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LCP
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1. Executive summary

1.1. The Proposed Transfer

Fidelis Underwriting Limited (FUL) currently writes both direct insurance and reinsurance policies in 27 countries across the EEA.

In the event of a so called Hard Brexit where FUL no longer has Freedom of Services or Freedom of Establishment rights, FUL’s current operating model would no longer be viable. Under this scenario, FUL may not legally be able to carry on the non-UK EEA direct insurance business. For example, FUL would not be able to issue new direct insurance policies across the EEA and might not legally be able to pay valid claims to existing EEA direct insurance policyholders.

Under the Proposed Transfer, the relevant non-UK EEA direct insurance business will transfer from FUL to Fidelis Insurance Ireland DAC (FIID), a newly established insurer based in Ireland. FIID was previously known as Fidelis Risk Ireland DAC (FRID) until its name was changed on 1 October 2018. The purpose of the Proposed Transfer is to provide certainty that the Fidelis Group can continue to carry on EEA business post-Brexit with minimum disruption to its operating model and its customers.

1.2. My role as Independent Expert

FUL and FIID have jointly appointed me to act as the Independent Expert (IE) for this Proposed Transfer. The Prudential Regulation Authority (PRA), in consultation with the Financial Conduct Authority (FCA), has approved my appointment.

As IE, my overall role is to assess whether:

- The security provided to policyholders of FUL and FIID will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards experienced by policyholders.
- Any reinsurer of FUL covering the transferring business will be materially adversely affected.

I provided a Scheme Report for the Proposed Transfer dated 31 August 2018 ahead of the Directions Hearing which was held on 7 September 2018.

The purpose of this Supplementary Report is to confirm and/or update my conclusions in the Scheme Report, based on new information or issues that have arisen. This Supplementary Report should be read in conjunction with the Scheme Report.
1.3. Summary of developments since the Scheme Report

Overall, there have been no changes to the Proposed Transfer since the Scheme Report that affect the conclusions reached in the Scheme Report.

Activities since the Scheme Report

There have been a number of activities in relation to the Proposed Transfer since the Scheme Report was issued on 31 August 2018. The main activities have been as follows:

- The Scheme Report and other associated scheme documents were presented to the Court at the Directions Hearing on 7 September 2018, where approval was received to start notifications in line with the communications plan.

- The planned change in legal name from Fidelis Risk Ireland DAC to Fidelis Insurance Ireland DAC took place on 1 October 2018 after FRID received approval in principle from the Central Bank of Ireland (CBI) on 30 August 2018. References in this report to FIID are equivalent to references to FRID in the Scheme Report.

- FIID received authorisation from the CBI as an insurance company on 22 October 2018.

- FIID received a credit rating from A.M. Best Company, Inc of A- on 13 December 2018.

- Since the Scheme Report the number of transferring policies has increased from c.300 to 701 as at 30 September 2018, and the net of reinsurance transferring provisions have increased from $19m to $33m.

- At the time of my Scheme Report, the Proposed Transfer was expected to become effective prior to FIID commencing writing business. There has been a delay in the Effective Date of the Proposed Transfer from 31 December 2018 to 29 March 2019.

- As FIID starting writing insurance business from 1 January 2019, there is now an additional group of existing policyholders of FIID to consider. We have considered this group of policyholders as if they were transferring FUL policyholders.

- As FUL is a growing business, it is expected that the numbers of policies will increase further prior to the Effective Date. FUL and FIID have instructed their intermediaries to notify all new policyholders since 7 September 2018 of the Proposed Transfer at the time of purchase of insurance.

- New classes of business have been written including Surety and Energy. More details are provided in section 3.1.

- The intra-group reinsurance (IGR) arrangement with Fidelis Insurance Bermuda Limited (FIBL), another insurer within the Fidelis Group, and the parental guarantee from Fidelis Insurance Holdings Limited (FIHL) have been finalised, with no material changes. More detail on the arrangements is included in section 3.3.
FUL has identified 7 policies to date which, when transferred to FIID, would exceed FIID’s current risk tolerances. With the agreement of the CBI, a surplus IGR contract has been arranged which cedes the current and any future surplus exposure in excess of FIID’s risk tolerances to FIBL. The impacts on technical provisions and capital requirements are not material and do not affect my conclusions reached in the Scheme Report.

FUL (via its external mailing service provider) has sent notifications to policyholders, intermediaries and reinsurers in line with the communications plan approved at the Directions Hearing. 605 letters were sent on behalf of FUL directly to stakeholders. As of 6 February 2018, 16 letters had been returned undelivered. FUL has found 15 alternative addresses, one policyholder has ceased trading, leaving only 1 (0.2%) undelivered. None of the 15 re-sent letters have been returned undelivered.

I note that as some policies have multiple insureds and some insureds have more than one policy with FUL/FIID, the number of transferring policies and the number of letters sent were different. I am satisfied the appropriate mailings have been carried out.

September 2018 mailing: FUL has written directly to all its 13 external reinsurers and all relevant outwards reinsurance has been endorsed to add FIID as a Reinsured to confirm that FIID is subject to the same coverage in respect of this outwards reinsurance. No objections have been received from external reinsurers.

January 2019 mailing: Following the delay to the Effective Date of the Proposed Transfer, FUL has written to all transferring policyholders with a revised policyholder circular communicating the delay to the date of the Sanctions Hearing and Effective Date of the Proposed Transfer. Given that all policyholders were written to I am confident that all policyholders have been provided with the same information regarding the delay. My view is that there is no impact on policyholders due to the delay and that the communication of the delay to policyholders was appropriate. I am equally satisfied with the approach to FIID policyholders.

There have been no objections to the Proposed Transfer.
1.4. Additional considerations for the Supplementary Report

In reaching my conclusions in the Supplementary Report, I have considered the following new information that has become available since the Scheme Report was issued on 31 August 2018:

- Updated financial information for FUL, including booked provisions as at 30 September 2018;
- Updated estimates of the coverage of solvency capital requirements (SCR) for FUL and FIID;
- Details of the finalised IGR arrangement between FIID and FIBL and the parental guarantee from FIHL to FIID; and
- Any communications and/or objections related to the Proposed Transfer raised by stakeholders.

1.5. Summary of my conclusions

I have set out below my summary conclusions, considering the effect of the Proposed Transfer from three perspectives:

- “Non-transferring FUL policyholders”, who will remain with FUL after the Proposed Transfer;
- “Non-transferring FIID policyholders”, who will remain with FIID after the Proposed Transfer. This relates to policies written by FIID between 1 January 2019 and 29 March 2019;
- “Transferring FUL policyholders”, who will transfer from FUL to FIID as a result of the Proposed Transfer; and
- Reinsurers whose contracts with FUL are transferring to FIID (as a result of the above-mentioned endorsements).

My overall conclusions are unchanged from those set out in the Scheme Report.
Non-transferring FUL policyholders

As at 31 December 2018 there are c. 10,500 non-transferring policies which represent c. 94% of FUL’s business by number of policies (87% by booked provisions net of reinsurance). The majority of policies will not be transferring and the overall risk profile of FUL will not be materially affected by the Proposed Transfer.

FUL is not planning any material changes to how the non-transferring business is carried out. In particular, following the Proposed Transfer:

- There are no plans to change how policyholders are serviced.
- FUL has no plans to change the approaches for providing policyholder security (including how insurance provisions and capital requirements are set).

Therefore, I have concluded that the security provided to non-transferring FUL policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for non-transferring FUL policyholders following the Proposed Transfer.

Non-transferring FIID policyholders

These policyholders have purchased insurance from FIID since 1 January 2019 and were made aware of the Proposed Transfer when buying a policy.

FIID’s initial SCR coverage ratio falls as the FUL business transfers in, but FIID remains “well-capitalised” and at the level that the initial level of capitalisation targeted post-Transfer.

In the Scheme Report, “adequately-capitalised” is defined as between 100% and 150% SCR coverage and “well-capitalised” is defined as between 150% and 200% SCR coverage.

Therefore, I have concluded that the security provided to non-transferring FIID policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for non-transferring FIID policyholders following the Proposed Transfer.

Transferring FUL policyholders

The Proposed Transfer involves 701 transferring policies (including 374 policies written through Managing General Agents) as at 30 September 2018, although this number will increase up to the Effective Date. The transferring policyholders will remain within the Fidelis Group, and FIID will be subject to the same group-wide policies as FUL.

FUL is planning to minimise any changes as to how the transferring business is carried out, to avoid disruption to the operating model or its customers. For example, FIID is not
planning any changes to how transferring policyholders are serviced following the Proposed Transfer. In addition, FIID has confirmed that the CBI has not imposed any material conditions or changes that would affect transferring policyholders.

Policyholder security for the transferring policyholders is to be provided through a combination of assets held within FIID itself and security provided by FIBL. The security provided by FIBL is a significant IGR arrangement – a quota share arrangement (covering 85% of FIID’s business) which is collateralised to help protect FIID policyholders in the event of FIBL becoming insolvent.

FUL currently benefits from a similar quota share arrangement with FIBL (covering 50% of FUL’s business). All else being equal, this change from 50% to 85% means the security provided to transferring policyholders will become more reliant on FIBL. I have concluded that this is unlikely to materially adversely affect the transferring policyholders due to the collateral in place and the financial strength of FIBL.

In addition to the reinsurance arrangements with FIBL, FUL and FIID benefit from parental guarantees provided by FIHL, the ultimate parent company. I understand these parental guarantees provide an equivalent level of further security to non-transferring and transferring policyholders in the event that either FUL or FIID respectively becomes insolvent, at the same time that FIBL becomes insolvent.

A number of the transferring policyholders are currently eligible to access the Financial Services Compensation Scheme (FSCS) in the UK and will lose this access as a result of the Proposed Transfer. This is a deterioration in the level of protection provided to the transferring policyholders in the event of an insolvency of FIID. However, I have concluded that it is very unlikely that such an insolvency event will occur, given the quota share reinsurance and parental guarantee provided to FIID.

Therefore, I have concluded that the security provided to transferring policyholders within FIID will be similar to the security currently provided to them within FUL.

If the Proposed Transfer does not proceed then, under a Hard Brexit scenario, FUL might not legally be able to pay any claims to existing EEA policyholders, unless arrangements are agreed as part of the UK Government’s Brexit negotiations with the European Union (EU).

In summary, based on the above considerations, I have concluded that it is very unlikely that the security provided to transferring FUL policyholders will be materially adversely affected by the Proposed Transfer. The level of protection provided within FIID will be similar to that within FUL. No material impact on service standards is expected for transferring FUL policyholders following the Proposed Transfer.
Reinsurers

The main reinsurance policy currently protecting the transferring policyholders is the 50% IGR provided by FIBL to FUL, which also protects non-transferring policyholders. The protection provided to the transferring policyholders from this reinsurance will transfer to FIID.

There are also 13 external reinsurers that cover business that will be transferring from FUL to FIID. FUL has written to all external reinsurers to inform them of the Proposed Transfer. In addition, the external reinsurance has been endorsed to include FIID as a Reinsured. The number of reinsurers has increased since the Scheme Report due to the new lines of business that are now written by FUL.

Exposure to claims faced by FUL’s reinsurers will not change following the Proposed Transfer and the reinsurers will continue to be required to pay out the same claim amounts in respect of the same events as before the Proposed Transfer.

Therefore, I have concluded that reinsurers of FUL who provide cover for the transferring business will not be materially affected by the Proposed Transfer.

Further details on my conclusions, and other supporting information, are set out in the Scheme Report and this Supplementary Report.
2. Introduction

2.1. Background

Part VII - Section 109 of the Financial Services and Markets Act 2000 (FSMA) requires that a scheme report (the Scheme Report) must accompany an application to the High Court of Justice of England and Wales (the Court) to approve an insurance business transfer scheme (Part VII transfer).

The Scheme Report should be produced by a suitably qualified independent person (the Independent Expert or IE) who has been nominated or approved by the Prudential Regulation Authority (PRA) having consulted with the Financial Conduct Authority (FCA). The Scheme Report should address the question of whether any policyholders or reinsurers impacted by the insurance business transfer are adversely affected to a material extent.

FUL and FIID have jointly nominated Stewart Mitchell (I or me) of Lane Clark & Peacock LLP (LCP, we, or us) to act as the Independent Expert for the proposed insurance business transfer scheme (the Proposed Transfer) of the insurance business of FUL to FIID under Section 105 of the FSMA. The Proposed Transfer is intended to be effected on 29 March 2019 (the Effective Date). The original plan was for an Effective Date of 31 December 2018.

The Scheme Report was issued on 31 August 2018 and was presented to the Court on 7 September 2018. In the Scheme Report I stated that, before the date of the Sanctions Hearing, I would prepare a Supplementary Report (this report), covering any relevant matters which have arisen since the date of the Scheme Report.

In particular, I have considered whether any developments since the Scheme Report cause my conclusions in the Scheme Report to change.

2.2. Scope of this Supplementary Report

This Supplementary Report must be read in conjunction with the Scheme Report as the Supplementary Report does not contain the full details of the work I have performed in considering the Proposed Transfer. Therefore, reading the Supplementary Report in isolation may be misleading.

All terms used in the Supplementary Report are as defined in the Scheme Report. In combination with the Scheme Report, it complies with the professional actuarial guidance and standards set out in section 2.5 of this report.

The use of “I”, “me” and “my” in this report generally refers to work carried out by me or by the team operating under my direct supervision. However, when it is used in reference to an opinion it is mine and mine alone.
2.3. Use of this Supplementary Report

This Supplementary Report has been produced by Stewart Mitchell FIA of LCP under the terms of our written agreement with FUL. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Supplementary Report has been prepared for the purpose of accompanying the application to the Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Section 109 of the FSMA. The Supplementary Report is not suitable for any other purpose. The Supplementary Report must be read in conjunction with the Scheme Report of 31 August 2018.

A copy of the Supplementary Report will be sent to the PRA and the FCA and will accompany the evidence filed in Court at the Sanctions Hearing.

This report is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Supplementary Report for any other purpose other than that set out above.

2.4. Reliances

I have based my work on the data and other information made available to me by FUL. Appendix 1 contains a list of key data and other information that I have considered when producing this Supplementary Report. I have also held discussions with the relevant staff of FUL and their advisors.

I have used data as at 30 September 2018 for the majority of my analysis where this is the latest available data. In addition, I have considered FUL’s and FIID’s most up-to-date view of forecast capital ratios. FUL has confirmed it has made me aware of all material developments that would affect my conclusions.

I have received all of the information that I have requested for the purposes of the production of my report. In this respect:

- FUL and FIID will submit witness statements to the Court stating that all information provided to me by FUL is correct and complete in all material aspects, and there have been no material adverse changes to the financial position of FUL or FIID since that information was provided to me.
- I have conducted checks on the data provided to me for internal consistency and reasonableness.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the integrity of the information provided for the purpose of this report.
The conclusions in my report take no account of any information that I have not received, or of any inaccuracies in the information provided to me.

I have not needed to take any third party legal advice on any aspects of the Proposed Transfer. FUL has confirmed that it has received no specific legal advice relevant to my role as IE for the Proposed Transfer.

FUL has provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

Figures in this report may be subject to small rounding differences; as such totals of tables may not equal the sum of the rounded components.

2.5. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for Supplementary Reports set out by the PRA in their Statement of Policy, the FCA guidance to their approach to review of Part VII transfers issued in May 2018 and by the PRA Rulebook and the FCA Handbook.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 200: Insurance (TAS 200) issued by the Financial Reporting Council (FRC). The FRC is responsible for setting technical actuarial standards in the UK.

I have considered The Actuaries' Code as issued by the IFoA while producing this report.

This report has been subject to independent peer review prior to its publication, in line with Actuarial Professional Standard X2: Review of Actuarial Work (APS X2) as issued by the IFoA. This peer review has been undertaken by Tom Durkin, FIA. Tom is a Partner at LCP. He was not involved in the production of the report. He has appropriate experience and expertise to act as peer reviewer of this report.
2.6. Materiality

The FRC considers that matters are material if they could, individually or collectively, influence the decisions to be taken by users of the actuarial information. It accepts that an assessment of the materiality is a matter of reasonable judgement that requires consideration of the users and the context.

I have applied this concept of materiality in planning, performing and reporting the work described in this Supplementary Report. In particular, I have applied this concept of materiality when using my professional judgement to determine the risks of material misstatement or omission and to determine the nature and extent of my work.

In complying with the reporting requirements of TAS 100, I have made judgements on the level of information to include in this Supplementary Report. For example, to make the report easier to read, I have not included all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments.

2.7. Definition of “materially adverse”

In order to determine whether the Proposed Transfer will have a “materially adverse” impact on any group of policyholders or on any reinsurers covering transferring business, it has been necessary for me to exercise my judgement in the light of the information that I have reviewed.

The Proposed Transfer will affect different policyholders in different ways and, for any one group of policyholders, there may be some effects of the Proposed Transfer that are positive, and others that are adverse. When assessing whether the Proposed Transfer will have a “materially adverse” impact, I have considered the aggregate impact of these different effects on each group of policyholders and on reinsurers.

Throughout the report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether policyholders and reinsurers are materially adversely affected or otherwise.
3. My approach as IE and conclusions

My approach to assessing the Proposed Transfer, as set out in the Scheme Report, has been to perform the following five steps analysing evidence provided by FUL to support the Proposed Transfer.

My approach for the Supplementary Report has been to revisit each of the five steps and to consider whether any of the updated analysis or information available now would cause me to change my conclusions in that report. The five steps and my considerations are detailed in the sections that follow.

A list of additional information considered is included in Appendix 1. Further details on my approach as IE are set out in section 4 of the Scheme Report.

3.1. Step 1 – Assessing the provisions of FUL and FIID

As IE, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for both non-transferring and transferring policies; and
- whether any aspects of the reserving may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 5 of the Scheme Report, based on data and provisions as at 31 December 2017. I have been provided with updated data and provisions as at 30 September 2018 and an update of any material changes to provisions since 30 September 2018.

**Summary of GAAP booked provisions for FUL at 30 September 2018**

<table>
<thead>
<tr>
<th></th>
<th>Gross of reinsurance</th>
<th>Net of reinsurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-transferring</td>
<td>308</td>
<td>140</td>
</tr>
<tr>
<td>Transferring to FIID</td>
<td>64</td>
<td>31</td>
</tr>
<tr>
<td>Total</td>
<td>371</td>
<td>171</td>
</tr>
</tbody>
</table>

*Source: FUL, figures include ULAE, UPR and bad debt
Corresponding table in the Scheme Report is within section 5.5*

**New classes of business**

FUL is a growing company, and total booked provisions net of reinsurance have increased by c. 61% from $106m to $171m since the Scheme Report. The net provisions for business transferring to FIID have increased by c. 63% from $19m to $31m. The provisions shown are as at 30 September 2018 and will increase further before the Effective Date as growth continues. The transferring provisions will be recalculated as at the Effective Date.
I have considered FUL’s actual claims experience since the Scheme Report compared to the expected experience at that time, at a class of business level. Overall, the actual experience has been better than that expected, but I note that the volume of claims has not been large enough to draw any firm conclusions.

Part of the growth in the provisions for FIID is as a result of new classes of business being written including Surety and Energy. The largest new class is the Surety business, which includes Irish and Swedish risks focusing on the construction industry and public sector bodies. Other new classes have been written, however they are relatively small and expected to remain so up to the Effective Date.

Much of the business written to date has been Title insurance which is long-tailed and is exposed to volatile claims experience. The new classes bring diversification benefits and potentially a more stable portfolio. Given this, I have concluded that the writing of these new classes of business does not affect my conclusions.

In Section 3.2, we have considered the impact of the growth on the capital requirements of FUL and FIID at the point of the Proposed Transfer and for the two years after that by examining forecasts provided by FUL and FIID.

**Calculation of technical provisions**

In my Scheme Report, I raised a point about the calculation and modelling of the Solvency II technical provisions (TPs). FUL was including the full estimated premium income for binders rather than just the income that FUL was legally committed to write, as required by the Solvency II rules for calculating TPs. FUL has provided updated data which shows only the committed income is now included in the calculation and modelling of TPs.

FUL has confirmed that, other than this point, the approach and basis of calculating the booked provisions or Solvency II TPs has not changed since the Scheme Report. I am therefore satisfied the Solvency II TPs are now calculated appropriately.

**Conclusion**

I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that an appropriate level of provisions will be maintained for both the transferring and non-transferring policies and that, as such, policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer.
3.2. Step 2: Assessing the capital positions of FUL and FIID

My overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for both non-transferring and transferring policyholders;
- whether there are expected to be any material adverse changes in the strength of capital protection for either group of policyholders (I have assessed this by comparing the projected SCR coverage ratios pre- and post- the Proposed Transfer); and
- whether any other aspects of the capital considerations may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 6 of the Scheme Report.

Projected SCR coverage ratios

The following tables set out the projected SCR and coverage ratios, prepared by FUL, for FUL and FIID pre- and post- the Proposed Transfer. The projections include expected future growth up to the Effective Date.

**FUL – SCR and coverage ratio pre- and post- the Proposed Transfer**

<table>
<thead>
<tr>
<th>$m</th>
<th>Pre-Transfer</th>
<th>Post-Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pre-Transfer</td>
<td>Post-Transfer</td>
</tr>
<tr>
<td>Total own funds</td>
<td>196</td>
<td>196</td>
</tr>
<tr>
<td>eligible to meet SCR</td>
<td>152</td>
<td>143</td>
</tr>
<tr>
<td>SCR</td>
<td>152</td>
<td>143</td>
</tr>
<tr>
<td>SCR coverage ratio</td>
<td>129%</td>
<td>137%</td>
</tr>
</tbody>
</table>

*Source: FUL*

*Corresponding table in the Scheme Report is within section 6.10*

**FIID – SCR and coverage ratio pre- and post- the Proposed Transfer**

<table>
<thead>
<tr>
<th>$m</th>
<th>Pre-Transfer</th>
<th>Post-Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pre-Transfer</td>
<td>Post-Transfer</td>
</tr>
<tr>
<td>Total own funds</td>
<td>35</td>
<td>32</td>
</tr>
<tr>
<td>eligible to meet SCR</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>SCR</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>SCR coverage ratio</td>
<td>180%</td>
<td>157%</td>
</tr>
</tbody>
</table>

*Source: FUL*

*Corresponding table in the Scheme Report is within section 6.10*

The projected pre-transfer own funds and SCR for FUL have decreased since the Scheme Report. The SCR and own funds are projections as at the date of transfer.
Since the Scheme Report, the expectations of growth for FUL in the period up to the transfer have reduced. A key driver of this is that FUL has written less business than expected since producing projections for the Scheme Report.

FUL also received a $10m capital injection from FIHL on 17 December 2018 which increased the SCR coverage of FUL. FUL remains “adequately-capitalised” pre- and post-Transfer.

FIID’s own funds reduce post-transfer. I have reviewed the key drivers of this reduction and am satisfied regarding the rationale for the reduction.

FIID’s initial SCR coverage ratio falls as the FUL business transfers in, but FIID remains “well-capitalised” and at the level that the initial level of capitalisation targeted post-Transfer. Given this, I am satisfied the existing or non-transferring FIID policyholders are not materially adversely affected by the timing of the capitalisation of FIID.

In my Scheme Report, I reviewed in detail the approach taken to calculate the SCR for FUL and FIID. I have reviewed and challenged the updated figures provided and am satisfied these are appropriate and reflect an additional three months of growth for FUL.

I have also reviewed projections of SCR coverage over the two years following the Proposed Transfer. Both FUL and FIID are projected to remain “adequately-capitalised”. Therefore, I am satisfied that neither FUL nor FIID will breach their SCR prior to the Effective Date.

**Stress tests**

Solvency II regulations require that insurers produce an Own Risk and Solvency Assessment (ORSA) on an annual basis. Since the Scheme Report, FIID has produced an updated ORSA dated July 2018.

The updated ORSA contains 21 stress tests: 10 individual catastrophe event stress tests, 9 business plan stress tests and 2 reverse stress tests. The catastrophe stress tests are specific and there is one for each of the 10 classes of business written.

The purpose of the stress tests is to consider how FIID would respond to a range of potential challenges to the business plan – eg to consider how well capitalised FIID would remain after a large catastrophe event.

I have reviewed the stress tests within the updated ORSA to understand the impact of these on the SCR and coverage ratio of FIID. FIID has included additional stress tests in the updated ORSA to cover the new classes of business written.

Following a review of the scenarios in the updated ORSA, I am satisfied these represent scenarios that are unlikely to occur.
In my Scheme Report, I reviewed the appropriateness of the Standard Formula as the method of calculating SCR for FUL and FIID. Following a review of these new scenarios, I believe the Standard Formula remains appropriate to calculate the SCR for FUL and FIID.

In scenarios where the SCR coverage is reduced, FIID would request additional capital from the Fidelis Group in order to restore the SCR coverage ratio. The scenarios below reflect the outcome if this injection of capital was not received.

- **Catastrophe stress tests.** For each class of business, FIID has considered a catastrophe loss for an event with an estimated 1 in 100 return period – ie, an event of that magnitude would be expected once every 100 years. For example, this includes a maximum loss on a marine tanker or energy platform. The cost of these to FIID ranges from $0.75m to $9.4m depending on the class of business. This would reduce the SCR coverage ratio by between 4 and 56 percentage points from 161% to between 105% and 157%. While a large reduction in SCR coverage is possible under these scenarios, FIID is expected to remain “adequately-capitalised.”

- **Business plan stress tests.** These consider volumes of business being higher or lower than expected, higher loss ratios and higher expense ratios (for example, one of the tests assumes that 2019 losses are 50% higher than the business plan). While some of these scenarios would cause SCR coverage to fall, it is expected to remain “adequately-capitalised” in each scenario.

- **Reverse stress tests.** A reverse stress test is a scenario which FIID believe would make the business unviable. The most severe reverse stress test is as a result of FIHL receiving a rating downgrade. FIID have assumed that this would lead to a large number of policyholders cancelling their policies immediately due to a rating downgrade clause and have concluded that there would be sufficient capital available to allow FIID to enter an orderly run-off of remaining liabilities.

I am satisfied the results of these stress tests do not affect my conclusions reached in the Scheme Report.
Conclusion

There have been no changes to the approach to calculating the SCR since the Scheme Report. While the SCR coverage ratios have changed, as a result of the Proposed Transfer, the SCR coverage ratio is expected to increase for both non-transferring FUL policyholders and transferring FUL policyholders.

FIID’s initial SCR coverage ratio falls as the FUL business transfers in, but FIID remains “well-capitalised” and at the level that the initial level of capitalisation targeted post-Transfer.

I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

The projected capital requirements for FUL and FIID have been calculated appropriately for both non-transferring and transferring policies.

Following the Proposed Transfer, I do not expect there to be any materially adverse changes in the strength of capital protection for either group of policyholders.

3.3. Step 3: Assessing overall policyholder security

My overall assessments related to policyholder security are:

- whether the likelihood of valid policyholder claims being paid is maintained following the Proposed Transfer for both non-transferring and transferring policyholders; and

- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 7 of the Scheme Report.
US GAAP balance sheet projections

The following table shows an estimate of the US GAAP balance sheet pre- and post- the Proposed Transfer.

<table>
<thead>
<tr>
<th></th>
<th>FUL Day 0 Pre-Transfer</th>
<th>FUL Day 1 Post-Transfer</th>
<th>FIID Day 0 Pre-Transfer</th>
<th>FIID Day 1 Post-Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments and cash</td>
<td>273</td>
<td>269</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Deferred acquisition costs</td>
<td>43</td>
<td>34</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Reinsurers recoverables</td>
<td>62</td>
<td>59</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Ceded unearned premium reserve</td>
<td>250</td>
<td>226</td>
<td>5</td>
<td>45</td>
</tr>
<tr>
<td>Insurance and intermediaries receivables</td>
<td>260</td>
<td>235</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Any other assets, not shown elsewhere</td>
<td>4</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>892</strong></td>
<td><strong>827</strong></td>
<td><strong>45</strong></td>
<td><strong>118</strong></td>
</tr>
<tr>
<td>Technical provisions</td>
<td>88</td>
<td>82</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Unearned premium reserve</td>
<td>469</td>
<td>421</td>
<td>5</td>
<td>53</td>
</tr>
<tr>
<td>Reinsurance payables</td>
<td>143</td>
<td>132</td>
<td>3</td>
<td>22</td>
</tr>
<tr>
<td>Any other liabilities, not shown elsewhere</td>
<td>17</td>
<td>17</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>717</strong></td>
<td><strong>651</strong></td>
<td><strong>10</strong></td>
<td><strong>83</strong></td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td><strong>175</strong></td>
<td><strong>175</strong></td>
<td><strong>35</strong></td>
<td><strong>35</strong></td>
</tr>
</tbody>
</table>

*Source: FUL, FIID*

*Corresponding table in the Scheme Report is within section 7.2*

Collateralised intra-group reinsurance

Policyholder security for the transferring policyholders is to be provided through a combination of assets held within FIID itself and security provided by FIBL. The security provided by FIBL is a significant IGR arrangement – a quota share arrangement (covering 85% of FIID’s business) which is collateralised to help protect FIID policyholders in the event of FIBL becoming insolvent.

FUL currently benefits from a similar quota share arrangement with FIBL (covering 50% of FUL’s business). All else being equal, this change from 50% to 85% means the security provided to transferring policyholders will become more reliant on FIBL.

All else being equal, this increased reliance on FIBL increases FIID’s counterparty and concentration risks. To help mitigate these risks, FIID and FIBL have agreed to collateralise this reinsurance.

There are seven identified risks that are due to transfer that have potential losses in excess of FIID’s risk appetite. FIID has entered into a surplus lines treaty (a form of
proportional reinsurance agreed for specific policies) with FIBL to cover the excess risk above FIID’s risk appetite. This reinsurance contract can be extended to cover any other potential risks that would otherwise breach FIID’s risk appetite.

The collateralisation of the IGR provides additional protection for FIID policyholders as collateral of more than FIBL’s obligations under the contract is placed into trust for the benefit of FIID. The amount of collateral is calculated every three months by FIID on the basis of 111% of the obligations under the IGR and collateral must be placed into the trust within 45 days of the valuation date.

Any collateral placed in the trust must be in a form that is acceptable to FIID. Any non-cash collateral placed in the trust is not given full credit. The credit given ranges from 80% to 97%, depending on the credit rating of the asset, as specified in the reinsurance contract.

There are also limitations in place on the securities that can form the collateral and no asset is admissible unless it is rated at least BBB and no more than 30% of the collateral can be placed in BBB rated assets. In the event of a rating downgrade of an individual asset in the trust, FIBL must replace the asset within 45 days with an admissible asset.

There have been two changes to the IGR contract since the Scheme Report which enhance the protection provided to FIID. The threshold for a material loss for which FIID can request immediate settlement of reinsured losses has reduced. Also, the number of days FIBL has to make full payment of material losses has reduced.

FUL has engaged a third party to assist with the pricing of the terms of the IGR contract. The results of this work and the supporting analysis fed into the IGR which was finalised in December 2018. The third party will, in addition to this support, prepare OECD-compliant transfer pricing documentation by the end of March 2019 in respect of the IGR in order to satisfy the arm’s length principle under transfer pricing requirements in Ireland and the UK. The scope for this documentation is in line with market practice.

I have concluded that the increased reliance on FIBL is unlikely to materially adversely affect the transferring policyholders due to the collateral in place and the financial strength of FIBL.

**Parental guarantee provided by FIHL**

FUL policyholders currently benefit from a parental guarantee from FIHL. To help ensure no policyholders are disadvantaged by the Proposed Transfer, FIHL has provided a guarantee to FIID on equivalent terms to that provided to FUL.

FIHL is rated A- (Excellent) by A.M. Best Company, Inc. As FIHL has been trading less than five years, this is the highest credit rating available. The guarantee is provided by
the ultimate parent entity of the Fidelis Group, which means that the entire group’s assets are available to be used to honour the guarantee.

I have analysed the parental guarantee and am satisfied the terms are in line with those in place for FUL. The key points of this arrangement are:

- The guarantee requires FIHL to pay the relevant debt of FIID within 10 business days in the currency requested;
- FIHL cannot make any deduction or set off amounts owed by FIID unless required to do so by law;
- The guarantee automatically renews, to avoid gaps in the coverage.

**Loss of access to the Financial Services Compensation Scheme (FSCS)**

A number of policyholders currently have access to the FSCS as a result of FUL being a UK based insurer. Following the Proposed Transfer, as FIID is an Ireland based insurer, this group of policyholders will lose access to FSCS. This is a deterioration of the ultimate protection to these transferring policyholders.

At the time of the Scheme Report, FUL estimated up to 43 of the 300 transferring policies may lose access to the FSCS. Based on the updated analysis of transferring policyholders, FUL believe 58 of the 701 transferring policies will lose access to the FSCS.

For policyholders to be adversely affected by the loss of access to the FSCS, FIID would need to become insolvent. The parental guarantee from FIHL means that for FIID to become insolvent, in practice the collateral available to them under the IGR would need to be exhausted and FIHL would also need to become insolvent. I concluded in the Scheme Report this event is very unlikely and, therefore, it is very unlikely this group of policyholders will be materially adversely affected.

**Loss of access to the Financial Ombudsman Service (FOS)**

A number of policyholders currently have access to the FOS as a result of FUL being a UK based insurer. Following the Proposed Transfer, as FIID is an Ireland based insurer, this group of policyholders will lose access to the FOS. In Ireland, a similar scheme is in place through the Financial Services and Pensions Ombudsman (FPSO) with a wider scope so some transferring policyholders may gain access to the FPSO where they previously didn’t have access to the FOS.

FIID undertook within the documents submitted to the Court for the Directions Hearing to comply with the FCA rules (set out in DISP, the Dispute Resolution: Complaints part of the FCA Handbook). These apply to the handling of complaints brought to the FOS and any award or direction made or given by the FOS, relating to acts or omissions prior to the Effective Date.
Given policyholders will retain FOS protection prior to the Proposed Transfer and may benefit from FPSO protection after the Proposed Transfer I have, therefore, concluded the policyholders losing access to FOS are not disadvantaged.

FIID credit rating

FIID has a credit rating of A- from A.M. Best. This was confirmed on 13 December 2018.

Conclusion

There have been no changes to the Proposed Transfer that materially affect the likelihood of policyholders receiving payments due on their claims or reduce the security provided to the policyholders since the Scheme Report. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that it is very unlikely that the security provided to the transferring FUL policyholders will be materially adversely affected by the Proposed Transfer.

I have concluded that the security provided to the non-transferring FUL and existing or non-transferring FIID policyholders will not be materially adversely affected by the Proposed Transfer.

3.4. Step 4: Assessing policyholder communications

The assessments related to the communication plan were considered in section 8 of the Scheme Report.

Communications plan

I have provided a summary of the current status of the communications plan and responses received in section 1 of this report. This is in line with FUL’s original communications plan.

In addition to the planned communications, FUL has received a number of requests from EEA regulators to publish additional notices and write to specific policyholders. FUL intend to comply in full with all such requests.

FUL has also written to all transferring policyholders with details of the changes to the Sanctions Hearing date and the Effective Date.

Objections

The key aspect of the update on policyholder communications is for me to consider any objections received to the Proposed Transfer. As of 11 March 2019, no objections have been received to the Proposed Transfer.
FUL has written to all external reinsurers to inform them of the Proposed Transfer. In addition, the external reinsurance has been endorsed to include FIID as a Reinsured. No objections have been raised by the reinsurers of the transferring business.

**Conclusion**

The communications plan has been executed as set out in the Scheme Report and no objections to the Proposed Transfer have been received. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

*I have concluded the planned communications strategy will ensure adequate coverage of affected parties. FUL was granted a number of dispensations from communicating to some affected parties at the Directions Hearing. I concluded that these were appropriate prior to the Directions Hearing.*

*I have also concluded that the planned communication is sufficiently clear for policyholders to understand the effects of the Proposed Transfer.*

**3.5. Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders**

The assessments related to the customer service and other considerations were considered in section 9 of the Scheme Report.

FIID intends to enter into new additional non-UK EEA binders with each of the current Managing General Agent (MGA) partners. They have considered a number of options as part of their contingency planning, but all options will provide continuity of service regarding risks placed through MGAs. Options under consideration include maintaining current delegated authority through any transitional period, introducer relationships or through an existing European presence for some MGAs.

**Conclusion**

Since the Scheme Report, there have been no changes to the Proposed Transfer that affect my analysis on customer service and other aspects of the Proposed Transfer. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

*I have concluded that no material impact on service standards (or any other considerations within this section of the report) is expected following the Proposed Transfer.*
4. Conclusions and Statement of Truth

I have considered the Proposed Transfer and its likely effects on the non-transferring policyholders of FUL, the policyholders transferring to FIID, the FIID policyholders and the transferring reinsurers.

In reaching the conclusions set out below, I have applied the principles as set out in relevant professional guidance, being the Technical Actuarial Standards (TASs) TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance.

I have concluded that:

- The security provided to both FUL and FIID non-transferring policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for non-transferring policyholders following the Proposed Transfer.

- It is very unlikely that the security provided to transferring policyholders will be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for transferring policyholders following the Proposed Transfer.

- Reinsurers of FUL who provide cover for the transferring business will not be materially affected by the Proposed Transfer.
4.1. IE duty and declaration

My duty to the Court overrides any obligation to those from whom I have received instructions or paid for this Report. I confirm that I understand my duty to the Court and I have complied with that duty.

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.

I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Protocol for Instruction of Experts to give Evidence in Civil Claims.

4.2. Sign-off

Stewart Mitchell FIA  
Partner  
11 March 2019

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The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with Fidelis Underwriting Limited. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Scheme Report, which is our work, has been prepared for the purpose of accompanying the application to the Court in respect of the insurance business transfer scheme described in this report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Scheme Report is not suitable for any other purpose.

A copy of the Scheme Report will be sent to the Prudential Regulatory Authority, the Financial Conduct Authority and will accompany the Scheme application to the Court.

This work is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Scheme Report for any other purpose other than that set out above.

Professional Standards

Appendix 1 – Summary of data provided

The following is a list of the key data items I have requested and received, or accessed directly, in assessing the Proposed Transfer. I continue to also rely on all data items received that are listed in Appendix 4 of the Scheme Report. All data I have requested has been provided to me. FUL has provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

1. Draft Court and regulatory documents prepared by FUL for the Proposed Transfer, including:
   - Witness statements for FUL (dated February 2019)
   - Witness statement for FIID (dated February 2019)
   - Scheme Document (dated February 2019)
   - Final Directions Order (dated February 2019)

2. Responses and objections from stakeholders to the Proposed Transfer
   - Various summary updates (latest dated March 2019)

3. Documents relating to provisions and reserving processes, including:
   - Summary of provisions as at 30 September 2018
   - Confirmation of no changes to reserving process (February 2019)

4. Documents relating to capital and related processes, including:
   - Updated FIID ORSA (dated July 2018)
   - FUL and FIID capital projections (dated February 2019)

5. Other evidence prepared by FUL to support the Proposed Transfer, including:
   - Final quota share and collateral arrangements between FIID and FIBL
   - Deed of guarantee between FIHL and FIID (dated 23 October 2018)
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