk facing each firm arising from the uncertainties presented by Brexit.

16.1.6. In Section 11 I reviewed in detail the approach taken by the companies to calculate capital requirements using the QBE EO Internal Model. Overall I concluded that it addressed the key risks and provided me with an appropriate basis on which to review the impact of the Transfers. In doing so I noted that there were some significant time-lags between the date on which some of the data underlying parameters the model version results presented in this Report and the date of the Transfers, and the steps I had taken to satisfy myself that these provided an appropriate picture of the effect of the Transfers.

16.1.7. In Section 12 I review how the Capital Appetite Framework is used by QBE EO, QIEL, QBE UK, QBE Re and QBE Europe to determine the level of financial resources to hold in each company. This includes the changes in the threshold to ensure that excess capital will be held above QBE UK and QBE Europe's supervisory capital requirements post-Transfers. This is because post-Transfers these firms will have significantly higher regulatory capital requirements (relative to their risks) than indicated by the QBE EO Internal Model. I concluded that the Capital Appetite Framework provided a reasonable basis for decision-making by the firms regarding dividends and restoring capital coverage and that over the medium term, capital would be set consistently post-Transfers with the position pre-Transfers.

16.1.8. In Section 13 I analyse the impact of the Transfers on the Affected Policyholders by looking at the amount by which the financial resources of QIEL, QBE UK, QBE Re and QBE Europe exceeds the capital requirements when calculated on a number of different bases: Approved / Indicative Internal Model SCR, Standard Formula SCR and (according to the basis each company is required to use) SCR. While the Approved / Indicative Internal Model SCR test indicates no adverse impact from the Transfers, a conflicting picture arises from the other tests.

16.1.9. I have considered these conflicting results carefully and am satisfied that in the case of the Standard Formula SCR test, the results are not material and is caused by limitations in how well the Standard Formula SCR reflects the risks currently in QBE Re and transferring to QBE Europe.

16.1.10. In the case of the SCR basis tests, the results arise from both firms needing to obtain supervisory approval to use the QBE EO Internal Model as calibrated to their prospective business post-Transfers. As a result, the SCR that will apply immediately post-Transfers is not a consistent measure of policyholder risk to the pre-Transfers SCR.

16.1.11. I believe that the Approved / Indicative Internal Model SCR test provides the most meaningful comparison of the position of the companies before and after the Transfers because the calculations provide a consistent comparison of the risks and capital requirements of each.

16.1.12. These tests also showed that post-Transfers, both QBE UK and QBE Europe had EOFs in excess of their SCRs.

16.1.13. I have considered the medium-term position of both firms, noting that I believe that both have realistic prospects of being in a position to seek approval for their Internal Models soon after the Transfers.

16.1.14. These tests therefore led me to conclude that the Transfers would be unlikely to provide any material adverse financial effect on the Affected Policyholders.

16.1.15. In Section 14 I performed some additional quantitative tests on the Internal Model and the companies. These enabled me to satisfy myself regarding:

- the robustness of the Internal Model assumptions;
- the adequacy of the capital buffers set out in the Capital Appetite Framework; and
- the reliability of my conclusions regarding the QBE EO Internal Model and the Capital Appetite Framework.

16.1.16. Finally, in Section 15 I considered whether my conclusions would change as a result of only one of the Transfers being approved and concluded that they would not.

16.1.17. I have therefore concluded that all of the Affected Policyholders are unlikely to be materially adversely affected by the Transfers, in respect of the anticipated financial consequences of the Transfers.

16.1.18. The various tests have confirmed that both QBE UK and QBE Europe will have financial resources in excess of their regulatory capital requirements. They have also led me to conclude that the chance of insolvency of any of the companies is very remote.

D. Detailed Review – Non-financial effects, notifications and publicity

17. Non-financial aspects relating to the Transfers

17.1. Introduction

17.1.1. This section sets out the various non-financial aspects of my review:

- Governance, strategy and operational matters.
- Policyholder priority on insolvency and winding-up and set-off rights.
- Policyholder protection schemes, policyholder complaints and Employers' Liability Tracing Office.
- Impact on reinsurers.
- Supervisory Authorisations, Internal Model approvals and other waivers.
- Insurance law and governing law considerations.
- Tax effects of the Scheme.
- Pension funds and employee benefit plans.

17.2. Governance, strategy and operational matters

CORE FUNCTIONS AND BOARD COMMITTEES

17.2.1. QBE Europe has established a governance structure that mirrors to a large extent the governance arrangements of QIEL and QBE Re. To take account of local Belgian requirements, I have been told by QBE EO Staff that:

- QBE Europe has obtained a derogation from the NBB so that QBE EO's Audit Committee, Remuneration and Nomination Committee, and Risk and Capital Committee can, through delegated authority from the Board of QBE Europe, perform their roles and report to it on QBE Europe's activities (as they currently do to the Boards of QIEL and QBE Re). QBE EO's Investment Committee has a similar delegated authority from the Board of QBE Europe.
- QBE Europe will have a management committee whose membership will include the QBE EO Chief Executive Officer, Chief Financial Officer and Chief Risk Officer together with the QBE Europe heads of insurance and reinsurance (amongst others). This committee will be responsible for running the company on a day-to-day basis and taking strategic decisions on its behalf. In doing so it will consider the decisions of QBE EO's Executive Management Group, which takes corresponding decisions on behalf of QIEL, QBE Re and QBE EO.
- While QBE Europe will employ a local head of compliance (and will have other specialist staff based in Belgium), QBE EO's compliance function in the UK will support the entity. A derogation has been obtained from the NBB to allow QBE Europe to combine the risk and compliance functions, and for the Chief Risk Officer of QBE EO, QIEL and QBE Re, to be responsible for both functions of QBE Europe (as currently for QIEL and QBE Re).
- QBE Europe will employ a local head of actuarial who will be supported by other specialist staff based in the jurisdiction. The head of actuarial will receive support from QBE EO's wider actuarial function and resources. The Chief Actuarial Officer of QBE EO, QIEL and QBE Re will sign off all actuarial reports and will report directly to the QBE Europe Board. In addition, the QBE EO and QBE Europe Chief Risk Officer will be responsible for the outsourcing of the second line of defence aspects of this function.
- The Chief Executive Officer of QBE Europe (who is also the Chief Executive Officer of QBE EO, QIEL and QBE Re), will be responsible for the internal audit function. Internal audit is a QBE Group wide function and QBE EO's Head of Internal Audit will have a reporting line to the QBE Europe Chief Executive Officer. This is consistent with the current processes and procedures of QIEL and QBE Re.

17.2.2. *Based on this information I have concluded that there will not be any material changes to the manner in which core functions and Board committees operate in QBE Europe from QIEL or QBE Re.*

Business Strategy

17.2.3. QBE EO Staff have told me that there are no intended changes to the business strategy as a result of the Transfers.

Underwriting and Claims Authority

17.2.4. QBE Europe will delegate authority for underwriting, claims and other activities from its Board to its general managers via its Chief Executive Officer. This approach is consistent with the existing arrangements within QIEL and QBE Re, providing continuity in the manner in which decision-making is delegated across QBE EO entities.

Internal Control

17.2.5. QBE EO entities, including QIEL, QBE UK, QBE Re and QBE Europe, operate an internal control framework that is designed to deliver legal and compliance minimum standards, including the standard required under Article 46 of the Solvency II Directive, and no material change is anticipated.

Investment Strategy and Investment Management

17.2.6. QBE EO and the other regulated entities within the group (including QIEL and QBE Europe) delegate responsibility to a shared Investment Committee. The investment strategy for each of the European regulated entities is set at QBE EO-wide level. QBE EO has confirmed to me that there is no intended change to the investment strategy at a QBE EO-wide level, and that the principles applied in developing the investment guidelines set by each company will remain the same.

17.2.7. QBE EO Staff have provided me with an assessment of the anticipated investment portfolio allocation of investments by currency and credit rating for QIEL, QBE UK, QBE Re and QBE Europe. This shows that:

- QIEL and QBE UK will be predominantly invested in Sterling denominated assets with QBE UK holding fewer Euro denominated assets than QIEL.
- QBE Re and QBE Europe will be predominantly invested in Euro denominated assets with QBE Europe holding a greater share of assets in Euros than QBE RE and a correspondingly smaller share in US dollars.

17.2.8. This assessment is broadly consistent with the changes I would have expected to have arisen post-Transfers, given the dominant currency of the liabilities of each company.

17.2.9. All of the companies are expected by QBE EO staff to maintain approximately 85% of investments in assets which have been assigned a credit rating of A or better by a rating agency.

17.2.10. The duration of the assets of QIEL and QBE UK will both be 1.3 years, while those of QBE Re and QBE Europe will both be 1.4 years. This shows that pre- and post-Transfers the firms will hold assets with considerably shorter durations than their liabilities (being approximately 3 years for QIEL and 6 years for QBE Re).

17.2.11. QIEL and QBE Re both outsource their investment management to specialist investment managers by means of a group-wide global investment master services agreement entered into with QBE Group Services Pty Limited. QBE EO staff have told me that QBE Europe will be added to this agreement so that the investment management arrangements for it match those in place for QIEL and QBE Re. This means that there will be no changes to investment management arising as a result of the Transfers.

Claims Handling and Policy Administration

17.2.12. QBE EO Staff have told me that no changes will take place to any claims handling or policy administration arrangements as a result of the Transfers. Details of the arrangements regarding employees and outsourcing agreements are described in Section 3.9.

17.2.13. These arrangements have been confirmed in paragraph 64 of the Witness Statement.

17.2.14. In summary:

- In the UK and Ireland, outsourcing arrangements between QIEL and QBE Re to QMSUK and QMIL will be mirrored by equivalent agreements between QBE Europe to QMSUK and QMIL.
- In each of the continental European countries where QIEL or QBE Re have branches, the employees of these branches will, subject to appropriate employee consultation, transfer to and become employees of the corresponding branches (or the home office in respect of the Belgian branch) of QBE Europe. The employee of the Bermudan Branch of QBE Re will transfer to become an employee of the Bermudan branch of QBE Europe.
- There will be no change to QIEL's arrangements for the Remaining Policyholders.

17.2.15. One of the reasons for the establishment of the UK branch of QBE Europe is to enable UK-based staff of QMSUK to act on behalf of QBE Europe in administering policies and handling claims from UK offices.

17.2.16. My understanding of the proposed arrangements is that the same people (whether QBE EO employees or external providers of services to QBE EO companies) will continue to perform the same tasks using the same systems after the Transfers as before the Transfers.

17.2.17. Additionally, all of the relevant companies will be subject to the same ownership, oversight and group-wide reporting lines before and after the Transfers.

IT

17.2.18. QBE Europe intends to outsource its IT activity to QBE EO. This will mirror the existing arrangements for both QIEL and QBE Re. It intends to follow the QBE Group Information Security Policy and Standards, that cover both IT and non-IT aspects of information security.

17.2.19. Based on this information I have concluded that there will not be any material changes to the strategy, underwriting and claims authority, internal control, investment strategy and investment management arrangements, claims handling and policy administration or IT arrangements as a result of the Transfers.

Data

17.2.20. QBE EO representatives have provided me with the following description regarding QBE Europe's approach to handling of data.

17.2.21. QBE Europe will make use of the IT infrastructure of QBE EO. As such, data currently resides in its UK-located data centres. In addition, QBE EO has a number of agreements in place with third party software-as-a-service providers that result in data being hosted in data centres within continental Europe or outside of it.

17.2.22. Where the data includes personal data, QBE EO subsidiary insurance companies have in place provisions with suppliers to ensure compliance with data protection laws including the transfer of data outside of the EEA, principally through the use of EU-approved standard contractual clauses. In addition, the QBE Group's information security function carries out due diligence reviews of all third party suppliers to ensure that their security measures are adequate and meet QBE Group's relevant policies and legal and regulatory obligations.

17.2.23. QBE EO has an ongoing program designed to address the requirements of the forthcoming GDPR. Each of the Transfers allows for QBE Europe to become the data controller of any personal data relating to the Transferring QIEL Policies and the Transferring QBE Re Policies under GDPR and the revised UK Data Protection Act.

17.2.24. I do not believe that the Transfers will introduce any changes with respect to data handling that will affect any of the Affected Policyholders. This is because QBE EO currently has in place appropriate arrangements to handle and process data both within and outside the EEA that are not expected to change as a result of the Transfers.

COST OF RESTRUCTURING

17.2.25. The costs of the restructuring (including the costs of the Scheme) will be borne by QBE EO. I do not believe that the costs of restructuring are such that it will affect the security of any of the Affected Policyholders.

CONCLUSIONS

17.2.26. I have therefore concluded that there will be no material changes or disruptions as a result of the Transfers to:

- *The model for governance and internal control applied across QBE EO businesses;*
- *The business strategy of QBE EO;*
- *The manner in which policies are administered, claims are handled or other operational matters for the Affected Policyholders as a result of the Transfers.*

17.2.27. This is because I have not identified in my investigations any material change or difference in the way in which the parties to the Transfers operate.

17.3. Policyholder priority on insolvency and winding-up and set-off rights

17.3.1. The Transfers bring about a change in the corporate domicile of the (re)insurer for the Transferring Policyholders: from the UK to Belgium. Under UK law, I understand that where a firm is subject to insolvency, direct insurance policyholders have priority for payment of claims over reinsurance policyholders.

17.3.2. I understand that QBE EO has obtained advice from NautaDutilh BVBA/SPRL, a Belgian law firm, who have confirmed that, as a result of Articles 643 and 644 of the Act of 13 March 2016 on the status and supervision of insurance and reinsurance undertakings, the position is the same in Belgium. NautaDutilh BVBA/SPRL have confirmed in writing that I may rely upon this advice. I have reviewed this advice and consider it appropriate for my investigations.

17.3.3. The Transfers will result in QBE Re policyholders moving to a firm which will also have direct insurance policyholders (who are transferring from QIEL). This means that, post-Transfers:

- There will be minimal change to the position of the Transferring QIEL Policyholders, as they will rank ahead of the reinsurance policyholders of QBE Europe;

- The Transferring QBE Re Policyholders will have a reduction in their rights on insolvency owing to there being direct insurance policyholders in QBE Europe (being the Transferring QIEL Policyholders) who will rank ahead of them following any insolvency.

17.3.4. In Section 16, I concluded that the likelihood of an insolvency event for QBE Europe is very remote. This is because QBE Europe will be an adequately-capitalised (re)insurer[20]. In addition, as described in Section 5 it benefits from additional security provided to it by being owned by QBE EO, which is itself owned by QBE Limited.

17.3.5. There is no change to the country of domicile of QIEL, and almost all of the policyholders of QIEL were direct insurance policyholders. Therefore this issue does not apply to them.

17.3.6. I have therefore concluded that changes with respect to winding-up priorities of the Affected Policyholders as a result of the Transfers:

- *Will be minimal for the Transferring QIEL Policyholders and the Remaining QIEL Policyholders;*
- *Will potentially be adverse to the interests of the Transferring QBE Re Policyholders, but that this will not be material for my overall conclusions owing to the very remote chance of insolvency of QBE Europe.*

17.3.7. In my experience, under set-off negotiations relating to claim settlements or commutations parties look at their overall position across all claims relative to the counterparty group. As all three companies that are party to the Transfers are and will remain wholly-owned subsidiaries of the QBE Group, I do not anticipate that the Transfers will confer any advantage to any companies within the QBE Group relative to the Affected Policyholders in this respect.

17.3.8. I have therefore concluded that there will not be any material changes to set-off rights arising for the Affected Policyholders from the Transfers.

17.4. Policyholder protection schemes, policyholder complaints and Employers' Liability Tracing Office

17.4.1. These issues relate to my investigations of the effect of differences in the domicile of QBE Europe from QIEL and QBE Re.

Policyholder Protection Schemes

17.4.2. In the event of default by an insurer authorised to write business in the UK, insurance policyholders benefit from the protection provided by the FSCS under the Policyholder Protection Scheme[21]. As a general rule, this protection is only provided to individuals and small businesses[22].

17.4.3. For claims arising from UK compulsory insurance classes of business (predominantly employers' liability and third-party motor liability insurance), professional indemnity insurance or from the death or incapacity of a policyholder through injury, sickness or infirmity it provides 100% coverage for any insurer shortfall. Otherwise, the coverage provided reduces to 90%.

17.4.4. The Policyholder Protection Scheme exists to provide protection to policyholders of UK authorised insurers and not to overseas insurers. However where a policy written by a UK authorised firm is transferred to an overseas insurer, the Policyholder Protection Scheme includes provisions to

[20] As can be seen in Section 13, it will in fact have financial resources significantly in excess of its Indicative Internal Model SCR.

[21] Described in the Policyholder Protection section of the PRA Rulebook.

[22] Those with an annual turnover of less than £1,000,000.

cover claims occurring (whether reported or not to the insurer) prior to the transfer[23]. Unexpired periods of cover at the time of transfer do not, however, retain the benefit of the Policyholder Protection Scheme.

17.4.5. I have identified that in Belgium the protection provided is spread across more than one organisation:

- The Fonds Commun de Garantie Belge/Belgisch Gemeenschappelijk Waarborgfonds states on its website[24] that it provides protection in the event of insurer insolvency for claims caused by motor vehicles and occurring in Belgium.
- Fedris, the Federal Agency for Occupational Risks, states on its website[25] that it indemnifies victims (or rightful claimants) of occupational diseases.

17.4.6. The protection provided by the Belgian schemes identified appears in my view to be less than that provided by the Policyholder Protection Scheme, however I believe that the specific circumstances applicable would need to be considered in determining the protection available to policyholders.

17.4.7. In the case of the QIEL Transfer, the Witness Statement notes at paragraph 49 that other than in Bulgaria and Estonia a high proportion of the Affected Policyholders would not be eligible for protection from the Policyholder Protection Scheme because they are not individuals or small businesses. This is because other than for Coverholder Business, generally speaking QIEL does not underwrite personal lines business and focusses on the provision of insurance to medium to large corporate clients.

17.4.8. In the Bulgarian branch there are very few remaining open claims; in the Estonian branch no claims have been reported in the last five years and QBE EO Staff have told me that they believe it is very unlikely that claims will arise in the future. QBE EO Staff have also told me that other than one policy which expired in 2017, all Bulgarian branch and Estonian branch business expired on or before April 2015. Therefore all of this business should retain the benefit of the Policyholder Protection Scheme.

17.4.9. Other than for the Coverholder Business, I would therefore anticipate that the reduction in the quality of policyholder protection arising from the QIEL Transfer is likely only to affect a very small proportion of the Transferring QIEL Policyholders.

17.4.10. For the Coverholder Business, only the unexpired portion of the policies transferring to QBE Europe will lose eligibility to benefit from the Policyholder Protection Scheme, and only in respect of policyholders who meet the eligibility criteria of the Policyholder Protection Scheme.

17.4.11. QBE EO Staff have told me that, from the Coverholder Business, there are currently estimated[26] to be approximately 28,500 policyholders with unexpired portions of risk, with the vast majority (approximately 90%) of them being to businesses that are sufficiently small so as to be currently eligible for protection from the Policyholder Protection Scheme. In addition, a small proportion of these policyholders are individual consumers who would also be eligible.

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[23] These provisions are contained in the Successor Firms provisions (Section 11 of the Policyholder Protection section of the PRA Rulebook “Successors in Default”.) The provisions are most clearly explained in paragraph 20 of the PRA’s Policy Statement PS5/15 “Policyholder protection” dated April 2015” https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2015/ps515

[24] http://www.fcgb-bgwf.be/images/lang/fr/orki/File/En/Mission_of_compensation.pdf

[25] https://www.fedris.be/en/node/439

[26] See Footnote 5 regarding the basis of this estimate.

17.4.12. This provides an approximate guide to the number of policyholders who may lose the benefit of the Policyholder Protection Scheme. This loss of benefit will only apply to unexpired portions of policies at the Transfer Date.

17.4.13. It is not possible to give a more precise estimate of the number of QIEL policyholders affected by the loss of eligibility to claim against the Policyholder Protection Scheme in the event of insurer failure. This is because eligibility is determined at the time of a claim arising. The risk of claims arising from unexpired portions of policies at the Transfer Date and not being paid in full is greater for policyholders with claims that take longer to settle, for example those of a more complex nature or involving litigation.

17.4.14. As I have concluded that the position of QBE Europe at the Transfer Date indicates that the chance of non-payment to the Affected Policyholders is very remote, I do not believe that this loss of benefit is a material loss to any eligible policyholders.

17.4.15. In the case of the QBE Re Transfer, I anticipate that none of the Affected Policyholders, being purchasers of reinsurance, will be individuals or small businesses and therefore eligible for protection from the Policyholder Protection Scheme.

17.4.16. I have concluded that there will be no impact to policyholder protection arrangements for policyholders who are not individuals or small businesses as they had no protection in place pre-Transfers.

17.4.17. I have concluded that there will be a reduction in some of the protection arrangements for Transferring QIEL Policyholders with policies written by QIEL's coverholders and who are individuals or small businesses. This is because the Policyholder Protection Scheme will no longer provide protection to these policyholders. This reduction will be limited by there being some arrangements for Belgian-domiciled firms, albeit more limited in scope than those offered in the UK.

17.4.18. For this small proportion of policyholders, I have concluded that this is not a materially adverse change because my quantitative analysis of QBE Europe has led me to conclude that the likelihood of it being unable to meet the claims of these policyholders as they fall due is very remote. This is because the risk of insolvency for QBE Europe is currently very low. The risk of claims arising from unexpired portions of policies at the Transfer Date and not being paid in full is greater for policyholders with claims that take longer to settle, for example those of a more complex nature or involving litigation.

17.4.19. In addition, I note that the policyholders who will lose the protection from the Policyholder Protection Scheme will benefit from an improvement in their ranking in the event of its insolvency (see paragraph 17.3.3). This is because pre-Transfers they are insurance policyholders and are moving from a company (QIEL) comprising almost entirely insurance policyholders to QBE Europe, which will have significant shares of both insurance and reinsurance policyholders. Therefore in this regard they will have an improved position in the event of QBE Europe becoming insolvent.

Policyholder Complaints

17.4.20. Subject to meeting certain specified criteria, policyholders of UK-domiciled insurance firms can take complaints to the Financial Ombudsman Service regarding the administration of their policy or claim. The Financial Ombudsman Service is a free to use, public body established by law that makes awards that are binding upon insurance firms of up to £150,000.

17.4.21. Policyholders of Belgian-domiciled firms can apply to two distinct complaint resolution services:

- Ombudsman des Assurance / Ombudsman van de Verzekeringen – a body established by law that can make non-binding recommendations regarding the matter.
- Ombudsfin – a private body that, for insurance, can make non-binding recommendations regarding the matter.

17.4.22. In both cases, policyholders and claimants are entitled to issue legal proceedings against insurance firms, and the operation of these redress schemes does not preclude this. Typically, issuing legal proceedings can be an expensive approach to resolution of issues of this nature and may not be available to personal and small commercial policyholders. While this also applies in the UK, the Financial Ombudsman Service is a free to use service and may help policyholders to avoid incurring significant legal costs as its awards of up to £150,000 are binding upon insurance firms.

17.4.23. Therefore in my view, the mechanisms for policyholders to obtain redress where they have legitimate complaints about how a policy or claim has been administered are weaker in Belgium than in the UK.

17.4.24. QBE EO has received legal advice from Norton Rose Fulbright LLP, a UK law firm, regarding the application of the Financial Ombudsman Service to the Transfers.

17.4.25. The advice concludes that the eligibility rules for complainants mean that only the following types of complainant are eligible:

- Consumers – essentially a natural person acting outside his or her trade, business or profession;
- A micro-enterprise – defined in the FCA Handbook (by reference to EU law) as an enterprise which (a) employs fewer than 10 persons and (b) has a turnover or annual balance sheet that does not exceed €2 million;
- A charity with annual income of less than £1 million at the time the complaint is made; or
- A trustee of a trust which has a net asset value of less than £1 million at the time the complaint is made.

17.4.26. The Witness Statement notes at paragraph 49 that other than in Bulgaria and Estonia and for Coverholder Business, the Transferring QIEL Policyholders do not include any personal lines policyholders and that as, generally speaking, QIEL focusses on the provision of insurance to medium to large corporates, the vast majority of these policyholders are therefore unlikely to be eligible to claim under the Financial Ombudsman Scheme.

17.4.27. In the Bulgarian branch there are very few remaining open claims; in the Estonian branch no claims have been reported in the last five years. QBE EO Staff have told me that they therefore believe it is very unlikely that matters will arise in future that could cause them to need to access the Financial Ombudsman Service.

17.4.28. For the Coverholder Business, there remains the possibility that complaints may arise in future relating to the manner in which a policy has been administered or a claim handled. The estimated number of policies and policyholders currently eligible to access the Financial Ombudsman Service is the same as for the Policyholder Protection Scheme, described in Paragraph 17.4.11.

17.4.29. It is not possible to provide a more precise estimate of the number of QIEL policyholders that might be eligible to access the Financial Ombudsman Service as this can only be determined at the time at which a complaint is made.

17.4.30. As QBE Re's policyholders are all insurance companies, none of them will be eligible.

17.4.31. The Norton Rose Fulbright LLP legal advice concludes that the territorial scope of the Financial Ombudsman Service applies to the Transferring Policyholders who are policyholders of QIEL EEA branches provided that for these policyholders to be eligible to access the service, their claim or complaint would need to have been referred by staff in EEA branches to staff located in QIEL's London office in the UK. This referral can arise in certain prescribed claims or complaint circumstances.

17.4.32. I have carefully reviewed the Norton Rose Fulbright LLP advice and concluded that it is appropriate for my considerations. It has confirmed in writing that I may rely upon their legal advice.

17.4.33. QBE EO Staff have told me that they believe that post-Transfers, there may remain certain circumstances where policyholders of QBE Europe could access the Financial Ombudsman Service. As there are a number of uncertain factors that remain, including how the position will change post-Brexit, I have assumed that for the purposes of reaching my conclusions there will be no rights of access for QBE Europe policyholders.

17.4.34. QBE EO staff have told me that there have not been any referrals from any of its European branches during the last five years to QIEL's head office in the UK for raising with the Financial Ombudsman Service. All instances of policyholder complaints in European branches have been handled under local arrangements, which will continue unchanged post-Transfers.

17.4.35. In comparison to the number of claims handled by QIEL branches over the same period, this absence of recent referrals suggest to me that the chance of any of the Transferring QIEL Policyholders needing to access the Financial Ombudsman Service is very low.

17.4.36. In summary:

- The policyholder complaint arrangements for a Belgian-domiciled insurer appear weaker than for a UK-domiciled insurer.
- Only individuals and very small businesses, trusts and charities are eligible to use the Financial Ombudsman Service. Other than for the Bulgarian and Estonian branch business and Coverholder Business, most of the Affected Policyholders do not fall into this category, and will therefore be ineligible to claim
- Within this group of policyholders, eligibility to use the service requires that the EEA branch of QIEL referred the claim or complaint to the QIEL's UK Head office.
- Very few of the Affected Policyholders with Bulgarian or Estonian branch policies are believed by QBE EO as having any matters that could cause them to need to access the Financial Ombudsman Service.
- Recent experience suggests that the likelihood of there being a complaint to the Financial Ombudsman Service from any of the Affected Policyholders is very low.
- I have assumed that QBE Europe policyholders will not be able to access the Financial Ombudsman Service.

17.4.37. I have therefore concluded that certain of the Transferring QIEL Policyholders will lose the right to access the Financial Ombudsman Service as a result of the Transfers. As the equivalent arrangements in Belgium appear to me to be inferior to the UK arrangements, this will represent a reduction in non-financial benefits for these policyholders.

17.4.38. I note that other than for the Coverholder Business the proportion of Affected Policyholders eligible to access the Financial Ombudsman Service pre-Transfers appears to be small and that QIEL has had no matters accessing the Financial Ombudsman Service over the last five years arising from the Transferring Policyholders.

Employers' Liability Policy Tracing

17.4.39. The ELTO was established in the UK in 1999 to assist claimants in tracing the employers' liability insurer of a UK employer in order to pursue a claim. QIEL provides data each year to ELTO, but QBE Re does not, as both it and its predecessor firms have never underwritten employers' liability business.

17.4.40. QBE EO Staff have told me that they have not identified any UK employers' liability business transferring from QIEL to QBE Europe, but if they do, or if QBE Europe should write any such business in future, it will join QIEL in providing data to ELTO each year.

17.4.41. I note from the audit statement published on its website, that QIEL was not fully compliant with its obligations set out in the FCA Handbook under ICOBS 8.4.4E(2). I have been told the disclosure relates to the manner in which the ELTO database records postcodes and that QIEL is engaged in resolving this with ELTO. As such, I do not believe that it has any bearing on my conclusions as the position will not change as a result of the Transfers.

17.4.42. Based on this and the proposed arrangements post-Transfers, I am satisfied that policyholders, claimants and their representatives will not be adversely affected by the Transfers.

17.5. Impact on Reinsurers

17.5.1. The Transfers allow for the outwards reinsurance policies associated with inwards business to transfer to QBE Europe, from both QIEL and QBE Re. These are individually listed in the Scheme.

17.5.2. Where a reinsurance contract provides protection in respect of claims from both Transferring QIEL Policies and Remaining QIEL Policies, the Scheme provides for the reinsurance contract to be split between QBE UK and QBE Europe. This ensures that there is no economic effect to either the reinsurer or QBE Group as a result of the Transfers.

17.5.3. I have therefore concluded that there is unlikely to be any material impact on reinsurers arising from the Transfers.

17.6. Supervisory Authorisations, Internal Model approvals and other waivers

Prudential supervision

17.6.1. There will be no change to the lead supervisory authority of QIEL or QBE EO; this will remain the PRA. Similarly there will be no change to the supervisor of QBE Group, this will remain the APRA.

17.6.2. Prudential supervision for the Transferring QIEL Policyholders and the Transferring QBE Re Policyholders will change following the Transfers from the PRA being the sole supervisor for QBE EO and its subsidiary insurance companies, to its being the lead group supervisor for QBE EO in a supervisory college working alongside the NBB. Both the PRA and NBB are well-established, experienced insurance supervisors who both follow the requirements of Solvency II.

17.6.3. Supervision of the various EEA branches of QIEL, QBE Re or QBE Europe would continue to fall under the remit of the lead supervisor of the relevant company, and this would not change as a result of the Transfers.

17.6.4. The Bermudan branch of QBE Re is subject to prudential supervision by the BMA. QBE EO has written to the BMA to request authorisation of the Bermudan branch of QBE Europe. I will confirm in my Supplemental Report its authorisation.

17.6.5. Overall, I have concluded that while there a change in the prudential supervisor for some of the Affected Policyholders, I do not believe the effect of any of these changes will be material.

CONDUCT SUPERVISION

17.6.6. Pre-Transfers, the FCA is responsible for conduct supervision of all business written by UK authorised firms including their overseas branches. Therefore all of the QIEL and QBE Re policyholders fall within the FCA's oversight.

17.6.7. In each EEA state where QIEL and QBE Re have branches, there are local insurance supervisors with responsibility for oversight of their local markets and whose responsibilities will be unchanged as a result of the Transfers.

17.6.8. Post-Transfers, conduct supervision for QBE Europe will be the responsibility of the Financial Services and Markets Authority, the financial regulatory agency in Belgium. The Financial Services and Markets Authority's role is to ensure the honest and equitable treatment of financial consumers and the integrity of the financial markets. In particular, its role as regards insurance undertakings is limited to ensuring that they comply with the laws governing insurance contracts and the provision of information to policyholders and to giving its opinion to the NBB on the fit and proper character of directors, and other senior officers as well as on compliance matters.

17.6.9. While I anticipate that there will be differences in approach between the manner in which conduct supervision is overseen between the Financial Services and Markets Authority and the FCA, I do not have any reason to believe that there will be a fundamental difference in aims arising for policyholders as a result of the Transfers.

17.6.10. I have concluded that changes in conduct supervision for the Affected Policyholders will not be material.

INTERNAL MODEL APPROVAL

17.6.11. In line with its annual cycle of major model change approvals, QBE EO will apply to the PRA, as its lead group supervisor, in August for a Major Model Change. This will include permission to use an updated QBE EO Internal Model for QBE UK and QBE Europe. The QBE EO Internal Model arrangements pre-Transfers are described in Section 11.4.

17.6.12. In May 2018, QBE EO applied to the PRA for the scope of the QBE EO Internal Model to be extended to include its newly authorised insurance subsidiary QBE Europe. I will confirm in my Supplemental Report that this approval has been received prior to the Transfer Date.

17.6.13. In the normal course of events, QBE EO would hope to obtain approval to use its new model in early 2019. Post-Brexit, it is likely that supervision for QBE Europe will pass to the NBB, however this will depend upon the final agreement on Brexit between the UK and EU.

OTHER REGULATORY APPLICATIONS AND WAIVERS

17.6.14. QBE Europe submitted applications to the NBB on 19 February 2018 to establish branches in each of Denmark, France, Germany, Ireland, Italy, Spain, Sweden and the UK. It anticipates receiving permission for each of these prior to the Transfers. I will confirm in my Supplemental Report that permissions have been obtained for these branches.

17.6.15. QBE Europe has applied to the NBB for various derogations relating to its governance. These are described in Section 17.2.

17.6.16. I did not identify any other material supervisory matters arising from the Transfers and affecting the Affected Policyholders.

17.7. Insurance law and governing law considerations

INSURANCE LAW GOVERNING PRUDENTIAL SUPERVISION

17.7.1. Both the UK and Belgium have implemented the EU-wide Solvency II insurance law within their own laws. While I anticipate that there will be some differences in the manner in which they have been implemented, I am not aware of any material differences that apply.

IMPACT OF GOVERNING LAW OF THE POLICIES OF THE TRANSFERRING POLICYHOLDERS

17.7.2. Table 17.2 sets out an analysis prepared for me by QBE EO Staff of the governing law applicable to the Transferring QIEL Policyholders and Transferring QBE Re Policyholders.

Table 17.2 – Contract Governing Law of Transferring Policies – Proportion of Policies		
	QIEL	QBE Re
EEA Law	~99%	58%
Non-EEA Law	~1%	42%

17.7.3. There is a risk that policyholders with policies governed by laws outside the EEA may not recognise the Transfers. QBE EO staff have told me that similar considerations also apply to the Cross-Border Merger that will take place shortly after the QBE Re Transfer.

17.7.4. Less than 1% of the Transferring QIEL Policies are governed by laws other than English law or another EEA member state and therefore the Transfers will be binding on the vast majority of policyholders.

17.7.5. QIEL will continue to exist post-Transfers, so a claimant who successfully challenged in a non-EEA court the validity of the Transfers for their policy would still be able to submit their claim for payment to QBE UK.

17.7.6. Approximately 40% of the Transferring QBE Re policies are governed by laws other than English law or another EEA member state and therefore while the QBE Re Transfer and Cross-Border Merger will be binding on over half of the Transferring QBE Re Policyholders, there is some legal uncertainty surrounding a significant minority.

17.7.7. To protect the position of policyholders where there is some legal uncertainty regarding whether the governing law of the policies might prevent them being transferred, , QBE Europe has confirmed in the Witness Statement (at paragraphs 43 to 44) that prior to the Transfer Date it will enter into a deed poll documenting its commitment to :

- pay any valid claim and not seek to rely on the non-recognition of the Transfers under the governing law of the relevant policy as a basis for avoiding the policy; and
- meet any reasonable legal costs and expenses incurred by the policyholder in question to the extent they refuse to the enforcement of a policy in a jurisdiction which does not recognise the Transfers or the Cross-Border Merger.

17.7.8. I have been told by QBE EO Staff that a high proportion of the investible assets of QIEL and QBE Europe will be held in the UK or another EEA state. Under the Scheme, all policyholder rights against QIEL and QBE Re pre-Transfers for the Transferring Policyholders will be interpreted as becoming rights against QBE Europe post-Transfers. Therefore a policyholder wishing to enforce payment of a claim would be able to do so in the EEA.

17.7.9. These additional steps taken by QBE EO, QIEL, QBE UK, QBE Re and QBE Europe provide me with comfort that the companies are seeking to minimise the risk that any of the Affected Policyholder will not have all legitimate claims paid in full and in a timely fashion as a result of the governing law of the policy not recognising the Transfers and Cross-Border Merger.

17.8. Tax effects of the Scheme

17.8.1. QBE EO Staff have advised me that they believe that the Transfers will not incur a material tax liability on any of QIEL, QBE UK, QBE Re or QBE Europe. They have told me that this work is ongoing, I will therefore confirm to the Court that no such tax liabilities have been identified in my Supplemental Report.

17.9. Pension fund and employee benefit plans

17.9.1. QBE Re is sponsor of a Belgian defined benefit pension scheme and a small, unfunded Belgian post-retirement medical healthcare plan. The size of the assets and liabilities of these arrangements are set out in Section 4.5. These will move to QBE Europe under the Cross-Border Merger.

17.9.2. QBE EO Staff have told me that both of these are currently, and will remain, Belgian-domiciled arrangements. They have also told me that there is a defined contribution pension scheme in respect of the Belgian branch employees that will also transfer to QBE Europe under the Cross-Border and remain Belgian-domiciled.

17.9.3. QBE EO Staff have told me that:

- There are no pension arrangements in place for current and former employees of the QBE Re Bermudan branch.
- There are no current or former employees of the QBE Re Irish branch; all Irish staff will continue to work for QMIL.
- There are no current or former UK employees of QIEL; all UK staff will continue to work for QMSUK.
- All other pension arrangements for staff employed by QIEL's European branches are on a defined contribution basis and will remain in the country where they are currently located.

17.9.4. Based on this information I have concluded that there are no issues arising from the Transfers relating to pensions or other employee benefit plans that I need to highlight in my Report.

18. Notifications and Publicity arrangements

18.1. Introduction

18.1.1. In this section I have commented upon the approach QBE EO proposes to take in notifying Affected Policyholders and its proposed publicity arrangements. My understanding of the proposed approach is based upon the material supplied to me at the time of writing my Report by QBE EO Group staff, including the Witness Statement.

18.1.2. Under FSMA 2000, the parties (i.e. QIEL, QBE Re and QBE Europe) are required to provide notification to (a) all Affected Policyholders, and (b) all Reinsurers of the Transferring Policyholders of the proposed Transfers, and are required to publicise the Transfers in a number of publications. QBE EO is seeking waivers from notifying certain Affected Policyholders and Reinsurers of the Transferring Policyholders, but is not seeking any waivers from the publicity requirements.

18.1.3. In this section I have indicated if I believe that the arguments and arrangements put forward relating to notifications and publicity by QBE EO are appropriate. I stress however, that it will be for the Court to approve these arrangements and any waivers sought and that it may amend some or all of them. If they are amended, I will comment on whether there are any changes to my conclusions in my Supplemental Report.

18.2. High level approach to Notification Arrangements - Policyholders

18.2.1. QBE EO is seeking waivers from notifying the following groups of Affected Policyholders of the Transfers:

- Transferring Policyholders who do not have an Active Policy (approximately 560,000).
- Remaining QIEL Policyholders (approximately 600,000).
- Other Affected Policyholders that it has proven impossible to identify despite QBE EO's reasonable efforts.

18.3. Waiver for Policyholders of QIEL or QBE Re who do not have an Active Policy

18.3.1. QBE EO has defined an Active Policy as one where either:

- there is a claim recorded on QIEL's or QBE Re's operational computer records that is either open, or has an outstanding indemnity claim amount recorded against it; or
- it is within a cohort of policies for which the company is holding an Incurred But Not Reported (IBNR) reserve amount, gross of reinsurance.

For the purposes of the Transfers, a *cohort* of policies is determined as a group of policies with a common class of business, underwriting year and branch.

18.3.2. The reason for seeking this waiver is to exclude those Transferring Policyholders that QBE EO considers hold a policy that is highly unlikely to give rise to a claim. QBE EO has argued that the cost of such a communications exercise would be disproportionate to any policyholder benefit derived.

18.3.3. As the Transfers are moving policyholders between companies within the QBE Group, and taking into account the other protections provided by the Part VII Transfer process, QBE considers that any benefit provided by such notification would be very limited.

18.3.4. QBE EO has instructed KPMG LLP, a professional services firm, to analyse the Transferring Policyholders to identify those that hold Active Policies by testing whether they meet one of the following criteria:

- They have an open claim on their policy; or

- A reserve for IBNR claims has been recorded against a cohort of policies which includes the policy in question.

18.3.5. I have been provided with a copy of the exhibit prepared by KPMG LLP setting out the results of the analysis of Active Policies referred to in paragraph 85 of the Witness Statement. This shows for each distinct portfolio considered:

- the first and last underwriting years;
- the most recent underwriting year with no IBNR allocated to it;
- the approximate gross IBNR estimated by the QBE EO Actuarial Function; and
- the number of years since the last claim was notified on any of the underwriting years with no IBNR.

18.3.6. The exhibit indicates, for each distinct portfolio, which underwriting years have been considered as an Active Underwriting Year, with those underwriting years in which there has been a claims notification in the last two years being considered as an Active Underwriting Year even where there is no IBNR.

18.3.7. As an additional protection, I requested that QBE EO's Actuarial Function signed-off the results of this exercise and determined whether any additional underwriting years should be classified as an Active Underwriting Year on a case-by-case basis. This was to mitigate against the risks that:

- The actuarial IBNR estimates were not prepared for the purpose of this analysis;
- Some small segments may otherwise be excluded inappropriately; and
- Certain policy or claim types may have specific characteristics which mean that the criteria described in paragraph 18.3.4 is not appropriate.

18.3.8. I reviewed the process adopted and have satisfied myself that the final classification excluded only those groups of policies where the chance of a future claim arising is remote.

18.3.9. I have reviewed the final exhibit identifying the Active Policies and had the opportunity to discuss the results with KPMG LLP and QBE EO's Actuarial Function before it was finalised. Based on this I am satisfied that the approach adopted in support of this waiver is appropriate.

18.3.10. I have concluded that the arguments for this waiver put forward by QBE EO are appropriate, having considered the supporting analysis performed by KPMG LLP and the additional sign-off provided by the QBE EO Actuarial Function.

18.4. Remaining QIEL Policyholders

18.4.1. QIEL has estimated that, excluding those policies that it does not consider to be Active, there will be approximately 600,000 Remaining QIEL Policyholders.

18.4.2. The reason for seeking this waiver is as follows:

- These policyholders will remain with the same insurer with exactly the same governance structure and regulatory framework;
- These policyholders will have no changes applied to their policy terms and conditions;
- These policyholders will experience no change to QIEL's CCR (continuing to exceed the higher of QBE EO's threshold of: (i) 120% of its Indicative Internal Model SCR and maintaining a target of 130% of its Indicative Internal Model SCR, calculated using the QBE EO Internal Model reflecting the post-Transfer risk profile of QBE UK, which QBE EO Staff anticipate will apply once approved by the PRA; and (ii) 110% of its Approved Internal Model SCR, calculated using the QBE EO Internal Model and which reflects the pre-Transfer risk profile of QIEL); and

- QBE EO has estimated that the cost of notifying these policyholders will be in excess of £650,000 and considers that this cost will be disproportionate given the limited effect of the Transfers upon these policyholders.

18.4.3. There is no equivalent waiver sought for the QBE Re Transfer as all of these policyholders will transfer to QBE Europe under the QBE Re Transfer or the Cross-Border Merger.

18.4.4. I have reviewed the estimates prepared by QBE EO Staff to support its estimate of a cost of approximately £650,000 and believe that it has been appropriately prepared, albeit on a subset of the Remaining QIEL Policyholders.[27]

18.4.5. Although the QIEL Transfer will materially reduce the size of QBE UK, my analysis set out in this Report has concluded that the changes proposed do not materially adversely affect the Remaining QIEL Policyholders. In my opinion, the cost estimates of notifying all of the Remaining QIEL Policyholders are extremely high relative to any benefit to them of receiving the notification materials.

18.4.6. Notwithstanding the rationale for this waiver, QBE EO have proposed carrying out some additional advertising in four publications: Motor Trader, SME Magazine, Tradewinds and Property Week. These have been selected on the basis that they are likely to be read by Remaining QIEL Policyholders with motor, SME package, marine and property policies. These are in addition to the notices regarding the Transfers in the Times and Financial Times (and other overseas publications).

18.4.7. I have concluded that the arguments for this waiver put forward by QBE EO are appropriate, having considered the supporting analysis performed by QBE EO Staff, and taking into account the additional advertising arrangements.

18.5. Policyholders that it has proven impossible to identify despite QBE EO's reasonable efforts.

18.5.1. This waiver is being sought because in reality it will be impossible for QBE EO to be certain that it has notified all of the relevant Affected Policyholders. Some specific examples considered by QBE EO are:

- Policyholders that cannot be identified as the operational computer records of QBE EO and their Brokers are incomplete and do not contain details of relevant Affected Policyholders who are not the holders of policies as indicated on the face of such a policy or any other insurance. This is particularly the case because the definition of policyholder in the FSMA Order is very wide and could include individuals who make a claim in the future and are unknown to QBE EO or the Brokers and also many individuals for whom the likelihood of making a claim is very remote.
- Policyholders who have become policyholders by virtue of an assignment of the original policy but who have not informed QBE EO or the Brokers.
- Policyholders whose contact details have changed since the policy was issued but have not informed QBE EO or the Brokers of the change.

[27] This is because at the time at which it was prepared, QBE EO had anticipated transferring almost all of the policies QIEL had written on a Freedom of Services basis. Under the QIEL Transfer, none of these policies will transfer to QBE Europe, and will be run-off by QBE UK. New and renewal business within this portfolio will be underwritten by QBE Europe.

18.5.2. I note that QBE EO intends to notify claimants with open outstanding claims (or their legal advisors), of the Transfers where QBE EO or their Brokers have their details in their operational computer records.

18.5.3. I have concluded that the arguments for this waiver put forward by QBE EO are appropriate.

18.6. High level approach to notification of Reinsurers

18.6.1. QIEL and QBE Re have determined that they benefit between them from approximately 2,640 reinsurance treaties which will transfer, in whole or in part, under the Transfers. Of these, approximately 610 contracts were written directly between QIEL and / or QBE Re and the relevant reinsurer and approximately 2,025 were written through 60 reinsurance Brokers. There are approximately 340 distinct reinsurers involved.

18.6.2. QBE EO has identified all of the reinsurance contracts and listed them out in a Schedule attached to the Scheme. They propose to notify the normal contact that they have regarding each reinsurance contract, typically the lead reinsurer but in some cases, the communication may be via a Broker.

18.6.3. They are seeking a waiver from notifying all reinsurers where there are gaps in the operational computer records of QIEL or QBE Re or, where relevant, the Broker. This includes cases where the information is missing or where a change has arisen that has not been notified to QIEL, QBE Re or the Broker.

18.6.4. This waiver is being sought because in each case it would be impossible for QBE EO to be certain that it had notified all of the relevant reinsurers. In essence, QBE EO is seeking these waivers to avoid being in breach of their notification obligations owing to gaps or errors that may exist in their operational computer records, despite the companies' endeavours.

18.6.5. I have concluded that the arguments for this waiver put forward by QBE EO are appropriate.

18.7. Method of communication

18.7.1. Other than where a waiver is being sought, QIEL and QBE Re intend to write to every Affected Policyholder or Reinsurer directly where:

- The Broker is happy to provide QIEL or QBE Re with appropriate contact information and the policy was not issued by a coverholder of QIEL; or
- It is normal for QIEL or QBE Re to deal directly with them.

18.7.2. Where a Broker refuses to provide policyholder information to QBE EO or where the policy was issued by a coverholder of QIEL, QBE EO intends to provide a copy of the communication material to that Broker or coverholder and ask it to provide the communication material to those Transferring Policyholders with an Active Policy. QBE EO will ask the Broker or coverholder to provide written confirmation that is has done so. QBE EO will meet the Broker's or coverholder's costs in conducting this communication exercise. Brokers will be asked to contact Reinsurers directly on the same basis.

18.7.3. For communication with Affected Policyholders, QBE EO will work with its Brokers and coverholders to assist them to match up policy names and contact details, to the extent that they require such assistance. Where the intermediary is no longer in existence, QBE EO will attempt to trace the relevant Transferring Policyholder's contact details using a third-party tracing agent.

18.7.4. QBE EO is seeking to overcome any resistance arising from Brokers and coverholders by providing logistical and financial support but recognising that it is not able to compel all intermediaries to assist with notification of the Transfers.

18.7.5. QBE EO will use email as the preferred means of communication because it is the customary means of communication for the majority of its Transferring Policyholders. Where an email is "bounced back", it is proposed that:

- QBE EO will check the email address used for obvious errors.
- Where no errors are identified or the email is resent and a further "bounce back" is received the policyholder in question will be communicated with by post (to the extent a postal address is available), and
- Where any post is returned or a postal address was not available, a tracing agent will be retained to locate a postal address for the relevant policyholder.

18.7.6. I have concluded that the method of communication proposed by QBE EO is appropriate.

18.8. Content of communication

18.8.1. QIEL or QBE Re intends to send the following communication pack to notify Affected Policyholders and Reinsurers:

- A covering letter containing the prescribed information stating that the application for the Transfers has been made by QIEL, QBE Re and QBE Europe to the Court;
- A copy of the formal legal notice setting out the details of the Court hearing;
- A statement setting out a summary of the terms of the proposed Transfers and containing a summary of the report prepared by the Independent Expert; and
- A question and answer booklet relating to the QIEL Transfer and the QBE Re Transfer.

18.8.2. For Affected Policyholders where a language other than English is normally used, QBE EO will arrange for a translation to be prepared of the material in the communication pack and each translator to provide a certificate of verifying the accuracy of the translation.

18.8.3. I have reviewed the near-final draft communication pack documents and satisfied myself that they are appropriate.

18.9. Proposed approach to publicity surrounding Transfers

18.9.1. The QBE Parties propose to publicise the Transfers by means of a notice in the London, Edinburgh and Belfast Gazettes, the Times and the Financial Times (international edition), and an additional quality newspaper in each EEA state where it has risks. For those countries where the Financial Times circulation is below 2,000, two additional quality newspapers (rather than one) are being used for advertisements.

18.9.2. Additionally, advertisements are to be placed in:

- One quality newspaper in each of Dubai and Gibraltar and two quality newspapers in Switzerland (where QIEL has risks located) and one quality newspaper in Bermuda (where QBE Re has risks located).
- The specialist publications listed in paragraph 18.4.6.

18.9.3. I consider that the approach taken to publicising the Transfers is appropriate, seeking to enhance publicity by both geography and industry sector beyond the minimum requirements of FSMA 2000.

18.9.4. I consider that the publicity arrangements proposed are appropriate, with additional advertising being used to make up for the notification waivers being sought.

E. Appendices

Appendix 1. Scope of services

This Appendix shows the relevant extract regarding the scope of services from our engagement letter dated 10 October 2017. Note that some defined terms in this extract may differ slightly from those used in the Report.

Scope and purpose of Your Project

You would like Alex Marcuson to act as independent expert for the Proposed Transfers and prepare a report for the Court on its effects in accordance with the requirements described in Part VII of the Financial Services and Markets Act 2000, the Prudential Regulation Authority's ("**PRA**") Statement of Policy issued on 1 April 2015 and section SUP18 of the Financial Conduct Authority's ("**FCA**") Handbook.

The purpose of Your Project is to maintain uninterrupted access to the European insurance markets following the departure of the United Kingdom from the European Union.

Services

We will carry out a review of the effects of the Proposed Transfers on:

- The policyholders of QBE Re transferring into QBE Europe;
- The policyholders of QIEL transferring into QBE Europe;
- Policyholders of QIEL that will remain following the Proposed Transfers. As the QBE Re Portfolio Transfer is to accompany a cross-border merger, there are no remaining policyholders to consider.

In doing so, we will consider the effect of the financial and non-financial implications of the Proposed Transfers to determine whether we can be satisfied that no group of policyholders will be materially adversely affected.

As necessary, we will correspond and liaise with the PRA and FCA when carrying out the role as the independent expert to the Proposed Transfers. It is possible that they will ask us to consider additional elements relating to the Transfers.

We will arrange for the independent expert to attend court for the sanction hearing as reasonably required.

We will prepare the Deliverables set out later in this letter.

Our team will be led by Alex Marcuson, assisted by other consultants and sub-contractors from as necessary.

This assistance will take place from the date of this letter and it is intended that the Proposed Transfers will be approved by the Court by 30 September 2018. We will make reasonable efforts to complete Our work in support of this timetable, however You acknowledge that there are many factors outside either Your or Our control that may make this impossible.

Appendix 2. Reliances & limitations

E.2.1 Reliances

E.2.1.1 In preparing this Report I have relied on various sources of information, including:

- Data and information provided to me by QBE EO Staff. This information includes spreadsheet models, internal and externally prepared reports and matters described to me in meetings;
- Publicly available data and information.

E.2.1.2 In doing so, I have considered the reasonableness of this information, but I have not independently verified all sources, nor have I carried out any form of audit of the data and information supplied. Should any of these sources prove unreliable or inaccurate, my findings may change, potentially materially.

E.2.1.3 In particular, I have not reviewed the case estimates established for individual claims and have relied upon the quality of case estimates in the data supplied by QBE EO Staff.

E.2.1.4 I have relied upon the statements made on behalf of QIEL, QBE Re and QBE Europe in the Witness Statement (at paragraph 72) that confirm the accuracy and reliability of the data and other information supplied to me as part of this project. I discuss why I believe it is appropriate for me to rely upon these statements in Section 6.

E.2.2 Limitations and uncertainty

E.2.2.1 General insurance and general insurance processes are by their nature uncertain. In the case of long-tail liabilities, particularly those with exposure to latent claims, this uncertainty is acute. The reader is cautioned regarding the high degree of uncertainty surrounding the quantitative analysis, and the consequences for my conclusions. The analysis in this Report seeks to provide an indication at various points of the potential for alternative legitimate results to be obtained and their consequences, but these should not be taken as the upper boundary below which estimates of ultimate claims should lie. In particular, events could give rise to outcomes beyond the higher scenarios indicated, and the scope and consequences of adverse experience are generally greater than for favourable experience.

E.2.2.2 General insurance gives rise to a wide range of potential uncertainties, particularly in times of extreme events. They rely on an assumption that the past provides a useful guide to the future. In practice changes and the possibility of change can lead to uncertainty. Matters that could affect the outcome in unexpected ways include, but are not limited to:

- Legal, judicial, regulatory and social changes;
- New types of claim or sources of claim that are interpreted as covered under policies;
- Economic effects – including significant exchange rate movements and hyper-inflation scenarios.
- Operation / control breaches by (re)insurers or one of their agents;
- New environmental effects, including the effects of climate change; and
- Technological changes.

E.2.2.3 Unless I have indicated otherwise, I have not made an explicit allowance for any of these effects or other new classes of claims that give rise to significant levels of claims.

E.2.2.4 Estimation of Reserves and capital requirements, while based on quantitative analysis, remain inherently subjective exercises, based on experience, internal and external data and a number of critical judgements. The use of the techniques set out in this Report is intended to provide an independent, quantitative and evidence-based approach to preparing these estimates.

E.2.2.5 Where provided, the estimates set out in this Report are intended to provide an alternative view to those of the company considered. There may be factors of which the managers and directors of that company are aware that I have not taken into account.

E.2.2.6 The estimates prepared should be considered in their totality. While I have tried not to cross-subsidise between different segments other than where indicated, individual estimates of segments are provided to assist the reader in understanding the analysis performed, and may contain over-estimates or under-estimates that are not material to the estimates in aggregate.

E.2.2.7 Certain parts of the work presented in this Report provide estimates of variability in the future outcome of insurance companies. These estimates are not themselves accompanied by explicit statements or quantification regarding the uncertainty in them, but seek to include what I consider to be an appropriate allowance within them.

Limitation relating to review of Technical Provisions

E.2.2.8 My role as Independent Expert is not to provide an independent estimate of the Technical Provisions of any of the companies. Both QIEL and QBE Re have large portfolios of liability Reserves that may take many years before the ultimate cost of claims are known. As a result, there is a wide range of estimates that might be considered to be appropriate.

E.2.2.9 The uncertainties inherent in liability Reserves are increased in the current soft market conditions (where profit margins are being squeezed in many lines of business) and profitability of more recent underwriting periods may have fallen further and faster than in earlier years and policy terms may have widened in ways that are not easy to capture on data systems and as a result can be difficult to quantify.

E.2.2.10 My opinions regarding the Transfers relate to the totality of the positions of the companies and their abilities to meet policyholder claims as they fall due, and should not be taken as providing an opinion or assurance regarding the accuracy or adequacy of the Technical Provisions. My testing of the effect of the Transfers has sought to take into account the sources and scale of uncertainty arising from the estimation of QIEL and QBE Re's Technical Provisions.

Appendix 3. Data Received

In writing this Report, I relied upon the accuracy of certain documents and information provided by QBE EO Staff. These included but were not limited to the following:

Balance sheet

- Audited Statutory UK GAAP accounts for QIEL & QBE Re as at 31 December 2016 & 2017
- Solvency II balance sheets for QIEL & QBE Re as at 31 December 2016 & 2017
- Pro forma balance sheets (GAAP and SII) for post-Transfer entities as at 31 December 2016 & 2017
- Investment funds composition (currency, duration, credit rating) as at 31 December 2017
- Equator Re balance sheet as at 31 December 2016 & 2017
- QSCC balance sheet as at 31 December 2016 & 2017.

Reserving

- Internal and external reserve reviews for QIEL & QBE Re as at Sep 2016 & 2017
- QBE EO actuarial year-end Reserves roll-forward report as at 31 December 2016 & 2017
- Reconciliation from year-end reserving to UK GAAP accounts
- Actuarial function reports for:
    - Technical provisions as at 31 December 2016 & 2017
    - Reinsurance and Underwriting issued during 2017
- Ogden & PPO sensitivity tests as at 31 December 2016 & 2017
- Aggregated reserving triangles & summaries (as at Sep-2016 and 2017) for QIEL and QBE Re
- Sample DLRC modelling files as at December 2017
- GAAP to Solvency II translations pre-& post-Transfer entities as at 31 December 2016 & 2017

Capital

- Information related to the QBE EO Internal Model for major model change submission in August 2017 (approved in February 2018):
    - Capital Model Design and Operation documentation
    - SCR Report
    - Internal Model Validation reports
    - Internal Model statutory output templates
- Information and testing related to the QBE EO Internal Model SCR results used for my analysis, including:
    - Internal Model summary output for each firm
    - Schedule of data and model input items used by the Internal Model
    - Methodology description and models to derive insurance risk parameters affected by the Transfers
    - The primary validation test plan applied for the post-Transfer capital calculations, and a sample of reconciliation checks for key data/ model input items
    - Additional quantitative testing (sensitivity, scenario and reverse stress tests)
- Standard Formula calculations, including:
    - Standard Formula models for 2016 & 2017 year-end for each pre- and post-Transfer firms

- The 2017 Annual ORSA Report for QBE EO approved by the Board on 8 March 2018
- The Capital Appetite Framework for QBE EO, including the changes in relation to the post-Transfer firms approved by the Board of QBE EO in June 2018
- Summary business plans for the 2017 and 2018 underwriting years, with the 2018 underwriting year including plans for pre-Transfer and post-Transfer firms.

Policyholder communications

- Communication Plan proposals to the PRA/FCA
- Estimated costings of the notification exercise
- Active policy analysis

Other Non-Financials

- Draft scheme documents and Court Order
- Governing law analysis
- National Bank of Belgium (NBB) licence application, dated 20 October 2017 and subsequent update.
- Letter from QBE to the PRA regarding Brexit contingency plans
- Discussions of regulatory requirements pertaining to Guernsey, Jersey and Isle of Man
- First draft witness statement of Mr David Winkett
- Draft communications documents.

Other Specialist Advice

- Copy of legal advice from Norton Rose Fulbright LLP, a UK law firm, to QBE EO regarding the application of the Financial Ombudsman Service to the Transfers.
- Copy of legal advice from NautaDutilh BVBA/SPRL, a Belgian law firm, to QBE EO regarding the status and supervision of insurance and reinsurance undertakings under Belgium law.
- Actuarial advice from Steve Dixon Associates LLP regarding the Technical Provisions, risks and capital requirements arising from QBE Re's life reinsurance portfolio.

Other information available in the public domain

- Individual Solvency Financial Condition Reports (SFCR) 2016 for QBE EO, QIEL and QBE Re; and Single Group SFCR 2017 for QBE EO, QIEL and QBE Re.
- QBE Group 2017 annual report
- QBE Group and entity credit ratings

Appendix 4. Curriculum Vitae of Alex Marcuson

Professional summary

Alex Marcuson is a general insurance consulting actuary. He has over 20 years' experience of advising non-life insurers and reinsurers both UK-based and overseas, and including companies, mutuals, Lloyd's syndicates, captives, P&I clubs, brokers and other similar operations.

He has expertise across the lines of non-life insurance business written in the UK and overseas: personal, commercial and specialty lines. His advice has spanned a wide range of areas of actuarial involvement.

Between 2008 and 2013, Alex chaired the Institute and Faculty of Actuaries' General Insurance Professional Standards Committee and was a member of its General Insurance Board. He is currently a member of its Professional Support Service, a team of recognised experts who provide confidential assistance and responses to members of the Institute and Faculty of Actuaries on ethical and technical questions, and the General Insurance Reserve Oversight Committee.

Alex is managing director of Marcuson Consulting Ltd. a team of ten general insurance consulting actuaries.

Professional specialisms

- Reserving and liability valuations
- Capital and financial modelling, including Solvency II internal models
- Expert witness work and Part VII insurance business transfer schemes
- Corporate restructuring and M&A transaction support

Career history

1994 – 2000	Bacon & Woodrow – actuarial trainee
2000 – 2002	Trowbridge Deloitte, Australia – actuary
2002 – 2010	Deloitte – Associate Partner
2010 – present	Marcuson Consulting Ltd, Managing Director

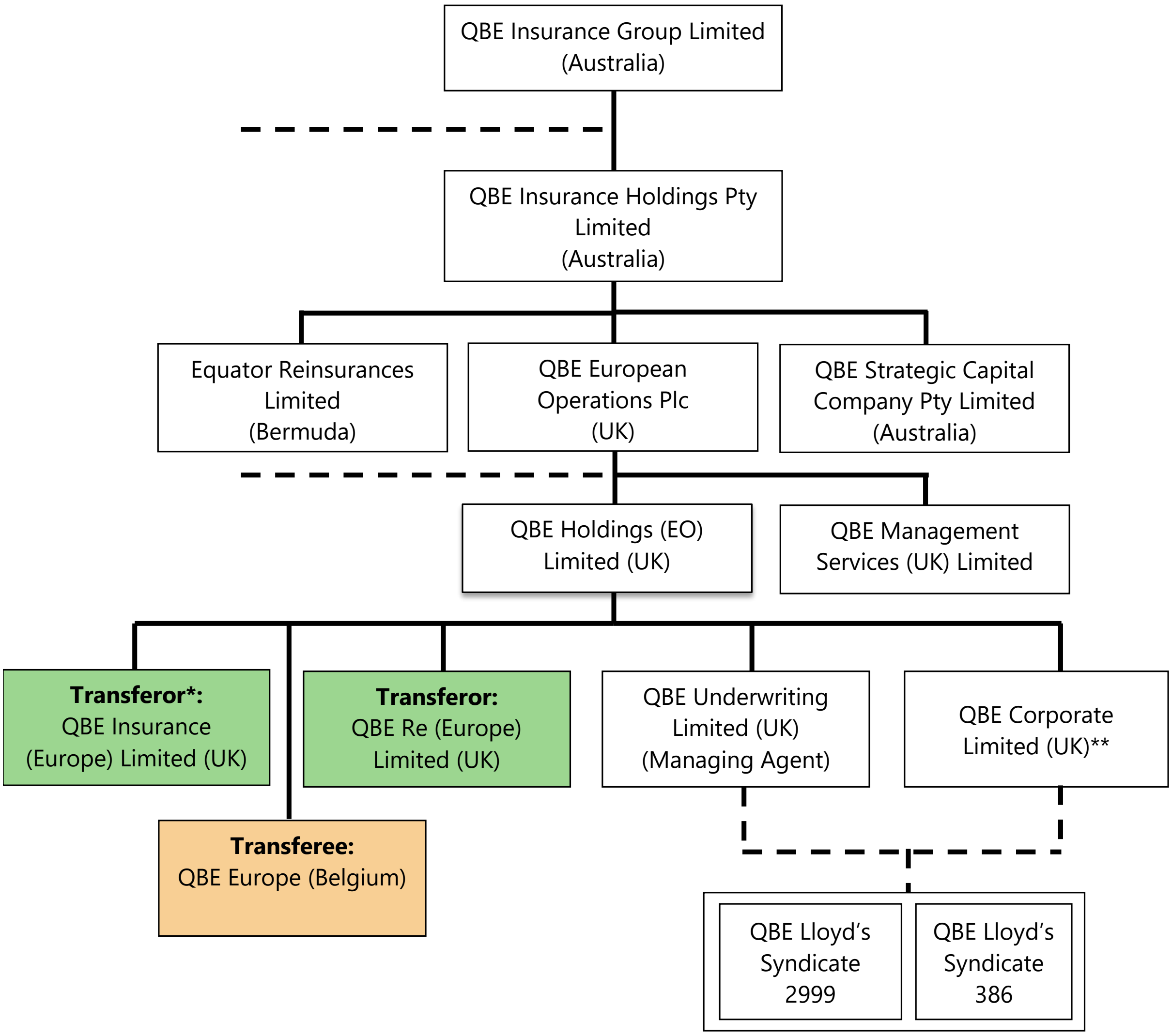
Education and professional qualifications

1991 – 1994	Queens' College, Cambridge University. Mathematics – MA Hons. Double 1st
1998	Fellow of the Institute and Faculty of Actuaries
1999 – 2015	Holder of Lloyd's signing actuary practising certificate

Appendix 5. Simplified Group Structure Chart

The following figure provides a simplified corporate structure chart for the QBE Group, showing the ownership chain of key operational companies in QBE European Operations. This highlights the major companies that are referred to in this Report. All the lines in the chart represent 100% shareholdings.

Figure: QBE Group - simplified structure chart



* Following the QIEL Transfer, QIEL will be renamed QBE Insurance (UK) Limited ("QBE UK")
** QBE Corporate Limited (UK) provides 100% of Syndicate 2999's capacity and about 70% of Syndicate 386's capacity, with the remaining capital contributed by other third parties.

Appendix 6. Descriptions of additional tests of financial strength

E.6.1 Introduction

E.6.1.1 This appendix sets detailed descriptions of the additional tests performed on QIEL, QBE UK, QBE Re and QBE Europe. My findings from the results of these tests are summarised in Sections 13 and Section 14.

E.6.2 Sensitivity tests

Table E.6.1 shows the sensitivity tests performed.

Table E.6.1 – Sensitivity Tests Performed	
A	Increase reserve risk CV by 10% (multiplicative)
B	Increase underwriting risk CV by 10% (multiplicative)
C	Increase natural catastrophe frequency and severity by 10% (multiplicative)
D	Reduce expected premium rates by 10% (additive)
E	Increase 1-year insurance risk emergence by 10% (additive)
F	Increase correlation between classes by 10% (additive) for reserve and underwriting risk
G	Increase correlation between risk types by 10% (additive)
H	Higher CV selection for Freedom of Services classes of business split by QIEL Transfers

E.6.3 Low Return-Period Scenario Tests

Table E.6.2 shows the low return period scenario tests performed. Note that scenarios S.1 to S.9 assess the direct impact on EOF only and do not evaluate any second order effects on capital requirements, while scenario S.11 assesses the impact on capital requirements only and S.10 assesses the impact on both the EOF and capital requirements.

Table E.6.2 – Low Return-Period Scenario Tests Performed		
	Short description	**Detail on scenario**
S.1	Underwriting losses	Using the last 15 years of underwriting for each firm, the underwriting loss from the worst year is selected for each firm.
S.2	Reinsurer failure – Equator Re	Equator Re is assumed to default under this scenario, with an assumed 50% loss given default and allowance for collateral held by QBE EO.
S.3	Reinsurer failure – external reinsurer	For each firm, the reinsurer with the largest expected reinsurance recovery (apart from Equator Re) is assumed to default under this scenario, with an assumed 50% loss given default.
S.4	UK Bodily injury claims increase	Combined impact of both the Ogden discount rate and assumed UK PPO net discount rate reducing by 1.25% pa to -1% pa.
S.5	Natural catastrophe scenario – North America	This scenario selects the largest loss for each firm from a list of pre-defined natural catastrophe scenarios in North America. These natural catastrophe scenarios typically have insurance industry losses of over USD 50 billion. The selected scenarios are: • QIEL (before and after Transfer): Mexico Earthquake • QBE Re and QBE Europe: Florida windstorm, industry loss c. USD 200 billion

Table E.6.2 – Low Return-Period Scenario Tests Performed		
	Short description	**Detail on scenario**
S.6	Natural catastrophe scenario – UK / Europe	This scenario selects the largest loss for each firm from a list of pre-defined natural catastrophe scenarios in UK and Europe. These natural catastrophe scenarios typically have insurance industry losses of over GBP 20 billion. The selected scenarios are: • QIEL and QBE Europe: European windstorm, industry loss c. GBP 40 billion • QBE UK: UK windstorm, industry loss c. USD 30 billion • QBE Re: European windstorm, industry loss c. GBP 40 billion o This is a different scenario from that selected for pre-Transfer QIEL and QBE Europe.
S.7	Major emerging risk event	This scenario selects the largest loss for each firm from a list of pre-defined emerging risk events related to man-made catastrophes. These emerging risk events typically have insurance industry losses of over USD 20 billion. The selected scenario is a FSA Pandemic, resulting in losses from employers' liability, general liability, professional indemnity and life reinsurance policies, industry loss c. USD 40 billion.
S.8	Life catastrophe	This scenario considers the impact of a pandemic to the life portfolio in QBE Re and QBE Europe, where 20% of the population is infected (based on the Spanish Flu), with an average increase of mortality by 0.1%. This scenario is related to a return period of c. 200 years.
S.9	Claims inflation stress	This scenario considers the impact of increasing the Reserves for each firm by assuming higher inflation in the future. This higher inflation assumption is selected by considering the 1-in-200 worst output for each currency from the Economic Scenario Generator used by the QBE EO Internal Model. As a result, the Reserves are assumed to increase c. 7-8% for each firm.
S.10	Stress on Reserves related to casualty classes	This scenario assesses the impact on EOF and Internal Model SCR of the following stresses applied to liability and casualty: • Increasing the planned loss ratio for the new underwriting year by 5%; • Increasing the mean Reserves by 5%.
S.11	Stress on liquidity	This scenario considers the impact of increasing the assumed borrowing rate from 2% to 4% on Internal Model SCR.

E.6.4 High return Period Scenario Tests

Table E.6.3 shows the high return-period scenario tests performed. Note that each of these scenario tests assess the direct impact on EOF, and do not evaluate any second order on the capital requirements.

Table E.6.3 – High Return-Period Scenario Tests Performed		
	Short description	**Detail on scenario**
S.12	Severe reinsurer failure – Equator Re	Equator Re is assumed to default under this scenario, with an assumed 100% loss given default and no allowance for its collateral.
S.13	Severe reinsurer failure – external reinsurer	For each firm, the reinsurer with the largest expected reinsurance recovery (apart from Equator Re) is assumed to default under this scenario, with an assumed 100% loss given default.
S.14	Eurozone economic crisis	This scenario assesses the impact of a Eurozone crisis, which assumes: • 100% write-off of Eurozone investments rated BBB and lower • 50% write-off of Eurozone investments with unknown rating, including high yield debt assets, all equities and most unlisted property trust assets.

Appendix 7. Consolidated Balance Sheets (current & anticipated positions)

E.7.1 GAAP balance sheets (pre- and post-Transfer)

The following table sets out the pre-Transfer entities before and after dividend payments in 2018 and the "*as-if*" post-Transfer positions on a GAAP basis, using 31 December 2017 positions.

	Pre-Transfer		Pre-Transfer, Post-Dividend[1]		Post-Transfer	
£ million	**QIEL**	**QBE Re**	**QIEL**	**QBE Re**	**QBE UK**	**QBE Europe**
Assets						
Investments & Cash in hand	3,654	1,571	3,558	1,503	2,877	2,299
Reinsurers' share of Technical Provisions	1,052	134	1,052	134	925	261
Debtors, prepayments & other assets	1,006	251	1,006	251	811	445
Total	**5,711**	**1,955**	**5,615**	**1,888**	**4,613**	**3,005**
Liabilities						
Technical Provisions	3,789	1,212	3,789	1,212	3,002	2,000
Creditors & other liabilities	518	130	518	130	465	183
Total liabilities	**4,308**	**1,342**	**4,308**	**1,342**	**3,467**	**2,183**
Net assets	1,404	613	1,308	546	1,146	822
Total	**5,711**	**1,955**	**5,615**	**1,888**	**4,613**	**3,005**
Net TPs	**2,737**	**1,078**	**2,737**	**1,078**	**2,076**	**1,739**

Notes

1. *This reduces the net assets for dividends of £96m and £68m that were paid out in 2018 from QIEL and QBE Re pre-Transfers respectively.*

E.7.2 Solvency II balance sheets (pre- and post-Transfer)

The following table sets out the pre-Transfer entities before and after dividend payments in 2018 and the "*as-if*" post-Transfer positions on a Solvency II basis, using 31 December 2017 positions.

	Pre-Transfer		Pre-Transfer, Post-Dividend[1]		Post-Transfer	
£ million	**QIEL**	**QBE Re**	**QIEL**	**QBE Re**	**QBE UK**	**QBE Europe**
Assets						
Investments & Cash in hand	3,880	1,578	3,784	1,511	3,083	2,299
Reinsurers' share of Technical Provisions	870	95	870	95	763	206
Debtors, prepayments & other assets	445	60	445	60	400	121
Total	**5,194**	**1,733**	**5,098**	**1,665**	**4,246**	**2,626**
Liabilities						
Technical Provisions	3,495	1,083	3,495	1,083	2,862	1,717
Creditors & other liabilities	453	71	453	71	403	111
Total liabilities	**3,947**	**1,154**	**3,947**	**1,154**	**3,265**	**1,828**
Net assets	1,247	579	1,151	511	981	798
Total	**5,194**	**1,733**	**5,098**	**1,665**	**4,246**	**2,626**
Net TPs	**2,625**	**988**	**2,625**	**988**	**2,099**	**1,511**

Appendix 8. GAAP to Solvency II Technical Provisions translations

E.8.1 Pre-Transfers entities

The following table summarises the GAAP to Solvency II Technical Provision adjustments for pre-Transfer entities.

Pre-Transfer	QIEL, £m			QBE Re, £m			Calculation #
	Gross	**RI**	**Net**	**Gross**	**RI**	**Net**	
GAAP Technical Provisions	**3,789**	**1,052**	**2,737**	**1,212**	**134**	**1,078**	**1**
Future premium receipts on incepted contracts	-107	-9	-98	-147	-20	-127	2
Unearned premium (incepted and unincepted) and associated claims costs	-369	-136	-234	-96	-11	-85	3
Other SII adjustments	-13	8	-21	-10	2	-12	4
Discounting	-94	-46	-48	-67	-10	-57	5
SII Technical Provisions excl. SII Risk Margin	**3,206**	**870**	**2,336**	**892**	**95**	**798**	**6 = sum 1 to 5**
SII Risk Margin	289	0	289	190	0	190	7
SII Technical Provisions	**3,495**	**870**	**2,625**	**1,083**	**95**	**988**	**8 = 6+7**

E.8.2 Post-Transfers entities

The following table summarises the GAAP to Solvency II Technical Provision adjustments for post-Transfer entities.

Post-Transfer	QBE UK, £m			QBE Europe, £m			Calculation #
	Gross	**RI**	**Net**	**Gross**	**RI**	**Net**	
GAAP Technical Provisions	**3,002**	**925**	**2,076**	**2,000**	**261**	**1,739**	**1**
Future premium receipts on incepted contracts	-71	-14	-57	-184	-16	-168	2
Unearned premium (incepted and unincepted) and associated claims costs	-209	-112	-97	-253	-30	-222	3
Other SII adjustments	-15	7	-22	-7	4	-11	4
Discounting	-83	-43	-40	-78	-13	-65	5
SII Technical Provisions excl. SII Risk Margin	**2,624**	**763**	**1,861**	**1,479**	**206**	**1,273**	**6 = sum 1 to 5**
SII Risk Margin	238	0	238	238	0	238	7
SII Technical Provisions	**2,862**	**763**	**2,099**	**1,717**	**206**	**1,511**	**8 = 6+7**

Appendix 9. Glossary

Defined terms, abbreviations and acronyms	
Active Policy	An Active Policy is a policy where either: • there is a claim recorded on QIEL's or QBE Re's operational computer records that is either open, or has an outstanding indemnity claim amount recorded against it; or • it is within a cohort of policies for which QIEL or QBE Re is holding an IBNR reserve amount, gross of reinsurance.
Active Underwriting Year	An underwriting year for particular line of business and branch location meeting one or more of the following criteria: • Non-zero IBNR; • New claims notified during the last two years; or • Determined as such by the QBE EO Actuarial Function.
Adequately-capitalised	A company with a margin or buffer of EOF in excess of a CCR of 100%.
Affected Policyholders	All of the policyholders affected by the Transfers. This comprises the Transferring Policyholders, the Existing Policyholders and the Remaining Policyholders.
Affected Reinsurers	All of the reinsurers affected by the Transfers.
Approved Internal Model SCR	Output from the QBE EO Internal Model using agreed methodology and parameters (including Technical Provisions, balance sheets and business plans) and having received approval for use as an SCR from the PRA.
APS	Actuarial Professional Standard. The APSs set out the requirements placed on all IFoA members, regardless of location. They are mandatory ethical standards issued by the Regulation Board of the IFoA.
APS X2	An APS which calls for the exercise of judgement in relation to the review of actuarial work. It is intended to assist members of the IFoA in deciding when and how to apply a review process.
Autumn and **Project Autumn**	The transfer from QIEL to East West Insurance Company Limited, of QIEL's UK and Irish-based employers' liability and public liability exposures arising in relation to policies underwritten prior to 31 December 2007. It is also expected to transfer the employers' liability, general public and products liability, motor and personal accident business previously underwritten by QIEL up to a £1,000,000 limit for each and every loss and reinsured by Tata Steel's captive insurer, Crucible Insurance Company Limited.
Board	Board of Directors of the company being discussed.
Bornhuetter-Ferguson method	Commonly used actuarial projection technique to estimate ultimate claims. It typically consists of a blend of the **Chain-ladder method** and an expected ultimate claims amount. Usually, the expected ultimate claims amount is derived through a combination of historical experience and the underwriter's views of profitability of the business written.
BMA	Bermuda Monetary Authority
Brexit	The departure of the UK from the European Union; or the date of departure.
Broker	A broker, agent or other third party intermediary (other than coverholders of QIEL)
CAF or **Capital Appetite Framework**	QBE's framework for capital targets and planned treatment of future capital surpluses and shortfalls.

Defined terms, abbreviations and acronyms	
CCR or **Capital Cover Ratio**	A quantitative measure of financial strength used in this Report, formally: $$Capital\ cover\ ratio\ \% = \frac{financial\ resources}{capital\ requirements}$$ EOFs are normally used for measuring financial resources; and SCR for capital requirements.
Chain-ladder method	Commonly used actuarial projection technique to estimate ultimate claims. Subject to actuarial judgement, this method assumes that future claims development will follow the pattern of previous claims development.
Class 3B insurer	(Re)insurer classification used by BMA. Class 3B insurers are large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or net loss and loss expense provisions and where the unrelated business net premiums are more than $50 million. (http://www.bma.bm/insurance/licensing/SitePages/Home.aspx)
Contingent Capital Facility	A contractual arrangement between QBE EO and QSCC under which QSCC will promptly provide up to £175 million of additional Eligible Own Funds in the event that QBE EO requires it to enable it and its subsidiaries to meet the Capital Appetite Framework.
Court	The High Court of Justice of England and Wales, which is responsible for approving the Transfers.
Coverholder Business	Business written by coverholders of QIEL under delegated underwriting authority agreements.
Cross-Border Merger	The cross-border merger by absorption in accordance with the Companies (Cross-Border Mergers) Regulations 2007 (SI 2007/2974) and other laws of QBE Re into QBE Europe.
Cut-through	In the context of the QBE Group-wide reinsurance arrangements purchased by Equator Re, the ability for QBE EO, and certain other QBE entities reinsured by Equator Re, to obtain recoveries directly from Equator Re's reinsurers in the event of Equator Re's insolvency.
Docklow and **Project Docklow**	The transfer from QIEL of a run-off portfolio of Italian and Spanish medical malpractice liabilities to Reliance National Insurance Company (Europe) Limited.
Dommages-Ouvrage	Dommages-Ouvrage is taken out by private individuals, landlords, developers or sellers of a building in France. It compensates the client for any damage revealed after the end of the handover period until the end of the 10-year policy period. Dommages-Ouvrage contracts usually cover a building, whereas **Decennial Liability** contracts are for all work undertaken by a particular construction worker
Decennial Liability	This insurance is taken out by the contractor or principal and covers costs associated with the potential collapse or fault in the construction project after completion for a period of 10 years. This insurance is mandatory in France for business/corporate entities
DAR	Divisional Aggregate Recoveries, an internal reinsurance of QIEL by Equator Re.
DLRC	Divisional Large Risk and Catastrophe reinsurance, an internal reinsurance provided by Equator Re.
EEA	The European Economic Area
EL	Employers' Liability Insurance
ELTO	Employers' Liability Tracing Office. Statutory body established to assist employees to trace statutory employers' liability insurers.

Defined terms, abbreviations and acronyms	
ENID	Events not in Data. Under Solvency II, insurers are required to allow for all possible future events when setting Technical Provisions. This includes those that have not been observed in the historic claims experience of the insurer.
EOF or Eligible Own Funds	This is the surplus of assets over liabilities as determined under Solvency II. There are limits on the proportion of the SCR that can be met by certain types of Eligible Own Funds.
Equator Re	Equator Reinsurances Limited (Bermuda). QBE's captive reinsurer, which provides reinsurance protection to all divisions in the QBE Group in conjunction with other external reinsurance programs
ESG	Economic Scenario Generator. This is a component of the Internal Model and contains stochastic models of key economic variables including interest rates, inflation and equity returns.
European Business	Business currently written by QIEL in EEA States on either a Freedom of Services basis or via an EEA branch operating on a Freedom of Establishment basis.
Excluded QIEL Policies	Policies of Policyholders that fall within the definition of the Transferring QIEL Policyholders but that QIEL and QBE Europe agree should be excluded from the QIEL Transfer.
Existing Policyholders	The policyholders of the Transferee prior to the Transfers. QBE Europe has no Existing Policyholders.
FCA	Financial Conduct Authority, a statutory body established by Act of Parliament and responsible for conduct regulation of insurers operating in the UK.
Financial Services Register	Public record maintained by FCA of firms, individuals and other bodies that are, or have been, regulated by the PRA, FCA and/or their predecessor the Financial Services Authority
Framework for FRC Technical Actuarial Standards	This framework document explains the authority, scope and application of the FRC's technical actuarial standards and guidance.
FRC	Financial Reporting Council
Freedom of Establishment	In the context of (re)insurance business, the permission for a firm to establish a branch office anywhere within the EEA to underwrite (re)insurance business while remaining supervised by the prudential regulator of its home state
Freedom of Services	In the context of (re)insurance business, the permission for a firm to underwrite (re)insurance business anywhere within the EEA as if they were a locally authorised firm.
FSCS	Financial Services Compensation Scheme. Statutory body responsible for meeting claims of individuals and small businesses in the event of UK insurer insolvency through the **Policyholder Protection Scheme**.
FSMA 2000	The Financial Services and Markets Act 2000. The UK legislation enabling the Transfers to take place, together with its supporting regulations and statutory instruments.
FSMA Order	FSMA 2000 (Meaning of "Policy" and "Policyholder") Order 2001 (SI 2001/2361)
GAAP	Generally Accepted Accounting Principles
GDPR	The General Data Protection Regulations; Regulation (EU) 2016/679
GWP	Gross written premium.
Handbook	Regulatory rules for firms regulated by the FCA. Formally, the FCA's Financial Services Handbook.
High Court	See Court

Defined terms, abbreviations and acronyms	
IBNR	Incurred But Not Reported. An estimate of the liability for claims arising from events that have taken place but have not yet been reported to the insurer. In practice, the IBNR reserve also allows for an estimate of the deterioration on existing claims.
ICOBS	Insurance: Conduct of Business sourcebook
IFoA	Institute and Faculty of Actuaries, the UK Actuarial Professional Body.
Independent Expert	The independent expert approved pursuant to section 109(2)(b) of FSMA 2000
Indicative Internal Model SCR	Output of the QBE EO Internal Model at a given point in time; distinct from the Approved Internal Model SCR.
Internal Model (IM)	Subject to regulatory approval, a model used to determine a company's regulatory SCR (as well as for wider business planning purposes), developed especially for the company to supplement or use in place of the Standard Formula.
Lisbon Treaty	The Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community (2007/C 306/01)
Major Model Change or MMC	Material change to a previously approved Internal Model, requiring specific regulatory approval. The Internal Model will have a policy setting out what constitutes a major model change requiring approval.
MCR (Solvency II)	Minimum Capital Requirement. Under Solvency II (with effect from 1 January 2016), the MCR is calculated using a linear formula and must fall between 25% and 45% of the SCR. The MCR is also subject to an absolute floor. For QIEL and QBE Europe this floor is €3.7 million and QBE Re it is €3.6 million as defined in the PRA's Rulebook.
NBB	National Bank of Belgium (*Banque Nationale de Belgique/Nationale Bank van België*). Belgium's central bank, headquartered in Brussels. The Belgian insurance regulator.
Ogden Rate or **Ogden Discount Rate**	The rate of interest used in calculation of compensation for future losses in UK personal injury and fatal accident cases.
Ombudsman des Assurances / Ombudsman van de Verzekeringen	The Belgian equivalent of the UK Financial Ombudsman Service for (re)insurance undertakings in Belgium.
ORSA	Own Risk and Solvency Assessment. Under Solvency II, all firms must prepare an ORSA annually for submission to the national supervisory body (being the PRA in the UK). Amongst other elements, the ORSA sets out a firm's own assessment of the risks it faces and the capital it needs to support its business over a suitable time-horizon, often in the range of 3 – 5 years. Firms should consider the risks that may affect the business arising from the run-off of their existing liabilities.
P&I	Protection & Indemnity.
Part VII Transfer	An insurance business transfer under the legal mechanism established in Part VII of FSMA 2000.
Passporting Regulations	FSMA 2000 (EEA Passport Rights) Regulations 2001 (SI 2001/2511)
Pillar 1 (Solvency II)	This sets out the quantitative requirements, including the rules to value assets and liabilities, and to calculate capital requirements.
Pillar 2 (Solvency II)	This sets out the qualitative requirements for governance, risk management, and supervisory interactions.
Pillar 3 (Solvency II)	This focuses on public disclosure and transparency requirements.

Defined terms, abbreviations and acronyms	
Policyholder Protection Scheme	See FSCS.
PPO	Periodical Payment Order, a type of settlement arrangement used in the UK for some severe personal injury cases under which the insurer makes annuity payments instead of a lump sum compensation payment. The valuation of these annuities has proved particularly difficult for general insurers and increases the uncertainty in affected Reserves.
PRA	Prudential Regulation Authority, part of the Bank of England. Responsible for prudential regulation of UK insurers.
Reciprocal Financing	Reciprocal financing exists at least where a Solvency II undertaking, or any of its related undertakings, holds shares in, or makes loans to, another undertaking which, directly or indirectly, holds Eligible Own Funds of the first undertaking.
QBE EO	QBE European Operations plc, a wholly-owned subsidiary of QBE Limited. A UK regulated insurance holding company. **QBE EO Group** refers to QBE EO and all of its wholly-owned subsidiaries.
QBE EO Staff	Employees of QIEL, QBE Re, QMIL and QMSUK acting on behalf of QBE EO.
QBE Europe	QBE Europe SA/NV, a wholly-owned subsidiary of QBE EO, a Belgian regulated non-life insurance and life and non-life reinsurance company, the **Transferee.**
QBE Group Services Pty Limited	QBE Group entity that contracts with QBE EO and its subsidiaries to provide investment management services.
QBE Limited	QBE Insurance Group Limited, ultimate owner of the **QBE Group** which includes QBE EO, QIEL, QBE Re and QBE Europe
QBE NA	QBE North America, an operating division of QBE Limited.
QBE Re	QBE Re (Europe) Limited, a wholly-owned subsidiary of QBE EO. The **QBE Re Transfer** will accompany the cross-border merger of QBE Re into QBE Europe. A UK regulated life and non-life reinsurance company.
QBE Re Transfer	The transfer of all of the assets and liabilities of QBE Re into QBE Europe.
QBE UK	QBE Insurance (UK) Limited. Following the **QIEL Transfer**, QIEL will be renamed QBE UK.
QIEL	QBE Insurance (Europe) Limited, a wholly-owned subsidiary of QBE EO. Following the **QIEL Transfer**, it will be renamed QBE Insurance (UK) Limited ("**QBE UK**"). A UK regulated non-life insurance company.
QIEL Transfer	The transfer of certain assets and liabilities of QIEL into QBE Europe.
QMIL	QBE Management (Ireland) Limited, a wholly-owned subsidiary of QBE EO.
QMSUK	QBE Management Services (UK) Limited, a wholly-owned subsidiary of QBE EO.
QSCC	QBE Strategic Capital Company Pty Limited, the central treasury entity for the QBE Group. An Australian-domiciled company. QBE EO has a £175 million **Contingent Capital Facility** from QSCC to enable QBE EO to restore its capital and thereby ensure that QIEL, QBE Re and QBE Europe are able to meet the Capital Appetite Framework requirements.
QUL	QBE Underwriting Limited, a wholly-owned subsidiary of QBE EO and managing agent of QBE EO's two Lloyd's syndicates 386 and 2999.
RDS	Realistic Disaster Scenario, a plausible but unlikely loss event. Used to test financial resilience of an insurer or reinsurer.
Remaining Policyholders	The policyholders of the Transferor(s) that will not be transferred to the Transferee under the Transfers. In this case these are the policyholders of QIEL prior to the Transfers who will remain with QIEL.

Defined terms, abbreviations and acronyms	
Report	This report prepared by the PRA-approved Independent Expert for submission to the Court. It has been prepared following the guidance set out in SUP18 and the SoP and is made available to any party requesting a copy.
Reserves	See Technical Provisions
Residual QIEL Policies	Policies of Policyholders that fall within the definition of the Transferring QIEL Policyholders but where additional steps need to be taken before they can be Transferred.
RST or Reverse Stress Test	Reverse stress test – a method of testing insurer capital strength by increasing / decreasing one or more assumptions until a threshold (typically insurer default) is reached.
Rulebook	Regulatory rules for firms regulated by the PRA. Formally, the PRA's Rulebook.
Sanction Hearing	Final Court hearing at which Court approval for the Transfers is sought by the parties to the Transfers.
Sanctions Lists	Refers to sanctions lists maintained by the following as at effective date of the Scheme: (i) the United Nations; (ii) the European Union; (iii) the US Department of the Treasury; (iv) Switzerland (including any relevant governmental or regulatory body); (v) the Office of Foreign Asset Control; (vi) Her Majesty's Treasury; and (vii) Canada (including any relevant governmental or regulatory body)
Scheme	The legal mechanism by which the Transfers are brought about under Part VII of FSMA 2000.
SCR or Solvency Capital Requirement	The regulatory capital requirement for a firm under Solvency II. This is calculated as the level of financial resources that a (re)insurance firm needs to have in order to meet its financial obligations with a confidence level of 99.5% over a one-year time horizon. Most firms use the prescribed **Standard Formula SCR** to determine their SCR. QBE EO, QIEL, QBE UK, QBE Re and QBE Europe, use their sophisticated risk modelling capabilities in the **QBE EO Internal Model** to determine an **Indicative Internal Model SCR** at a given point in time. At the time of writing, only QBE EO, QIEL and QBE Re have approval from the PRA to use its results to determine their SCR, referred to as an **Approved Internal Model SCR**.
SF SCR or **Standard Formula SCR**	A formula-based approach to calculating a firm's SCR using a methodology and parameters specified in the Solvency II Directive implementing measures.
SFCR	Solvency and Financial Condition Report. These are publicly disclosed narrative reports, alongside data in standardised reporting templates, which form part of insurers' Pillar 3 disclosure obligations under Solvency II.
SME	Small and medium-sized enterprises
Solvency II	Europe-wide Insurance Directive which came into force from 1 January 2016. Solvency II sets out wide-ranging requirements on firms and supervisors relating to financial resources, risk and governance and reporting requirements. The Solvency II framework consists of three main areas (pillars) which are described in the relevant glossary items.
Solvency II Balance Sheet	A risk-based view of the balance sheet on a given date, where assets and liabilities are valued using a methodology specified in the Solvency II Directive implementing measures.
SoP	Statement of Policy, entitled *"The Prudential Regulation Authority's approach to insurance business transfers"*, issued by the PRA in April 2015 and replacing the guidance in SUP18 of the PRA's Handbook.

Defined terms, abbreviations and acronyms	
Supplemental Report	Additional report prepared by the PRA-approved independent expert for submission to the Court prior to the final hearing at which the Court's approval of the Transfers is sought.
SUP18	The section of the FCA's Handbook setting out requirements and guidance for insurance business transfers.
TAS	Technical Actuarial Standard. The TASs are professional standards which are set and maintained by the FRC. They are intended to be "applicable to work which involves the use of actuarial principles and/or techniques and the exercise of judgement or is presented as such, including for example financial models used in insurance and pensions and projections of contingent events. Compliance with the TASs for work in their scope, is required for members of the IFoA and encouraged when such work is undertaken by non-actuaries, consulting firms or financial institutions."
TAS 100	Technical Actuarial Standard 100: Principles for Actuarial Work. A generic TAS which promotes high quality technical actuarial work. It establishes high-level principles and outcomes which users and the public can expect to be followed and achieved for all technical actuarial work in the UK.
TAS 200	Technical Actuarial Standard 200: Insurance. It promotes high quality technical actuarial work in insurance on matters where there is a high degree of risk to the public interest.
Technical Provisions	Technical Provisions, sometimes referred to as Reserves, are essentially the amounts set aside by insurance companies, at a given date, to pay for all potential future cash-flows that would be incurred in meeting liabilities to policyholders from existing insurance and reinsurance contracts. The principles which are followed to calculate these provisions will differ depending on their purpose e.g. regulatory (Solvency II) or annual accounts reporting (GAAP).
Transfer Date	The time and date on which it is intended that the Transfers shall take place. This is currently planned to be 31 December 2018.
Transferee	QBE Europe
Transferors	QIEL and QBE Re
Transferred QIEL Reinsurance Agreements	Means all contracts, agreements, policies and other arrangements of whatsoever nature made between QIEL and a third party or a related party of QIEL in the nature of reinsurance under or in connection with liabilities of the QIEL Transfer.
Transferring Policyholders	The policyholders of the Transferors transferred to the Transferee under the Transfers. The Transferring QIEL Policyholders and the Transferring QBE Re Policyholders.
Transferring QBE Re Policyholders	All of the policyholders of QBE Re.
Transferring QIEL Policyholders	The policyholders of QIEL who will transfer to QBE Europe under the QIEL Transfer. Essentially this will be the policyholders where the policy was written by an EEA branch of QIEL.
Transfers	Together, the QIEL Transfer and the QBE Re Transfer.
ULAE	Unallocated Loss Adjustment Expenses.
Witness Statement	A draft version of the first witness statement of Mr David Winkett, CFO of QIEL and QBE Re and director of QBE Europe. QBE Staff have told me that they do not expect any material changes to the draft I have received at the time of finalising this Report.