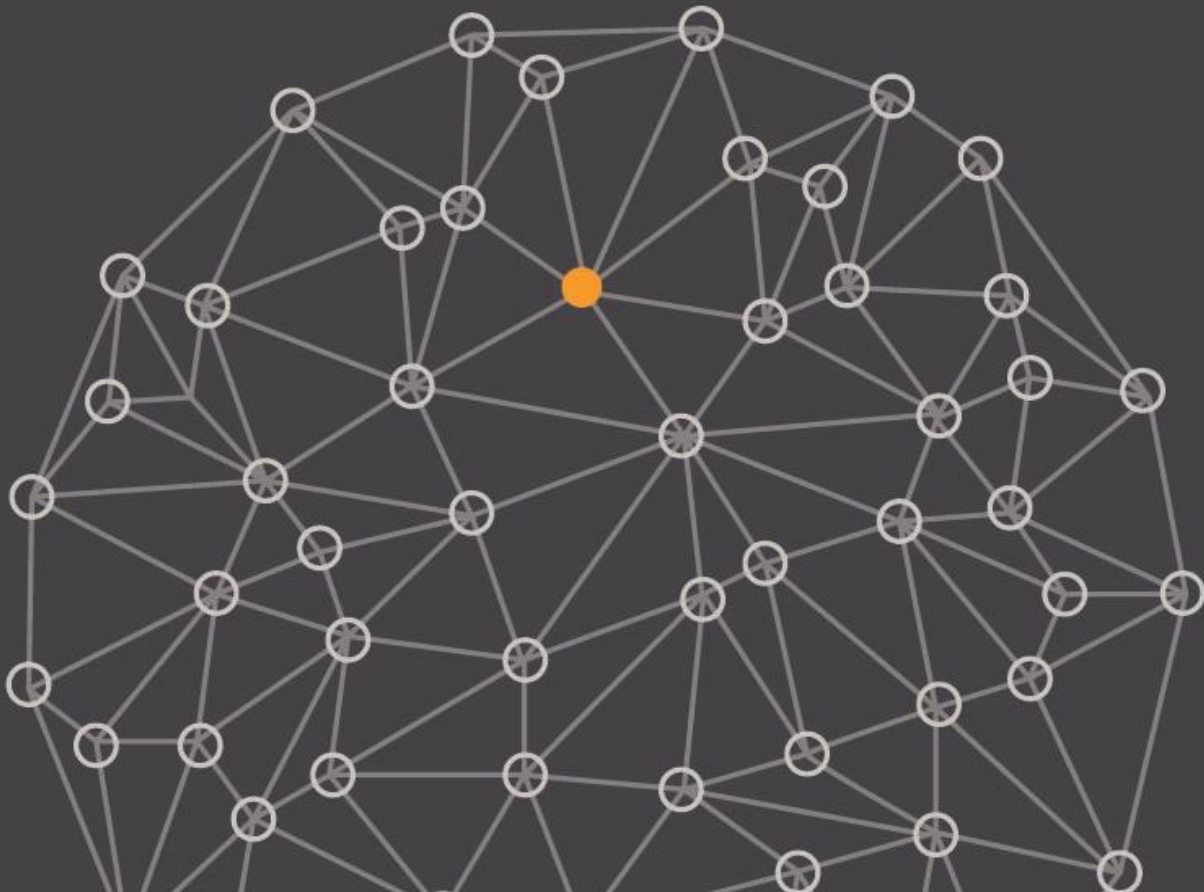


MILLIMAN CLIENT REPORT

Summary of the Report of the Independent Expert on the proposed transfer of business from QBE UK Limited, from The World Marine & General Insurance PLC and from R&Q Eta Company Limited to Inceptum Insurance Company Limited

18 July 2022

Derek Newton, FIA





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

- 1.1 I, Derek Newton, am a principal of Milliman LLP and a Fellow of the Institute and Faculty of Actuaries. I have been appointed as the independent expert to provide, in accordance with Part VII of the FSMA, a report on the potential impact of the proposed transfer (the "**Scheme**") on the policyholders of QBE UK Limited ("**QUK**"), of The World Marine & General Insurance PLC ("**WMG**"), of R&Q Eta Company Limited ("**Eta**") and of Inceptum Insurance Company Limited ("**Inceptum**") (the "**Scheme Report**"). The Scheme Report is intended to assist the Court in assessing the effect of the proposed transfer on all affected policyholders, in particular to comment on possible material adverse impacts in respect of the security of their benefits under their policies and the levels of service that they could expect to receive after the transfer.
- 1.2 In the Scheme Report, I comment only on the Scheme as presented and do not consider any possible alterations or alternative arrangements.
- 1.3 This is a summary (the "**Summary**") of the Scheme Report, dated 18 July 2022. The Summary is subject to the same limitations on its use as those set out in the Scheme Report. The Scheme Report contains the reasoning behind my conclusions, much of the detail of which I have omitted from this Summary. The Scheme Report also includes further information regarding QUK, Eta, WMG and Inceptum (the "**Companies**"), which I have also not included within this Summary. While I am satisfied that this Summary provides an appropriate synopsis of the Scheme Report, reliance on this Summary alone could be misleading. Copies of the Scheme Report and any subsequent update can be obtained on the QUK and R&Q Group website pages dedicated to the Scheme (the "**Transfer Websites**").
- 1.4 The document in which this Summary is included contains a description of the proposed Scheme. Therefore, I have not included further description of the proposed Scheme within this Summary. Furthermore, by way of background, the Scheme Report includes material regarding the insurance regulatory environment in the UK. Again, I have not included that material within this Summary, which instead focuses on what I perceive to be the likely effect of the proposed Scheme on the security and service levels provided to policyholders of QUK, Eta, WMG and Inceptum.

2. Who will be affected by the Scheme?

- 2.1 I have determined that the following policyholder groups might be affected by the proposed Scheme:
- those policyholders of QUK, Eta and WMG with policies that will be transferring to Inceptum under the Scheme (the "**Transferring Policyholders**");
 - the current policyholders of QUK whose policies will not be transferred under the Scheme (the "**QUK Non-Transferring Policyholders**"); and
 - the current policyholders of Inceptum.

I note that it is intended that the Scheme transfers all of the business of Eta and of WMG to Inceptum. I have considered the impact of the Scheme on any policyholders of Eta and of WMG whose policies became **Excluded Policies**.

- 2.2 I have assessed the circumstances, security and levels of service, separately for each of the groups of policyholders identified in paragraph 2.1 above, and have then similarly considered the changes that the Scheme is likely to cause to those circumstances, security and levels of service. I do not believe that policyholders of any other insurance companies would be affected by the proposed Scheme.

3. Will the Scheme affect the Transferring Policyholders?

SECURITY OF BENEFITS

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

- 3.2 I have reviewed the level of eligible own funds (“**EOF**”) held as at 31 December 2020 by QUK (pre-Scheme) and the projected levels as at subsequent year-ends up to and including 2024. I have also reviewed the level of EOF held by Eta, by WMG and by Inceptum as at 31 December 2021 and the projected levels for Inceptum as at subsequent year-ends up to and including 2024 (both pre and post-Scheme). For each company, I have compared the EOF with the respective solvency capital requirements (“**SCR**”) as at the same dates (actual or projected, as appropriate). I have noted that, over the period 31 December 2020 – 31 December 2024, QUK has maintained, and is expected to maintain, its ratio of EOF to SCR (“**Capital Cover Ratio**”) at a level consistent with that of a well-capitalised¹ insurer. Similarly, I have noted that over the period 31 December 2021 – 31 December 2024, Inceptum has maintained, and is expected to maintain, its Capital Cover Ratio at a level consistent with that of a well-capitalised insurer, becoming and then remaining a very well-capitalised insurer by 31 December 2023. I have further noted that, as at 31 December 2021, Eta was a more than sufficiently capitalised insurer and WMG was a very well-capitalised insurer.
- 3.3 The implementation of the Scheme will not materially alter the Capital Cover Ratio in QUK, as QUK has already transferred the economic risk attached to the **QUK Transferring Business** through a loss portfolio transfer (“**LPT**”) whereby the QUK Transferring Business is 100% reinsured, currently by R&Q Re (Bermuda) Ltd (“**R&Q Re**”).
- 3.4 In my analysis, I have considered key components of solvency calculation and of the EOF available to meet the solvency requirements, in particular the technical provisions.
- 3.5 Taking all of these aspects into account, together with the results of some stress tests that I considered relevant, I have concluded that, on an on-going basis, the security of the Transferring Policyholders will not be adversely affected to a material extent on implementation of the Scheme by differences in the financial strength between QUK, Eta and WMG on the one hand and Inceptum on the other.

RISK PROFILE

- 3.6 Post-Scheme:
- the **QUK Transferring Policyholders** will no longer be exposed to the other risks within QUK but will now be exposed to the risks within Inceptum plus the risks of the **Eta Transferring Business** (although these appear negligible) and the **WMG Transferring Business**. As such, they would be exposed to smaller but less diversified risks, post-Scheme, than they are currently;
 - the **Eta Transferring Policyholders** will no longer be exposed to just the risks within Eta but will now be exposed to the risks within Inceptum plus the risks of the QUK Transferring Business and the WMG Transferring Business. As such, they would be exposed to bigger but more diversified risks, Inceptum being, post-Scheme, than they are currently; and
 - the **WMG Transferring Policyholders** will no longer be exposed to just the risks within WMG but will now be exposed to the risks within Inceptum plus the risks of the QUK Transferring Business and the Eta Transferring Business (although these appear negligible). As such, they would be exposed to bigger but more diversified risks, Inceptum being, post-Scheme, than they are currently.
- 3.7 Different risk profiles, insofar as they might affect the future financial security of policyholders, are reflected in the capital requirements of QUK, Eta, WMG and Inceptum. As I have already concluded, the security of the Transferring Policyholders will not be adversely affected to a material extent on implementation of the Scheme by differences in the financial strength between QUK, Eta and WMG on the one hand and Inceptum on the other. Therefore, I am satisfied that, even were the Scheme to result in adverse change to the Transferring Policyholders' risk exposures, the capital protection available to them post-Scheme will not be materially different to that which they enjoyed pre-Scheme. Therefore, I conclude that any change in their risk exposure will not have a materially adverse impact on the security of the Transferring Policyholders.

¹ In this Summary, I have defined the following terms:

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

POLICY SERVICING

- 3.8 Currently, one small portfolio within the WMG Transferring Business is serviced by Resolute Management Services Ltd (“**RMSL**”). Otherwise, the servicing of all the Transferring Business has been delegated to R&Q Central Services Limited (“**RQCS**”). It is intended that, post-Scheme, RMSL and RQCS will continue to service those parts of the Transferring Business for which they are currently responsible, using the same processes and systems as currently used, and operating according to the same standards as currently required. There will be no migration of policy data from one administration system to another. Therefore, it is neither intended nor expected that there be any change in the administration or servicing of the Transferring Policies as a result of the Scheme.
- 3.9 Because there are no intended post-Scheme changes to the policy administration arrangements, the policy administration systems or the policy administration standards in respect of the Transferring Business, I believe that the Scheme will have no impact on the standards of policy servicing experienced by the Transferring Policyholders compared to their current position.

CHANGE IN REGULATORY ENVIRONMENT

- 3.10 Post-Scheme, the primary regulators for the Transferring Business will remain the Prudential Regulation Authority (“**PRA**”) and Financial Conduct Authority (“**FCA**”).
- 3.11 The QUK Transferring Policyholders, the Eta Transferring Policyholders, the existing Inceptum policyholders and some of the WMG Transferring Policyholders are all direct policyholders. However, the WMG Transferring Policyholders include a material number of cedant policyholders. In the event, post-Scheme, of Inceptum becoming insolvent, cedant holders of reinsurance contracts with WMG would rank behind the QUK Transferring Policyholders, the Eta Transferring Policyholders, the WMG Transferring Policyholders who are direct policyholders and the existing Inceptum policyholders in benefitting from the remaining assets within Inceptum. In this respect, the WMG Transferring Policyholders who are holders of inwards reinsurance policies would be adversely affected by the Scheme.
- 3.12 However, I consider the likelihood of Inceptum becoming insolvent post-Scheme to be remote. Therefore, I am satisfied that the Transferring Policyholders will not be materially adversely affected by the implementation of the Scheme in respect of the possible insolvency of Inceptum.
- 3.13 The Scheme would not alter the eligibility of Transferring Policyholders for compensation from the Financial Services Compensation Scheme (“**FSCS**”). Likewise, the Scheme would not alter the eligibility of policyholders to access the Financial Ombudsman Service (“**FOS**”). Therefore, those Transferring Policyholders who are currently eligible to seek compensation from the FSCS and/or to seek assistance or advice from the FOS would be equally eligible post-Scheme.

CONCLUSION

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

4. Will the Scheme affect the QUK Non-Transferring Policyholders?

SECURITY OF BENEFITS AND RISK PROFILE

- 4.1 Post-Scheme, the Capital Cover Ratio within QUK is projected to be virtually unchanged.
- 4.2 The risk profile within QUK will also be virtually unchanged as a result of the Scheme, with the economic liability for the QUK Transferring Business having already been transferred to outside the **QBE Group** via the LPTA referred to in paragraph 3.3, above.

- 4.3 I have concluded that the QUK Non-Transferring Policyholders will not be adversely affected by the Scheme in terms of the financial security afforded to their benefits from QUK.

POLICY SERVICING

- 4.4 The existing arrangements for servicing and administering the business of QUK that is not being transferred by the Scheme will remain unchanged post-Scheme. Likewise, the terms and conditions of the policies not being transferred by the Scheme will remain unaltered post-Scheme.
- 4.5 The business that is not transferred by the Scheme will include the Excluded Policies (if there are any). Post-Scheme, any and all Excluded Policies will continue to be serviced by RQCS, with no changes to the processes or standards applied.

REGULATORY CONSIDERATIONS

- 4.6 There will be no change in the regulatory environment for the business of QUK that is not being transferred by the Scheme.
- 4.7 I have concluded that the Scheme would have a negligible impact upon the prospects of the QUK Non-Transferring Policyholders in the unlikely event of QUK becoming insolvent, post-Scheme.
- 4.8 The Scheme will not affect the eligibility of non-transferring policyholders of QUK to seek compensation from the FSCS or to take complaints to the FOS.

CONCLUSION

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

5. Will the Scheme affect Eta Policyholders or WMG Policyholders who hold Excluded Policies?

- 5.1 I note that no Excluded Policies are expected, including any relating to Eta or WMG. However, it is possible that they might be Excluded Policies relating to Eta or WMG and it is the holders of any such policies whom I consider here.

SECURITY OF BENEFITS AND RISK PROFILE

- 5.2 Post-Scheme, those WMG policyholders with Excluded Policies will continue to benefit from the financial security offered by a very well-capitalised insurer.
- 5.3 Because Eta's assets include Funds at Lloyd's (amounts pledged in support of the R&Q Group's underwriting activities at Lloyd's) that will not be transferred to Inceptum as part of the Scheme but which are ineligible to be included within Eta's EOF, Eta will become, post-Scheme, a sufficiently capitalised insurer, having pre-Scheme been a more than sufficiently capitalised insurer. However, while it would appear that those Eta policyholders with Excluded Policies will experience a reduction in the level of financial security offered by Eta, I do not believe that this would be material, both because the likelihood of Eta becoming insolvent post-Scheme remains remote and because the likelihood of any existing Eta policyholder requiring future payment is also remote.
- 5.4 I have concluded that neither the Eta Policyholders nor the WMG Policyholders who hold Excluded Policies will be adversely affected by the Scheme in terms of the financial security afforded to their benefits from Eta and WMG respectively.

POLICY SERVICING

5.5 RQCS will continue, post-Scheme, to service any and all policies of Eta and WMG that are Excluded Policies, with no changes to the processes or standards applied. If any Excluded Policies are drawn from that small portfolio within the WMG Transferring Business that is serviced by RMSL then, post-Scheme, RMSL will continue to service those policies.

CONCLUSION

5.6 I am satisfied that the proposed Scheme will not adversely affect, to a material extent:

- The security of benefits of the policyholders of either Eta or WMG with Excluded Policies;
- The benefits that the policyholders of either Eta or WMG with Excluded Policies could reasonably expect to receive; or
- The standards of administration, service, management and governance that apply to any and all Excluded Policies of Eta and WMG.

6. Will the Scheme affect the existing policyholders of Inceptum?**SECURITY OF BENEFITS AND RISK PROFILE**

6.1 Projections indicate that, were the Scheme not to take place, by the end of 2022 Inceptum would have a Capital Cover Ratio consistent with it being a very well-capitalised insurer. Similar projections indicate that, post-Scheme, the Capital Cover Ratio within Inceptum would be consistent with Inceptum being a well-capitalised insurer. In my view, while implementation of the Scheme will reduce the financial strength of Inceptum in relative terms, in practice the existing Inceptum policyholders will see no material difference in the financial strength afforded to them, it being only a remote possibility that a well-capitalised insurer will become insolvent in the foreseeable future.

6.2 The risk profile within Inceptum will change as a result of the Scheme, with additional exposure to risks associated with the Transferring Business. As such, Inceptum policyholders will be exposed to much bigger but more diverse risks. However, this change is reflected in Inceptum's solvency requirements and I do not consider that it will jeopardise, to a material extent, the security of benefits of the existing policyholders of Inceptum.

6.3 I have concluded that the existing policyholders of Inceptum will not be adversely affected by the Scheme in terms of the financial security afforded to their benefits.

POLICY SERVICING

6.4 The existing arrangements whereby RQCS provides all servicing and administration for the policies held by existing policyholders of Inceptum will remain unchanged post-Scheme. Likewise, the terms and conditions of the existing Inceptum policies will remain unaltered post-Scheme.

REGULATORY CONSIDERATIONS

6.5 There will be no change in the regulatory environment for the existing business of Inceptum.

6.6 I have concluded that the Scheme does not affect to a material degree the prospects of the existing policyholders of Inceptum in the event of post-Scheme insolvency of Inceptum.

CONCLUSION

6.7 I am satisfied that the proposed Scheme will not adversely affect, to a material extent:

- The security of benefits of the existing policyholders of Inceptum;
- The benefits that the existing policyholders of Inceptum could reasonably expect to receive; or
- The standards of administration, service, management and governance that apply to the existing policies of Inceptum.

7. Other matters

REINSURANCE

- 7.1 I have considered the likely effects of the Scheme on the reinsurers whose reinsurance contracts cover the Transferring Business. The reinsurance arrangement that apply to the Transferring Business comprise the R&Q LPTA, under which R&Q Re 100% reinsures the QUK Transferring Business, and an arrangement whereby Aviva International Insurance Ltd (“**AiIL**”) provides 100% cover in respect of the small portfolio within WMG that is serviced by RMSL. It is intended that the AiIL contract will be transferred by the Scheme from WMG to Inceptum. Similarly, it is intended that the contract whereby R&Q Re 100% reinsures the QUK Transferring Business will also be transferred to Inceptum by the Scheme but that it shall be amended on the Effective Date so that, post-Scheme, it provides 50% quota share cover to Inceptum in respect of the QUK Transferring Business.
- 7.2 I am satisfied that the Scheme will not have a materially adverse effect on the writers of the reinsurance contracts that are being transferred. The administration of the Transferring Business, including the management and handling of claims, will continue to be performed post-Scheme by the same teams at RMSL and at RQCS, using the same processes, as it had been pre-Scheme, so the magnitude and timing of recoveries claimed against reinsurance contracts relating to the Transferring Business will be unaffected by the Scheme.

WHAT WOULD HAPPEN WERE THE SCHEME NOT TO PROCEED?

- 7.3 In the event that the Scheme were not to proceed, then the position of the Parties and of the various groups of policyholders would remain unaltered from the current position. The Eta Transferring Business and the WMG Transferring Business would remain with Eta and WMG respectively. The legal liability for the QUK Transferring Business would remain with QUK; the economic liability for the QUK Transferring Business would remain with R&Q Re.

8. Conclusions

- 8.1 I confirm that I have been provided with access to all material facts of which I am aware and which I consider relevant in order to assess the proposals under the proposed Scheme, and I further confirm that all information that I have requested in relation to my review has been provided. In performing my review and in producing the Scheme Report, I have relied, without detailed verification, upon the accuracy and completeness of the data and information provided to me by the Companies. My conclusions depend on the substantial accuracy of this data, information and the underlying calculations. At the time of preparing the Scheme Report, I was unaware of any issue that might cause me to doubt the accuracy of the data and other information provided to me by the Companies. As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the proposed Scheme and in preparing the Scheme Report, but that nonetheless should be drawn to the attention of policyholders in their consideration of the proposed Scheme.
- 8.2 In summary, in my opinion, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:
- The Transferring Policyholders;
 - Their benefit expectations;
 - The security of their benefits;
 - The level and standards of administration and service that would apply to their policies;
 - The QUK Non-Transferring Policyholders;
 - Their benefit expectations;
 - The security of their benefits;
 - The level and standards of administration and service that would apply to their policies;
 - The existing policyholders of Inceptum;
 - Their benefit expectations;

- The security of their benefits;
- The level and standards of administration and service that would apply to their policies.

9. Supplemental Report

- 9.1 My analysis has been based upon the material supplied to me, including balance sheets and other information, which themselves are based on accounting positions as at 30 September 2021 (for QUK) and 31 December 2021 (for Eta, WMG and Inceptum). I have made allowance for developments that have occurred since those dates, insofar as I have been notified of them.
- 9.2 Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a supplementary report (the “**Supplemental Report**”), covering any relevant matters that might have arisen since the date of the Scheme Report. This will include consideration of updates to the accounting positions. It is intended that the Supplementary Report will be published on the Transfer Websites at least one week before the date of the final Court hearing.



Derek Newton / 18 July 2022

Fellow of the Institute and Faculty of Actuaries