

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

19 October 2018

Prepared by John Charles, Independent Expert

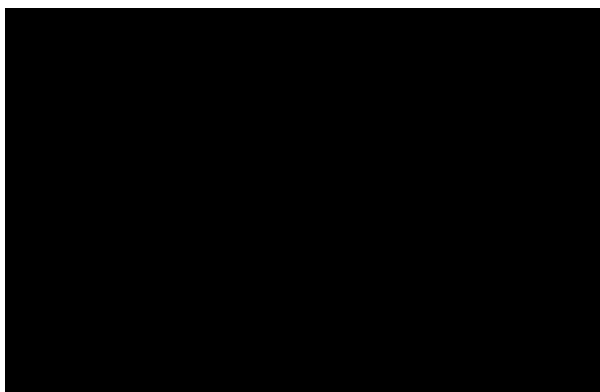


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Section 1: Introduction and scope

- 1.1 This report (“Supplementary Report”) must be read in conjunction with my Independent Expert report dated 4 July 2018 (the “Scheme Report”). It is subject to the Reliances and Limitation as specified in the Scheme Report apart from specific issues which are addressed in this report. In Appendix A we include a copy of the Glossary of terms from the Scheme Report. All abbreviations and technical terms in the Supplementary Report have the same meaning as in the Scheme Report.

The Independent Expert

- 1.2 When a scheme for transferring insurance business from one company to another is put to the Court for approval it must be accompanied by a report on the terms of the scheme from an independent expert (“the Independent Expert”). This is a requirement under Part VII of the Financial Services and Markets Act 2000 (“FSMA”).
- 1.3 I, John Charles, have been appointed jointly by QBE Insurance (Europe) Limited (“QIE”) and Reliance National Insurance Company (Europe) Limited (“RNICE”) to provide an Independent Expert report for the proposed Part VII transfer of a run-off portfolio of Italian and Spanish medical malpractice business (“the Transferring Portfolio”) from QIE to RNICE. The proposed insurance business transfer from QIE to RNICE is defined in this report as the “Proposed Scheme”.
- 1.4 It is intended that the effective date of the Proposed Scheme will be 31 October 2018 (the “Effective Date”).
- 1.5 My appointment as the Independent Expert in connection with the Proposed Scheme was approved by the PRA, after consultation with the FCA, on 23 February 2018. In connection with this appointment there is an engagement letter dated 12 September 2016 in place between Towers Watson Limited (“Willis Towers Watson”), QIE and RNICE. In conducting this work, I have been supported by a number of other Willis Towers Watson personnel (“my team”).
- 1.6 The costs and expenses relating to my appointment as the Independent Expert are shared equally by QIE and RNICE.
- 1.7 I am a Fellow of the Institute and Faculty of Actuaries (“IFoA”), having qualified in 1991. I am a Senior Director in the firm of Towers Watson Limited. I have experience of the types of business written by each of QIE and RNICE, and the types of business in the Transferring Portfolio.
- 1.8 I am required to comply with relevant technical actuarial standards (“TASs”) issued or adopted by the Financial Reporting Council (“the FRC”) in the UK, the Actuaries Code and relevant actuarial practice standards (“APs”) issued by the IFoA in the UK. This report complies with all applicable TASs and APs. Specifically, this report has been prepared in accordance with:
- TAS 100: Principles for Technical Actuarial Work, issued by the FRC
 - TAS 200: Insurance, issued by the FRC
 - The Actuaries’ Code, issued by the IFoA
 - APS X2: Review of Actuarial Work, issued by the IFoA

- Paragraphs 2.27 to 2.40 of “The Prudential Regulation Authority’s approach to insurance business transfers”.

1.9 This report and the underlying work have been peer reviewed by a suitably qualified member of Willis Towers Watson, who was not otherwise engaged with the work on the Proposed Scheme.

Proposed business to be transferred and brief introduction to QIE and RNICE

1.10 The proposed business to be transferred from QIE to RNICE is a portfolio of Italian and Spanish medical malpractice business, which was placed in run-off during 2013.

1.11 QIE is domiciled in the UK and is supervised by the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”). QIE is part of the QBE group of companies.

1.12 RNICE is domiciled in the UK and is supervised by the PRA and the FCA. RNICE is part of the Armour Group of companies.

Scope of my report

1.13 My opinions on the effect of the Proposed Scheme are set out in the Scheme Report. The Scheme Report was based on financial information in respect of the Parties as at 31 December 2016. As noted in paragraph 1.34 of the Scheme Report, the purpose of this Supplementary Report is to consider whether the conclusions set out in the Scheme Report should change given the availability of updated financial information since 31 December 2016 and any material issues or development that have arisen since I prepared the Scheme Report.

1.14 In both the Scheme Report and this Supplementary Report (together referred to as the “Scheme Reports”), I have considered the Proposed Scheme and its likely effects on the following groups of policyholders:

- The policyholders remaining with QIE;
- The policyholders transferring from QIE to RNICE (“the Transferring Policyholders”); and
- The current policyholders of RNICE.

1.15 For each group of policyholders, I have considered the likely effects of the Proposed Scheme on:

- The security of policyholders’ contractual rights; and
- The levels of service provided to policyholders.

Statement of independence

1.16 Neither I, nor any member of my immediate family, hold any shares, have any contracts of insurance or have any other financial interest in the legal entities involved in the Proposed Scheme, or with any QBE or Armour group companies.

1.17 I have not carried out any consulting work for the legal entities involved in the Proposed Scheme, or for any QBE or Armour group companies, during the past three years.

1.18 Willis Towers Watson, globally, has relationships with QBE and Armour group companies; however, I consider that the nature of these relationships would not impact on my ability to act as Independent Expert for the Proposed Scheme. I have provided details of these relationships to the PRA and FCA.

- 1.19 With effect from 5 January 2016, the Towers Watson group of companies merged with the Willis group of companies. I understand that the broking teams within legacy Willis have relationships with the QBE and Armour groups of companies. However, the broking lines of business are maintained as separate lines of business to the Insurance Consulting and Technology (“ICT”) business segment, of which I am part, within Willis Towers Watson, and Willis Towers Watson is committed to maintaining confidentiality, objectivity and independence in the services it provides to its insurance clients. Towers Watson Limited remains a separate legal entity within Willis Towers Watson.
- 1.20 I consider that that the matters disclosed above do not affect my independence and suitability to act as the Independent Expert for the Proposed Scheme.

Terms of reference

- 1.21 The terms of reference for my review of the Proposed Scheme were agreed by QIE and RNICE, and have been seen by the PRA and FCA.
- 1.22 This report is intended to aid the Court’s deliberations as to whether the Proposed Scheme should be approved. In reporting on the Proposed Scheme in accordance with Part VII of the FSMA, I owe a duty to the Court to help the Court on matters within my expertise. This duty overrides any obligation to any person or party from whom I have received instructions or by whom I am paid. I have complied, and continue to comply, with this duty.
- 1.23 In preparing this report I have taken account of the following:
- Part 35 of the Civil Procedure Rules.
 - The Practice Direction supplement to Part 35 of the Civil Procedure Rules.
 - The protocol for the instruction of experts to give evidence in civil claims drafted by the Civil Justice Council.
 - The guidance in SUP18 of the FCA Handbook and the PRA’s “Statement of Policy: The Prudential Regulation Authority’s approach to insurance business transfers” which sets out guidance on the form of the scheme report.
 - The FCA guidance entitled “FG18/4: The FCA’s approach to the review of Part VII insurance business transfers” which was issued on 29 May 2018.
- 1.24 This review does not comprise an audit of the financial resources and liabilities of QIE, RNICE or of any other QBE / Armour group companies.
- 1.25 I have not reviewed the systems and controls currently operated by QIE, RNICE or by any other QBE / Armour group companies.
- 1.26 I am required only to comment on the Proposed Scheme; my report is not concerned with possible alternatives to the Scheme.

Reliances and limitations

- 1.27 In carrying out my review and producing this report I have relied without independent verification upon the accuracy and completeness of the data and information provided to me, both in written and oral form. My team and I have reviewed the information provided for general reasonableness and consistency. My team and I have also met with representatives of QIE and RNICE to discuss in detail the information which they have provided in relation to the Proposed Scheme. I consider it is reasonable to rely on these individuals because they are PRA and FCA approved persons or are senior professionals employed by QIE / RNICE.

Reliance has been placed upon, but not limited to, the information detailed in Appendix C of the Scheme Report.

- 1.28 I have obtained confirmation from each of QIE and RNICE that, to the best of their knowledge and belief:
- All the items of data and information which have been provided to me by QIE / RNICE for the purposes of the Scheme Report and this Supplementary Report are accurate and complete.
 - There are no significant errors or omissions in the descriptions in the Scheme Report or this Supplementary Report of the business of QIE / RNICE and of the Transferring Portfolio.
 - There are no other material items of data and information which have not been provided to me by QIE / RNICE and which are likely to be relevant to the Scheme Report or this Supplementary Report.
- 1.29 Based on my review, I am satisfied that the information detailed in Appendix C of the Scheme Report and in Section 2.4 of this Supplementary Report represent an appropriate basis for the conclusions set out in this report and I consider that it is reasonable for me to rely on this information.
- 1.30 A draft of this report has been made available to the PRA and FCA whose comments have been taken into account. The PRA, in consultation with the FCA, has approved the form of this report.
- 1.31 No unreasonable limitations have been imposed on the scope of my work and the opinions in this report about the Proposed Scheme are mine, based on the information provided to me and the answers given to any questions my team and I have raised. In my opinion, all significant matters that are relevant to policyholders' consideration of the Proposed Scheme have been considered in this report.
- 1.32 This report has been prepared on an agreed basis for the purposes of reporting on the Proposed Scheme to the High Court, and must not be relied upon for any other purpose. It must be considered in its entirety because individual sections, if considered in isolation, may be misleading. This report is subject to the terms and limitations, including a limitation of liability, set out in my firm's engagement letter.
- 1.33 This report must not be construed as investment advice.
- 1.34 This report has been prepared on the joint instruction of QIE and RNICE for the benefit of the High Court solely for the purposes of satisfying FSMA requirements for Part VII transfers. It has not been prepared for use by any third party. Accordingly, neither the Independent Expert nor Towers Watson Limited accepts any responsibility or duty of care to any third party in relation to this report. Any reliance placed by such third parties on the report is entirely at their own risk.
- 1.35 This Supplementary Report is based on:
- financial information in respect of QIE, RNICE and the Transferring Portfolio as at 30 June 2018; and
 - financial projections performed by Armour Group to 31 October 2018 based on an internal actuarial review of the Transferring Portfolio as at 30 September 2017.
- 1.36 Figures in all tables in this report are subject to possible rounding differences.

- 1.37 Tables in this report show accounting information in various currencies, reflecting the different currencies which apply to different companies and groupings of business. In particular:
- The current reporting currencies for QIE and RNICE are pounds sterling and US dollars respectively.
 - The contracts of insurance in the Transferring Portfolio are denominated in Euros.

Exchange rates

- 1.38 In this report the post-Scheme figures as at 31 October 2018 and calculations of the Capital Amount as at 31 March 2018 are based on the following exchange rates as at 31 March 2018 as used by Armour group: £1 = €1.1369 = US\$1.4011.
- 1.39 In this report we also provide financial data as at 31 December 2017 and 30 June 2018 for the Transferring Portfolio at both dates and RNICE at the latter date. We applied the following exchange rates as at 31 December 2017 and 30 June 2018 respectively: £1 = €1.1254 = US\$1.3503 and £1 = €1.1297 = US\$1.3206 (Source: www.x-rates.com).

Legal jurisdiction

- 1.40 This report is governed by and shall be construed in accordance with English law. Willis Towers Watson, QIE and RNICE submit to the exclusive jurisdiction of the English courts in respect of all disputes and differences arising out of, under or in connection with this report.

Structure of this report

- 1.41 The structure of this report is as follows:
- Section 1 summarises the scope of my work as the Independent Expert, including the purpose of this Supplementary Report;
 - Section 2 summarises the further information considered, and the analysis and judgements I have made in arriving at my findings; and
 - Section 3 summarises my overall conclusions.

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Section 2: Supplementary analysis and findings

Approach

- 2.1 The Scheme Report was based on financial information in respect of the QIE, RNICE and the Transferring Portfolio as at 31 December 2016.
- 2.2 I have requested and received additional information to assist me in considering whether the conclusions set out in the Scheme Report should change given the availability of updated financial information and developments since it was produced.
- 2.3 In this section of my Supplementary Report I therefore cover the following areas:
- The additional information I have received;
 - Consideration of the reasonableness of the reserving of the portfolio taking account of emerging claims experience and movements in the Armour best estimate claim reserves;
 - Consideration of updated financial information of the UK GAAP and Solvency II Balance Sheet, Own Funds and SCR for both QIE, as at 31 December 2017, and RNICE as 30 June 2017 and as at the Effective Date of the Proposed Scheme;
 - Updates on RNICE's Brexit contingency plans and investment strategy; and
 - Updates on the implementation of policyholder communications and details of any policyholder objections received.

Additional information received

- 2.4 I have based my conclusions in this Supplementary Report on the following additional information, together with information which was used in preparing the Scheme Report. The additional information includes:

Documents relating to the Proposed Scheme

- Final Proposed Scheme documentation as presented at the Directions Hearing
- Details of objections (if any) raised by policyholders, or other potentially affected parties, on the Proposed Scheme

Documents provided by QIE

- A profit and loss account and balance sheet as at 31 December 2017
- ORSA report dated March 2018
- Actuarial Function Report in respect of technical provisions (for year ended 2017 and dated May 2018)
- Solvency II balance sheets as at 31 December 2017 and 30 June 2018
- Solvency II SCR Report prepared during 2018, included details of model changes for QIE IM since 31 December 2016

- 2018 business plan
- Updated details in respect of Brexit developments

Documents provided by ARM, in relation to RNICE

- Profit and loss accounts and balance sheets as at 31 December 2017 and 30 June 2018
- ORSA report as at 30 June 2017
- Solvency and Financial Condition Report for year ended 2017 and dated April 2018
- The quantitative reporting templates (“QRTs”) under Solvency II regulations as at 31 December 2017 and 30 June 2018
- Projections of Available Capital Resources and the SF SCR for RNICE for the Effective Date of 31 October 2018, following the Proposed Scheme, based on a starting point of 31 March 2018
- Internal actuarial analysis of reserves as at 30 September 2017 including analysis of movements to 30 June 2018
- Risk Appetite Statement prepared during May 2018 included details of RNICE’s proposed investment strategy
- Updated details in respect of Brexit developments

2.5 The above data and oral additional information that has been provided by QIE and ARM staff.

Reliances

- 2.6 This Supplementary Report is subject to the Reliances and Limitations as specified in the Scheme Report apart from specific issues which are addressed in this report.
- 2.7 I have relied upon the accuracy and completeness of the data and information provided to me by the parties without independent verification. However, I have reviewed the data and information for general consistency and overall reasonableness based on my wider experience and this gives me no cause for concern.
- 2.8 I have obtained confirmation from each of QIE and RNICE that, to the best of their knowledge and belief:
- All the items of data and information which have been provided to me by QIE / RNICE for the purposes of the Scheme Report and this Supplementary Report are accurate and complete.
 - There are no significant errors or omissions in the descriptions in the Scheme Report or this Supplementary Report of the business of QIE / RNICE and of the Transferring Portfolio.
 - There are no other material items of data and information which have not been provided to me by QIE / RNICE and which are likely to be relevant to the Scheme Report or this Supplementary Report.

Structure of Proposed Scheme

- 2.9 I understand that there are no changes to the Proposed Scheme from that on which the Scheme Report was based.

Reserving considerations for the Transferring Portfolio

- 2.10 ARM reviews the reserves of the Transferring Portfolio as part of its management function. Since 31 December 2016 it has been carrying forward the reserves implied by an internal analysis based on the results of an external actuarial review conducted as at 30 June 2016 with adjustments for payments since 30 June 2016.
- 2.11 The underlying technical basis used for setting the reserves has two components:
- Projected movements on reported outstanding case reserves to claim settlement, referred to as Incurred but not enough reported (“IBNER”); and
 - Projections in respect of Incurred but not yet reported (“IBNYR”) covering unreported losses that may emerge from hitherto unreported claims increasing to exceed deductibles and generating new reported claims to the Transferring Portfolio
- 2.12 The underlying basis used to set the reserves at 31 December 2016 is based on the sum of reported outstanding claim amounts and the Incurred but not Reported (“IBNR) claims allowance which itself consists of the following elements:
- IBNER, which was set to nil although the external and subsequent internal analyses would indicate that redundancies would be expected to emerge that would reduce the reserves; and
 - IBNYR, which was taken from an actuarial review undertaken by an external third party consulting firm and added to the reported outstanding claims as at 30 June 2016 to set an initial reserve level which was then reduced to allow for subsequent claim payments made up to the relevant reporting date.
- 2.13 The detailed analysis is undertaken for the Italian medical malpractice book and other small components of the portfolio were benchmarked using the results of the Italian medical malpractice analysis.
- 2.14 I have reviewed the updated reserve projections as at 30 September 2017 for reasonableness. As at 30 September 2017, the reserves were re-projected with releases of €26.9 million gross and €17.3 million net. The releases are mainly due to favourable movements on reported claims (negative IBNER development) which showed corresponding reductions of €25.4 million and €15.7 million over the period. The key movements are summarised in Table 2.1 below.

Table 2.1: Summary of claim movements from 30 June 2016 to 30 September 2017 review

€ million	Case Reserves	Paid Claims	Incurred Claims	IBNR	Ultimate Claims
Gross					
As at 30 June 2016	193.4	470.8	664.2	7.6	671.8
As at 30 September 2017	120.1	518.7	638.8	6.1	644.9
Movement	(73.3)	47.9	(25.4)	(1.6)	(26.9)
Net of SIR/Deductibles/RI					
As at 30 June 2016	121.5	301.0	422.5	6.3	428.8
As at 30 September 2017	65.2	341.6	406.8	4.7	411.5
Movement	(56.3)	40.6	(15.7)	(1.6)	(17.3)

2.15 The updated IBNR estimate is essentially an IBNYR projection. The IBNYR projections are based on an underlying analysis of expected claim frequencies and severities by type that is consistent with the approach used in the external actuarial review carried out as at 30 June 2016. Table 2.2 sets out a comparison of the amounts at both reviews including the ratio of IBNR to case outstanding. The results show increases in this ratio at 30 September 2017. On the basis of this analysis and the progressive development of claims over the period, I have concluded that the results of the reserve review as at 30 September 2017 are reasonable.

Table 2.2: Reserving Diagnostics for ARM's 30 September 2017 review

€ million	Case Reserves	IBNR	IBNR: OS Ratio
Gross			
as at 30 June 2016	193.4	7.6	4.0%
as at 30 September 2017	120.1	6.1	5.1%
Movement	(73.3)	(1.6)	
Net of SIR/Deductibles/RI			
as at 30 June 2016	121.5	6.3	5.2%
as at 30 September 2017	65.2	4.7	7.2%
Movement	(56.3)	(1.6)	

2.16 The progression of gross and net reported claims is shown on the graphs in Appendix B and indicates that the claim development is consistent with an expectation of holding a negative IBNER. The graphs show the reserving levels implied by the external review as at 30 June 2016 and the reduced level set from the 30 September 2017 review. The graphs lend visual support to my conclusion that the proposed reserving level remains reasonable.

QIE

UK GAAP balance sheets

2.17 The following table shows the balance sheets of QIE, on a UK GAAP basis as at 31 December 2017, before and after the Proposed Scheme:

Table 2.3: QIE UK GAAP Balance Sheets as at 31 December 2017 showing effect of Scheme

£ million	Before Proposed Scheme	Transferring Portfolio	After Proposed Scheme
Assets			
Investments	3,655	0	3,655
Reinsurers' share of Technical Provisions	1,052	64	987
Debtors	809	0	809
Prepayments and accrued income	195	0	195
Total assets	5,711	64	5,647
Liabilities			
Total shareholders' funds	1,404	0	1,404
Technical provisions			
Provision for unearned premiums	812	0	812
Claims outstanding	2,977	64	2,912
Equalisation provision	0	0	0
Other liabilities	518	0	518
Total liabilities	5,711	64	5,647

2.18 On a UK GAAP basis, the Proposed Transfer would have no effect on QIE's total shareholders' funds. On a Solvency II basis QIE's SII balance sheet would also be affected to an immaterial extent, together with a slight reduction in the SCR.

2.19 The gross reserve figure held by QIE for the Transferring Portfolio, as shown above, is illustrative because we understand that QIE's booking process is affected by delays in reporting and differences in the recording of self-insured deductibles. In this context, we note that QIE's net reserve for the Transferring Portfolio is nil.

Capital considerations

2.20 The following table shows the Available Capital Resources, SCR and the Solvency Cover ratios of QIE on a Solvency II basis as at 31 December 2017, before and after the Proposed Scheme. The Solvency Cover ratios before and after the Proposed Scheme of 145% and 148% respectively compare to 140% and 143% in the Scheme Report as at 31 December 2016. Essentially, my conclusion is that QIE's financial position has not materially changed and this updated data does not affect my conclusions in the Scheme Report.

Table 2.4: Summary of QIE Solvency Cover as at 31 December 2017

Amounts in £ million	Before Proposed Scheme	After Proposed Scheme
Available Capital Resources	1,247	1,247
Internal Model SCR	859	845
Solvency Cover ratio	145%	148%

RNICE

UK GAAP balance sheets

- 2.21 The following table shows the balance sheets of RNICE, on a UK GAAP basis as at 30 June 2018, before the Proposed Scheme, and a projection as at 31 October 2018, after the Proposed Scheme.
- 2.22 The balance sheet before the Proposed Scheme is shown in Sterling as at 30 June 2018 as this is consistent with the Scheme Report, although the reporting currency of RNICE has now changed to US dollars. The balance sheets are shown in both Sterling and US dollars.
- 2.23 The projected amounts after the Proposed Scheme are very similar to the projections in the Scheme Report.

Table 2.5: RNICE Balance Sheets before and after the Proposed Scheme

	30 June 2018 before Proposed Scheme	31 October 2018 after Proposed Scheme	
	£ million	£ million	US\$ million
Assets			
Debtors	0.2	7.1	9.4
Cash at bank and in hand	3.8	60.7	80.1
Investments	0.0	47.3	62.5
Total assets	4.0	115.1	152.0
Liabilities			
Technical Provisions			
Best Estimate	0.2	59.7	78.8
Risk Margin	0.0	2.9	3.9
Other creditors	0.4	0.0	0.0
Accruals and deferred income	0.1	0.0	0.0
Total capital resources	3.3	52.5	69.4
Total liabilities	4.0	115.1	152.0

Capital considerations

- 2.24 The following table shows the Available Capital Resources and SCR of RNICE on a Solvency II basis as at 30 June 2018, before the Proposed Scheme, and as at 31 October 2018 after the Proposed Scheme. The Capital resources of RNICE immediately after execution of the proposed Scheme is defined by the Capital Amount calculation, as described in paragraph 2.7 of the Scheme Report. In Appendix C, we include an illustration of the Capital Amount calculation as used in the Post-Scheme financial projections for RNICE.

Table 2.6: Summary of RNICE Solvency Cover before and after the Proposed Scheme

	Pre-Scheme	Post-Scheme	
	30 June 2018	31 October 2018	
	£ million	£ million	US\$ million
Available Capital Resources	3.3	52.5	69.4
SF SCR	0.2	26.4	34.9
Regulatory Capital Requirement	3.3	26.4	34.9
Tailored Capital Requirement	3.3	34.0	44.8
Solvency Cover ratio – Regulatory basis	103%	199%	199%
Solvency Cover ratio – Tailored basis	103%	155%	155%

- 2.25 The projected ratio of the available capital resources to the tailored SCR as at 31 October 2018, based on my assessment of the required SCR, after the Proposed Scheme, is equal to approximately 155%; on this basis the SF SCR ratio increases to 199%. The comparable figures in the Scheme Report were 157% and 201% respectively. The reductions in the Solvency Cover ratios are primarily due to lower actual claim payments than had been projected in the Scheme Report. We have considered the impact on the post-Scheme solvency of RNICE under an alternative scenario in which claims continue to settle more slowly than anticipated by RNICE. We summarise the results of this sensitivity analysis in Appendix D.
- 2.26 There is a reduction in the pre-Scheme Solvency Cover ratio for RNICE. The Solvency Cover ratio reduced from 114% as at 31 December 2016 to 103% as at 30 June 2018. We understand that this is caused by a combination of adverse exchange rates movements and expense overruns partly-related to the delay in the implementation of the Proposed Scheme.
- 2.27 The projected Solvency Cover ratios have reduced compared to the corresponding ratios in the Scheme Report. As noted above, I have considered the impact of a sensitivity analysis under which claims are paid more slowly than anticipated by RNICE. Overall, the reductions in Solvency Cover ratios and the results of the sensitivity analysis do not affect the conclusions of the Scheme Report because I consider that RNICE's post-Scheme capital remains at satisfactory levels above minimum regulatory capital requirements.

RNICE Investment Policy

- 2.28 RNICE has informed me that it intends to pursue an investment policy that will actively match assets and liabilities by currency and target duration of assets based on the profile of its liabilities. RNICE's reporting currency is USD, so surplus assets will be USD denominated and will not therefore give rise to currency risk capital charges under Solvency II according to the SF SCR. Investment guidelines will have an exposure type of fixed income and/or bonds and will require a minimum average portfolio credit rating of A. RNICE will only purchase assets with an Investment Grade rating, for example Standard and Poor's rating of BBB or higher.
- 2.29 Given RNICE's confirmation of its investment policy, I conclude that the core positioning of the Investment Strategy envisaged for RNICE Post-Scheme will result in appropriate matching of

liabilities by duration and currency. I consider that this investment policy will not affect the conclusions of the Scheme Report.

Brexit

- 2.30 ARM, on behalf of RNICE, is currently engaging with Spain's Ministerio de Economía y Empresa ("MEE") and Italy's Istituto per la Vigilanza sulle Assicurazioni ("IVASS") (collectively "the Italian and Spanish Regulatory Authorities"). ARM informs me that it has developed a good relationship with the Italian and Spanish Regulatory Authorities and is working collaboratively with them on RNICE's Brexit preparations.
- 2.31 Whilst the Italian and Spanish Regulatory Authorities are still hoping for a solution that utilises Article 171 of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) ("Solvency II"), they acknowledge that RNICE is prudent to plan for an alternative given the current uncertainties of a Brexit deal being achieved. Accordingly, RNICE is applying to establish a third country branch in both Spain and Italy. RNICE has been advised that the respective applications can be submitted prior to 29 March 2019, but as the United Kingdom will be a member of the European Union until that date, the Italian and Spanish Regulatory Authorities will not process the applications until afterwards.
- 2.32 MEE has been particularly supportive of RNICE's alternative preparations. It has confirmed that RNICE may submit in advance drafts of the documents and details required pursuant to Chapter IX, Section 1 of Solvency II ("the Documents"). MEE will then review these and provide guidance and amendments to enable the finalised application to be processed and approved by early April 2019. Given that the process for establishing a third country branch in both European Union Member States is governed by Solvency II, this will also provide guidance in relation to the application to IVASS. ARM is still liaising with IVASS with the intention of obtaining a similar offer of guidance and assistance. Accordingly, the Documents for both applications are currently being prepared to enable ARM to provide them to the Italian and Spanish Regulatory Authorities during the last quarter of 2018.
- 2.33 RNICE has cross border service passports for Spain and Italy meaning that services to policyholders will be unaffected prior to 29 March 2019. After Brexit, if a solution utilising Article 171 of Solvency II is not achieved and instead there is no withdrawal agreement, given RNICE's preparations and the support of the Italian and Spanish Regulatory Authorities it is probable that disruption for policyholders and claimants, if any at all, will be limited to a short period at the start of April 2019 whilst the Italian and Spanish Regulatory Authorities formally process and approve RNICE's branch applications.
- 2.34 Should there be an unexpected protracted delay post-Brexit in gaining approval for the Spanish or Italian branch, amongst the Armour Group companies there is an Irish regulated company Cardinal Reinsurance Designated Activity Company ("Cardinal"). To ensure a prudent approach, ARM informs me that it will also commence the process of investigating the possibility that Cardinal could settle claims on RNICE's behalf in Spain and Italy using EU passporting rights.
- 2.35 As QIE and RNICE are both UK authorised insurance companies and the Transferring Policyholders are excluded from the scope of the QIE Brexit Portfolio Transfer, the impact of Brexit on the Transferring Policyholders is expected to be similar, whether the Proposed Scheme proceeds or not under the assumption that each of QIE and RNICE takes appropriate steps to minimise potential disruption to policyholders that could arise from Brexit.
- 2.36 If the Scheme does not proceed, QIE can reasonably be expected to take similar steps to RNICE to manage Brexit contingencies to enable it to achieve continuity of service for policyholders and claimants. On this basis, I conclude that at the current time Brexit can reasonably be expected not to have a material adverse effect on the Transferring Policyholders because of the Proposed Scheme.

Section 3: Conclusions

- 3.1 In the Scheme Report dated 4 July 2018 I considered the likely effects of the Proposed Scheme on the Transferring Policyholders, the policyholders remaining with each of QIE and the current policyholders of RNICE. In each case, I considered the likely effects of the Proposed Scheme on the security and service levels of the Transferring Policyholders.
- 3.2 I also considered the likely effects of the Proposed Scheme on reinsurers whose contracts of reinsurance are to be transferred by the Proposed Scheme.
- 3.3 In this Supplementary Report I have considered whether any of the conclusions set out in the Scheme Report have changed given the availability of updated financial information and any developments that have arisen since I produced the Scheme Report.

Summary

- 3.4 As set out below, my overall opinions on the Proposed Scheme are unchanged from those set out in the Scheme Report and I am satisfied that the open issues mentioned in the Scheme Report relating to RNICE's investment policy and Brexit contingency plans have been satisfactorily addressed. My overall opinion remains that the security of the policyholders transferring from QIE to RNICE, the policyholders remaining with QIE and the current RNICE policyholders is not materially adversely impacted by the Proposed Scheme.

Other considerations

- 3.5 It remains my opinion that the Proposed Scheme will have no significant effect on the three groups of policyholders considered in respect of matters such as claims handling service levels, investment management, new business strategy, management, administration, governance arrangements and expense levels in so far as these will affect the security of policyholders' contractual rights or the levels of service provided to policyholders.
- 3.6 I have been informed by the Parties that the communication with policyholders has been undertaken in accordance with the proposed approach set out in the Scheme Report.
- 3.7 In response to policyholder communications, I have been informed by the Parties that queries have been received to date as follows:
- Due to changed circumstances of some RNICE policyholders that are no longer in operation, a small number of recipients questioned why the scheme documents had been sent to them;
 - A broker on behalf of its QIE policyholders requested more detailed information on the effect of the Proposed Scheme on the management of claims, financial security of claims and clarification of any impact of Italian regulations; and
 - An insurance group that became aware of the Proposed Scheme through general publicity requested confirmation of whether the policies to be transferred under the Proposed Scheme related to outwards reinsurance on its own account because it wanted to evaluate the impact of the Proposed Scheme on its reinsurance asset; QIE confirmed that none of the Transferring Policies relate to the insurance group.
- 3.8 I understand from the Parties that responses have been provided to resolve all of the above queries and that no objections have been raised in relation to the Proposed Scheme. On the basis of the above information, I conclude that no objections have been received to date that would alter my conclusions in the Scheme Report.

- 3.9 Post-Scheme the absolute amounts on RNICE's balance sheet will depend on the applicable exchange rates. RNICE's reporting currency is US dollars. The Proposed Scheme takes this into account and requires that Euro-denominated assets be transferred in respect of the Best Estimate component of the Technical Provisions with any residual assets, as determined by the Capital Amount, transferred in US dollar-denominated assets. On this basis, I consider that my overall conclusions will not be affected by normal variations in the US dollar to Euro exchange rate.

Interaction with regulators

- 3.10 A draft of this Supplementary Report has been made available to the PRA and the FCA and CAA whose comments have been taken into account. The PRA (in consultation with the FCA) has approved the form of the Scheme Reports.

Limitation of Scope

- 3.11 No limitations have been imposed on the scope of my work and the opinions in the Scheme Reports about the Proposed Scheme are mine, based on the information provided to me and the answers given to any questions I have raised. There are no important matters that I have not taken into account or evaluated in the Scheme Reports that might, in my opinion, be relevant to policyholders' consideration of the Proposed Scheme.

Duty to the High Court

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

Statement of truth

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



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

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19 October 2018

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Appendix A: Glossary of terms

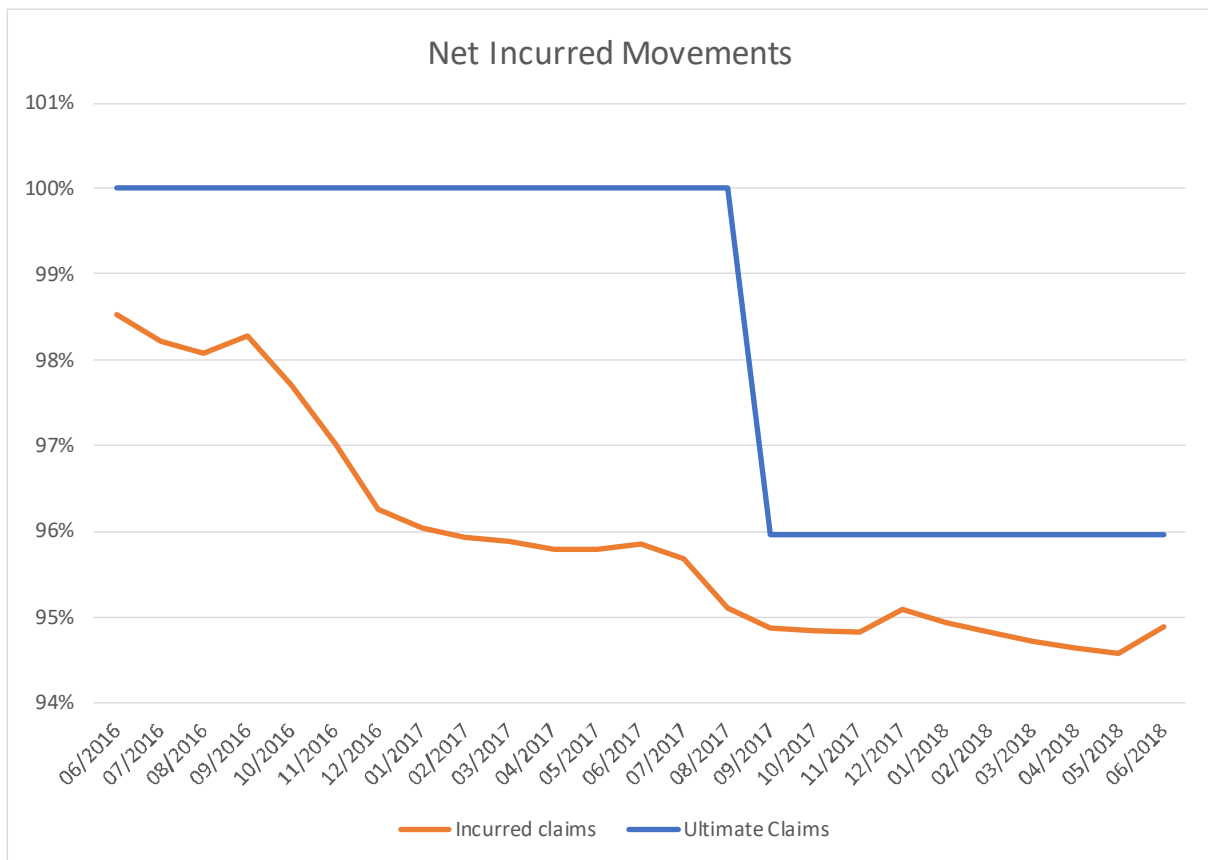
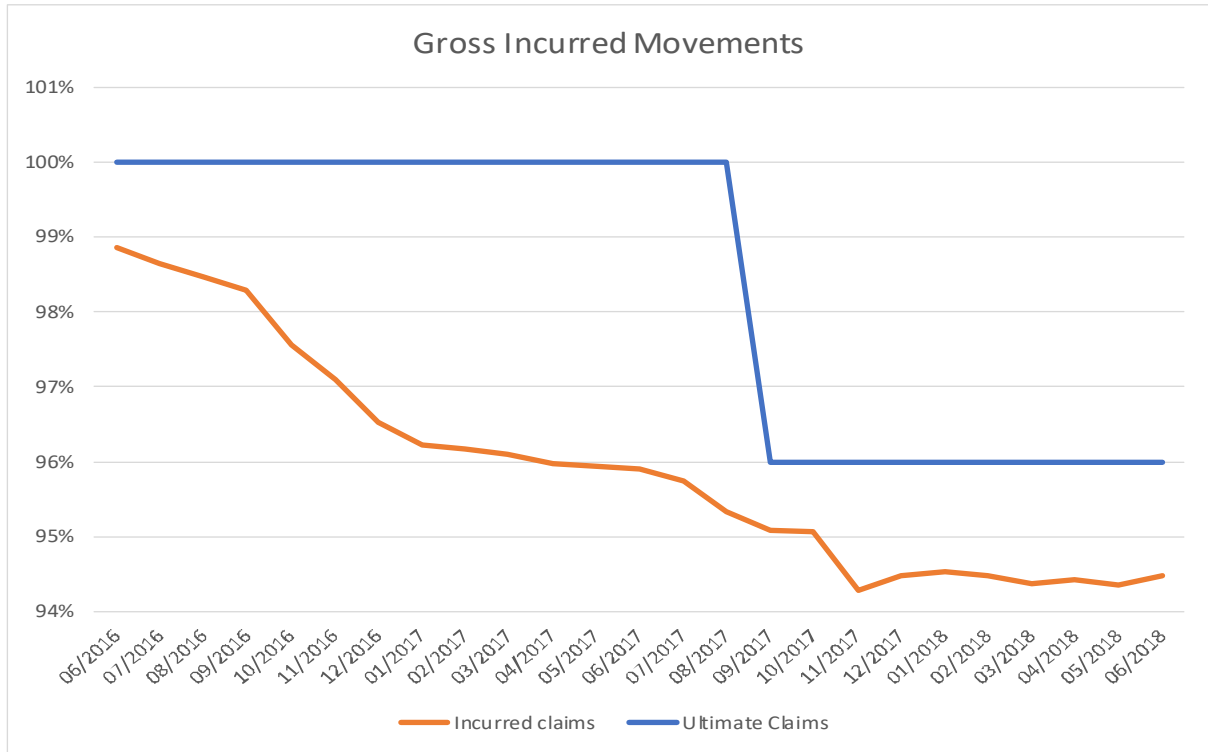
Absolute Minimum Capital Requirement (“AMCR”)	This is the absolute minimum amount of the MCR.
APH	Liabilities in respect of asbestos, pollution and health hazard from USA sources.
Armour group	The Armour group of companies.
ARM	Armour Risk Management Limited.
Available Capital Resources	The Own Funds held by a company.
Best Estimate	The best estimate of future cash-flows.
BMA	Bermuda Monetary Authority.
BNY Mellon	The Bank of New York Mellon, London Branch.
Capital Amount	The calculated capital amount which is to be used to define the amount of funds to be transferred from the Trust Account directly to RNICE before the Effective Date.
Claims Handling Agreement	Claims Handling Agreement between QIE and ARM.
Claims-made cover	Claims-made cover provides indemnity for claims notified to the insurer during the policy period irrespective of when the loss occurred. This cover can be subject to a retroactive date, which is the earliest date of occurrence for which a claim will be covered by the policy.
CSAM	Credit Suisse Asset Management.
Custody Agreement	The Custody Agreement between QIE, TMR and BNY Mellon.
Effective Date	The intended effective date of the Proposed Scheme, 31 October 2018.
QBE EO	QBE European Operations plc.
EU	European Union.
EEA	European Economic Area.

Facultative Reinsurance	Facultative Reinsurance is reinsurance for a single risk or a defined package of risks. The ceding company (the primary insurer) is not compelled to submit these risks to the reinsurer, and the reinsurer is not compelled to provide reinsurance protection.
FCA	The Financial Conduct Authority, one of the insurance industry regulatory supervisory authorities in the UK (the other being the PRA).
FSA	The Financial Services Authority, regulatory supervisory authorities of the financial services industry in the UK prior to 1 April 2013, which was replaced by the FCA and PRA.
FSCS	The Financial Services Compensation Scheme, the UK's statutory compensation scheme, which compensates customers of authorised financial services firms in the event that the company is unable pay claims against it.
FSMA 2000	The Financial Services and Markets Act 2000, an Act of Parliament to make provision for the regulation of financial services which details the legal basis for the transfer of an insurance business in the UK.
FRC	The Financial Reporting Council, the UK's independent regulator responsible for promoting high quality corporate governance and reporting. The FRC set standards for corporate reporting, audit and actuarial practice and monitor and enforce accounting and auditing standards.
HSBC	HSBC Bank USA, National Association.
IBNR claims	Incurred but not reported claims, in the context of claims provisions.
ICA	Individual Capital Assessment, an insurance company's own assessment of the capital that they needed to hold for regulatory purposes, based on the Individual Capital Adequacy Standards ("ICAS") regime which applied prior to the implementation of Solvency II on 1 January 2016.
ICG	Prior to the implementation of Solvency II on 1 January 2016, the PRA granted Individual Capital Guidance to all live firms and some run-off firms above a certain size. If the insurance company's ICA was regarded as adequate, the ICG was set equal to the ICA; however, if the PRA believed that the insurance company had not adequately assessed the risk they are exposed to, an additional load would be applied.
ILS IM	ILS Investment Management Limited.
ILS P&C Re	ILS Property & Casualty Re Limited (Bermuda), a company incorporated in Bermuda, licensed as an insurer and as such regulated by the BMA, and registered as a segregated accounts company.
LPTA	The Loss Portfolio Transfer Agreement between QIE, TMR and ILS P&C Re.

Minimum Capital Requirement (“MCR”)	This is the minimum level of capital insurers can hold to remain technically solvent. Any less, and the company would be insolvent for regulatory purposes.
ORSA	Own risk and solvency assessment.
Own Funds	The excess of assets over liabilities.
Parties	QIE and RNICE.
PRA	The Prudential Regulation Authority, one of the insurance industry regulatory supervisory authorities in the UK (the other being the FCA).
Proposed Scheme	The proposed transfer of the Transferring Portfolio from QIE to RNICE.
QBE group	The QBE group of companies.
QIE	QBE Insurance (Europe) Limited, a company within the QBE group.
Reinsurance	This is where an insurance company purchases insurance from a reinsurer in order to lay off some of the risk underwritten by the insurance company.
Report	Independent Expert’s report on the Proposed Scheme.
Retrocession Agreement	The Retrocession Agreement between TMR and ILS P&C Re in respect of its segregated account Cell A.
Risk Margin	Conceptually, a theoretical amount that an insurer would have to pay third party to take on an insurers’ assets and Best Estimate liabilities. Under Solvency II the Risk Margin is calculated using a cost of capital approach.
RNICE	Reliance National Insurance Company (Europe) Limited, a company within the Armour group.
Run-off	Describes the status of an insurance or reinsurance business when it does not accept new business (including policy renewals). The liabilities will gradually reduce over time, or run-off, as the company settles and pays the claims to the policyholders.
Sanction Hearing	The court hearing to consider the sanction of the Proposed Scheme.
Solvency Capital Requirement (“SCR”)	This is conceptually the capital required to ensure that an undertaking can meet all insurance obligations at a 99.5 th percentile value-at-risk over a one year time horizon. This means that a company holding a level of capital equal to the SCR is expected to have sufficient capital to meet its obligations over a one year period in more than 99.5% of cases. In other words, the shareholders’ funds are estimated to be sufficient to absorb the financial impact of a 1-in-200 year loss event.

	It is required by EU insurance supervisors that firms will hold at least this level of capital at all times. Insurance supervisors can be expected to get closely involved in the operation of the undertaking if the capital level gets too close to this level.
Security Deed	The Security Deed between QIE and TMR.
Standard Formula ("SF")	The Standard Formula is a non-entity-specific, risk-based mathematical formula used by insurers to calculate their SCR under Solvency II.
SIRs	Self-insured retentions.
Solvency II	An EU directive aimed at harmonising the EU insurance regulation and enhancing consumer protection. The directive applies to all EU-domiciled insurance and reinsurance companies and was implemented on 1 January 2016.
Solvency Cover	The ratio of Available Capital Resources to minimum capital requirements on a defined basis.
SUP 18	Chapter 18, in relation to Transfers of Business, of the Supervision manual in the FCA Handbook.
Technical Provisions	Provisions held by an insurance company (sometimes referred to as reserves) to pay future claims. Technical Provisions usually comprise claims provisions (future payments in respect of claims which have already occurred) and premium provisions (future payments in respect of the unexpired component of premiums received to date). In the context of Solvency II, Technical Provisions are equal to the sum of the best estimate and the risk margin.
Transfer Agreement	The Transfer Agreement between QIE and RNICE.
TMR	Tokio Millennium Re AG, Bermuda Branch. Tokio Millennium Re AG is a reinsurance company, incorporated in Switzerland.
TPAs	Third Party Administrators employed by ARM in Italy and Spain.
Transferring Portfolio	The assets and liabilities of the portfolio of Italian and Spanish medical malpractice business which it is proposed will be transferred from QIE to RNICE.
Trust Agreement	The Trust Agreement between TMR, ILS P&C Re in respect of its segregated account Cell A and HSBC.
UK GAAP	Generally Accepted Accounting Practice in the UK, is the body of accounting standards and other guidance published by the UK Accounting Standards Board (ASB).
ULAE	Unallocated Loss Adjustment Expenses, expenses which are not attributable to a specific insurance claim. ULAE reserves form part of an insurer's expense reserve and can be one of the largest expenses that an insurer has to set aside funds for.
Willis Towers Watson	Towers Watson Limited, authorised and regulated by the FCA.

Appendix B: Historical claims run-off



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Appendix C: Capital Amount calculation

	US\$ million	As at date
Data		
Best Estimate TP	94.2	31 March 2018
Risk Margin	5.1	31 March 2018
Deductible Asset balances due more than 6 months	3.8	31 October 2018 ¹
Calculation		
A = 75% * Best Estimate	70.7	
B = Risk Margin	5.1	
C = Deductible Asset balances	3.8	
Capital Amount (A – B + C)	69.4	

¹ The deductible asset balance in respect of amounts due for more than 6 months will be updated as at 31 October 2018. The balance shown is an estimate and is the corresponding amount as 31 August 2018.

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Appendix D: Sensitivity analysis

Method

A claim payment pattern was derived from historical claims payment data and the resulting projection was scaled to match the 31 March 2018 claim reserves. The projections are subject to volatility but were consistent with the ARM reserve estimate as at 31 March 2018. ARM's projections are based on an expectation that claims will be settled more quickly than historically. We understand that this reflects RNICE's expectations based on input from the ARM claims team.

Results

The results are summarised in the table below as at 31 October 2018 assuming that the Proposed Scheme takes effect as at 31 October 2018. The Best Estimate reduces by \$0.6 million and the Risk Margin increases by \$5.3 million. The projected Solvency Cover ratios decrease but remain at levels that I consider satisfactory.

	Base	Sensitivity	Difference
	US\$ million	US\$ million	US\$ million
Assets			
Debtors	9.4	9.4	0.0
Cash at bank and in hand	80.1	80.1	0.0
Investments	62.5	62.5	0.0
Total assets	152.0	152.0	0.0
Liabilities			
Best Estimate	78.8	78.3	(0.6)
Risk Margin	3.9	9.2	5.3
Available Capital Resources	69.4	64.6	(4.8)
Total Liabilities	152.0	152.0	0.0
SF SCR	34.9	38.6	3.7
Regulatory Capital Requirement	34.9	38.6	3.7
Tailored Capital Requirement	44.8	49.5	4.7
Solvency Cover ratio – Regulatory basis	199%	168%	(31%)
Solvency Cover ratio – Tailored basis	155%	130%	(24%)