Report by Simon Sheaf FIA, Independent Expert, on the Proposed Transfer of a Portfolio of Policies from The Britannia Steam Ship Insurance Association Limited to The Britannia Steam Ship Insurance Association Europe

16 September 2020

Contents

1 Introduction

1.1 Insurance business transfers in the United Kingdom are subject to Part VII of the Financial Services and Markets Act 2000, as amended (“FSMA”). These transfers are required to be approved by the High Court of England and Wales (the “Court”) (or the Court of Sessions in Scotland) under Section 111 of FSMA. Such transfers are often referred to as Part VII transfers.

1.2 Section 109 of FSMA requires that a scheme report must accompany an application to the Court to approve an insurance business transfer scheme. This scheme report should be produced by a suitably qualified independent person (“Independent Expert”) who has been approved by or nominated by the Prudential Regulation Authority (“PRA”) in conjunction with the Financial Conduct Authority (“FCA”). The scheme report should address the question of whether any policyholders impacted by the proposed insurance business transfer are adversely affected to a material extent.

1.3 The Britannia Steam Ship Insurance Association Limited (“BSIAL”) and The Britannia Steam Ship Insurance Association Europe (“BSIAE”) have jointly nominated Simon Sheaf ("I", "me") of Grant Thornton UK LLP ("Grant Thornton", "we", "us") to act as the Independent Expert for the proposed insurance business transfer ("the Scheme") of the insurance business of BSIAL to BSIAE. The Scheme is intended to be effected on 20 February 2021 ("the Initial Effective Date").

1.4 This nomination has been approved by the PRA in consultation with the FCA.

1.5 The terms of my engagement are set out in a letter dated 11 April 2019. An extract of this letter setting out the scope of my work is included in Appendix F.

1.6 BSIAL will be bearing the costs of producing this report.

Background to the Scheme

Background to BSIAL

1.7 BSIAL is a UK regulated mutual non-life insurance company which is authorised by the PRA and regulated by the PRA and the FCA. BSIAL is a Protection and Indemnity (“P&I”) club and a member of the International Group of P&I Clubs. BSIAL underwrites two classes of business: P&I and Freight Demurrage and Defence (“FD&D”). BSIAL predominantly writes business outside of the EEA (“Non-EEA”) but a significant portion of BSIAL’s tonnage is within the EEA (“EEA”).

Background to BSIAE

1.8 BSIAE is a recently established mutual insurance company domiciled in Luxembourg. BSIAE has been authorised to conduct insurance business by the Luxembourg insurance regulator, the Commissariat aux Assurances ("CAA"). Prior to the Initial Effective Date, no policies are expected to be underwritten by BSIAE.

The Britannia Group

1.9 BSIAL and BSIAE are both subsidiaries of a recently established holding company incorporated in the UK, The Britannia Steam Ship Insurance Association Holdings Limited (“Britannia Holdings”). In this report, I refer to Britannia Holdings, BSIAL, BSIAE and their respective branches, subsidiary and dedicated reinsurers (where relevant) as “the Britannia Group”. Section 5 of this report gives a detailed explanation of the definition of the Britannia Group for each of the relevant reporting bases.

The Scheme

1.10 Under the Scheme, insurance business underwritten by BSIAL through its branches in Japan, Hong Kong and Singapore (together known as “BSIAL’s Branches”) will be allocated to branches of BSIAE to be established in those respective countries (together known as “BSIAE’s Branches”). I understand from BSIAL that the intention is for this business (collectively, “the Branch Business”) to transfer to BSIAE on the Initial Effective Date of the Scheme, but that there is a possibility that one or more of BSIAE’s Branches will not be approved by the Initial Effective Date. If this is the case, the business in the affected branch or branches will still form part of the Scheme but will be transferred at a later date. The dates on which the respective subsets of the Branch Business will be transferred to BSIAE are therefore referred to in this report as “the Japan Branch Transfer Date”, “the Hong Kong Branch Transfer Date” and “the Singapore Branch Transfer Date”, respectively. At the date of this report, the expectation is that only the Japan Branch Transfer Date will fall after the Initial Effective Date.

1.11 The Branch Business is considered to form part of the Scheme on the basis that the Japan Branch Transfer Date, the Hong Kong Branch Transfer Date and the Singapore Branch Transfer Date all fall prior to 20 February 2022, “the Longstop Date”.

1.12 All other business underwritten by BSIAL on or before the Initial Effective Date will transfer to BSIAE and be allocated to a newly established UK-based branch of BSIAE (known as “BSIAE’s UK Branch”) on the Initial Effective Date.

1.13 The subsets of BSIAL’s business described above in paragraphs 1.10 to 1.12 are the subject of the Scheme and together form “the Transferring Portfolio”.

1.14 I understand from BSIAL that it is required by local regulators in Singapore and Hong Kong to carry out separate insurance business transfer schemes, collectively “the Branch Schemes”, in respect of the business written by BSIAL in these territories, as the Scheme is not recognised in those jurisdictions.

1.15 Following the Scheme, assuming that the Branch Schemes were approved ahead of the Initial Effective Date and that all of BSIAE's Branches were approved ahead of the Longstop Date (failing which the relevant business will, as explained below, remain in BSIAL and continue to be underwritten by BSIAL), all new general insurance business and renewals that would previously have been underwritten by BSIAL will instead be underwritten by BSIAE.

1.16 As a result of paragraph 1.8, BSIAE is not expected to have any policyholders prior to the Scheme. Further, as a result of paragraphs 1.10 to 1.15, assuming that the Branch Schemes were approved ahead of the Initial Effective Date and that all of BSIAE's Branches were approved ahead of the Longstop Date, BSIAL will not have any policyholders following the Scheme and will seek to have permissions removed as soon as the final assets and liabilities have transferred to BSIAE.

Layout of this report

1.17 My report is structured as follows:

- This section sets out an introduction to the Scheme and to this report
- Section 2 is an executive summary, which summarises the Scheme and the various analyses conducted, and describes my conclusions
- Section 3 sets out the scope of this report
- Section 4 provides a summary of the methodology I have employed in order to assess the Scheme
- Section 5 describes the background to the entities involved
- Section 6 describes the regulatory background
- Section 7 describes the work that I have carried out to assess the claims reserves of BSIAL and BSIAE
- Section 8 describes the work that I have carried out to assess the capital requirements of BSIAL and BSIAE
- Section 9 provides my assessment of the policyholder security considerations, including under insolvency
- Section 10 provides my assessment of other financial considerations
- Section 11 provides my assessment of other non-financial considerations
- Section 12 provides my assessment of the proposed communication strategy for the Scheme
- Section 13 sets out the reliances and limitations that apply to my analysis and this report
- Section 14 sets out my conclusions on the Scheme.

1.18 Appendices B and C to this report contain definitions of technical terms and explanations of abbreviations used in this report respectively.

Professional Experience

1.19 I am a Fellow of the Institute and Faculty of Actuaries ("IFoA"). I currently hold a Chief Actuary (Non-life with Lloyd's) Practising Certificate and a Lloyd's Syndicates Practising Certificate. In addition, I have previously held an Irish Signing Actuary Practising Certificate and have previously been recognised as a Responsible Actuary by the financial regulator in Liechtenstein.

1.20 I joined Grant Thornton's Financial Services Group as General Insurance Practice Leader in 2006. I am a partner in Grant Thornton and my current job title is Head of General Insurance Actuarial and Risk. I lead the provision of actuarial and risk consulting services to the general insurance sector. Prior to joining Grant Thornton, I held senior roles at Tillinghast – Towers Perrin (now part of Willis Towers Watson) and Travelers Insurance Company Limited.

1.21 I have experience in all areas of general insurance actuarial work (including reserving, capital, pricing, transactions, etc.). I have previously acted as Independent Expert for ten other sanctioned insurance business transfer schemes and I am currently acting as the Independent Expert for two other insurance business transfer schemes.

1.22 Full details of my experience can be found in Appendix E.

Independence

1.23 I have no financial interest in, nor have I previously advised in a professional capacity, BSIAL, BSIAE or the Britannia Group.

1.24 I do not believe that any of my previous professional assignments would impair my independence to act as the Independent Expert in relation to the Scheme.

Use of this report

1.25 The purpose of this report is to inform the Court of the likely effect of the Scheme upon policyholders. This report is not necessarily suitable for any other purpose.

1.26 This report is provided for the use of the Court, the BSIAL Board, the BSIAE Board, BSIAL's policyholders, the PRA, the FCA, the CAA and any other relevant regulator for the sole purpose of considering the impact of the Scheme on the affected policyholders. However, Grant Thornton does not accept any liability to any party other than BSIAL, BSIAE, or the Court who chooses to act on the basis of this report.

1.27 In addition, draft and final versions of this report may be distributed to BSIAL's legal advisers, BSIAE's legal advisers, and companies within the Britannia Group as necessary in connection with the transaction. Should this report be distributed to any of the entities listed in the previous sentence, no reliance should be placed on this report by these entities, and we do not assume any liability to these entities or any other third parties that choose to rely on this report. In addition, BSIAL shall be responsible for any confidentiality breach that arises from the distribution of this report to BSIAL's legal advisers, to companies within the Britannia Group or to any other entities to which it releases this report. Similarly, BSIAE shall be responsible for any confidentiality breach that arises from the distribution of this report to BSIAE's legal advisers, to companies within the Britannia Group or to any other entities to which it releases this report.

1.28 Copies of the final version of this report may be made available for inspection by policyholders and copies may be provided to any person requesting the same in accordance with legal requirements. The final version of this report may also be made available on a website hosted by BSIAL in connection with the Scheme.

1.29 I have prepared a summary of this report to be included in the information sent to policyholders ("the Summary Report").

1.30 Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare an update to this report covering any relevant matters which have arisen since the date of this report ("the Supplementary Report").

1.31 I consent to the final versions of my Summary Report and Supplementary Report being made available on the website to be hosted by BSIAL in connection with the Scheme.

1.32 However, as stated above, Grant Thornton does not accept any liability to any party other than BSIAL, BSIAE, or the Court who chooses to act on the basis of any of my reports.

1.33 Judgements about the conclusions drawn in this report should only be made after considering the report in its entirety as any part or parts read in isolation may be misleading.

1.34 The underlying figures in this report are calculated to many decimal places. In the presentation of the figures in the various tables, there may be reconciliation differences due to the effect of rounding.

Professional Guidance

1.35 As an Independent Expert reporting to the Court, I am required to act in accordance with Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Guidance for the Instruction of Experts in Civil Claims. Accordingly, this report is prepared for the assistance of the Court and I confirm that I understand my duty to the Court and have complied with that duty.

1.36 This report has been prepared under the terms of the Statement of Policy produced by the PRA in April 2015, namely "The Prudential Regulation Authority's approach to insurance business transfers" and the guidance set out in Chapter 18 of the Supervision Manual ("SUP18") contained in the FCA Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. In addition, this report has been prepared in accordance with the FCA's guidance paper entitled "The FCA's approach to the review of Part VII insurance business transfers".

1.37 In my opinion, this report has been produced in line with the requirements of the Technical Actuarial Standards ("TASs") issued by the Financial Reporting Council ("FRC"). In particular, this report has been prepared in accordance with TAS 100: Principles of Technical Actuarial Work and TAS 200: Insurance.

1.38 This report has also been produced in line with the requirements of APS X3: The Actuary as an Expert in Legal Proceedings produced by the Institute and Faculty of Actuaries.

1.39 In addition, this report has been internally peer reviewed in line with the requirements of APS X2: Review of Actuarial Work, issued by the Institute and Faculty of Actuaries.

1.40 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 that I have expressed and conclusions that I have drawn represent my true and complete professional opinions on the matters to which they refer.

2 Executive Summary

Overview of the Scheme

2.1 This report considers the impact of the proposed transfer of the insurance business of BSIAL to BSIAE.

2.2 The purpose of the Scheme is to ensure that the Britannia Group retains the ability to service all of its policyholders following the UK's departure from the EU. The Britannia Group intends to service all of its policyholders from one insurance entity, rather than needing to maintain two separate entities, following completion of the Scheme.

2.3 The UK voted to leave the EU on 23 June 2016. On 29 March 2017, the UK officially notified the European Commission of its intention to withdraw from the EU and on 31 January 2020 the UK ceased to be a member of the EU. There are, however, transitional arrangements in place between the UK and the EU until 31 December 2020, under which BSIAL retains the ability to service its policyholders in the usual manner during this period.

2.4 As explained in paragraphs 1.10 to 1.16, all existing policyholders of BSIAL will be transferred to BSIAE as part of the Scheme and, assuming that the Branch Schemes were approved ahead of the Initial Effective Date and that all of BSIAE's Branches were approved ahead of the Longstop Date, BSIAL will not have any policyholders following the Scheme and will seek to have permissions removed as soon as the final assets and liabilities have transferred to BSIAE.

2.5 There are no existing policyholders of BSIAE and I understand from BSIAL that BSIAE is not expected to write any business prior to the Scheme, although it intends to start writing new business on the Initial Effective Date.

2.6 I understand from BSIAE that the CAA has given BSIAE permissions to write all the classes of business being transferred into it.

Background to the parties

2.7 BSIAL was established in 1855 under the name The Shipowners' Mutual Protection Society and is the world's oldest P&I club. In 1876, it incorporated as a limited company and underwent a name change to BSIAL.

2.8 BSIAL is a mutual association, and therefore is wholly owned by its members. It has operations worldwide, with BSIAL's insured portfolio largely mirroring worldwide tonnage with respect to age and type of vessel.

2.9 BSIAL underwrites business directly, as well as through its branches in Japan, Hong Kong and Singapore.

2.10 It is headquartered in London, authorised by the PRA and regulated by the PRA and the FCA.

2.11 It shares headquarters with Tindall Riley & Co Limited ("TRC") and a subsidiary of TRC, Tindall Riley (Britannia) Limited ("TR(B)"), both of which are appointed managers of BSIAL. TRC employs all BSIAL staff, except for in a small number of cases where local regulations require that staff be employed locally, in which case staff are employed by a local subsidiary of TRC. TRC makes available employees to its subsidiaries, including TR(B), via secondment agreements, to provide all required functions of BSIAL. BSIAL pays TR(B) a management fee for the provision of management and administration services.

2.12 Note that, where this report refers to information received from, or discussions held with, members of the Britannia Group, this wording is intended to include any information received from, or discussions held with, their respective appointed representatives.

2.13 BSIAE was established in November 2018 in Luxembourg and was authorised by the CAA to underwrite insurance business in December 2018.

2.14 BSIAE does not currently write any insurance business and has not written insurance business in the past. I understand from BSIAL that, prior to the transfer of BSIAL's business to BSIAE pursuant to the Scheme, BSIAE is not expected to have any existing policyholders or insurance liabilities.

2.15 As discussed in paragraph 1.15, following the Scheme, assuming that the Branch Schemes were approved ahead of the Initial Effective Date and that all of BSIAE's Branches were approved ahead of the Longstop Date, all new general insurance business and renewals that would previously have been underwritten by BSIAL through BSIAL's Branches will instead be underwritten by BSIAE through BSIAE's Branches. All other new business and renewals will be underwritten by BSIAE's UK Branch.

2.16 I understand from BSIAL that, on the Initial Effective Date of the Scheme, BSIAE will write a large number of policies, as this will be the renewal date for BSIAL's current membership.

My approach

2.17 My approach to assessing the likely effects of the Scheme on policyholders is to:

- Understand the nature and structure of the Scheme
- Identify the groups of policyholders that would be affected
- Assess the financial positions of the companies involved
- Consider the implications of the Scheme on the level of security provided to the affected policyholders
- Consider the potential impact on levels of customer service
- Consider other financial factors that might affect policyholders
- Consider other non-financial factors that might affect policyholders
- Consider the implications of the Scheme on reinsurers of the Transferring Portfolio
- Consider the strategy for notifying impacted policyholders and reinsurers about the Scheme.

2.18 In order to consider the effect of the proposed Scheme on each of the entities and groups of policyholders concerned, I have been provided with a range of published and internal documentation for BSIAL, BSIAE and the Britannia Group. A listing of the documents provided to me is shown in Appendix A.

2.19 I will issue a Supplementary Report based on the most up to date information available to me prior to the Court hearing at which the sanction of the Scheme is sought.

2.20 In forming my opinion, I have conducted a number of interviews with key personnel responsible for core functions in BSIAL and BSIAE and have also placed reliance on BSIAE's non-life insurance application submitted to the CAA.

2.21 In addition, I have placed reliance on estimates of the reserves in respect of each of BSIAL, BSIAE and the Britannia Group. In Section 7, I describe the information that I have relied on in relation to the reserves of BSIAL, BSIAE and the Britannia Group, and the analyses that I have undertaken to assure myself that it is reasonable to rely on that information.

2.22 Further to this, I have placed reliance on estimates of the capital required in respect of each of BSIAL, BSIAE and the Britannia Group. In Section 8, I describe the information that I have relied on in relation to the capital requirements of BSIAL, BSIAE and the Britannia Group and the analyses that I have undertaken to assure myself that it is reasonable to rely on that information.

2.23 In order to form an opinion based on this information, I have considered:

- The appropriateness of the methods used by each of BSIAL, BSIAE and the Britannia Group to calculate the estimates of capital requirements
- The appropriateness of the methods used by each of BSIAL, BSIAE and the Britannia Group to calculate the reserves for the Transferring Portfolio
- The absolute capital strength of the Britannia Group before and after the Scheme
- The relative capital strength of the two companies
- The absolute capital strength of each of the two companies.

Findings

2.24 The findings of my report are summarised in this section. The detailed explanation behind these conclusions follows in the body of this report.

2.25 I have identified four distinct groups of policyholders within the Transferring Portfolio which may be impacted by the Scheme:

- Those with policies underwritten by BSIAL's Japan branch on or before the Japan Branch Transfer Date. This group of policyholders, as well as the corresponding subset of BSIAL's business, are referred to interchangeably as "the Japan Branch Business".
- Those with policies underwritten by BSIAL's Hong Kong branch on or before the Hong Kong Branch Transfer Date. This group of policyholders, as well as the corresponding subset of BSIAL's business, are referred to interchangeably as "the Hong Kong Branch Business".
- Those with policies underwritten by BSIAL's Singapore branch on or before the Singapore Branch Transfer Date. This group of policyholders, as well as the corresponding subset of BSIAL's business, are referred to interchangeably as "the Singapore Branch Business".
- All other policyholders with a policy underwritten by BSIAL on or before the Initial Effective Date. This group of policyholders, as well as the corresponding subset of BSIAL's business, are referred to interchangeably as the "Non-Branch Business".

Policyholder security

2.26 Below, I set out my opinions on policyholder security. Evidence supporting these opinions is discussed in Sections 8 and 9 of this report.

Non-Branch Business

2.27 With respect to the Non-Branch policyholders, I do not expect any material adverse impact on policyholder security, including under insolvency, as a result of the Scheme. These policyholders would be moving to a company that I consider to have a sufficient level of capital in order to meet policyholder obligations.

2.28 Note that this conclusion extends to the scenario in which one or more of BSIAE's Branches are not approved before the Initial Effective Date, and therefore a subset of the Branch Business remains in BSIAL temporarily. It also extends to the scenario in which one or more of BSIAE's Branches are not approved before the Longstop Date, and therefore a subset of the Branch Business does not transfer under the Scheme.

Japan Branch Business

2.29 With respect to the Japan Branch policyholders, I do not expect any material adverse impact on policyholder security, including under insolvency, as a result of the Scheme. These policyholders would be moving to, or remaining in, a company that I consider to have a sufficient level of capital in order to meet policyholder obligations.

2.30 Note that this conclusion extends to the scenario in which one or more of BSIAE's Branches are not approved before the Initial Effective Date, and therefore a subset of the Branch Business remains in BSIAL temporarily. It also extends to the scenario in which one or more of BSIAE's Branches are not approved before the Longstop Date, and therefore a subset of the Branch Business does not transfer under the Scheme.

Hong Kong Branch Business

2.31 With respect to the Hong Kong Branch policyholders, I do not expect any material adverse impact on policyholder security, including under insolvency, as a result of the Scheme. These policyholders would be moving to, or remaining in, a company that I consider to have a sufficient level of capital in order to meet policyholder obligations.

2.32 Note that this conclusion extends to the scenario in which one or more of BSIAE's Branches are not approved before the Initial Effective Date, and therefore a subset of the Branch Business remains in BSIAL temporarily. It also extends to the scenario in which one or more of BSIAE's Branches are not approved before the Longstop Date, and therefore a subset of the Branch Business does not transfer under the Scheme.

Singapore Branch Business

2.33 With respect to the Singapore Branch policyholders, I do not expect any material adverse impact on policyholder security, including under insolvency, as a result of the Scheme. These policyholders would be moving to, or remaining in, a company that I consider to have a sufficient level of capital in order to meet policyholder obligations.

2.34 Note that this conclusion extends to the scenario in which one or more of BSIAE's Branches are not approved before the Initial Effective Date, and therefore a subset of the Branch Business remains in BSIAL temporarily. It also extends to the scenario in which one or more of BSIAE's Branches are not approved before the Longstop Date, and therefore a subset of the Branch Business does not transfer under the Scheme.

Levels of service

2.35 I do not anticipate any material changes to the level of service provided to any of the groups of policyholders following the Scheme.

2.36 Note that this conclusion extends to the scenario in which one or more of BSIAE's Branches are not approved before the Initial Effective Date, and therefore a subset of the Branch Business remains in BSIAL temporarily. It also extends to the scenario in which one or more of BSIAE's Branches are not approved before the Longstop Date, and therefore a subset of the Branch Business does not transfer under the Scheme.

Other financial and non-financial considerations

2.37 I do not expect any material adverse impact to any group of policyholders following the Scheme as a result of the other financial and non-financial factors considered.

2.38 The other financial factors that I have considered are:

- Investment strategy
- Liquidity position
- Implications of the Scheme on ongoing expense levels
- Pension arrangements
- Tax implications
- Impact of new business strategy
- Impact of other transfers
- Financial impact of COVID 19

2.39 The other non-financial factors that I have considered are:

- Regulatory jurisdiction
- Claims handling
- Policy administration
- Complaints
- Impact of EU referendum ("Brexit")
- Employers' Liability Tracing Office ("ELTO")
- Recognition of the Scheme in other jurisdictions
- Governance and management framework
- Ruling of Mr Justice Snowden on the proposed Part VII transfer of a book of in-payment annuities from The Prudential Assurance Company Limited to Rothesay Life Plc
- Non-financial impact of COVID 19
- The impact on policyholders should the Scheme not become effective
- The impact on policyholders should BSIAE's application to convert its UK Branch into a third country branch following the Scheme not be successful
- The impact of the Scheme on members' proprietary rights
- The impact on policyholders if one or more of BSIAE's Branches are not approved before the Longstop Date or if one or both of the Branch Schemes are not approved before the Initial Effective Date.

Impact on transferring reinsurers

2.40 I identify no reinsurers transferring from BSIAL to BSIAE that would be materially adversely affected by the Scheme.

Impact of notification strategy

2.41 I have also considered the strategy for notifying impacted policyholders and reinsurers about the Scheme and I believe that the proposed approach is proportionate and reasonable.

Conclusion

2.42 I conclude that I do not expect any group of policyholders or reinsurers to be materially adversely affected by the Scheme and therefore I see no reason why the Scheme should not proceed.

3 Scope

Purpose of this report

3.1 I am required as Independent Expert to consider the likely effects of the Scheme on policyholders, including whether the Scheme will result in material detriment to any policyholders affected by the Scheme, relative to their current situation. The purpose of this report is to set out my considerations. For the purposes of this report, policyholders include existing and future claimants.

Transfer of Branch Business

3.2 As discussed in paragraph 1.10, BSIAL currently writes some of its overseas business through BSIAL's Branches. BSIAE is currently in the process of seeking approval to establish BSIAE's Branches. The intention is for these to be approved before the Initial Effective Date of the Scheme, and that business currently underwritten by BSIAL's Branches will transfer to BSIAE, to be allocated to BSIAE's Branches, on the Initial Effective Date.

3.3 I understand from BSIAL that there is a possibility that one or more of BSIAE's applications to establish BSIAE's Branches may not be approved by the Initial Effective Date. In particular, I understand from BSIAL that it is currently looking unlikely that BSIAE's Japan Branch will be approved by the Initial Effective Date. In the event that one or more of BSIAE's Branches have not been approved by the Initial Effective Date, the business written by the respective branches of BSIAL will still form part of the Transferring Portfolio. However, it will remain in BSIAL temporarily, whilst the remainder of the Transferring Portfolio will transfer to BSIAE on the Initial Effective Date. Once each outstanding branch application is approved, the corresponding tranche of BSIAL's business will also be transferred to BSIAE.

3.4 The Branch Business is considered to form part of the Scheme on the basis that the Japan Branch Transfer Date, the Hong Kong Branch Transfer Date and the Singapore Branch Transfer Date all fall prior to the Longstop Date.

3.5 Throughout this report, I have considered the temporary impact of the Scheme on policyholders and reinsurers in respect of the Branch Business in the event that one or more of the Japan Branch Transfer Date, the Hong Kong Branch Transfer Date and the Singapore Branch Transfer Date falls later than the Initial Effective Date, but prior to the Longstop Date.

3.6 I understand from BSIAL that it is unlikely that one or more of the Japan Branch Transfer Date, the Hong Kong Branch Transfer Date and the Singapore Branch Transfer Date will fall later than the Longstop Date and therefore this report focuses on the scenarios in which all of the Branch Business transfers to BSIAE at some point prior to the Longstop Date. However, I have considered the implications of the scenario in which this is not achieved in Section 11 of this report.

3.7 I understand from BSIAL that it is required by local regulators in Singapore and Hong Kong to carry out separate insurance business transfer schemes, in respect of the business written by BSIAL in these territories, as the Scheme is not recognised in those jurisdictions. BSIAL expects the Branch Schemes to be approved by, and to become effective on, the Initial Effective Date and therefore does not anticipate these additional schemes having any bearing on the Scheme considered within this report. Therefore, I have included the policyholders covered by the Branch Schemes in my consideration of the Transferring Portfolio throughout this report, on the assumption that the Branch Schemes will have been approved by the Initial Effective Date. However, I have also considered the implications of the scenario in which one or both of the Branch Schemes are not approved by the Initial Effective Date in Section 11 of this report.

Policyholders and members affected by the Scheme

3.8 My report considers the effect of the Scheme on the Transferring Portfolio. BSIAE does not currently write any insurance business and has not written insurance business in the past. I understand from BSIAL that, prior to the Scheme, BSIAE is not expected to have any existing policyholders or insurance liabilities. As a result, I have not needed to analyse the impact of the Scheme on BSIAE's existing policyholders in this report.

3.9 I understand from BSIAL that, following the Scheme, assuming that all of BSIAE's Branches have been approved by the Longstop Date and therefore that the business of BSIAL's Branches has been transferred to BSIAE, BSIAL will not have any remaining policyholders, insurance liabilities or outwards reinsurance contracts. As a result, I have not needed to analyse the impact of the Scheme on BSIAL's remaining policyholders in this report.

3.10 I have not considered the impact of the Scheme on any policyholders that subsequently effect policies with either BSIAL or BSIAE.

3.11 As BSIAL and BSIAE are mutual insurers, my report also considers the effect of the Scheme on the proprietary rights of the members of BSIAL.

3.12 To aid my analysis and support my conclusions, I have considered the impact of the Scheme on the following subsets of the Transferring Portfolio separately, where necessary, throughout this report:

- the Japan Branch Business
- the Hong Kong Branch Business
- the Singapore Branch Business
- the Non-Branch Business

COVID 19

3.13 Between December 2019 and early 2020, a corona virus pandemic ("COVID 19") spread across the globe, resulting in widespread travel restrictions and requiring governments to introduce lock downs and social distancing measures, which persist to varying degrees at the date of this report.

3.14 COVID 19 has had a considerable impact on the day-to-day operations and risk profiles of many businesses and my expectation is that this will continue to be the case for the foreseeable future. As such, although the effects of COVID 19 are still emerging and the implications are not yet fully understood, I have considered the possible impact of COVID 19 on the Scheme throughout this report.

What is a material detriment to policyholders?

3.15 Material detriment in the context of this report means any material adverse effect on:

- the security of policyholders' contractual rights
- the levels of service provided to policyholders.

3.16 For the purposes of this report, a material adverse effect is defined as a negative change that is considered to have a material impact on policyholders. A material impact is one that could cause a policyholder to take a different view on the future performance of their policy.

3.17 When considering policyholder security these would include changes to the assets or liabilities of the association such that there was a shift in the probability of a policyholder's claim being paid substantially larger than that which would be observed through the day-to-day fluctuation of the value of assets in the association's investment portfolio, or from the reporting of a particularly large but not extreme claim.

3.18 In terms of non-financial impacts, an assessment of materiality is more subjective, but as an example a change in claims handling process that added a few hours to the claimant response time is probably not material, but if it added a few weeks then it could be, depending on the type of claim.

Reinsurers affected by the Scheme

3.19 I have also considered the impact of the Scheme on any reinsurers that provide protection to the Transferring Portfolio and will continue to provide protection to the Transferring Portfolio following the Scheme. A material adverse impact on a reinsurer is one that could cause the reinsurer to take a different view on the future performance of the reinsurance policies that it has written. A hypothetical example could be that the Scheme gives rise to a non-trivial additional exposure for the reinsurer.

Alternative schemes or proposals considered

3.20 I have considered the terms of the Scheme only and have not considered whether any alternative scheme, schemes or arrangement might result in a preferable outcome.

Exchange rates

3.21 The figures used throughout this report are shown in United States Dollars ("USD"). All of the information provided to me in respect of both BSIAL and BSIAE has been presented in USD.

Reliance on data

3.22 A summary of the data provided to me can be found in Appendix A.

3.23 I have not audited nor have I independently verified the data and information supplied to me. However, I have reviewed it for reasonableness and for internal consistency.

3.24 I have checked that all of the information I have been provided with has been supplied by persons appropriately qualified to provide such information and I am satisfied that it is reasonable for me to rely on this information.

3.25 I have been provided with all the information that I have requested.

Peer review process

3.26 In accordance with the Institute and Faculty of Actuaries' Actuarial Professional Standard ("APS") X2 on the Review of Actuarial Work and the internal control process of Grant Thornton, the work documented in this report has been peer reviewed by a suitably qualified person (an Actuary within my own firm who has considerable experience working in capital modelling and reserving in the general insurance market, as well as of Part VII transfers). The peer review process has included a review of the methodology and key assumptions used and discussion of the key elements of the analysis.

Supplementary Report

3.27 Shortly before the date of the final Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a Supplementary Report covering any relevant matters which might have arisen since the date of this report.

4 Methodology

4.1 In this section, I describe my approach to assessing the Scheme.

4.2 My conclusions have been drawn by undertaking the following activities:

- Review of documentation received from BSIAL, BSIAE, TRC and TR(B)
- Discussions with key personnel at BSIAL, BSIAE, TRC and TR(B)
- Undertaking my own analysis, where necessary.

4.3 In particular:

- My view on the insurance liabilities of BSIAL and BSIAE is based upon my review of the documentation provided to me by BSIAL and BSIAE and discussions with the relevant individuals at BSIAL and BSIAE.
- My view on the capital requirements and assessments for BSIAL and BSIAE is based upon my review of the calculations and documentation provided to me by BSIAL and BSIAE and discussions with the relevant individuals at BSIAL and BSIAE.

4.4 My approach to assessing the Scheme has been to:

- Understand the nature and structure of the Scheme and identify the groups of policyholders that would be affected
- Assess the financial positions of BSIAL and BSIAE
- Consider the implications of the Scheme for the level of security, including under insolvency, being offered to policyholders
- Consider the potential impact on levels of policyholder service
- Consider other factors that might affect policyholders
- Consider the implications of the Scheme in respect of any transferring reinsurance.

4.5 I provide additional details for each of the activities listed above in the remainder of this section.

Understand the nature and structure of the Scheme and identify the groups of policyholders that would be affected

4.6 I have discussed the nature and the structure of the Scheme with BSIAL and BSIAE and reviewed the relevant documentation that I have received.

Assess the financial positions of BSIAL and BSIAE

4.7 The level of security provided to policyholders of an insurance company depends on the available capital of the company and, in particular, the probability that this level of capital is sufficient to make claim payments as they fall due.

Assess the financial strengths of BSIAL and BSIAE

4.8 I have considered the balance sheets of BSIAL and BSIAE, on a regulatory basis, as part of my assessment of their relative financial strengths, including the net assets and level of capital.

4.9 I have compared the balance sheet of BSIAL prior to the Scheme with that of BSIAE following the Scheme, based on data as at 20 February 2020, being the most recent date at which financial information was available.

4.10 The financial strengths of BSIAL and BSIAE are discussed in Sections 7, 8 and 9 of this report.

Assess the claims reserves of BSIAL and BSIAE

4.11 An important part of the security provided to policyholders is the strength of the claims reserves - the amount of money the insurer will have to pay out on unpaid reported claims, unreported claims and future claims in respect of policies already sold. The claims reserves generally form the largest part of the liabilities for an insurer.

4.12 I have therefore considered the claims reserves included on the balance sheet for each of BSIAL and BSIAE. I have also considered the technical provisions on a Solvency II basis for each of BSIAL and BSIAE. This is discussed in Section 7.

Assess the capital positions of BSIAL and BSIAE

4.13 My assessment of the capital positions of BSIAL and BSIAE is discussed in Sections 8 and 9.

Regulatory capital requirements

4.14 Insurers are subject to capital requirements imposed by regulators, the PRA in the case of BSIAL and the CAA in the case of BSIAE. These capital requirements are discussed in more detail in paragraphs 6.5 to 6.8. The level of available capital compared to regulatory capital requirements is a measure of the security provided to the policyholders.

4.15 To further review the financial strength of BSIAL, BSIAE, and the Britannia Group, I have reviewed the modelling undertaken to assess the required regulatory capital.

4.16 I have also compared the coverage of the regulatory capital requirements prior to the Scheme with the coverage of the regulatory capital requirements following the Scheme for BSIAL, BSIAE and the Britannia Group, respectively, based on balances as at 20 February 2020, and also based on projections to 20 February 2021, the Initial Effective Date of the Scheme.

Own assessment of required capital

4.17 Insurers are also required to undertake an assessment of their own risks and solvency needs. Another measure of the security provided to policyholders is the level of available capital compared to the insurer's own view of required capital, which the Britannia Group refers to as its Economic Capital Benchmark ("ECB").

4.18 The Britannia Group measures economic capital at a group level, rather than at the insurance entity level. This is primarily because the Britannia Group makes use of dedicated reinsurance entities, and therefore considers that including these entities in the economic capital measure gives a more accurate representation of the risk profile of the business, as well as the capital resources available. More detail on the reinsurance arrangements of the Britannia Group, and on the ECB, are given in Sections 5 and 8, respectively.

4.19 I have reviewed the modelling undertaken by BSIAL and BSIAE to form a view on their estimates of the Britannia Group's ECB.

My testing

4.20 In addition, I have undertaken my own testing of the Britannia Group's regulatory and economic capital requirements to understand the robustness of the capital base of the Britannia Group.

Consider the implications of the Scheme for the level of security, including under insolvency

4.21 I have considered policyholders within the Transferring Portfolio both before and after the Scheme and the relative level of security available to them, including under insolvency. This is discussed further in Section 9.

Consider the potential impact on levels of customer service

4.22 I have considered how the level of customer service, specifically claims handling and policy servicing, experienced by policyholders within the Transferring Portfolio could change following the Scheme. This is discussed in paragraphs 11.6 to 11.18.

Consider other financial factors that might affect policyholders

4.23 Through my discussions with BSIAL and BSIAE and reviews of documentation, I have also considered various other financial factors that might affect policyholders, namely the following:

- Investment strategy
- Liquidity position
- Implications of the Scheme on ongoing expense levels
- Pension arrangements
- Tax implications
- Impact of new business strategy
- Impact of other transfers
- Financial impact of COVID 19.

4.24 These issues are discussed in Section 10 of this report.

Consider other non-financial factors that might affect policyholders

4.25 Through my discussions with BSIAL and BSIAE and reviews of documentation, I have also considered various other non-financial factors that might affect policyholders, namely the following:

- Regulatory jurisdiction
- Claims handling
- Policy administration
- Complaints
- Impact of UK withdrawal from the EU ("Brexit")
- Employers' Liability Tracing Office ("ELTO")
- Recognition of the Scheme in other jurisdictions
- Governance and management framework
- Ruling of Mr Justice Snowden on the proposed Part VII transfer of a book of in-payment annuities from The Prudential Assurance Company Limited to Rothesay Life Plc
- Non-financial impact of COVID 19
- The impact on policyholders should the Scheme not become effective
- The impact on policyholders should BSIAE's application to convert its UK Branch into a third country branch following the Scheme not be successful
- The impact on policyholders if one or more of BSIAE's Branches are not approved before the Longstop Date or if one or both of the Branch Schemes are not approved before the Initial Effective Date.

4.26 These issues are discussed in Section 11 of this report.

Consider the implications of the Scheme for transferring reinsurers

4.27 I have considered the implications of the Scheme on any reinsurers transferring as a result of the Scheme. This is discussed in paragraphs 10.20 to 10.22.

Consider the implications of the Scheme for members

4.28 I have considered the implications of the Scheme on the proprietary rights of any existing members of BSIAL. This is discussed in paragraph 11.66.

Consider the communication strategy

4.29 Through my discussions with BSIAL and BSIAE and reviews of documentation, I have also considered the communication strategy that they are planning to use to notify impacted policyholders, members and reinsurers about the Scheme.

4.30 These issues are discussed in Section 12.

5 Background

Background and purpose of the Scheme

5.1 The purpose of the Scheme is to ensure that the Britannia Group retains the ability to service all of its policyholders following the UK's departure from the EU ("Brexit").

5.2 BSIAL currently holds a passport to provide insurance in relation to risks located in EEA countries ("Freedom of Services Passport"). A key area of concern for BSIAL is the potential loss of insurance passporting rights following Brexit, as a significant proportion of its tonnage is comprised of risks within the EEA.

5.3 The UK voted to leave the EU on 23 June 2016. On 29 March 2017, the UK officially notified the European Commission of its intention to withdraw from the EU and on 31 January 2020 the UK ceased to be a member of the EU. There are, however, transitional arrangements in place between the UK and the EU until 31 December 2020, under which BSIAL retains the ability to service its policyholders in the usual manner during this period ("the Transition Period").

5.4 As the Initial Effective Date is several weeks after the 31 December 2020, I understand that BSIAL has communicated with regulators in the EEA countries in which it has policyholders, and intends to communicate further to establish the position as to any transition provisions which could be relevant to the servicing of policies between the end of the Transition Period and the Initial Effective Date. I will provide an update on any such transition provisions in my Supplementary Report.

5.5 The Scheme is designed to transfer all assets and liabilities corresponding to all insurance and reinsurance business from BSIAL to BSIAE.

Revision of group restructure

5.6 Between late 2018 and early 2019, the Britannia Group carried out a corporate restructure to ensure that it would retain the ability to transact insurance business and service insurance policies in the EEA following the UK's departure from the EU. This restructure comprised three key stages, described below.

1. A new insurance company, BSIAE, was established in Luxembourg in November 2018 and authorised to conduct insurance business by the CAA in December 2018. BSIAE will provide the Britannia Group with the ability to continue to write new and renewal business, service policies and settle claims from existing contracts throughout the EEA. BSIAE has a UK branch and is currently awaiting approval of the application to establish BSIAE's Branches. I understand from BSIAE that BSIAE's UK Branch has initially been set up under EEA passporting rights and that BSIAE will subsequently apply for it to become a third country branch following the Transition Period.
2. A holding company, Britannia Holdings, was established in the UK in November 2018. Britannia Holdings became the controlling member of BSIAL and BSIAE in March 2019, therein establishing the Britannia Group.
3. Finally, the ownership of BSIAL's reinsurance subsidiary, Universal Shipowners Marine Insurance Association Limited ("USMIA"), was rearranged such that, as of February 2019, it is now 50% co-owned by each of BSIAL and BSIAE.

Background to BSIAL

5.7 BSIAL was established in 1855 under the name The Shipowners' Mutual Protection Society and is the world's oldest P&I club. In 1876, it incorporated as a limited company and underwent a name change to BSIAL.

5.8 BSIAL is headquartered in London, authorised by the PRA and regulated by the PRA and the FCA.

5.9 BSIAL is a mutual association, and therefore is wholly owned by its members. BSIAL's membership is comprised of the following groups:

- External members:
  - every person whose application to enter a ship for insurance has been accepted
  - every person whose application for reinsurance has been accepted
- Internal members:
  - Current directors of BSIAL
  - Britannia Holdings

5.10 BSIAL has operations worldwide. It offers two types of cover to its policyholders with owned tonnage:

- P&I – This class covers the following risks for policyholders:
  - Loss of life, personal injury or illness to crew or any other person
  - Damage to property
  - Collision liability to vessels
  - Wreck removal
  - Pollution
  - Liability to cargo
  - Contracts of indemnity of guarantee
  - Unrecoverable General Average
  - Fines
- Freight, Demurrage and Defence ("FD&D") – This class provides cover to policyholders for the cost of legal representation and expert advice in relation to claims, disputes and other shipping matters.

5.11 Note that the FD&D class is predominantly sold to policyholders with owned tonnage as an add-on product to the P&I class but is managed as a standalone class within the Britannia Group.

5.12 P&I cover, FD&D cover and a number of additional covers are also provided to policyholders who charter vessels. These additional covers are as follows:

- Charterers' liability for damage to hull
- Charters' P&I war cover
- Bunkers insurance
- Loss of hire/freight cover
- Cargo owners' legal liability
- Cover for indemnities
- Through transit liability
- Extended through transit liability
- Consortium and/or slot charterers' liability
- Extended cargo liability.

5.13 BSIAL has approximately 250 members worldwide, including ship owners, operators and charterers, and insures around 3,500 vessels in total. Each vessel is considered its own policy and has its own schedule of insurance.

5.14 Over 99% of BSIAL's business is written directly with the insured, with the balance being inwards reinsurance cover.

5.15 BSIAL's insured portfolio largely mirrors worldwide tonnage with respect to age and type of vessel, however BSIAL does not insure cruise ships whilst covering a relatively higher proportion of container vessels. The majority of BSIAL's portfolio is made up of owned tonnage (72%) with a smaller proportion relating to chartered vessels (28%).

5.16 BSIAL has a small amount of asbestos liability exposure in relation to historic policies; 1952 is currently the oldest policy year which has an outstanding claim amount against it.

5.17 BSIAL shares headquarters with TRC and a subsidiary of TRC, TR(B), both of which are appointed managers of BSIAL. TRC generally employs all BSIAL staff, except for in a small number of cases where local regulations require that staff be employed locally, in which case staff are employed by a local subsidiary of TRC or, where required, by BSIAL or BSIAE. TRC makes available employees to its subsidiaries, including TR(B), via management agreements, to provide all required functions of BSIAL. BSIAL pays TR(B) a management fee for the provision of management and administration services.

5.18 BSIAL underwrites business with risks located in the UK, the EEA and across the world. The table below shows the split of owned tonnage by geographical area:

Table 5.1: Breakdown of BSIAL's P&I business by geographical area

	% of owned tonnage
Scandinavia	15%
Greece	10%
Rest of Europe	24%
China & Hong Kong	3%
Taiwan	8%
South Korea	9%
Japan	19%
Rest of Asia	6%
Americas	4%
Middle East	2%

5.19 Historically, BSIAL serviced business in locations worldwide through the use of exclusive correspondents, who acted as local representatives and provided a point of contact between shipowners and BSIAL. Over the last thirty years BSIAL has established overseas branches in order to improve its service to members. BSIAL has a long-standing branch in Japan and, more recently, has established branches in Hong Kong and Singapore.

5.20 BSIAL's Branches are responsible for underwriting and servicing risks in the following territories:

- BSIAL Japan branch: Japan only
- BSIAL Hong Kong branch: Hong Kong only
- BSIAL Singapore branch: the Association of Southeast Asian Nations, India and Australasia

5.21 In order to support this operating structure, TRC has established subsidiaries in Japan, Hong Kong and Singapore to provide administrative and management services to the respective branches of BSIAL.

5.22 BSIAL also services members through a network of exclusive correspondents in the following locations:

- North America
- South Korea
- Taiwan
- Spain.

5.23 BSIAL has one 50% owned subsidiary, USMIA, which is registered in Bermuda and regulated by the Bermuda Monetary Authority. The administration and management of USMIA is carried out by an independent management company, Marsh Management Services (Bermuda) Limited. The remaining 50% of USMIA is currently owned by BSIAE.

5.24 BSIAL is a member of the International Group of P&I Clubs (“IG”), which is an association comprised of thirteen P&I clubs. The primary function of the IG is the co-ordination and operation of the clubs’ claims pooling arrangements. Liabilities which exceed the individual club retention (“ICR”), which is currently set at $10m, are shared between all of the clubs in the IG under the IG pooling agreement. This agreement currently covers claims up to $100m, beyond which the IG collectively buys reinsurance at varying levels for different categories of claims (“the GEOL programme”). In addition, the IG provides a forum for sharing information on matters of concern to clubs and their members and provides a single voice for the clubs and their members to engage with governments, legislators and maritime regulators.

5.25 As a member of the IG, BSIAL participates in Hydra Insurance Company Limited (“Hydra”), a Bermuda-registered segregated cell company that is specifically used for settling pooled IG claims and is owned by the thirteen members of the IG. BSIAE is also a party to the IG Pooling Agreement, as a linked association of BSIAL.

5.26 BSIAL’s financial year, as is commonly the case for P&I clubs, runs from 12 noon on 20 February to 12 noon on the following 20 February. BSIAL receives the majority of its income as call income. This refers to the traditional approach to pricing business written by P&I clubs, whereby members are charged based on the amount of risk they are perceived to contribute to the club’s portfolio. Call income is received in instalments, with payment of a proportion of the call income being deferred until after the end of the policy year. BSIAL also writes a small amount of business on a fixed premium basis. BSIAL had total, gross of reinsurance, call and premium income for the year ending 20 February 2020 of approximately $201m.

The Transferring Portfolio

5.27 As explained in paragraph 3.12, the Transferring Portfolio consists of the following subsets of business:

- Business underwritten by BSIAL’s Japan branch on or before the Japan Branch Transfer Date, referred to as “the Japan Branch Business”
- Business underwritten by BSIAL’s Hong Kong branch on or before the Hong Kong Branch Transfer Date, referred to as “the Hong Kong Branch Business”
- Business underwritten by BSIAL’s Singapore branch on or before the Singapore Branch Transfer Date, referred to as the “Singapore Branch Business”
- All other business underwritten by BSIAL on or before the Initial Effective Date, referred to as the “Non-Branch Business”

5.28 The Transferring Portfolio will be transferred to BSIAE as follows:

- the Japan Branch Business will transfer to BSIAE and be allocated to BSIAE’s Japan branch on the Japan Branch Transfer Date
- the Hong Kong Branch Business will transfer to BSIAE and be allocated to BSIAE’s Hong Kong branch on the Hong Kong Branch Transfer Date
- the Singapore Branch Business will transfer to BSIAE and be allocated to BSIAE’s Singapore branch on the Singapore Branch Transfer Date
- The Non-Branch Business will transfer to BSIAE and be allocated to BSIAE’s UK Branch on the Initial Effective Date.

5.29 Any new business underwritten by the Britannia Group following the Scheme will be underwritten by BSIAE in accordance with the approach described above for the Transferring Portfolio. For example, any business which would historically have been written by BSIAL’s Japan branch will instead be written by BSIAE’s Japan branch following the Japan Branch Transfer Date.

5.30 Following the Scheme, there will be no policyholders remaining in BSIAL. As a result, I have not analysed the impact of the Scheme on BSIAL's remaining policyholders in this report.

5.31 The table below shows an analysis of the total P&I tonnage of BSIAL as at 20 February 2020 by type of tonnage, split between the two components of the Transferring Portfolio outlined above:

Table 5.2: Breakdown of BSIAL's P&I business by total tonnage as at 20 February 2020 (Millions of gross tonnes)

	Business to be allocated to BSIAE's UK Branch	Business to be allocated to BSIAE's Branches	Total BSIAL P&I tonnage
Owned	91.1	26.3	**117.5**
Chartered	43.6	1.4	**45.0**
Total	**134.7**	**27.8**	**162.5**

*Note, there is a small amount of tonnage which only holds FD&D cover, and is not included in the balances above

5.32 A breakdown of the reserves on a gross and net of reinsurance basis for the Transferring Portfolio is included in Section 7.

Reinsurance

5.33 BSIAL has extensive reinsurance coverage from a range of internal and external reinsurance programmes, which can be summarised into the following components, each of which is discussed, in turn, below:

- The IG
- Hydra
- Boudicca Insurance Company Limited ("Boudicca")
- USMIA
- Other reinsurances for owned tonnage
- Reinsurance for charterers' book.

5.34 It is expected that all of the reinsurances above will be transferred to BSIAE as part of the Scheme.

The IG

5.35 As mentioned above, the IG is an association of thirteen P&I clubs which pools claims of over $10m. Claims below $10m are retained by the individual P&I clubs and are referred to as "retention claims".

5.36 The cover provided to member clubs in respect of individual P&I claims is arranged into the following tranches:

- Lower Pool – covers $40m xs $10m. The total claims cost to this layer is shared between all thirteen members of the IG.
- Upper Pool – covers $50m xs $50m, however the claiming club retains 7.5% of the claims cost to this layer, so that only 92.5% of the claim is shared amongst the thirteen members of the IG.
- Excess of $100m, additional layers above the pool are placed in the open reinsurance market and cover claims up to a maximum limit of $3.1bn. The excess of loss reinsurance programme is arranged into the following layers:
  - Layer 1 – covers $650m xs $100m. An annual aggregate deductible ("AAD") of $100m is retained by the IG in respect of 70% of this layer. The remaining 30% of the layer is 100% covered between three reinsurance placements.
  - Layer 2 – covers $750m xs $750m
  - Layer 3 – covers $600m xs $1.5bn
- A further $1bn of reinsurance cover (the "Collective Overspill") is purchased by the IG to cover claims exceeding $2.1bn.

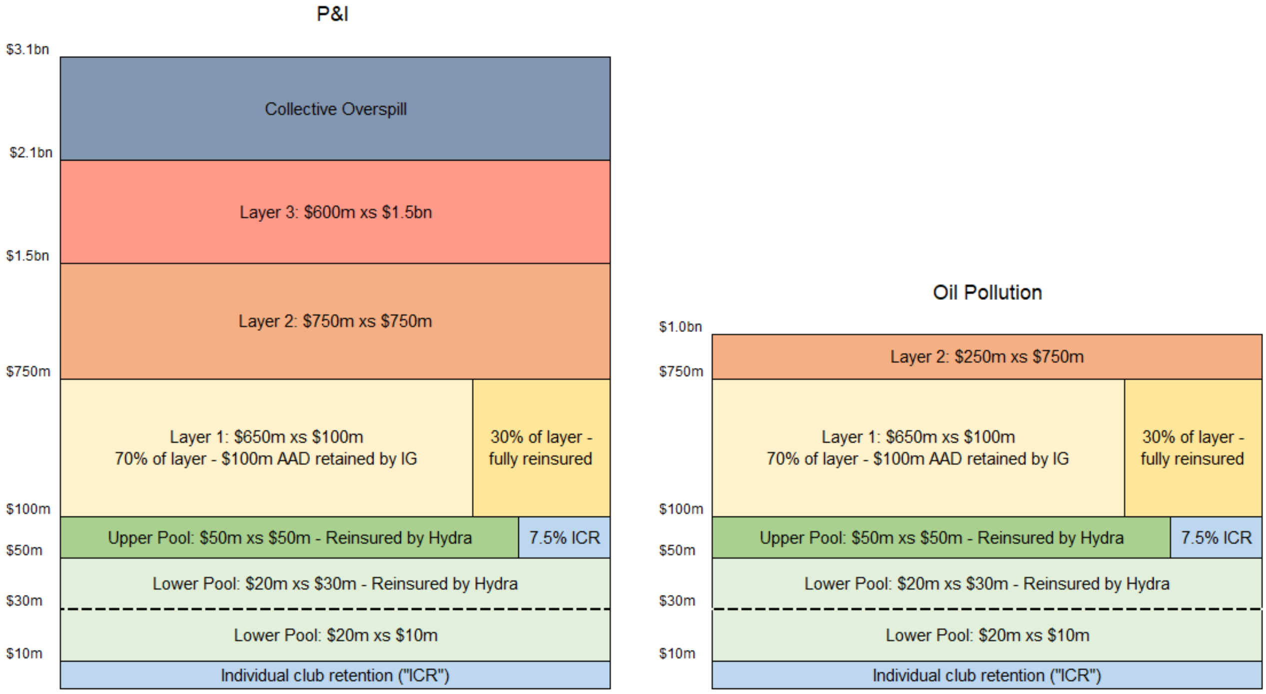
5.37 Claims in excess of $3.1bn are referred to as "Overspill Claims".

5.38 Each member club's share of IG pool claims is calculated as a function of its account tonnage, written premium and loss record, with contributions calculated differently for the various components of the pooling arrangement. For the policy year running from 20 February 2019 to 20 February 2020 the Britannia Group's blended contribution was approximately 7.2% of total costs to the IG.

5.39 The cover provided to IG member clubs in respect of oil pollution claims is very similar to the arrangement for P&I claims, except that Layer 2 of the reinsurance programme covers only $250m xs $750m, and $1bn represents the upper limit of cover for claims of this type.

5.40 The diagram below illustrates the structure of the pool and reinsurance cover provided to BSIAL as a member of the IG.

Figure 1: IG pool structure and reinsurance programme



Hydra

5.41 Hydra is a segregated cell company operated by the IG in which each of the thirteen member clubs has its own “cell” which serves as a captive reinsurer for the IG. A club’s cell contains assets and liabilities which are ring-fenced from those of the other clubs in the IG.

5.42 The Britannia Group’s Hydra cell serves to reinsure BSIAL’s retained proportion of the following claims, regardless of whether these originated from BSIAL or another member club of the IG:

- Lower Pool claims in relation to the sub-layer between $30m and $50m
- 92.5% of Upper Pool claims
- The AAD in relation to Layer 1 of the IG’s reinsurance programme.

Boudicca

5.43 Boudicca was established in 1997 to safeguard BSIAL against unexpectedly large individual claims or aggregations of claims, however Boudicca is owned by the Iceni Trust, a trust which is legally independent of the Britannia Group. The trustee of the Iceni Trust is appointed by the Protector Committee, which oversees the trustee and is made up of Directors of Britannia Holdings and individuals from the Members’ Representative Committee of Britannia Holdings. The role of the Protector Committee is to ensure that the trustee is carrying out its responsibilities, rather than to instruct Boudicca with its operations.

5.44 Boudicca is managed by an independent management company, Symphony Management Limited.

5.45 Boudicca is a Bermuda-registered reinsurer regulated by the Bermuda Monetary Authority, and provides reinsurance cover exclusively to BSIAL.

5.46 Boudicca's assets are held by an independent custodian and are subject to a security interest agreement which ensures that the assets cannot be dissipated to the detriment of the reinsurance contract with BSIAL.

5.47 Boudicca provides BSIAL with the following coverage on its P&I book (written into the contract terms):

- $7m xs $3m risk excess of loss cover - this applies only to retention claims, rather than BSIAL's contribution to IG pool claims and has an annual aggregate limit ("AAL") of $35m
- Funding
  - (i) to ensure the Britannia Group's Own Funds do not fall below the level of regulatory capital requirements, or
  - (ii) to ensure open and closed policy years are profitable
  - (iii) to meet losses from an Overspill Claim.
- Any excess (above an agreed excess point) of claims in any policy year. The excess point is $120.8m for the 2020/2021 policy year, which runs from 20 February 2020 to 20 February 2021.
- BSIAL's share of IG claims not covered by Hydra or the IG's reinsurance programme due to the failure of any of the reinsurers
- A percentage quota share of each policy year's claims (currently 4% for the 2020/2021 policy year).

USMIA

5.48 Prior to 25 February 2019, USMIA was a wholly owned subsidiary of BSIAL, and was originally established to provide reinsurance cover to BSIAL. On 25 February 2019, as part of the wider restructure in which the Britannia Group was established, the board of USMIA transferred shares to BSIAE, such that USMIA is now 50% co-owned by each of BSIAL and BSIAE. It is anticipated that, on the Initial Effective Date, BSIAL's shares in respect of USMIA will transfer such that USMIA will become 100% owned by BSIAE.

5.49 BSIAL reinsures 90% of its business, net of all other reinsurance covers, to USMIA through a quota share arrangement. This cover applies both to retention claims and BSIAL's contribution to IG pool claims. To the extent required whilst business remains in BSIAL, BSIAL will continue to reinsure 90% of its business, net of all other reinsurance covers, through the same quota share arrangement.

Other reinsurances for owned tonnage

5.50 BSIAL has stop loss cover with an annual aggregate limit ("AAL") of $20m and an annual aggregate deductible ("AAD") of $160m, with the attachment point adjusted to reflect actual tonnage written. This programme has been in place for each of the last four policy years and has been placed with Canopius Group Limited, through its Lloyd's syndicates. The most recent cover expires on 20 February 2021, although I understand from BSIAL that it anticipates renewing this cover on comparable terms. Note that this programme currently only covers retention claims, rather than BSIAL's contributions to IG pool claims.

5.51 There are also some smaller facultative reinsurance arrangements in place where BSIAL acts as a fronting insurer to help individual ship owners place cover on the specific terms that they require.

5.52 We understand from BSIAL that the Boudicca risk excess of loss cover is applied first, followed by the Boudicca quota share and aggregate excess of loss covers. The USMIA quota share cover applies last, after all other reinsurances have been applied.

Reinsurance for non-poolable risks and charterers' book

5.53 BSIAL's owned book covers a small volume of non-poolable risks. Risks are excluded from the pool when they are not considered to be mutual. Such risks usually arise when a shipowner contracts on terms different to those generally offered in the market.

5.54 BSIAL's non-poolable risks and charterers' business do not participate in the IG pooling arrangements and have a separate reinsurance programme.

5.55 For non-poolable risks, BSIAL purchases reinsurance under which it retains the first $250,000 of claims and offers policyholders cover up to a limit of $750m.

5.56 BSIAL purchases reinsurance to allow it to offer the following cover on the different subsets of its charterers' business:

- Charterers' P&I and Charterers' damage to hull – BSIAL retains the first $3m of claims and offers policyholders cover up to a limit of $750m
- Charterers' bunkers – BSIAL does not retain these claims but acts as a fronting insurer to offer policyholders cover up to a limit of $2.5m.

5.57 At present, the reinsurance programme for non-poolable risks and charterers' business is placed, approximately, 85% with Lloyd's and 15% with insurers in the company market with a credit rating of A- or above from Standard & Poor's.

5.58 BSIAL also has one facultative reinsurance arrangement covering non-poolable and charterers' risks which has been placed outside of its main reinsurance programme.

Background to BSIAE

5.59 BSIAE was established in November 2018 in Luxembourg and was authorised by the CAA to underwrite insurance business in December 2018.

5.60 Alongside this, Britannia Holdings was established in November 2018 in the UK. Britannia Holdings became the controlling member of BSIAL and BSIAE in March 2019, creating the Britannia Group structure.

5.61 As part of this restructure the ownership of USMIA was rearranged, such that, as of February 2019, BSIAL and BSIAE became equal co-owners of this entity.

5.62 BSIAE is a mutual association, and therefore is wholly owned by its members. As per paragraph 5.9, these members can be subdivided into external and internal members.

5.63 BSIAE does not currently sell any insurance business and has not sold insurance business in the past. I understand from BSIAL that, prior to the transfer of BSIAL's business to BSIAE pursuant to the Scheme, BSIAE is not expected to have any existing policyholders or insurance liabilities. As a result, I have not analysed the impact of the Scheme on BSIAE's existing policyholders in this report.

5.64 Following BSIAE's authorisation from the CAA, it is authorised to write direct non-life insurance across the following lines of business:

- Accident and Health
- Railway Rolling Stock
- Ships
- Goods in Transit
- Liability for Ships
- Miscellaneous Financial Loss
- Legal Expenses.

5.65 As stated in paragraph 1.15, following the Scheme, all new general insurance business and renewals that would previously have been underwritten by BSIAL through BSIAL's Branches will instead be underwritten by BSIAE through BSIAE's Branches. All other new business and renewals will be underwritten by BSIAE's UK Branch.

5.66 The CAA has approved BSIAE's Freedom of Services Passport, enabling it to write business across the EEA. As explained in paragraph 5.6, BSIAE has initially established BSIAE's UK Branch under EEA passporting rights and will subsequently apply for it to become a third country branch following the Transition Period.

5.67 TRC has established a subsidiary, Tindall Riley (Europe) SARL ("TRE"), which is responsible for the management of BSIAE. TRE has delegated the management of BSIAE's UK Branch to TRC and TR(B).

5.68 For the business that will be written through BSIAE's UK Branch following the Scheme, there are certain activities which the CAA requires to be carried out by an authorised insurance agent within the EEA, such as insurance distribution. I understand from the Britannia Group that this is the primary purpose of establishing TRE as a new, EEA-based, subsidiary of TRC.

5.69 Following the Scheme, employees will continue to be directly employed by TRC, except for those required to be employed by local subsidiaries, as noted above in paragraph 5.17, but TRC will make available employees to work under the direction of TRE, as required to complete activities which must be carried out by an authorised EEA-based entity.

5.70 BSIAE's UK Branch has been authorised to write the same classes of business as BSIAE.

5.71 BSIAE is in the process of establishing BSIAE's Branches in Japan, Singapore and Hong Kong, which are subject to regulatory approval in those jurisdictions. These branches will be authorised to write equivalent classes of business to BSIAE.

5.72 As part of the transfer, all renewing external members of BSIAL will become external members of BSIAE. Any external member of BSIAL that does not renew its policy will no longer be a member of either BSIAL or BSIAE. However, this would be the case regardless of whether the Scheme were taking place. The Articles of Association of BSIAE provide the same rights for members as the Articles of Association of BSIAL and therefore the rights of BSIAL's existing members will not be impacted by the Scheme.

5.73 Note that the existing internal members of BSIAL, i.e. the current directors of BSIAL and Britannia Holdings, are already members of BSIAE and their rights will not change as a result of the Scheme. In addition, I understand from BSIAE that it is not expected to have any external members prior to the Scheme.

Reinsurance

5.74 Following the Scheme, the reinsurance covers that currently apply to BSIAL will instead apply to BSIAE and all of BSIAL's current reinsurance assets will have transferred in their entirety to BSIAE.

5.75 In the scenario where one or more of BSIAE's Branches are not approved by the Initial Effective Date, those reinsurance assets relating to the Branch Business which remains in BSIAL temporarily will also remain in BSIAL until the date on which this business transfers to BSIAE.

5.76 BSIAE has already been established as a member of the IG. I understand from BSIAL that it is in the process of establishing new reinsurance agreements with Hydra, Boudicca and USMIA, to come into effect at the Initial Effective Date, and that all existing reinsurance contracts will transfer to BSIAE on the Initial Effective Date, except as described in paragraph 5.77. I will provide an update on the establishment of the new reinsurance agreements in my Supplementary Report.

5.77 The Scheme will have the effect of splitting the reinsurance cover provided by these contracts, such that the cover available under BSIAL's existing reinsurance arrangements will apply to both BSIAE and BSIAL, to the extent that some of the business written by BSIAL's Branches remains in BSIAL for a temporary period. These reinsurance arrangements, including any deductibles, limits, or other policy limitations, will apply in aggregate across BSIAL and BSIAE for this temporary period. Therefore, there will be no change to the liability of the reinsurers, as they will continue to cover the same group of policies to the same level of cover.

5.78 I further understand from BSIAL and BSIAE that the particular allocation of cashflows in relation to the Transferring Portfolio and associated reinsurance arrangements will be jointly agreed by BSIAL and BSIAE, and I understand from both entities that, if a situation arose in which reinsurance limits were exceeded, the intention is to apply the reinsurance benefits equitably between those policies which transfer to BSIAE at the Initial Effective Date and those which remain temporarily in BSIAL. As such, I am comfortable that the reinsurance benefits would be applied in such a way that none of the impacted policyholders would be materially disadvantaged in this regard by the Scheme.

5.79 I understand from BSIAL and BSIAE that, in the scenario in which one or more of BSIAE's Branches has not been approved by the Longstop Date, the reinsurance arrangements referred to above will continue to cover the subset of the Branch Business which remains in BSIAL following the Longstop Date and, as described in paragraphs 5.77 and 5.78, any deductibles, limits, or other policy limitations will apply in aggregate across BSIAL and BSIAE, with reinsurance benefits being applied equitably between policyholders in BSIAL and BSIAE.

5.80 As discussed in paragraph 5.46, Boudicca's assets are currently subject to a security interest agreement and, as a result, cannot be dissipated to the detriment of the reinsurance contract with BSIAL. I understand from BSIAL and BSIAE that this security arrangement will extend to BSIAE following the Scheme.

Treatment of Britannia Group and reinsurance entities for reporting purposes

Group reporting prior to the Scheme

Solvency II basis

5.81 As BSIAL and BSIAE have only one subsidiary, USMIA, the PRA considers the Britannia Group to be comprised of BSIAL, BSIAE and USMIA only, on a Solvency II basis.

5.82 All other reinsurers are treated as third party reinsurers.

UK GAAP basis

5.83 For the purposes of its annual financial statements, the Britannia Group reports under UK GAAP.

5.84 Although the Britannia Group's Hydra cell is not legally a subsidiary of BSIAL, the Britannia Group considers it to be a quasi-subsidiary of BSIAL, and it is accounted for as a participation on a UK GAAP basis.

5.85 All other reinsurers are treated as third party reinsurers.

ECB basis

5.86 The results for the Britannia Group's Hydra cell are fully consolidated with those of the group for internal measurement purposes, including the internal view of group capital requirements, the ECB.

5.87 As a dedicated reinsurer of BSIAL, Boudicca is also considered to be part of the Britannia Group from an operational perspective.

5.88 All other reinsurers are treated as third party reinsurers on an ECB basis.

Summary of consolidation approach prior to the Scheme

5.89 The different entities consolidated for the Britannia Group's various reporting requirements are summarised in the table below:

Table 5.3: Summary of consolidation of Britannia Group and reinsurance entities for reporting purposes prior to the Scheme

	UK GAAP basis	Solvency II basis	ECB basis
USMIA	Full consolidation	Full consolidation	Full consolidation
Boudicca	Third party reinsurer	Third party reinsurer	Full consolidation
The Britannia Group's Hydra cell	Participation	Third party reinsurer	Full consolidation

Group reporting following the Scheme

5.90 I understand from the Britannia Group that, following the Scheme, the CAA will allow the Britannia Group's Hydra cell to be fully consolidated with the results of the other Britannia Group entities on a Solvency II basis. The impact of this is discussed further in paragraph 8.86.

5.91 Other than the exception mentioned above, I understand that the consolidation of group and reinsurance entities is to remain unchanged following the Scheme.

Summary of consolidation approach following the Scheme

5.92 The different entities consolidated for the Britannia Group's various reporting requirements are summarised in the table below:

Table 5.4: Summary of consolidation of Britannia Group and reinsurance entities for reporting purposes following the Scheme

	LUX GAAP basis	Solvency II basis	ECB basis
USMIA	Full consolidation	Full consolidation	Full consolidation
Boudicca	Third party reinsurer	Third party reinsurer	Full consolidation

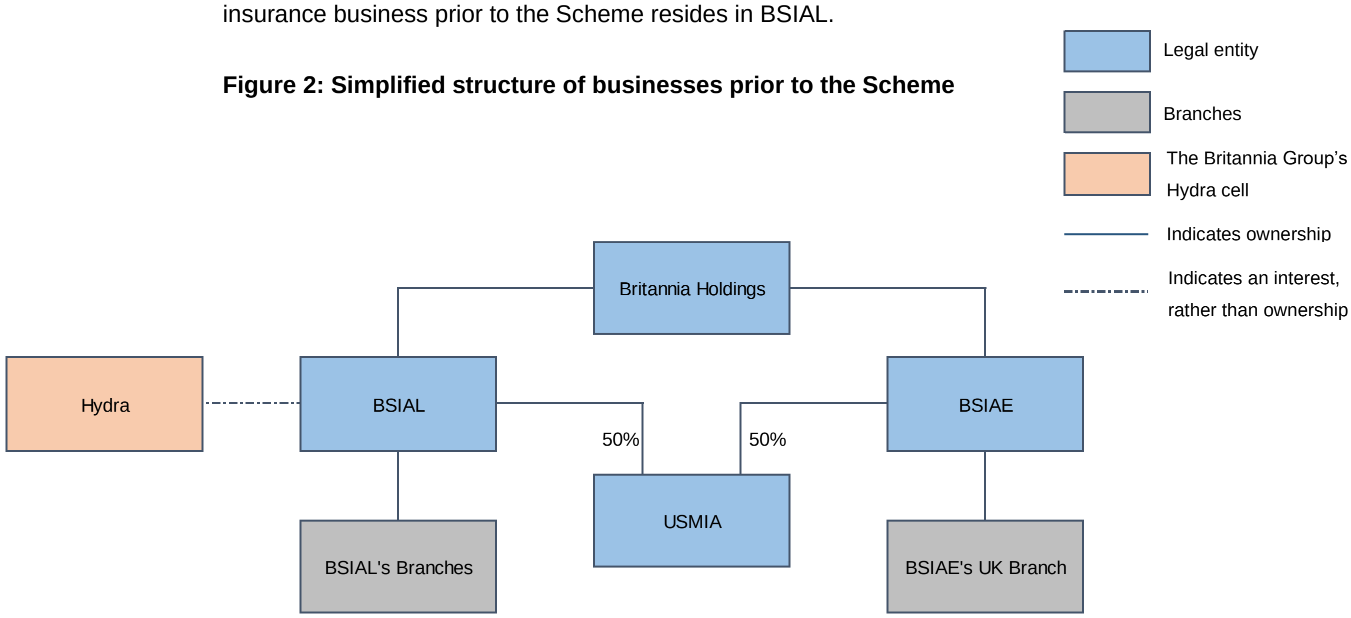
The Britannia Group's Hydra cell	Participation	Full consolidation	Full consolidation

Overview of Structure

Overview of structure prior to the Scheme

5.106 The diagram below illustrates the current structure of the businesses, prior to the Scheme. All of the insurance business prior to the Scheme resides in BSIAL.

Figure 2: Simplified structure of businesses prior to the Scheme

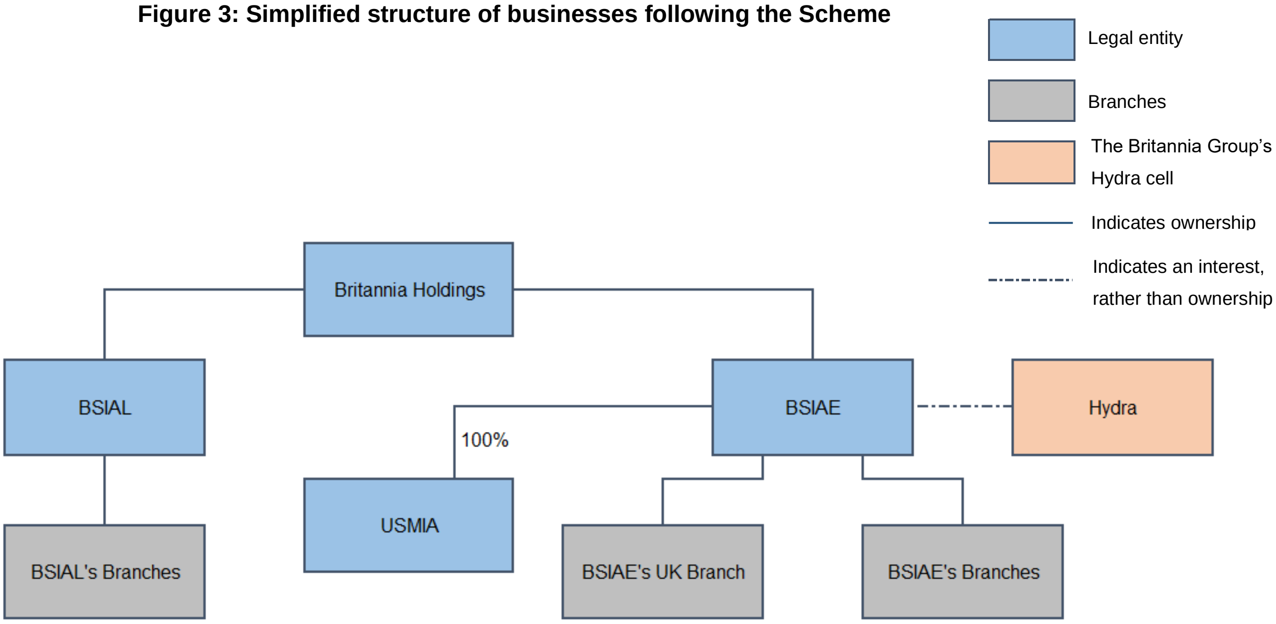


Overview of structure following the Scheme

5.107 Following the Scheme, BSIAE will have established BSIAE's Branches, and BSIAL's interest in the Britannia Group's Hydra cell will have transferred to BSIAE.

5.108 The diagram below illustrates the proposed structure of the businesses immediately following the Scheme. All of the insurance business following the Scheme will reside in BSIAE.

Figure 3: Simplified structure of businesses following the Scheme



5.109 In the scenario where one or more of BSIAE's Branches are not approved by the Initial Effective Date, the reinsurance cover provided by the Britannia Group's Hydra cell will temporarily apply jointly to BSIAL and BSIAE, as described in paragraph 5.76.

6 Regulatory background

6.1 In this section, I provide some background on the regulatory requirements in the UK and Luxembourg. The impacts of changes in regulation for the transferring policyholders are discussed in Section 11. As discussed in paragraph 14.13, the opinions contained in this report are based on my own analysis and not based on regulators' views of the associations involved.

6.2 This section is structured as follows:

- Paragraphs 6.3 to 6.16 discuss the prudential regime that applies to all European insurers
- Paragraphs 6.18 to 6.21 discuss the regulatory impact of the EU referendum
- Paragraphs 6.22 to 6.40 discuss the regulatory environment for insurers authorised in the UK
- Paragraphs 6.41 to 6.50 discuss the regulatory environment for insurers authorised in Luxembourg
- Paragraph 6.51 discusses the regulatory environment in respect of business currently underwritten by BSIAL's Branches

Solvency II

6.3 In 2016, insurance regulation in Europe underwent a major overhaul. Since 1 January 2016, all EU insurers have been required to meet a common set of requirements developed by the European Commission ("Solvency II").

6.4 Solvency II is a principles-based regime set around three pillars:

- Pillar 1 – quantitative requirements
- Pillar 2 – qualitative requirements
- Pillar 3 – reporting and disclosure requirements.

Regulatory capital requirements

6.5 Under Solvency II, there are two sets of capital requirements to allow for different levels of supervisory intervention.

6.6 The usually higher of these two is the Solvency Capital Requirement ("SCR"). This is the amount of capital required in excess of liabilities in order to ensure continued solvency over a one-year time frame in 99.5% of cases.

6.7 The Minimum Capital Requirement ("MCR") defines the point of severe supervisory intervention.

Approaches to calculating the SCR

6.8 The SCR can be calculated using one of four approaches; the Standard Formula, the Standard Formula with undertaking specific parameters, an Internal Model, or a Partial Internal Model:

- the Standard Formula approach uses a prescribed set of formulae and parameters in order to work out the SCR.
- within the Standard Formula framework, entities are able to use undertaking specific parameters ("USPs") in order to refine certain parameters, subject to regulatory approval.
- the Internal Model approach involves the entity using its own capital model to calculate the SCR. The model requires regulatory approval.
- the Partial Internal Model approach is a combination of the first and third approaches. An approved Internal Model is used to calculate parts of the SCR and the Standard Formula is used to calculate the remaining parts of the SCR.

6.9 Regardless of the approach used, the calculation of the SCR is designed to capture the nature of the risks within the regulated entity including market related investment risk, insurance risk arising from new business or existing liabilities, and other business risks including credit risk and operational risk.

6.10 I have been provided with details of the approaches taken to calculating the SCR and MCR by both BSIAL and BSIAE.

Solvency II technical provisions

6.11 The technical provisions are the Solvency II equivalent of the claims reserves plus the unearned premium reserve on the GAAP/IFRS balance sheet. Under Solvency II, the technical provisions are made up of a claims provision and a premium provision (together the “best estimate technical provisions”) and a risk margin. These are defined as follows:

- The claims provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to past exposure
- The premium provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to future exposure arising from policies that the (re)insurer has already written or is obligated to write at the valuation date
- Under Solvency II, insurers must hold a risk margin in excess of their best estimate of liabilities. This risk margin is designed to represent the amount of capital a third party would require to take on the obligations of a given insurance company. It effectively means that if an insurer were, as a result of a shock, to use up all its free surplus and capital, then it would still have sufficient assets to safely wind-up and transfer its obligations to a third party.

6.12 It is common to calculate the Solvency II technical provisions by applying a series of adjustments to the GAAP/IFRS claims reserves including the following:

- The release of any margins for prudence, as the Solvency II technical provisions assume no margins over best estimate
- The release of the Unearned Premium Reserves (“UPR”) and replacement with a provision for expected future claims and expenses on incepted business
- A provision for inflows and outflows relating to legally obliged but unincepted business
- A provision for the expenses that are expected to be incurred to run-off incepted business and legally obligated but unincepted business
- A provision for Events Not in Data (“ENIDs”)
- An allowance for discounting to account for the time value of money, calculated using the risk-free yield curves published by the European Insurance and Occupational Pensions Authority (“EIOPA”) at the relevant date
- The inclusion of a risk margin, which is calculated as the net present value of the cost of capital associated with insurance and unavoidable market risk.

Own Funds

6.13 Further to calculating the regulatory capital requirements, insurers are required to calculate the level of capital available to meet the SCR ("Available Own Funds"). This requires the calculation of a balance sheet according to Solvency II requirements.

6.14 The Available Own Funds are then assessed and allocated into three tiers based on their permanence and loss absorbency (tier 1 being the highest quality). The Solvency II regulations impose restrictions on the amount of tiers 2 and 3 that can be held to cover the regulatory capital requirements with the aim of ensuring that the capital held to meet the regulatory capital requirements is of sufficient quantity, quality and liquidity to be available, if needed, to meet losses that might arise over the next 12 months. The items which are eligible to meet the SCR are the "Eligible Own Funds" or simply "Own Funds".

6.15 It is important to note that, even if an insurer does not have sufficient Own Funds to meet its SCR, or even its MCR, then this does not necessarily mean that it would not be able to settle all of its claims in full.

Own Risk and Solvency Assessment

6.16 An additional requirement for Solvency II is that every insurer must undertake an Own Risk and Solvency Assessment ("ORSA") at least annually. This sets out its current and future risk profile and the level of capital that it expects to require over the medium to long term (standard market practice is to consider the next three to five years). It should be noted that this is the insurer's assessment of the level of capital it requires, not the regulatory capital requirement. It is often referred to as its "economic capital requirement".

Insurance Distribution Directive

6.17 The Insurance Distribution Directive ("IDD") is an EU directive which came into force on 1 October 2018 and specifies regulatory requirements for all providers of insurance products. As a directive, the IDD has been transposed into law by each member state. The key features of the IDD are:

- Product oversight and governance arrangements aimed at ensuring that customers' interests are considered throughout the life cycle of an insurance product
- Improved transparency of cross-selling approaches to ensure customers are aware of the full range of purchase options available to them
- Insurance providers are responsible for reviewing insurance products on an ongoing basis to assess whether they remain suitable for the customer, taking account of the customer's risk profile
- Any conflicts of interest which can not be avoided must be disclosed to the policyholder and a record kept of any actions taken by the provider which could give rise to a conflict of interest.

Impact of EU referendum

6.18 On 23 June 2016, the UK voted to leave the EU. On 29 March 2017, the UK officially notified the European Commission of its intention to withdraw from the EU and on 31 January 2020 the UK ceased to be a member of the EU. There are, however, transitional arrangements in place between the UK and the EU until 31 December 2020. During the Transition Period, UK companies are required to apply any EU rules that applied prior to the UK exiting the EU. Therefore, at this stage, both BSIAL and BSIAE are currently subject to the same regulatory regime, Solvency II, as well as to the IDD.

6.19 To ensure legal continuity in the UK following its departure from the EU, the UK Parliament has approved the transposition of existing EU laws into UK law. However, over time, the UK government will be able to adapt and remove retained EU laws and regulations that are no longer considered to be relevant or appropriate.

6.20 The developments in the regulatory regime in the UK will ultimately be determined by the PRA, the FCA and UK lawmakers. However, what will happen and what changes, if any, will have taken effect by the date(s) on which the Transferring Portfolio transfers to BSIAE, are not yet known.

6.21 This issue is discussed further in paragraphs 11.32 to 11.36.

Overview of UK regulations

6.22 UK insurers are regulated by both the PRA and FCA. The PRA and FCA are statutory bodies set up under the Financial Services Act 2012. Prior to 1 April 2013, all regulation of financial services institutions was undertaken by the Financial Services Authority ("FSA"). All regulatory responsibility was transferred from the FSA to the PRA and/or FCA on 1 April 2013.

6.23 The PRA is part of the Bank of England and is responsible for prudential regulation of:

- banks
- building societies
- credit unions
- insurance companies
- major investment firms.

6.24 Its three statutory objectives, as applicable to insurance companies, are:

- to promote the safety and soundness of the firms which it regulates
- to contribute to the securing of an appropriate degree of protection for policyholders
- to facilitate effective competition.

The third objective above is secondary to the first two.

6.25 The FCA is a separate organisation and its strategic objective is to ensure that the relevant markets function well.

6.26 To support this, it has three operational objectives:

- to secure an appropriate degree of protection for consumers
- to protect and enhance the integrity of the UK financial system
- to promote effective competition in the interests of consumers.

FCA conduct principles

6.27 The FCA has set out its Principles for Businesses, the general statements of the fundamental obligations of firms under its regulatory system. These principles include the following that relate to the fair treatment of customers:

- Principle 6: A firm must pay due regard to the interests of its customers and treat them fairly
- Principle 7: A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading
- Principle 8: A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client
- Principle 9: A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely on its judgement.

Current regulatory capital requirements

6.28 Since 1 January 2016, most insurance companies in the UK have been required to maintain capital in line with the Solvency II requirements as discussed in paragraphs 6.5 to 6.8.

Capital extraction

6.29 Insurers that are not in run-off are able to extract capital from the business without the PRA's prior approval. However, the PRA expects insurers to maintain an adequate level of capital above the SCR.

Security under wind up

6.30 The winding up of an insurance undertaking is governed by the Insurers (Reorganisation and Winding Up) Regulations 2004 in the UK. Under these regulations, insurance claims take precedence over other claims on the insurance undertaking with the exception of certain preferential claims (e.g. claims by employees, rights in rem etc.). Therefore, direct policyholders rank equally and above inwards reinsurance policyholders and all other unsecured/non preferential creditors in the event that an insurer is wound up.

Financial Services Compensation Scheme

6.31 The Financial Services Compensation Scheme ("FSCS") is the compensation fund of last resort for customers of authorised financial services firms. It is a statutory scheme funded by levies on firms authorised by the PRA and the FCA. It provides cover for risks situated in the UK written by UK authorised insurance companies, as well as risks situated in the EEA written by an insurer authorised in the UK.

6.32 Most private policyholders, small businesses and charities are eligible for protection from the FSCS, in the event that an insurer is unable to meet its liabilities. The FSCS will pay 100% of any claim incurred for compulsory insurance (eg. motor third party liability insurance) and 90% of the claim incurred for non-compulsory insurance without any limit on the amount payable. No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance and contracts of reinsurance are also not protected.

6.33 In addition, the FSCS may provide cover for risks written by UK branches of insurers authorised in an EEA country. Where an insurer based in an EEA country has a compensation scheme that provides a lower limit of compensation than the FSCS, the insurer may choose to join the FSCS to "top up" the limit of protection. In the event of failure of either the EEA insurer or the UK branch, the home state scheme would have lead responsibility for claims and would pay the first part of any compensation. The FSCS would then deal with any "top up" claims.

6.34 Currently, the FSCS also provides protection for policyholders of successor firms. Protection is available for policyholders with outstanding claims against insurers whose claims were covered by the FSCS, before their policies were transferred to a successor firm. Following the departure of the UK from the EU, protection for policyholders in successor firms in the EEA may still be provided by the FSCS. However, this remains uncertain until the arrangements following the Transition Period are determined.

6.35 The impact of the Scheme on the level of compensation available to the transferring policyholders is discussed in Section 9.

Financial Ombudsman Service

6.36 The Financial Ombudsman Service ("FOS") was set up as an independent public body. Its job is to resolve individual disputes between consumers and financial services businesses. In order to access FOS, it is necessary for the insurance policy to have been administered from within the UK.

6.37 Prior to 1 April 2019, eligible claimants were defined to be:

- Consumers, which for these purposes means natural persons acting for purposes outside their trade, business or profession;
- Micro-enterprises, which means any enterprise (being a person, irrespective of legal form, engaged in an economic activity) which employs fewer than 10 persons and has a turnover or annual balance sheet that does not exceed €2 million.
- Charities which have an annual income of less than £6.5 million; and
- Trustees of a trust which has a net asset value of less than £5 million.

6.38 On 1 April 2019, FOS extended its services to cover small businesses, which are defined as any enterprise which is not a micro-enterprise, has an annual turnover of less than £6.5 million and has a balance sheet total of less than £5 million or employs fewer than 50 employees.

6.39 On 1 April 2019, FOS also extended its services to handling disputes raised against claims management companies, with eligible claimants consistent with those defined above.

6.40 The impact of the Scheme on the access to FOS of the affected policyholders is discussed in Section 9.

Overview of Luxembourg regulations

6.41 The Commissariat aux Assurances ("CAA") is the Luxembourg authority competent for the supervision of the insurance sector. It is a public institution under the authority of the Minister of the Treasury and Budget, and legally distinct from the State with financial autonomy.

6.42 Its mission statement covers the following responsibilities:

- Ensuring the protection of insurance policyholders and beneficiaries
- Examining applications for approval of (re)insurance companies and insurance intermediaries
- The prudential supervision of (re)insurance companies and insurance intermediaries
- Assisting with the development of common standards across Europe and internationally
- Ensuring the supervision of the insurance market in order to ensure compliance with the regulatory obligations related to anti-money laundering and the fight against the financing of terrorism
- Presenting to the Luxembourg Government any suggestion likely to improve the legislative and regulatory environment relative to the business of insurance and reinsurance
- Drafting of laws and regulations relating to the insurance sector
- Coordinating efforts for an orderly expansion of activities of the insurance sector in the Luxembourg
- Taking responsibility for the receipt and examination of any complaint or claim from an insurance policyholder or other interested party against any individual or legal entity.

Current capital requirements

6.43 Since 1 January 2016, insurance companies in Luxembourg have been required to maintain capital in line with the Solvency II requirements as discussed in paragraphs 6.5 to 6.8.

Capital extraction

6.44 For insurers that continue to sell policies and are a going concern, there is no requirement placed on the insurer by the CAA with regards to capital extraction, other than that it must maintain its SCR.

Security under wind up

6.45 Under Luxembourg regulations, on wind-up insurance claims take precedence over other claims, including inwards reinsurance claims, with respect to the assets representing the technical provisions.

Compensation

6.46 There is no equivalent of the FSCS in Luxembourg. However, as described in paragraph 6.33, the FSCS may provide cover for UK risks emanating from a UK branch of a Luxembourg company. The impact of the Scheme on the level of compensation available to the transferring policyholders is discussed in paragraphs 9.20 to 9.24.

Complaints

6.47 If a policyholder of a Luxembourg insurance company has a complaint that is not satisfactorily resolved through its communication with the insurance company, it can refer such a complaint to the CAA. Each complaint received by an insurance company has to be communicated to the CAA through mandatory reporting. However, the CAA cannot make legally binding rulings on individual disputes.

6.48 Consumer complaints can also be made to the Insurance Ombudsman which has been implemented by the following Luxembourg bodies:

- Association des Compagnies d'Assurances et de Réassurances ("ACA") – the professional association of insurers and reinsurers established in Luxembourg
- Union Luxembourgeoise des Consommateurs ("ULC") – Luxembourg Union of Consumers.

6.49 The Insurance Ombudsman offers a joint mediation service as an extrajudicial alternative for insurance disputes between Luxembourg-based insurance companies and consumers residing in Luxembourg or an EEA country. The opinions, proposed solutions or amicable agreements made by the Insurance Ombudsman are not binding on the parties concerned.

6.50 In addition to the above, UK policyholders of a UK branch of a Luxembourg insurance company can refer complaints to FOS. FOS has powers to make legally binding rulings on individual disputes.

Regulation for policies underwritten by BSIAL's Branches

6.51 Policies which are currently underwritten by BSIAL's Branches will be underwritten by BSIAE's Branches following the Scheme. BSIAE's Branches will be established in the same territories as BSIAL's Branches. As such, there will be no change in the local regulatory environment for these policyholders. In particular, these policyholders will continue to have the same access to any compensation or complaints handling services provided by the countries in which the branches are established.

7 Claims Reserves

7.1 In this section, I discuss the claims reserve strength of the Transferring Portfolio. In doing so, I have considered:

- The governance processes relating to the reserves of BSIAL and BSIAE
- The best estimate reserves for the Transferring Portfolio as calculated by BSIAL
- The adjustments applied by BSIAL to the best estimate reserves to determine the Solvency II technical provisions for the Transferring Portfolio.

7.2 The actuarial reserve reviews that I have considered in this section were the most recent available at the time of my analysis. For my Supplementary Report, I will consider claims movements since these reviews and any more recently available actuarial reserve reviews.

7.3 Based on my experience and my knowledge of the market, my view is that the process for setting the claims reserves and Solvency II technical provisions at BSIAL appears to be appropriate and robust for the following reasons:

- The process followed is in line with processes that are regularly used elsewhere
- There are sufficiently experienced individuals conducting the analysis
- There are several layers of review performed, giving the opportunity for a number of people to challenge the analysis and results.

Governance process

7.4 BSIAL operates a quarterly reserving process with a full reserve review conducted at year end and actual versus expected reserve reviews carried out at each interim quarter.

7.5 I understand from BSIAL that the actuarial team holds discussions with the directors of the P&I and FD&D claims teams at the start of each annual reserve review to discuss claims developments over the year and keep abreast of any changes that may affect the reserving process. It also maintains an open dialogue with the claims teams throughout the reserving process.

7.6 The Chief Actuary role at BSIAL is currently outsourced to a firm of external actuarial consultants (“Firm A”). BSIAL recruited a new Senior Actuary in September 2019 and is currently going through the process of bringing the Chief Actuary role in house, such that, going forward, the Senior Actuary will take on the role of Chief Actuary for BSIAL and BSIAE and will therefore produce and sign off the Actuarial Function Reports (“AFRs”). I understand from BSIAL that this process is unrelated to the Scheme and is expected to be completed before the Initial Effective Date. I understand from BSIAE that this arrangement will remain effective following the Scheme.

7.7 The claims reserves and Solvency II technical provisions estimated by BSIAL are subject to several layers of internal review which are carried out for each reserving exercise. These are:

- Reviews within the actuarial team
- Review by the Senior Actuary
- Review by the Britannia Reserving Group and recommendations made by it in support of holding adequate reserves (or a subset of this group on a quarterly basis, at more informal "Policy Year" meetings, which includes both the Chief Financial Officer ("CFO") and the Director of Financial Reporting). The full Britannia Reserving Group includes the following individuals:
  - CFO
  - Chief Executive Officer
  - Chief Underwriting Officer
  - Chief Risk Officer
  - Director of P&I claims
  - Director of FD&D claims
  - Director of Financial Reporting
  - Chief Actuary
- Overall approval of reserving outputs by the Britannia Risk & Audit Group and the Britannia Board.

7.8 It is noted that the boards of directors for BSIAL, BSIAE and Britannia Holdings are comprised of the same individuals. This group of individuals is referred to internally as the "Britannia Board".

7.9 I understand from BSIAL that Firm A currently undertakes an independent review of the best estimate claims reserves and the Solvency II technical provisions on an annual basis. I further understand from BSIAL that Firm A also provides an assessment of the adequacy of the Solvency II technical provisions in the annual AFR.

7.10 Once the Chief Actuary role has been brought in house, I understand from BSIAL that the annual review by Firm A will no longer be carried out, as BSIAL expect to have sufficient in-house expertise to carry out their reserve projections without external input. I understand that the Britannia Group intends to engage a third party to perform an independent reserve review every three to five years to ensure that the internal reserving processes of BSIAE and, if necessary, BSIAL continue to receive an appropriate level of challenge. As the newly appointed Senior Actuary will require regulatory approval in order to take on the Chief Actuary role, I am satisfied that they will have the necessary experience and expertise for BSIAL and, following the Scheme, BSIAE, to rely on their assessment of the adequacy of the reserves.

7.11 BSIAL also carries out regular internal audits of the actuarial function. I understand that an internal audit of the governance and controls in place in respect of BSIAL's reserving process was completed in June 2020.

7.12 In addition to the above reviews, the external auditor of BSIAL performs an independent projection of the best estimate claims reserves and Solvency II technical provisions annually.

7.13 I understand from BSIAL that the governance process that applies to BSIAL prior to the Initial Effective Date will apply to BSIAE following the Initial Effective Date.

7.14 In the event that one or more of the Japan Branch Transfer Date, the Hong Kong Branch Transfer Date and the Singapore Branch Transfer Date fall after the Initial Effective Date, I understand from BSIAL that the governance process that applies to BSIAL prior to the Initial Effective Date will continue to apply to BSIAL until the entirety of the Transferring Portfolio has transferred to BSIAE.

GAAP reserves

7.15 The table below shows the booked GAAP claims reserves as at 20 February 2020, both gross and net of reinsurance. The reserves ceded to each of Boudicca, the Britannia Group's Hydra cell and USMIA are shown separately.

7.16 Note that, at the financial year end BSIAL has no unearned business and therefore does not book an unearned premium reserve. This is because BSIAL sells annual coverage which generally incepts at noon on 20 February each year and all policy exposure ends at noon on the following 20 February, unless a policy is cancelled earlier than this.

7.17 For the avoidance of doubt these figures do not include unallocated loss adjustment expenses ("ULAE"), or other reserves such as reinsurance bad debt.

Table 7.1: GAAP reserves for the Transferring Portfolio as at 20 February 2020

$m	Gross of reinsurance	Ceded reserves				Net of reinsurance
		Boudicca	Hydra	USMIA	Other	
Total GAAP booked reserves	**1,198.7**	**68.9**	**58.0**	**558.5**	**450.9**	**62.5**

7.18 The booked GAAP claims reserves are comprised of the actuarial best estimate claims reserves and a management margin, which is added to the best estimate to increase the sufficiency of the reserves. These two components are considered in more detail, below.

Overview of BSIAL's actuarial best estimate claims reserve methodology

7.19 The table below shows BSIAL's actuarial best estimate claims reserves at 20 February 2020, both gross and net of reinsurance. The reserves ceded to each of Boudicca, the Britannia Group's Hydra cell and USMIA are shown separately.

Table 7.2: Actuarial best estimate claims reserves by reserving group for the Transferring Portfolio as at 20 February 2020

$m	Gross of reinsurance	Ceded reserves				Net of reinsurance
		Boudicca	Hydra	USMIA	Other	
P&I retention claims	655.8	50.4	5.4	243.2	329.8	27.0
Pool P&I claims	115.1	0.0	45.1	62.3	0.0	7.7
FD&D claims	9.0	0.0	0.0	7.8	0.3	0.9
Asbestos-related claims	48.1	0.0	0.0	43.3	0.0	4.8
Total best estimate claims reserve	**828.0**	**50.4**	**50.5**	**356.6**	**330.1**	**40.4**

7.20 BSIAL uses four risk groups when carrying out its reserve projections, which are considered to exhibit different claims characteristics from one another but to be relatively homogenous within each group. These groups are as follows:

1 P&I retention claims – P&I claims where BSIAL is the originating club, but only the portion of the claim within the ICR of $10m and excluding any asbestos-related claims

2 Pool P&I claims - P&I claims where BSIAL pays a share of the claim through the IG pooling arrangement, including the pooled portion of claims where BSIAL is the originating club

3 FD&D claims

4 Asbestos-related claims – this group is further divided into mesothelioma and non-mesothelioma claims.

7.21 For P&I retention claims and FD&D claims, reserves are projected separately on a gross and net basis for each policy year. Claims triangulations use quarterly claims data and separate projections are produced using paid and incurred claims triangles to give a more detailed view of the range of possible ultimate claims. The data available with respect to Pool P&I claims is more limited, as BSIAL relies on data supplied by the IG, and therefore only a gross incurred claims projection by policy year is carried out for this group each quarter.

7.22 The actuarial team carries out projections on each claims triangle using standard actuarial reserving techniques with the application of expert judgement, including the use of chain-ladder and Bornhuetter-Ferguson projections.

7.23 The projections of ultimate claims based on each of these methods are reviewed and the selection of ultimate claims is made separately for each group of claims and each policy year, based on expert judgement and the relative strengths and weaknesses of the projection methods employed.

7.24 For estimating reinsurance recoveries on future losses, BSIAL takes the difference between the results of the gross and net claims projections.

7.25 Below, I discuss my additional findings for the following components of the reserves:

- Attritional and large claims
- Pool P&I claims
- Asbestos-related claims
- Allowance for COVID 19

Attritional and large claims

7.26 BSIAL categorises claims within the ICR of $10m as either attritional (estimated to have an ultimate of cost $1m or less) or large (estimated to cost in excess of $1m).

7.27 In general, BSIAL does not perform separate projections for its attritional and large claims. This is because the mix of claim sizes is generally considered sufficiently stable within each of the four reserving groups to satisfy the underlying assumptions of the reserving approaches adopted.

7.28 However, two large P&I retention claims have arisen over the last 15 policy years which have been removed from the claims triangles used for projections to avoid distorting the results, as they were considered to be outliers. For each of these claims BSIAL holds a case reserve estimated by the claims handlers, which is added to the ultimates projected from the claims triangles. No such large loss adjustments have been made in respect of FD&D or Pool P&I claims.

Pool P&I claims

7.29 In respect of Pool P&I claims, BSIAL uses claims triangles containing data from the last 30 years. This is considered appropriate to allow for the longer development pattern of Pool P&I claims when compared to the other risk groups.

7.30 Claims triangle projections are carried out using gross Pool P&I claims figures across all clubs within the IG, i.e. the total claims cost to the IG is projected, rather than the cost of pool claims to BSIAL. The chain-ladder method is used to project earlier policy years, whereas the Bornhuetter-Ferguson method is generally selected for projecting the most recent policy years, as these are not considered sufficiently developed for the chain-ladder method to be appropriate.

7.31 Once the ultimate Pool P&I claims have been projected, these are scaled down to allow for BSIAL's estimated share of total pool claims in each historic policy year.

7.32 Reinsurance recoveries on Pool P&I claims are projected using triangles of historic recoveries from the Britannia Group's Hydra cell.

Asbestos-related claims

7.33 As mentioned in paragraph 5.16, BSIAL has a small amount of exposure to asbestos liabilities.

7.34 Case reserves are determined individually for notified asbestos claims, which historically average between 10 and 18 claims a year, although this number has reduced in recent years.

7.35 BSIAL calculates a best estimate IBNR reserve in respect of its asbestos claims using the IFoA working party's 2009 mesothelioma model.

7.36 BSIAL has developed a bespoke stochastic model, based on the IFoA working party's 2009 mesothelioma model, to calculate the IBNR reserve for asbestos claims on a GAAP basis.

7.37 As the model is stochastic, BSIAL uses it to produce a distribution of the total value of asbestos-related claims received before the termination year, which is the calendar year in which new asbestos-related claims notifications are assumed to tail off to zero. As a result, projections are not produced for each individual policy year as per the other reserve groups.

7.38 I understand from BSIAL that an analogous methodology is used to calculate the GAAP reserve in respect of asbestos claims which are not related to mesothelioma, however these claims are modelled separately from mesothelioma claims, due to their differing claims characteristics. The two reserve estimates are then combined using a correlation factor.

Allowance for COVID 19

7.39 As explained in paragraph 3.14, COVID 19 is expected to pose a significant risk to businesses worldwide for the foreseeable future. Although there is considerable uncertainty regarding the potential for additional claims to arise as a result of COVID 19, I understand from BSIAL that it has considered the possible impact of the pandemic in calculating its GAAP reserves as at 20 February 2020.

7.40 As discussed in paragraph 7.16, BSIAL had no unearned business as at 20 February 2020, as this date marked the end of the annual policy period. I understand that BSIAL has analysed its notified claims and does not expect the policy year ending on 20 February 2020 to be materially impacted by COVID 19. BSIAL expects any impact to be realised in the subsequent policy year, or later. Therefore, no explicit allowance for COVID 19 has been made in the GAAP reserves as at 20 February 2020.

GAAP reserve margin

7.41 As explained in paragraph 7.18, a management margin is added to the actuarial best estimate claims reserves to increase the sufficiency of the reserves.

7.42 BSIAL uses a widely accepted stochastic reserving method, bootstrapping, to estimate a distribution of reserves around the best estimate. This is then used by BSIAL to book the GAAP reserves for each policy year at a confidence level which is acceptable to management, with reserves booked at a higher confidence level for less developed policy years.

7.43 BSIAL held a significant management margin in addition to its actuarial net best estimate claims reserves at 20 February 2020 which equated to BSIAL holding its reserves at a high confidence level. At 20 February 2020, BSIAL estimated that it held an aggregate reserving position across all relevant policy years that was above the 99th percentile (ie BSIAL has calculated that there is less than a 1% likelihood that the booked GAAP reserves will ultimately be too low).

Conclusions in respect of the GAAP reserves

7.44 I have performed an analysis to satisfy myself that BSIAL's actuarial best estimate of its insurance liabilities and the management margin held above this best estimate are consistent with my expectations for insurance business of the nature that it writes. This analysis involved:

- A review of BSIAL's annual reserve report as at 20 February 2020, produced by BSIAL's actuarial team, which discusses the adequacy of the claims reserves of BSIAL
- A review of BSIAL's Actuarial Function Report, which was produced by Firm A. Firm A performed an independent calculation of BSIAL's reserves and confirmed the adequacy of BSIAL's claims reserves as at 20 February 2020.
- A review of the methods used by BSIAL to estimate the reserves compared with industry best practice
- Discussions with individuals at BSIAL to understand the approach it has used to estimate the claims reserves and whether any material changes have occurred to the processes since the date of the information received
- A review of the CVs of the individuals at BSIAL who were responsible for the reserving analysis. Based on these and my interactions with those individuals, I am satisfied that the actuaries at BSIAL who undertook this review have the necessary experience and expertise to undertake a review of this nature and for me to rely on their review.
- A review of the CV of the individual at Firm A who was responsible for producing the Actuarial Function Report and reviewing the adequacy of BSIAL's claims reserves. Based on this, I am satisfied that the actuary at Firm A who was responsible for this review has the necessary experience and expertise to undertake a review of this nature and for me to rely on their review.

7.45 I believe that the GAAP reserves for BSIAL lie within a range of reasonable estimates. In reaching this assessment, I have considered the following:

- I have concluded that BSIAL's claims reserving process appears appropriate and robust in paragraph 7.3
- BSIAL has utilised market standard approaches in determining its actuarial best estimates and the assumptions utilised by BSIAL in determining its estimates appear reasonable
- The reasonableness of the outputs compared to the historical experience
- At 20 February 2020, BSIAL was holding a significant management margin in addition to its actuarial net best estimate claims reserves. Given the uncertainty inherent in actuarial reserve estimates, based on my experience and expertise I do not consider the prudence margin held to be unreasonable.
- I consider BSIAL's assumption that COVID 19 will not materially impact the policy years prior to 20 February 2020 to be reasonable in light of their analysis
- I am satisfied that the individuals at BSIAL who were responsible for the reserving analyses have the necessary experience and expertise to undertake reviews of this nature and for me to rely on their reviews
- I am satisfied that the individual at Firm A who was responsible for producing BSIAL's Actuarial Function Report and reviewing the adequacy of BSIAL's claims reserves has the necessary experience and expertise to undertake reviews of this nature and for me to rely on their review
- My experience and expertise relating to claims reserving.

7.46 I have been informed by BSIAL and BSIAE that the process and methodologies used to calculate the GAAP reserves for the Transferring Portfolio will not change following the Scheme.

Solvency II technical provisions

7.47 The Solvency II technical provisions are the sum of the best estimate provisions, calculated on a cash flow basis under Solvency II, and a risk margin.

Solvency II Group basis

7.48 The table below shows the Solvency II technical provisions for the Britannia Group as at 20 February 2020, both gross and net of reinsurance. As explained in paragraph 5.89, the Britannia Group's Hydra cell is treated as a third party reinsurer on a Solvency II basis, and therefore the ceded reserves figure below includes recoveries from Boudicca, the IG and the Britannia Group's Hydra cell, along with BSIAL's various other reinsurance arrangements.

Table 7.3: Group Solvency II technical provisions for the Transferring Portfolio as at 20 February 2020

$m	Gross of reinsurance	Ceded reserves	Net of reinsurance
Solvency II best estimate reserves	919.7	454.4	465.2
Risk margin	94.3	0.0	94.3
Total technical provisions	**1014.0**	**454.4**	**559.6**

7.49 BSIAL calculates its Solvency II technical provisions by applying a series of adjustments to its best estimate GAAP claims reserves, in line with standard market practice:

- Inclusion of future inflows and outflows relating to bound but not incepted business (known internally as “BBNI” business)
- Inclusion of Events Not in Data (“ENIDs”)
- Allowance for discounting to account for the time value of money, calculated using the risk-free yield curves published by the European Insurance and Occupational Pensions Authority (“EIOPA”) at the relevant date
- Inclusion of a risk margin, which is calculated as the net present value of the cost of capital associated with insurance and unavoidable market risk.

7.50 At 20 February 2020, BSIAL also made the following material adjustments to its GAAP claims reserves, due to the nature of BSIAL’s business model and the emergence of COVID 19. These are discussed in more detail below:

- Reclassification of the Britannia Group’s Hydra cell as a third-party reinsurer
- Reclassification of deferred calls
- Allowance for COVID 19.

Reclassification of Hydra as a third-party reinsurer

7.51 The PRA requires Hydra to be treated as a third-party reinsurer for Solvency II purposes. Therefore, the recoveries due to the Britannia Group’s Hydra’s cell from its own outwards retrocession arrangements, which are recognised in the GAAP balance sheet, do not get recognised in the Solvency II balance sheet. Instead, BSIAL’s expected recoveries from the Britannia Group’s Hydra cell are recognised on a Solvency II basis as though they were due from a third party, rather than from within the same group.

7.52 Note that I understand from BSIAE that, following the Scheme, the CAA has agreed to allow the Britannia Group’s Hydra cell to be fully consolidated into the Solvency II group balance sheet. Therefore, this adjustment to the GAAP reserves on a group basis will no longer be required. Although this will result in an increase in the net technical provisions following the Scheme, the difference will be purely presentational and not reflective of any change in the reinsurance cover available to the Transferring Portfolio.

Reclassification of deferred calls

7.53 On a GAAP basis any accrued deferred call, i.e. premium from deferred calls which has been earned but not yet received by BSIAL, is treated as an asset on the balance sheet. Under Solvency II this gets reclassified to the gross technical provisions and therefore this adjustment applies as a reduction to the GAAP claims reserves.

Allowance for COVID 19

7.54 As stated in paragraph 7.49, BSIAL includes BBNI business in its Solvency II technical provisions. Due to the nature of the business written by BSIAL, policies are assumed to renew annually on 20 February, and therefore the BBNI business included in the technical provisions as at 20 February 2020 comprises BSIAL’s annual policies for the 2020/2021 policy year. BSIAL has therefore calculated a best estimate of the impact of COVID 19 on this group of policies.

7.55 BSIAL has modelled the impact of COVID 19 on BBNI business with separate consideration for:

- Expected impact on claims cashflows
- Expected impact on premium cashflows

7.56 BSIAL has identified the following key scenarios as potential sources of additional claims as a result of COVID 19, and modelled the expected impact of each of these:

- P&I retention claims
  - Vessel and crew are required to quarantine in port for up to a month
  - Repatriation and replacement of crew
  - Crew require medical treatment
  - Vessel requires disinfecting
- Pool P&I claims
  - Cruise ship experiences COVID 19 outbreak
- FD&D claims
  - Claim disputes increase in response to financial crisis

7.57 BSIAL also modelled the expected impact of COVID 19 on future premium inflows, resulting from the following scenarios:

- Increased member default on premiums
- Increased number of lay-ups – This is where a vessel is temporarily taken out of service and anchored or moored. In this scenario BSIAL would usually return a proportion of premium to the relevant member, as the risk of insurable losses is considerably reduced, however the return of premium is at BSIAL's discretion.

7.58 BSIAL's best estimate impact of the above modelled claims and premium scenarios was $8.0m and was added as a loading to BSIAL's technical provisions as at 20 February 2020. This loading all relates to the 2020/21 policy year.

7.59 Risk Margin

7.60 I understand from the Britannia Group that it calculates its risk margin by projecting the future SCRs according to different runoff patterns for the different elements of the SCR:

- Non-life underwriting risk and operational risk run off in proportion to the square root of the percentage of the gross claims cashflows
- Counterparty default risk runs off in proportion to the square root of the percentage of future reinsurance recoveries

7.61 The future SCRs are then discounted for the time value of money and multiplied by the cost of capital before being summed to give the Risk Margin.

7.62 The approach described above is in line what I have seen in the market in relation to Risk Margin calculations.

Solvency II solo basis

7.63 For completeness, the table below shows the Solvency II technical provisions for BSIAL as a solo entity, as at 20 February 2020, both gross and net of reinsurance. The best estimate balances are consistent with those shown in table 7.3, except that the ceded reserves figure below also includes recoveries from BSIAL's subsidiary, USMIA.

Table 7.4: Solo Solvency II technical provisions for the Transferring Portfolio as at 20 February 2020

$m	Gross of reinsurance	Ceded reserves	Net of reinsurance
Solvency II best estimate reserves	919.7	849.0	70.7
Risk margin	38.4	0.0	38.4
Total technical provisions	**958.1**	**849.0**	**109.1**

7.64 The risk margin is substantially lower than in table 7.3 as the net best estimate reserves are lower than on a group basis, which in turn leads to a lower SCR and lower risk margin.

Conclusions in respect of the Solvency II technical provisions

7.65 I have performed an analysis to satisfy myself that BSIAL's estimate of the Solvency II technical provisions is consistent with my expectations for insurance business of the nature that it writes. This analysis involved:

- An analysis to satisfy myself that BSIAL's GAAP reserves are consistent with my expectations for insurance business of the nature that it writes, as discussed in paragraph 7.44
- A review of BSIAL's Actuarial Function Report which discusses the adequacy of the technical provisions of BSIAL as at 20 February 2020
- A review of BSIAL's technical provisions methodology and assumptions documentation, including the adjustments made to convert the GAAP reserves to the Solvency II technical provisions
- A review of the analysis performed by BSIAL in calculating its best estimate adjustment to the technical provisions to allow for COVID 19
- A comparison of the methods used to estimate the Solvency II technical provisions with industry best practice
- A review of the CVs of the individuals who are responsible for the calculation of the Solvency II technical provisions. Based on these and my interactions with those individuals, I am satisfied that the actuaries at BSIAL and Firm A who undertook these calculations have the necessary experience and expertise to undertake an analysis of this nature and for me to rely on their analysis.
- Discussions with individuals at BSIAL to understand the approaches used to estimate the Solvency II technical provisions. These discussions have also involved considering whether any material changes have occurred to the processes since the date of the information received.

7.66 I believe that the Solvency II technical provisions for the Transferring Portfolio lie within a range of reasonable estimates. In reaching this assessment, I have considered the following:

- I have concluded that BSIAL's reserving and Solvency II technical provisions process appears appropriate and robust, as described in paragraph 7.3
- I consider BSIAL's GAAP reserves to be reasonable, as concluded in paragraph 7.45
- Where BSIAL has made adjustments to the GAAP reserves, it has generally utilised market standard approaches in making such adjustments and I consider the adjustments to be reasonable
- I consider BSIAL's approach to modelling a best estimate impact of COVID 19 on BBNI business to be reasonable, given the considerable uncertainty surrounding the impact of COVID 19 at the time of carrying out these calculations
- The analyses that BSIAL has conducted in relation to its own experience are appropriate
- The reasonableness of the outputs compared to the historical experience
- I am satisfied that the individuals at BSIAL who were responsible for the analysis have the necessary experience and expertise to undertake analysis of this nature and for me to rely on their analysis
- My experience and expertise in relation to Solvency II technical provisions.

7.67 I note that there is inevitably uncertainty regarding the appropriate level of adjustments to make in order to estimate the technical provisions under Solvency II. BSIAL could have made other equally valid adjustments which would lead to different results.

7.68 I have been informed by BSIAL and BSIAE that the process and methodologies used to calculate the Solvency II technical provisions for the Transferring Portfolio will not change following the Scheme, with the exception of reclassification of Hydra as a third party reinsurer, which will no longer be required.

What if BSIAE's Branches aren't approved before the Initial Effective Date?

7.69 As explained in paragraph 3.3, there is a possibility that one or more of BSIAE's Branches will not be approved by the Initial Effective Date of the Scheme, in which case the business written by the relevant branch(es) of BSIAL will remain in BSIAL temporarily, whilst the remainder of the Transferring Portfolio will transfer to BSIAE.

7.70 The table below shows the best estimate claims reserves for the Transferring Portfolio, split by the branch of BSIAE that the business will be transferring into under the Scheme. Note that the total best estimate claims reserves align with those shown in table 7.2 on both a gross and net basis. That is, the net of reinsurance position is net of recoveries from Boudicca, the IG, the Britannia Group's Hydra cell, USMIA and BSIAL's various other reinsurance arrangements.

Table 7.5: Actuarial best estimate claims reserves for the Transferring Portfolio as at 20 February 2020

$m		Gross of reinsurance	Net of reinsurance
Business to be allocated to BSIAE's Branches	Japan	43.5	3.5
	Hong Kong	16.7	0.5
	Singapore	8.1	0.8
Business to be allocated to BSIAE's UK Branch		759.7	35.6
Total best estimate claims reserves		**828.0**	**40.4**

7.71 Assuming that all three of BSIAE's Branches are approved ahead of the Initial Effective Date, the full set of reserves associated with the Transferring Portfolio will transfer to BSIAE, in line with the split of reserves shown above.

7.72 If one or more of BSIAE's Branches is not approved by the Initial Effective Date, the reserves associated with the unapproved branch(es) will remain in BSIAL temporarily, whilst the remainder of the reserves will transfer to BSIAE at that point. Once any outstanding branch applications have been approved, the reserves associated with the remaining tranche(s) of BSIAL's business will also be transferred to BSIAE.

7.73 I understand from BSIAL that it has used premium at a policy year level to allocate the IBNR to each of BSIAL's Branches for the purposes of separating reserves should it be required.

7.74 Based on my analysis, I consider the reserves held at the branch level to be reasonable for the following reasons:

- I have concluded in paragraph 7.45 that the reserves as at a total level lie within a reasonable range
- I have calculated the IBNR to outstanding ratios for each of BSIAL's Branches and consider these to be reasonable

8 Capital Requirements

8.1 In assessing the impact of the Scheme on policyholders, I have considered the solvency positions of BSIAL, BSIAE and the Britannia Group.

8.2 Apart from the change in respect of the consolidation of Hydra as discussed in paragraphs 5.90 and 8.86, I understand from the Britannia Group that there is no intention to change the way that capital requirements are calculated following the Scheme, nor an expectation that the capital position from the perspective of the Britannia Group's policyholders will change materially, as the assets and liabilities are transferring in their entirety from BSIAL to BSIAE under the Scheme. As a result, this section of the report focusses not only on the impact of the Scheme on the solvency position of the companies involved, but also on whether the companies' approaches to calculating and holding capital offer a sufficient level of protection to policyholders.

8.3 In analysing the capital requirements of each of BSIAL, BSIAE and the Britannia Group, I have considered:

- Its capital strategy and its ability to access additional capital and reinsurance if required
- Its approach to calculating regulatory and economic capital requirements
- Its regulatory and economic solvency positions, both before and after the Scheme
- Its internal validation of the regulatory and economic capital positions, including the validation testing evidenced within the latest ORSA report
- My own testing of the economic capital position of the Britannia Group, to assess the likelihood of it not being able to meet its liabilities over the course of the run-off of the liabilities (i.e. on an ultimate basis)

8.4 This section of the report is set out as follows:

- Paragraphs 8.9 to 8.16 discuss the capital strategies of BSIAL, BSIAE and the Britannia Group
- Paragraphs 8.17 to 8.19 discuss the fungibility of capital within the Britannia Group
- Paragraphs 8.20 to 8.33 discuss the approach taken to calculating regulatory capital requirements by BSIAL, BSIAE and the Britannia Group
- Paragraphs 8.34 to 8.44 discuss the approach taken to calculating economic capital requirements by the Britannia Group
- Paragraphs 8.45 to 8.52 discuss the internal approach taken to assess the appropriateness of the calculated economic capital requirements by the Britannia Group
- Paragraphs 8.53 to 8.68 discuss the analysis I have undertaken to assess the robustness of the economic capital resources held by the Britannia Group
- Paragraphs 8.71 to 8.73 discuss my findings in respect of the Britannia Group's most recent ORSA report
- Paragraphs 8.74 and 8.75 discuss my assessment of the reasonableness of the regulatory and economic capital requirements calculated and held by BSIAL, BSIAE and the Britannia Group
- Paragraphs 8.76 to 8.91 consider the impact of the Scheme on the GAAP and Solvency II balance sheets
- Paragraphs 8.92 to 8.99 consider the impact of the Scheme on the economic capital position
- Paragraphs 8.100 to 8.108 consider the impact of the Scheme in the scenario that one or more of BSIAE's Branches are not approved by the Initial Effective Date

8.5 It should be noted that one of the key limitations of the regulatory capital requirements under Solvency II is that they only represent the amount of capital that an insurer is required to hold over the next year. When considering policyholder security, it is also important to consider whether an insurer will have sufficient assets to meet its liabilities over the course of the run-off of the business, or at least whether the risk of that not being the case is remote.

8.6 As a result, whilst I do consider the regulatory capital requirements for each insurer and for the Britannia Group, as well as the extent to which its Own Funds cover its SCR, the focus of my analysis is on the Britannia Group's economic capital requirement, known internally as the ECB, to assess the likelihood of the Britannia Group being unable to meet its liabilities over the course of the run-off of the liabilities.

8.7 Throughout the rest of this section of the report I have focused on the ECB as the main measure of capital strength, although I have not disclosed the ECB capital requirement or ECB capital resources in this report, since both of these figures are of a confidential nature.

8.8 I consider the ECB to be a more appropriate measure of the security provided to policyholders within the Transferring Portfolio than the Standard Formula SCR, for either the solo entities or the Britannia Group, for the following reasons:

- The ECB consolidates the results for the Britannia Group's Hydra cell and Boudicca, both of which are dedicated reinsurers of BSIAL prior to the Scheme and will be dedicated reinsurers of BSIAE following the Scheme. As discussed in Table 5.3, the Britannia Group's Hydra cell and Boudicca are not consolidated on a Solvency II basis. The ECB therefore gives a more comprehensive representation of the capital resources available to the transferring policyholders, as well as the risks to which they are exposed.
- The ECB is calculated on an ultimate time horizon, meaning that it reflects the capital that needs to be held to fully run-off the liabilities associated with the Transferring Portfolio with a sufficient level of confidence, whereas the Standard Formula SCR is calibrated to measure the capital that an entity or group needs to hold over the next year.
- The Britannia Group's economic capital targets are set by the Britannia Board with reference to the ECB, rather than to the regulatory capital requirements. Therefore, in my view, the ECB gives a more realistic indication of the Britannia Group's view of capital needs.
- The ECB calculation produces a much higher capital requirement than the Standard Formula group SCR and is therefore a more stringent measure of the capital required by the group to provide sufficient security to policyholders.
- The ECB is able to more appropriately allow for the additional risks to which the Britannia Group is exposed as a result of COVID 19 as the parameters can be altered in light of emerging information whereas the parameters in the SCR cannot be altered.

Capital strategy

8.9 In order to satisfy the risk appetite statements defined by the Britannia Board, the Britannia Group aims to maintain capital resources of the modelled ECB. There is an acceptable corridor around the ECB requirement that provides the Board discretion when considering actions such as member distributions, pricing changes or supplementary calls. At 20 February 2020 the Britannia Group held 115.8% of the ECB capital requirement.

8.10 Historically, when prudent planning assumptions have led to the Britannia Group holding capital above 105% of the ECB capital requirement, the Britannia Group has returned some of this excess to its members, through capital distributions. These distributions are discretionary and therefore further distributions are not assumed in the capital projections for future underwriting years.

8.11 I understand that, in times of greater economic and geopolitical uncertainty, the Britannia Group's Board may chose to retain capital and to gradually reduce this over time rather than by making a distribution. For example, I understand from BSIAL that the Britannia Board decided not to make a capital distribution to members in May 2020, due to the additional uncertainty introduced by COVID 19, and that the Britannia Board intends to consider member distributions as part of its usual process in October 2020 and will consider the facts and circumstances at that time.

8.12 Under the rules of the Britannia Group, BSIAL is able to make unlimited unbudgeted supplementary calls on members, should the need for additional capital arise. Unbudgeted supplementary calls qualify as Tier 2 Ancillary Own Funds ("AOF") under Solvency II, subject to regulatory approval. The AOF is calculated by the Britannia Group as the lower of $129.5m or 50% of the SCR and increased the Britannia Group's Solvency II Own Funds by $129.5m at 20 February 2020. I understand from the Britannia Group that regulatory approval of unbudgeted supplementary calls as AOF was renewed in February 2020.

8.13 I understand from BSIAE that it will apply for approval from the CAA to recognise unbudgeted supplementary calls as Tier 2 capital following the Scheme, although it expects to still have comfortable coverage of its regulatory capital requirements without this resource. I will comment further on this in my Supplementary Report.

8.14 The Britannia Board's risk appetite statements stipulate that the Britannia Group should avoid unbudgeted supplementary calls on members. I understand from the Britannia Group that its prudent approach to capital setting and comprehensive reinsurance programme have allowed it to meet this target and avoid any such calls for almost 50 years.

8.15 As mentioned in paragraph 5.47, Boudicca reinsures the Britannia Group against the possibility of the Britannia Group's Own Funds falling below the Standard Formula SCR, and will provide the same cover following the Scheme. Although this does not impact the overall capital position of the Britannia Group on an ECB basis, it does provide additional assurance around the ability of the insurers within the group to meet their regulatory capital requirements in extreme conditions.

8.16 I understand from the Britannia Group that there are no intended changes to the capital strategy following the Scheme since the purpose of the Scheme is to allow the Britannia Group to operate in the same way as present but such that it can also continue to operate following Brexit.

Fungibility of capital

8.17 As discussed in Section 5, the structure of the Britannia Group is fairly simplistic, in that there are two insurers, BSIAL and BSIAE, both of which are fully owned by a holding company, Britannia Holdings. The Britannia Group does not hold excess capital in Britannia Holdings and at present there is a limited amount of capital in BSIAE, because it has yet to commence underwriting and has no policyholders.

8.18 The three main reinsurers considered to be in the Britannia Group are USMIA, the Britannia Group's Hydra Cell and Boudicca, which are all set up for the sole purpose of providing reinsurance to BSIAL at present and BSIAE following the Scheme. Given this, subject to those reinsurers meeting their respective capital requirements, it is possible for those reinsurers to provide short term funding to either BISAL or BSIAE, where necessary.

8.19 I understand from the Britannia Group that it is possible for USMIA to transfer capital to BSIAL or BSIAE via the payment of dividends to Britannia Holdings, should a capital injection be required. I further understand that this will continue to be the case following the Initial Effective Date and following the Scheme.

Regulatory capital requirements

8.20 The Standard Formula is currently used by BSIAL and the Britannia Group to calculate the regulatory SCR on both a solo and a group basis.

8.21 I understand from BSIAE that the approach to calculating regulatory capital requirements will not change as a result of the Scheme and that BSIAE will also use the Standard Formula to calculate its regulatory capital requirements. I also understand from BSIAL that the Britannia Group will continue to use the Standard Formula to calculate its regulatory capital requirement following the Scheme.

8.22 The following key risks are modelled within BSIAL's, BSIAE's and the Britannia Group's calculation of the Standard Formula:

- **Reserve risk –** the risk of the best estimate claims deteriorating (i.e. that the technical provisions on the Solvency II balance sheet are insufficient to cover the unpaid claims that have already occurred)
- **Premium risk** – the risk that calls / premiums in relation to the business that will be earned in the next 12 months will not be sufficient to cover future claims and related costs from that business
- **Natural catastrophe risk –** the risk of claims arising due to natural catastrophes e.g. floods, windstorms, earthquakes etc
- **Man-made catastrophe risk –** the risk of claims arising due to man-made catastrophes such as fire or aggregation of liability claims
- **Market risk** – the risk of adverse changes in net asset value as a result of movements in market risk variables such as interest rates, exchange rates, equity market values etc. It also includes the exposure to investment credit risk (the risk of default or adverse movements in credit ratings of the assets)
- **Counterparty default risk** – the risk of losses due to default or downgrade of reinsurers or due to non-payment of receivables from third parties
- **Operational risk** – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events

Appropriateness of the Standard Formula

8.23 The Britannia Group uses a set of unapproved actuarial models for assessing its economic capital requirement, the ECB. The Britannia Group does not intend to use these models to calculate its regulatory capital requirements, and therefore the models have not gone through the PRA's approval process.

8.24 On a group Solvency II basis, as explained in paragraphs 5.81 to 5.89, the PRA's view is that both Boudicca and Hydra should be treated as third party reinsurers. Therefore, the group SCR result treats these two entities as third party reinsurers.

8.25 As explained in paragraph 5.90, my understanding is that, following the Scheme, the CAA will allow the Britannia Group's Hydra cell to be fully consolidated with the results of the other Britannia Group entities on a Solvency II basis. As a result, the pre-Scheme Group SCR presented in this report is net of the impact of the Britannia Group's Hydra cell, whereas the post-Scheme Group SCR is gross of the impact of the Britannia Group's Hydra cell but takes into account the invested assets that Hydra holds.

8.26 The risks of any entity are unlikely to perfectly match the design of the Standard Formula as it has been designed to be used by a wide range of insurance companies. For example, in the case of the man-made catastrophe risk charge, the Standard Formula relies on simple loss scenario calculations which may be a poor reflection of a 1-in-200-year catastrophe loss for any given entity. In addition, the Standard Formula Capital Requirement only represents the amount of capital that an insurer is required to hold over the next year.

8.27 In light of the recent situation with COVID 19, it is possible that a number of the parameters within the Standard Formula calculation may need to be revisited by the regulator in the near future, to ensure that their calibration adequately reflects a 1-in-200 year risk event. For example, COVID 19 has already had a significant impact on the economy and it is currently unclear what the longer-term implications on market variables will be. For similar reasons, it is likely that a number of the key inputs used by insurers in their Standard Formula calculations, such as credit ratings of reinsurers, will be outdated for the short term, leading to the possibility that the Standard Formula SCR may understate the capital that an insurer needs to hold to cover a 1-in-200 year risk event. As the Standard Formula is a prescribed calculation, insurers are not able to make their own adjustments to the calculation to try and reflect the impact of COVID 19 on their regulatory capital requirements.

8.28 In part to address the limitations in the Standard Formula described above, as well as for the additional reasons given in paragraph 8.7, I have also focused on the entities' economic capital requirements as a measure of their capital strength.

8.29 Despite its limitations, use of the Standard Formula is, in my opinion, appropriate for calculating regulatory capital for BSIAL, BSIAE and the Britannia Group. The risk areas covered by the Standard Formula are reflective of the risks to which BSIAL and BSIAE, as well as the other entities considered by the regulators to form part of the Britannia Group, are exposed.

8.30 In addition, BSIAL has undertaken an assessment of the appropriateness of the Standard Formula, in which it concludes that the Standard Formula is appropriate for calculating regulatory capital for BSIAL and the Britannia Group.

8.31 Further to this, the external auditors review the Britannia Group's SCR on an annual basis.

8.32 I have considered the approach used to perform the Standard Formula calculations for BSIAL, BSIAE and the Britannia Group, before and after the Scheme, and consider the approach to be reasonable and proportionate to the scale and complexity of their operations.

8.33 I note that whilst I have considered the methodology for each element of the SCRs described above, I have not reviewed the calculations in detail. However, I have considered the final results of the calculations, and I have not identified any reason to believe the calculated SCRs materially understate the regulatory capital required by BSIAL, BSIAE or the Britannia Group, as defined by the regulators.

Economic capital requirements

Calculation of the ECB

8.34 The Britannia Group uses a series of stochastic models to calculate the capital requirements relating to different key risks. These capital charges are then combined using deterministic correlation factors to calculate the overall ECB.

8.35 In particular, the material components of the ECB are calculated as follows:

- **Premium risk** – a stochastic model is used to generate a distribution of future claims experience arising in the next three underwriting years
- **Reserve risk** – a bootstrapping model is used to generate a distribution of the ultimate claims position around the best estimate. Note that this is the same model used in BSIAL's GAAP reserving process and described in paragraph 7.42.
- **Catastrophe risk** –the same scenario-based approach as the Standard Formula is used, but the capital charge is considerably higher as the calculation does not allow for recoveries from the Britannia Group's Hydra cell or Boudicca, as it is considered to be part of the Britannia Group on an ECB basis
- **Market risk** – the Britannia Group fits a distribution to each type of asset held as part of its investment portfolio, based on an assumed average return and standard deviation. The loss at a 99.5% confidence level is then taken for each asset type and deterministic correlation factors are used to calculate an overall market risk charge.
- **Counterparty default risk** – a stochastic model is used to simulate whether reinsurers default and the potential costs of those defaults to the Britannia Group
- **Operational risk** - a stochastic model is used based on several scenario-based inputs captured in the risk register

8.36 As explained in paragraphs 5.86 to 5.88, the ECB reflects the capital requirements in respect of the operational view of the Britannia Group, i.e. with Boudicca and the Britannia Group's Hydra cell fully consolidated into the results.

8.37 The ECB is calibrated to reflect the capital required by the Britannia Group to meet existing liabilities and business written over the next three underwriting years to a 99.5% confidence level on an ultimate time horizon.

8.38 The Britannia Group also approximates the ECB on a one-year time horizon, to allow for comparison to the Standard Formula SCR, which is calibrated on a one-year basis.

8.39 I understand from the Britannia Group that it has been refining certain aspects of the calculation of the ECB for the past eighteen months, and that it expects this process to continue beyond the Initial Effective Date of the Scheme. At this stage it is not possible to know what impact these reviews may have on the ECB, however this process is unrelated to the Scheme and would still be taking place if the Scheme were not going ahead. I understand that, outside of these ongoing improvements to the ECB models, there are no intended changes to the calculation of the economic capital requirements for the Britannia Group following the Scheme.

8.40 ECB capital resources are derived from net assets on a UK GAAP basis by adding back the management margin held in respect of the UK GAAP reserves and adding the excess assets from Boudicca (as a result of consolidating it into the Britannia Group for ECB purposes), but do not allow for the AOF captured in the Solvency II Own Funds.

Allowance for COVID 19

8.41 As explained in paragraph 8.35, the reserve risk component of the ECB is based on the GAAP reserves. As discussed in paragraph 7.40, BSIAL does not expect the policy year ending on 20 February 2020 to be materially impacted by COVID 19 and therefore the GAAP reserves as at 20 February 2020 did not include an explicit allowance for COVID 19.

8.42 As discussed in paragraph 7.58, BSIAL has calculated a best estimate impact of COVID 19 on the policy year ending on 20 February 2021 of $8.0m. As part of the same modelling exercise, I understand that BSIAL calculated a 'worst-case' impact of COVID 19 of $40.7m. I understand from the Britannia Group that it has adjusted its ECB capital requirements and ECB capital resources, as at 20 February 2020, in light of these calculations.

8.43 In projecting the ECB to the Initial Effective Date of the Scheme, I understand from the Britannia Group that it has maintained the same loading to its insurance risk charge in relation to COVID 19 as at 20 February 2020.

8.44 In projecting the market risk to the Initial Effective Date, I understand from BSIAL that it has taken the current impact on its investments as the expected asset position at the Initial Effective Date. I further understand from BSIAL that it has not made any adjustments in respect of counterparty default risk or operational risk.

Internal validation of the ECB

Premium risk

8.45 I understand from the Britannia Group that it carries out annual validation of the model used to calculate its premium risk, which accounted for approximately 30% of the undiversified ECB as at 20 February 2020. I have reviewed the validation report produced by BSIAL in respect of the premium risk model as at February 2019. The validation report sets out in detail the validation that has been carried out on the premium risk model in order to ensure that the results are appropriate. At the time of writing this report, the validation report as at 20 February 2020 was not yet available. I will review this as part of the analysis for my Supplementary Report.

8.46 I have reviewed the CV of the individual at BSIAL who was responsible for the validation of the premium risk model. Based on this and my interactions with that individual, I am satisfied that the individual at BSIAL who was responsible for the validation has the necessary experience and expertise to undertake a review of this nature and for me to rely on their review.

8.47 As is to be expected, there are a number of limitations that have been highlighted in the validation report. However, there is nothing in the validation report that leads me to believe that the premium risk within the ECB is materially misstated.

Reserve risk

8.48 As explained in paragraph 8.35, the same stochastic bootstrapping model is used to calculate the reserve risk component (which accounted for approximately 25% of the undiversified ECB as at 20 February 2020) of the ECB as is used to model the claims reserve distribution for the purpose of setting GAAP reserves on a quarterly basis. As such, the appropriateness of this model is considered by BSIAL's actuarial team on a regular basis and the results of the model are subject to the scrutiny of the extensive governance process described in paragraph 7.7. I have discussed my review in respect of this approach in paragraphs 7.41 to 7.45.

8.49 Furthermore, the approach used ensures an appropriate level of convergence.

8.50 Therefore, I am comfortable that the appropriateness of the bootstrapping model for calculating reserve risk within the ECB is sufficiently challenged through BSIAL's wider reserving process.

Other risk areas

8.51 I understand from the Britannia Group that, for the less material components of the ECB, an analysis of change is produced as part of the ORSA process to ensure that the key drivers of movements in the ECB over the year are well understood.

8.52 A range of stress and scenario tests are also carried out to test the appropriateness of the ECB capital held for each risk type as part of the ORSA process. Further details of these tests are given in paragraph 8.72.

Independent testing of the ECB

8.53 As explained in paragraph 8.7, I have placed more focus on the ECB than the regulatory capital requirements when assessing the security of the transferring policyholders afforded by the capital position of the Britannia Group.

8.54 I have identified a number of limitations in the Britannia Group's approach to calculating the ECB. I do not consider any of these to be material in the context of the Scheme, given that the approach to calculating the economic capital requirements of the Britannia Group will remain the same following the Scheme. However, I have carried out a series of tests to satisfy myself that the level of capital held by the Britannia Group is reasonable and sufficient to meet its policyholder obligations over the run-off of the liabilities.

Testing of the ECB

8.55 I have carried out a range of tests on the Britannia Group's calculated ECB and capital resources on an ECB basis. The tests I have carried out, as well as the purpose of each test, are as follows:

- Tests of the reasonableness of the projected ECB as at the Initial Effective Date:
  - Sensitivity testing of key assumptions
  - Analysis of change from 20 February 2020 to the Initial Effective Date
  - Benchmarking of the ECB against market capital models
- Tests of the likelihood of the complete deterioration of the capital resources on an ECB basis:
  - Reverse Stress Testing
- Tests of the strength of the capital position against alternative assumptions in relation to the impact of COVID 19

Sensitivity testing

8.56 I requested that BSIAL undertake a variety of sensitivity tests across different aspects of the ECB model to ensure that changes in assumptions have the impact that I would expect on the Britannia Group's ECB requirement. The sensitivity tests covered inputs and assumptions across premium risk, reserve risk and market risk, as these are the main contributors to capital requirements for the Britannia Group. The sensitivity tests I requested are different to those considered in the Britannia Group's ORSA.

8.57 The tests showed that the output, when compared to the base model run, moved in line with my expectations both in direction and magnitude. As a result, I am satisfied that the ECB model is working as expected.

Analysis of change

8.58 I also requested that BSIAL carry out an analysis of change, reconciling the differences between the ECB requirement at 20 February 2020 and the projected requirement as at 20 February 2021, to gain comfort around the reasonableness of the projected figure.

8.59 During this period, BSIAL has projected a fall in available capital resources on an ECB basis. The main drivers of this are a drop in the market value of asset holdings, due to the significant recent market fluctuations caused by COVID 19, and a reserve deterioration, due to a number of case reserves worsening in the first quarter of the financial year. In its projections, BSIAL has assumed that the latest available asset and reserve positions at the calculation date are an appropriate best estimate of the position of these respective balance sheet items on the Initial Effective Date, i.e. that the positions in respect of these two items will neither improve nor worsen by the Initial Effective Date. Based on my discussions with BSIAL and the stability of BSIAL's business, I do not consider this to be an unreasonable assumption, although it is clearly subject to some uncertainty and other reasonable assumptions could be made.

8.60 BSIAL's analysis of change demonstrated that the material drivers of the increase in the ECB requirement over this period were an increase in insurance risk, as a result of the assumed increase in reserves over this period, and a reduction in market risk, as a result of the fall in asset values. The conclusions of this analysis were therefore in line with my expectations, given my understanding of the change in the Britannia Group's risk profile over this period.

Benchmarking

8.61 I have reviewed the outputs of the ECB capital requirement against market benchmarks from a range of capital models used throughout the market. My review exhibited the following:

- Premium risk as a percentage of net premium is broadly in line with the market benchmarks
- Reserve risk as a percentage of net reserves is broadly in line with the market benchmarks
- Market risk as a percentage of available assets is substantially higher than that seen in the market benchmarks. This is to be expected to some extent since the Britannia Group holds a riskier asset mix than the participants that would be included in the benchmark data. This is because the Britannia Group invests more of its assets in equities than I would expect insurers within the benchmark data to do.
- Credit risk as a percentage of expected recoveries is towards the upper end of that seen in market benchmarks
- Operational risk as a percentage of net premium is higher than that seen in the market benchmarks

8.62 The above analysis indicates to me that the ECB requirement is not materially out of line when compared to the capital requirement calculated elsewhere in the general insurance market.

Reverse stress testing

8.63 I have used reverse stress testing to assess the resilience of the Britannia Group's projected capital position on an ECB basis as at the Initial Effective Date. I have tested two scenarios which are examples of the types of event that would be required to deteriorate the Britannia Group's assets to below its liabilities. The two scenarios I have considered, which result in the assets falling below the liabilities, are as follows:

1. An extreme deterioration in the Britannia Group's net reserves coupled with an extreme fall in the value of the Britannia Group's investment portfolio
2. A less extreme deterioration in the Britannia Group's net reserves coupled with adverse underwriting results, a large fall in the value of the Britannia Group's investment portfolio and a extreme reinsurer default event

8.64 Based on my understanding of the Britannia Group's risk profile, I consider these two scenarios to be a good reflection of the most material threats to the solvency of the Britannia Group.

8.65 I asked BSIAL to quantify the percentile of the relevant risk distributions that each of the elements of the specified scenarios would occur at, in order to gauge the likelihood of the Britannia Group's available assets falling below its liabilities. Based on my analysis and the percentiles provided by BSIAL, I consider the likelihood of a complete deterioration of the Britannia Group's capital resources, as measured on an ECB basis, to be remote.

Stress testing - What if the impact of COVID 19 is worse than anticipated?

8.66 Thus far, my analysis of the ECB measure, as well as the capital resources available to the Britannia Group on an ECB basis, has been based on the assumption that the Britannia Group's modelling of the impact of COVID 19 is reasonable.

8.67 Given the considerable uncertainty in modelling the ultimate impact of COVID 19 at such an early stage in the development of the pandemic, I have carried out an additional stress test which adopts more pessimistic loss assumptions than those used currently by BSIAL in the modelling of the best estimate and 'worst-case' impact of COVID 19. In particular, I increased both the frequency and severity parameters in the modelling by 50% to assess the impact on the Britannia Group's ECB coverage ratio at the Initial Effective Date.

8.68 This stress test increased the best estimate impact of COVID 19 by $9.7m, and the 'worst-case' impact of COVID 19 by $43.1m. Allowing for these impacts on the Britannia Group's projected ECB and ECB resources as at the Initial Effective Date reduces the projected ECB coverage ratio from 109.5% to 102.0%. Although this stress test reduces the excess assets available at the Initial Effective Date, the coverage of the ECB remains above 100%.

8.69 For completeness, I have also applied this stress test to the Britannia Group's capital resources on a Solvency II basis. As the Britannia Group measures its regulatory capital requirement using the Standard Formula, the increase in the best estimate impact of COVID 19 has been applied to the technical provisions balance, which is an input to the Standard Formula calculation, resulting in an increase in the calculated SCR of $2.4m. Note that the absolute impact on the SCR is much smaller than the comparative impact of the stress test on the ECB, as the impact is constrained by the specifications of the Standard Formula calculation. In addition, the increase in the best estimate impact of COVID 19 serves to reduce the available Own Funds. Overall, the projected group SCR coverage ratio at the Initial Effective Date decreases from 181.0% to 175.8% as a result of the stress test. The coverage ratio of the Britannia Group on a regulatory basis therefore remains high under these stressed assumptions.

8.70 Further to the above, I understand from BSIAL that, in the first quarter of the financial year commencing 20 February 2020, no claims have as yet been notified to the Britannia Group in respect of its own losses arising in relation to COVID 19. In light of this, I am comfortable that there is a low likelihood of the Britannia Group's capital resources being depleted by COVID 19 to an extent which would materially threaten the financial security of the transferring policyholders. I will provide an update on the notification of claims in relation to COVID 19 in my Supplementary Report.

ORSA

8.71 I have been provided with a copy of the Britannia Group's most recent ORSA report which includes a forward-looking assessment of its risk profile and regulatory and economic capital requirements. The ORSA document was finalised in October 2019 and has been approved by the Britannia Board.

Stress tests within the ORSA report

8.72 The Britannia Group has considered various stress and scenario tests within its ORSA to test the robustness of its regulatory and economic capital positions. The stress and scenario testing covers a wide range of risks that the Britannia Group is exposed to, such as reserve deteriorations, market risks and operational risks. I have reviewed the approach undertaken and the variety of tests undertaken in relation to these stresses and consider the approach and key assumptions to be reasonable.

8.73 The vast majority of the stress tests undertaken did not have a capital impact greater than the Britannia Group's SCR or ECB capital held for the relevant risk category. For the small number of stress tests where the impact is greater than the SCR held for that risk component, the impacts are all within the ECB's risk capital, demonstrating that the ECB is a robust measure of the Britannia Group's capital requirements.

Reasonableness of regulatory and economic capital

8.74 Whilst I have considered the methodology and key assumptions used to calculate the regulatory and economic capital requirements, I have not performed a detailed verification of the calculations performed by BSIAL, BSIAE and the Britannia Group. However:

- I have reviewed the CVs of the individuals who are responsible for the assessment of capital requirements at BSIAL, BSIAE and for the Britannia Group. Based on these and my interactions with the individuals, I am satisfied that these individuals are suitably qualified and have the necessary experience and expertise to undertake analyses of this nature and for me to rely on their analysis.
- I understand from BSIAL that the regulatory capital requirements and economic capital requirements are reviewed and agreed by the Britannia Board
- I have considered the stress testing of the ECB and regulatory capital evidenced in the Britannia Group's latest ORSA report, as described above in paragraphs 8.72 to 8.73.
- I have considered BSIAL's standard formula appropriateness report, which considers the appropriateness of the Britannia Group's regulatory capital as at 20 February 2019 in which it concludes that the Standard Formula is appropriate for calculating its regulatory requirements.
- I have reviewed the analysis performed by BSIAL to calculate its adjustment to the Britannia Group's economic capital requirements and economic capital resources to allow for the impact of COVID 19. I have also supplemented this analysis with my own additional stress testing.
- To satisfy myself that the level of capital held by the Britannia Group is sufficient to meet its policyholder obligations over the run-off of the liabilities, I have performed a number of my own tests on the ECB, as described in paragraphs 8.55 to 8.68. In particular, I have demonstrated the types of

event which would be required for the Britannia Group to have assets below its liabilities and have concluded that the likelihood of such events occurring is remote.

8.75 In light of the work described above, I have concluded that:

- I consider BSIAL, BSIAE and the Britannia Group's approach to calculating their regulatory capital requirements to be reasonable
- The validation that BSIAL and the Britannia Group have conducted in relation to their regulatory and economic capital, as evidenced in the Britannia Group's latest ORSA report, is appropriate
- I consider BSIAL's approach to modelling the impact of COVID 19 in the Britannia Group's economic capital requirements and economic capital resources to be reasonable, given the considerable uncertainty surrounding the impact of COVID 19 at the time of carrying out these calculations
- I consider the Britannia Group's approach to calculating its economic capital requirements to be reasonable
- I am satisfied that the likelihood of the Britannia Group having insufficient assets on an ECB basis to meet its liabilities is remote, and, in particular, even after the potential impacts of COVID 19, my expectation is that this likelihood will remain remote

Impact of the Scheme on the balance sheet

Impact on a GAAP basis at 20 February 2020

8.76 The table below shows the simplified GAAP solo balance sheets of BSIAL and BSIAE, as at 20 February 2020, both before and after the Scheme. These balance sheets have been prepared by BSIAL and BSIAE on the basis that the Scheme had become effective at 20 February 2020 and that the whole Transferring Portfolio transferred to BSIAE on this date. Note that the balance sheet of BSIAL after the scheme also assumes that its permissions to write insurance business are removed immediately upon the complete transfer of its business to BSIAE.

8.77 As stated in tables 5.2 and 5.3, BSIAL uses a UK GAAP accounting basis, whereas BSIAE uses a LUX GAAP accounting basis to value balance sheet assets and liabilities. Therefore, the figures shown below for BSIAL and BSIAE are presented on slightly different accounting bases.

Table 8.1: GAAP balance sheets at 20 February 2020, before and after the Scheme ($m)

	BSIAL before Scheme	BSIAE before Scheme	BSIAL after Scheme	BSIAE after Scheme
Assets:				
Financial investments	193.0	0.1	0.0	193.1
Cash	70.2	26.7	0.0	96.9
Reinsurers' share of reserves	1,136.3	0.0	0.0	1,136.3
Insurance and other receivables	149.3	0.0	0.0	149.3
Other assets	10.8	0.0	0.0	4.5
Total assets	**1,559.5**	**26.7**	**0.0**	**1,580.0**
Liabilities:				
Insurance reserves	1,198.7	0.0	0.0	1,198.7
Intra-group loans	204.7	6.2	0.0	204.7
Other liabilities	13.6	0.0	0.0	13.6
Total liabilities	**1417.0**	**6.2**	**0.0**	**1417.0**
Net assets	**142.5**	**20.5**	**0.0**	**163.0**

8.78 The table above demonstrates that there are no differences in the calculation of key balance sheet items arising as a result of the different account bases adopted by BSIAL and BSIAE, as the BSIAE post-Scheme position is simply a sum of the pre-Scheme positions of BSIAL and BSIAE. Note that the only exception to this is the cancelling out of intra-group balances between the two entities, once their assets and liabilities have been combined. As a result, I expect that there will be no impact on the transferring policyholders arising from changes in the accounting valuation bases underlying the balance sheets.

8.79 The net asset position of BSIAE post-Scheme is slightly higher than the net asset position of BSIAL pre-Scheme, as the liabilities and supporting assets of BSIAL are transferring to BSIAE in their entirety, and these get combined with the small amount of capital which BSIAE is holding prior to the Scheme.

Impact on a Solvency II basis at 20 February 2020

8.80 The table below shows the simplified Solvency II balance sheets and SCR coverage ratios of BSIAL, BSIAE and the Britannia Group at 20 February 2020, both before and after the Scheme. These balance sheets and capital requirements have been prepared by BSIAL and BSIAE on the basis that the Scheme had become effective at 20 February 2020 and that the whole Transferring Portfolio transferred to BSIAE on this date. Note that the balance sheet of BSIAL after the scheme also assumes that its permissions to write insurance business are removed immediately upon the complete transfer of its business to BSIAE.

8.81 Note that the SCR for BSIAE prior to the Scheme is the absolute minimum capital requirement for non-life insurers writing non-property lines of business under Solvency II.

8.82 As explained in paragraph 8.25, the pre-Scheme group results are net of the Britannia Group's Hydra cell, whereas the post-Scheme group results are gross of the Britannia Group's Hydra cell, as the CAA is expected to allow the Britannia Group to fully consolidate the Britannia Group's Hydra cell.

8.83 Note that the BSIAE and Britannia Group positions after the Scheme assume that the CAA have granted BSIAE approval to recognise supplementary calls as Tier 2 Own Funds.

Table 8.2: Solvency II balance sheets and SCR coverage ratios at 20 February 2020, before and after the Scheme ($m)

	BSIAL before Scheme	BSIAE before Scheme	Britannia Group before Scheme	BSIAL after Scheme	BSIAE after Scheme	Britannia Group after Scheme
Assets:						
Investments	452.4	0.1	782.9	0.0	452.5	847.2
Cash	70.2	26.7	89.5	0.0	96.9	116.2
Reinsurers' share of technical provisions	849.0	0.0	454.4	0.0	849.0	415.4
Insurance and other receivables	90.7	0.0	90.9	0.0	84.5	77.2
Other assets	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	**1462.3**	**26.7**	**1417.7**	**0.0**	**1,482.9**	**1,456.1**
Liabilities:						
Gross best estimate technical provisions	919.7	0.0	919.7	0.0	919.7	919.7
Risk margin	38.4	0.0	94.3	0.0	38.4	95.5
Other liabilities	169.6	6.2	7.2	0.0	169.6	8.3
Total liabilities	**1127.6**	**6.2**	**1021.2**	**0.0**	**1,127.6**	**1,023.4**
Own Funds:						
Net assets	334.7	20.5	396.5	0.0	355.2	432.7
Ancillary Own Funds	74.4	0.0	129.5	0.0	74.4	129.5
Total Eligible Own Funds	**409.1**	**20.5**	**526.0**	**0.0**	**429.6**	**562.2**
SCR Coverage Ratio:						
Solvency Capital Requirement (SCR)	148.8	4.0	261.2	0.0	149.0	264.4
Eligible Own Funds	409.1	20.5	526.0	0.0	429.6	562.2
SCR coverage ratio	**274.9%**	**513.3%**	**201.4%**	**0.0%**	**288.3%**	**212.6%**

8.84 The AOF balance is added to the excess of assets over liabilities to derive the Eligible Own Funds. The table above demonstrates that both the solo and group entities have SCR coverage ratios of over 200%, both before and after the Scheme, and are therefore very well capitalised on a regulatory basis.

8.85 As per table 8.1, it can be seen that the post-Scheme position of BSIAE is a combination of the pre-Scheme positions of BSIAL and BSIAE, with the exception of intra-group balances which cancel out once the entities' assets and liabilities have been combined.

8.86 The Britannia Group's Hydra cell is consolidated into the post-Scheme position and contributes its positive net asset position to the Britannia Group's Own Funds. This manifests primarily as an increase in the Britannia Group's Investments and Cash holdings in the table above, and a corresponding decrease in the reinsurers' share of technical provisions, since the post-Scheme position is gross of recoveries from the Britannia Group's Hydra cell. Overall, this results in an increase in the Britannia Group's Own Funds on a Solvency II basis of approximately $36m in the table above. I do not consider there to be any impact from a policyholder perspective as a result of this change with respect to the treatment of the Britannia Group's Hydra Cell within the Britannia Group's Solvency II balance sheet since this is purely a different interpretation from the two different regulators as to how accounts are presented, rather than any change in the underlying risks that the policyholders are exposed to.

8.87 As discussed in paragraph 8.79, BSIAE has a higher net asset position following the Scheme than BSIAL had prior to the Scheme, as the liabilities and supporting assets of BSIAL are transferring to BSIAE in their entirety, and BSIAE holds a small amount of capital prior to the Scheme. These additional assets result in a marginally higher capital charge, but overall BSIAE has a higher SCR coverage ratio following the Scheme than BSIAL has prior to the Scheme.

8.88 75.4% of the Britannia Group's Own Funds at 20 February 2020 were Tier 1, the highest tier of Own Funds, whilst the remaining 24.6% were Tier 2. Subject to the CAA's approval of unbudgeted supplementary calls as Tier 2 capital, the proportion of Tier 1 Own Funds will increase slightly, to 77.0%, as a result of the Scheme. I consider this allocation of Own Funds to the tiers to be reasonable.

8.89 Should the CAA not approve the unbudgeted supplementary calls as Tier 2 capital, the Britannia Group's SCR coverage ratio following the Scheme would fall to approximately 163%, leaving the Britannia Group with sufficient coverage above its SCR. As described in paragraph 5.47, Boudicca is contractually obliged to provide funding to the Britannia Group should there be issues regarding SCR coverage.

8.90 It should be noted from the above table that the SCR coverage ratio for BSIAE prior to the Scheme is not a particularly helpful comparator as a result of the funds invested in BSIAE being substantially higher than the absolute minimum capital requirement for an insurance company.

8.91 If a situation arises where all of the business has transferred to BSIAE, but BSIAL still has its permissions, it will be required to hold the absolute minimum capital requirement, and therefore a modest quantity of assets will need to remain in BSIAL, rather than transferring to BSIAE. Given the level of the absolute minimum capital requirement in comparison to the Eligible Own Funds of BSIAE following the Scheme, as shown in Table 8.2 above, I would not expect this to have a material impact on the SCR coverage ratio of BSIAE following the Scheme.

Impact of the Scheme on the economic capital position

8.92 There are several material sources of difference between the capital resources available to the Britannia Group on a Solvency II and ECB basis. These differences are as follows:

- Adjustments to UK GAAP reserves – The best estimate GAAP reserves form the starting point for determining the reserves held on either an ECB basis or on a Solvency II basis. However, the series of adjustments that must be made to the best estimate GAAP reserves differs between the two bases, introducing a material difference between the insurance liabilities, and therefore the net assets, on the ECB and Solvency II balance sheets. The adjustments made to derive the Solvency II reserves from the best estimate GAAP reserves are described in detail in paragraphs 7.49 to 7.50 of this report. On the other hand, to determine the reserves held on the ECB balance sheet, the net best estimate GAAP reserves are increased to be gross of any reinsurance recoveries from Boudicca, as this entity is considered part of the Britannia Group on an ECB basis.
- Consolidation of Boudicca and Hydra – As explained in paragraph 5.89, Boudicca and the Britannia Group's Hydra cell are considered members of the Britannia Group on an ECB basis, whereas both of these entities are treated as third party reinsurers on a Solvency II basis prior to the Scheme. In the above bullet point, I have described how this difference in basis impacts the reserve position on the respective balance sheets, however the consolidation of these entities impacts both sides of the balance sheet and leads to a considerable increase in the Britannia Group's investment holdings. Overall, consolidation of these entities has a net positive impact on the capital resources on an ECB basis.
- AOF – As explained in paragraph 8.12, the Britannia Group recognises $129.5m of additional Own Funds in respect of its ability to raise unbudgeted supplementary calls, as permitted on a Solvency II basis and approved by the PRA. The Britannia Group does not recognise AOF as a component of its capital resources on an ECB basis.

Impact on an ECB basis at 20 February 2020

8.93 The table below shows the change in the Britannia Group's ECB coverage ratio at 20 February 2020, on the basis that the Scheme had become effective at 20 February 2020 and that the whole Transferring Portfolio transferred to BSIAE on this date.

Table 8.3: ECB coverage ratio at 20 February 2020, before and after the Scheme ($m)

ECB Coverage Ratio:	Britannia Group before Scheme	Impact of Scheme	Britannia Group after Scheme
ECB coverage ratio	**115.8%**	**-0.3%**	**115.5%**

8.94 The table above demonstrates that the Scheme will have a negligible impact on the Britannia Group's coverage of its ECB requirement, as the transfer is simply moving assets and liabilities between two entities within the Britannia Group. I understand that BSIAL has modelled a slight increase in Operational Risk for the Group as a result of the Scheme to allow for the possibility of heightened risk whilst the Britannia group is adapting to a new regulatory environment and TRC is establishing a small team of employees to be based in the Luxembourg office. This is reflected in a small increase in the ECB requirement and, therefore, a small reduction in the ECB coverage ratio.

Impact on an ECB basis at the Initial Effective Date

8.95 The Britannia Group has projected that its capital resources on an ECB basis will fall and its ECB requirement will increase between 20 February 2020 and the Initial Effective Date.

8.96 As explained in paragraphs 8.58 to 8.60, the main drivers of the fall in capital resources over this period are a drop in the market value of asset holdings and a reserve deterioration, and the projected change in the ECB is driven by a decrease in the market risk charge coupled with an increase in the insurance risk charge.

8.97 As a result, the Britannia Group's ECB coverage ratio is projected to fall from 115.8% at 20 February 2020 to 109.5% at the Initial Effective Date. The corresponding projected fall in the SCR coverage ratio of the Britannia Group is projected to be from 201.4% at 20 February 2020 to 181.0% at the Initial Effective Date.

8.98 The table below shows the change in the Britannia Group's ECB coverage ratio as a result of the Scheme. Note that the 'after Scheme' position assumes that the whole Transferring Portfolio transferred to BSIAE on the Initial Effective Date.

Table 8.4: ECB coverage ratio at the Initial Effective Date, before and after the Scheme ($m)

ECB Coverage Ratio:	Britannia Group before Scheme	Impact of Scheme	Britannia Group after Scheme
ECB coverage ratio	**109.5%**	**-0.4%**	**109.1%**

8.99 The impact of the Scheme at the Initial Effective Date is the same as the anticipated impact at 20 February 2020 that is discussed in paragraph 8.94. The Scheme will have a negligible impact on the Britannia Group's ECB coverage.

What if BSIAE's Branches aren't approved before the Initial Effective Date?

8.100 As explained in paragraph 3.3, there is a possibility that one or more of BSIAE's branches will not be approved by the Initial Effective Date of the Scheme, in which case the business written by the relevant branches of BSIAL will remain in BSIAL temporarily, whilst the remainder of the Transferring Portfolio will transfer to BSIAE.

8.101 In light of this possibility, I have considered the capital positions of BSIAL and BSIAE in each of the scenarios in which one or more of BSIAE's Branches have not received approval by the Initial Effective Date, and therefore that the business underwritten by the respective branch(es) of BSIAL must remain in BSIAL temporarily.

8.102 Note that the capital position of the Britannia Group on an ECB basis will not be impacted by this scenario, as both BSIAL and BSIAE are members of the Britannia Group. As the Britannia Group does not apply its ECB calculations to solo entities, I have used the Solvency II regulatory capital requirements as a measure of capital strength in this part of my analysis. It should also be noted that the coverage ratio of the Britannia Group's SCR will be largely unaffected in this scenario – there will be some minor movement as a result of the consolidation of two entities rather than one, however, I have not shown the Britannia Group SCR in the scenarios below.

8.103 The tables below show the Solvency II SCR coverage ratios of BSIAL and BSIAE following the Initial Effective Date, in the following permutations of the scenario in which one or more of BSIAE's Branches aren't approved by the Initial Effective Date:

a Japan branch is not approved

b Hong Kong branch is not approved

c Singapore branch is not approved

d Japan and Hong Kong branches are not approved

e Japan and Singapore branches are not approved

f Hong Kong and Singapore branches are not approved

g None of BSIAE's Branches are approved

Table 8.5 (a): Japan branch not approved - SCR coverage ratios at 20 February 2021, before and after the Initial Effective Date ($m)

SCR Coverage Ratio:	BSIAL before Initial Effective Date	BSIAL after Initial Effective Date	BSIAE after Initial Effective Date
Solvency Capital Requirement (SCR)	151.6	8.1	145.3
Eligible Own Funds	374.5	16.6	376.7
SCR coverage ratio	**247.0%**	**206.0%**	**259.2%**

Table 8.5 (b): Hong Kong branch not approved - SCR coverage ratios at 20 February 2021, before and after the Initial Effective Date ($m)

SCR Coverage Ratio:	BSIAL before Initial Effective Date	BSIAL after Initial Effective Date	BSIAE after Initial Effective Date
Solvency Capital Requirement (SCR)	151.6	7.2	150.5
Eligible Own Funds	374.5	16.4	376.9
SCR coverage ratio	**247.0%**	**227.3%**	**250.5%**

Table 8.5 (c): Singapore branch not approved - SCR coverage ratios at 20 February 2021, before and after the Initial Effective Date ($m)

SCR Coverage Ratio:	BSIAL before Initial Effective Date	BSIAL after Initial Effective Date	BSIAE after Initial Effective Date
Solvency Capital Requirement (SCR)	151.6	6.0	149.4
Eligible Own Funds	374.5	18.2	375.1
SCR coverage ratio	**247.0%**	**304.1%**	**251.0%**

Table 8.5 (d): Japan and Hong Kong branches not approved - SCR coverage ratios at 20 February 2021, before and after the Initial Effective Date ($m)

SCR Coverage Ratio:	BSIAL before Initial Effective Date	BSIAL after Initial Effective Date	BSIAE after Initial Effective Date
Solvency Capital Requirement (SCR)	151.6	11.6	144.0
Eligible Own Funds	374.5	33.1	360.3
SCR coverage ratio	**247.0%**	**284.6%**	**250.1%**

Table 8.5 (e): Japan & Singapore branches not approved - SCR coverage ratios at 20 February 2021, before and after the Initial Effective Date ($m)

SCR Coverage Ratio:	BSIAL before Initial Effective Date	BSIAL after Initial Effective Date	BSIAE after Initial Effective Date
Solvency Capital Requirement (SCR)	151.6	10.4	143.1
Eligible Own Funds	374.5	34.8	358.5
SCR coverage ratio	**247.0%**	**335.6%**	**250.6%**

Table 8.5 (f): Hong Kong & Singapore branches not approved - SCR coverage ratios at 20 February 2021, before and after the Initial Effective Date ($m)

SCR Coverage Ratio:	BSIAL before Initial Effective Date	BSIAL after Initial Effective Date	BSIAE after Initial Effective Date
Solvency Capital Requirement (SCR)	151.6	9.7	148.1
Eligible Own Funds	374.5	34.6	358.7
SCR coverage ratio	**247.0%**	**358.4%**	**242.2%**

Table 8.5 (g): Japan, Hong Kong & Singapore branches not approved - SCR coverage ratios at 20 February 2021, before and after the Initial Effective Date ($m)

SCR Coverage Ratio:	BSIAL before Initial Effective Date	BSIAL after Initial Effective Date	BSIAE after Initial Effective Date
Solvency Capital Requirement (SCR)	151.6	14.1	141.8
Eligible Own Funds	374.5	51.3	342.1
SCR coverage ratio	**247.0%**	**363.5%**	**241.3%**

8.104 I understand from BSIAL that each of BSIAL's Branches is required to hold assets locally to support the business that is within those branches, and that its approach to calculating the assets remaining in BSIAL in each of the scenarios above has been to use the assets that are currently allocated to the respective branch business. I consider this to be a reasonable approach to take.

8.105 In respect of BSIAE, the capital strength shown in the above tables is broadly similar to that of BSIAL prior to the Initial Effective Date. There are some instances where the coverage ratio of BSIAE following the Initial Effective Date is slightly lower than BSIAL prior to the Scheme. However, given that the minimum coverage ratio is in excess of 240%, I am comfortable that BSIAE remain sufficiently capitalised on a regulatory basis in each of the scenarios in which one or more of BSIAE's Branches are not approved by the Initial Effective Date.

8.106 Based on the analysis above, I am also comfortable that BSIAL remains sufficiently capitalised on a regulatory basis in each of the scenarios in which one or more of BSIAE's Branches are not approved by the Initial Effective Date, as it maintains an SCR coverage ratio of over 200%.

8.107 I have also considered the fact that, in each of the above scenarios, BSIAL would be left with a much smaller absolute balance of Eligible Own Funds than BSIAE during the temporary period in which some of the Branch Business remained in BSIAL, which makes the entity much more vulnerable to loss events eroding its capital buffer.

8.108 However, I am comfortable that BSIAL will have sufficient capital strength on an absolute basis in the scenario in which one or more of BSIAE's Branches are not approved by the Initial Effective Date, for the following reasons:

- Each of BSIAL's Branches is required to hold assets locally to support the business that is within those branches.
- BSIAL is a long-established reputable P&I club and the Britannia Group's intention is to transfer the entirety of the busines to BSIAE. It has confirmed to me that its intention is not to leave any group of policyholders in BSIAL. As a result, my expectation is that it will continue to support these policyholders should funds be required.
- As discussed in paragraph 5.47, the reinsurance arrangement with Boudicca ensures that Boudicca will provide funds to top-up available capital to meet the Britannia Group's SCR, if any event were to occur which should cause the Britannia Group's Eligible Own Funds to fall below this level. Therefore, in the event that BSIAL experiences issues in respect of its solo SCR and this event has a corresponding impact on the Britannia Group's SCR, BSIAL will benefit from the protection of Boudicca whilst any of the Branch Business remains in BSIAL, since the Britannia Group will provide BSIAL with the top-up funds from Boudicca in order for the Britannia Group as a whole, as well as BSIAL, to meet their respective SCRs.
- In the event that BSIAL experiences issues in respect of its solo SCR and this does not have a corresponding impact on the Britannia Group's SCR, as discussed in paragraph 8.19, due to the structure of the Britannia Group, I understand from the Britannia Group that USMIA will redistribute funds to BSIAL, via Britannia Holdings, to ensure that BSIAL has sufficient Own Funds to meet its solo SCR.
- My understanding is that the relevant subset(s) of the Branch Business would only remain in BSIAL as a temporary measure, until the remaining branch(es) of BSIAE had received regulatory approval, and that this arrangement would only be in place for a maximum of 12 months following the Initial Effective Date. This reduces the range of risks that BSIAL could be exposed to over this period and hence the likelihood of an event occurring which would threaten BSIAL's solvency. As discussed earlier in this report, I understand from BSIAL that there is a small possibility that one or more of BSIAE's Branches will still not have gained regulatory approval by the Longstop Date. I have considered this scenario in Section 11 of this report.
- My analysis of the ECB measure has reassured me that the Britannia Group as a whole holds a comfortable surplus of capital above its anticipated capital requirements.

Conclusion

8.109 In the sections above, I have concluded the following:

- As per paragraph 8.15:
  - Should BSIAE experience difficulties with meeting its SCR following the Scheme, it has the protection of the excess assets within Boudicca to restore its financial position in the same way that BSIAL benefits from this protection prior to the Scheme
- As per paragraph 8.75:
  - I consider BSIAL, BSIAE and the Britannia Group's approach to calculating their regulatory capital requirements to be reasonable
  - I consider the Britannia Group's approach to calculating its economic capital requirements to be reasonable
  - I am satisfied that the likelihood of the Britannia Group having insufficient assets on an ECB basis to meet its liabilities is remote, and, in particular, even after the potential impacts of COVID 19, my expectation is that this likelihood will remain remote
- As per paragraphs 8.86, 8.87 & 8.89:
  - The coverage of the Britannia Group's SCR is expected to increase slightly as a result of the Scheme
  - The coverage of BSIAE's SCR following the Scheme is expected to be materially similar to the coverage of BSIAL's SCR prior to the Scheme, on the basis that the AOF are approved by the CAA
  - Should the CAA not approve the unbudgeted supplementary calls as Tier 2 capital, the Britannia Group's SCR coverage ratio following the Scheme would fall to approximately 163%, as at 20 February 2020, leaving the Britannia Group with sufficient coverage above its SCR. In addition, it would still have the protection of Boudicca, as set out earlier in this paragraph.
- As per paragraphs 8.94 & 8.99:
  - The coverage of the Britannia Group's ECB is not expected to materially change as a result of the Scheme
- As per paragraphs 8.104 & 8.108:
  - I am comfortable that both BSIAL and BSIAE remain sufficiently capitalised on a regulatory basis in each of the scenarios in which one or more of BSIAE's Branches are not approved by the Initial Effective Date

9 Policyholder security

9.1 In this section, I describe the effect of the Scheme on each subset of the Transferring Portfolio (as defined in paragraph 3.12) with regards to security, including under insolvency, and explain how I have reached my conclusions.

Impact of the Scheme on the security of policyholders

9.2 The capital requirements and the approach to capital modelling of BSIAL, BSIAE and the Britannia Group are discussed in Section 8. I have summarised the key aspects of the information in Section 8 below for convenience.

Impact of the Scheme on the Britannia Group's solvency position at the Initial Effective Date

ECB solvency position

9.3 The Britannia Group expects to maintain capital resources in excess of the ECB at the Initial Effective Date. The available resources projected to the Initial Effective Date are expected to represent an ECB coverage ratio in the region of 110%.

9.4 Table 8.4 demonstrates that the impact of the Scheme on the Britannia Group's ECB coverage ratio at the Initial Effective Date is immaterial. This is because the Scheme comprises the movement of the Transferring Portfolio between two entities within the Britannia Group, and therefore is not expected to have a material impact on the solvency position of the Britannia Group as a whole. Note that this conclusion still holds in the scenario where there is delay in one or more of the branch applications for BSIAE's Branches beyond the Initial Effective Date, as all permutations of this scenario relate to transfers of business within the Britannia Group.

9.5 The testing I have undertaken, which is described in Section 8, shows that the likelihood of the Britannia Group's assets falling below its liabilities over the course of the run-off of the liabilities within the Transferring Portfolio is remote.

SCR solvency position

9.6 As shown in Section 8, the Britannia Group had an SCR coverage ratio of 201.4% at 20 February 2020, prior to the Scheme, and an estimated SCR coverage ratio of 212.6% following the Scheme, in the hypothetical scenario in which the transfer was effected on 20 February 2020. It follows that the Scheme is expected to have an impact on the SCR coverage ratio of the Britannia Group, however, this is purely as a result of the different accounting treatment of the Britannia Group's Hydra cell between the PRA and the CAA, rather than as a result of any change in the Britannia Group's risk profile. In particular, as explained in paragraph 8.25, the pre-Scheme group position is net of the Britannia Group's Hydra cell, whereas the post-Scheme group position is gross of the Britannia Group's Hydra cell.

9.7 I understand from BSIAL that, aside from any reclassification of the Britannia Group's Hydra cell, it expects the Britannia Group's SCR coverage ratio to fall from 201.4% to 181.0% between 20 February 2020 and the Initial Effective Date, due to the expected impact of falling asset values and the deterioration of reserves over this period, however I still consider this to be high regulatory capital coverage ratio.

9.8 Considering the above, I am comfortable that the likelihood of the Britannia Group's Solvency II Own Funds falling below its liabilities over the course of the run-off of the liabilities within the Transferring Portfolio is remote.

Impact of the Scheme on the SCR solvency position of the solo entities at the Initial Effective Date

If the whole Transferring Portfolio transfers on the Initial Effective Date

9.9 Table 8.2 demonstrates that BSIAE's SCR coverage ratio following the Scheme is expected to be slightly higher than BSIAL's SCR coverage ratio prior to the Scheme. This is because the liabilities and supporting assets of BSIAL will transfer in their entirety, and BSIAE holds a small amount of capital prior to the Scheme, as an authorised non-life insurer. Therefore, in the scenario where all of the transferring policyholders transfer to BSIAE on the Initial Effective Date, they will benefit from a marginal increase in their solvency position.

If one or more of BSIAE's branches is approved after the Initial Effective Date

9.10 Tables 8.5 (a) to 8.5 (g) demonstrate the solvency positions of BSIAL and BSIAE in each of the scenarios in which one or more of the Japan Branch Transfer Date, the Hong Kong Branch Transfer Date and the Singapore Branch Transfer Date fall after the Initial Effective Date. These tables show that each of the solo entities maintains an SCR coverage ratio of at least 200% for the temporary period in which a tranche of business remains in BSIAL.

9.11 However, there are several scenarios in which the business remaining in BSIAL would temporarily be subject to a lower SCR coverage ratio within the solo company than prior to the Initial Effective Date. In addition, in all of these scenarios, BSIAL is expected to be a significantly smaller company than it currently is for that temporary period. I have concluded in paragraph 8.108 why I believe BSIAL will continue to have sufficient capital strength in this scenario.

9.12 There are some instances where the coverage ratio of BSIAE following the Initial Effective Date is slightly lower than BSIAL prior to the Scheme. However, given that the minimum coverage ratio is in excess of 240%, I am comfortable that BSIAE remains sufficiently capitalised on a regulatory basis in each of the scenarios in which one or more of BSIAE's Branches are not approved by the Initial Effective Date.

Impact of the Scheme on insolvency arrangements

9.13 I am required to consider the effects of the insolvency of BSIAL or BSIAE. Consequently, paragraphs 9.14 to 9.19 discuss changes in respect of wind-up regulations applicable to the transferring policyholders as a result of the Scheme.

9.14 As discussed in paragraph 6.30, under UK insolvency regulations, insurance claims take precedence over other claims on the insurance undertaking, with the exception of certain preferential claims (e.g. claims by employees, rights in rem etc). Direct policyholders rank equally and above inwards reinsurance policyholders and all other unsecured or non-preferential creditors in the event that an insurer is wound up.

9.15 As discussed in paragraph 6.45, under Luxembourg regulations, insurance claims take precedence over other claims on the insurance undertaking with respect to the assets representing the technical provisions. I understand that under Luxembourg regulations, direct policyholders rank ahead of inwards reinsurance policyholders and all other unsecured or non-preferential creditors in the event that an insurer is wound up.

9.16 Following the Scheme, policyholders within the Transferring Portfolio will move from the UK insolvency regulations to the Luxembourg insolvency regulations. The implications under insolvency for policyholders differ depending on the assets available and their size relative to the technical provisions. In particular:

- in the event that an insurer is wound up and there are sufficient assets to cover the technical provisions, the Luxembourg regulations are expected to be in general at least as favourable to policyholders as the UK regulations with respect to direct policyholders
- in the event that an insurer is wound up and there are insufficient assets to cover the technical provisions, the UK regulations are expected to be at least as favourable to policyholders as the Luxembourg regulations.

9.17 It is possible that there may be some scenarios in which the Luxembourg regulations could be less favourable to policyholders on insolvency than those in the UK. However, I consider the likelihood of such a scenario arising in the case of the Britannia Group to be remote on the basis on my analysis of the financial strength of each entity, as demonstrated in Section 8 and concluded in paragraphs 9.3 to 9.12, above.

9.18 In addition, I have considered the other creditors of the Britannia Group on a UK GAAP basis, which represent less than 1.1% of its overall liabilities as at 20 February 2020. As such, even if a scenario arose in which other creditors were treated preferentially to policyholders on insolvency, my expectation is that the impact on policyholders would be limited.

9.19 Considering the above, I do not anticipate the change in insolvency regulations having a material adverse impact on the transferring policyholders.

Impact of the Scheme on compensation schemes

9.20 As discussed in paragraph 6.31, risks located outside of the EEA (including the UK) are not eligible for FSCS protection. Therefore, the Branch Business and all Non-Branch Business not located in the EEA will not experience any change in FSCS coverage as a result of the Scheme.

9.21 As discussed in paragraph 6.31, consumer protection for eligible policyholders is provided by the FSCS in the UK in the event of insolvency of BSIAL, should there be insufficient funds to pay claimants.

9.22 I understand from BSIAL that it has analysed its current membership and it is not aware of any policyholders which meet the eligibility criteria to have access to the FSCS. I further understand from BSIAL that this is because the policyholders are not private policyholders, small businesses or charities, which, as set out in paragraph 6.32, are the types of policyholder eligible for FSCS protection. As a result, I do not expect there to be any impact from the Scheme in respect of access to compensation from the FSCS.

9.23 However, it is possible that at some future point it may be determined that some of the transferring policyholders are currently eligible for access to the FSCS, but as a result of the Scheme may no longer have that access if the provisions for a successor firm, as described in paragraph 6.34, do not apply following the end of the Transition Period. Even if this scenario were to occur in practice, I would not anticipate the Scheme having any material adverse impact on policyholders' access to compensation as I have concluded in Section 8 that the likelihood of the Britannia Group's assets falling below its liabilities over the course of the run-off of the liabilities within the Transferring Portfolio is remote. Therefore, the likelihood of policyholders requiring compensation from the FSCS is remote.

Impact of the Scheme on the security of the Non-Branch Business

9.24 In my opinion the Scheme will not have a material adverse impact on the security of the Non-Branch Business, including under insolvency, for the following reasons:

- The overall solvency position of the Britannia Group will remain materially unchanged by the Scheme. As the Non-Branch Business is remaining within the Britannia Group, it will continue to benefit from the security and considerable capital resources of the Britannia Group as a whole, as evidenced by my analysis and testing of the ECB solvency position in Section 8.
- Regardless of when BSIAE's Branches are approved, I am of the opinion that BSIAE will be sufficiently capitalised to meet policyholder obligations over the course of the run-off of the Non-Branch Business. Any reduction in SCR coverage ratio experienced as a result of delays in the approval of BSIAE's Branches is only expected to be in place for a temporary period of up to 12 months and is not expected to materially impact the likelihood of BSIAE being unable to meet its obligations. This opinion is based on my analysis of the SCR solvency position of BSIAE before and after the Scheme in Section 8.
- I do not expect the Scheme to have a material impact on transferring policyholders in the event of the insolvency of BSIAE, as discussed in paragraphs 9.13 to 9.19.
- For any Non-Branch Business located outside of the EEA, the Scheme will not have any impact on the transferring policyholders' rights in respect of the FSCS, as discussed in paragraph 9.20.
- For any Non-Branch Business located in the EEA, I do not expect the Scheme to have a material impact on the transferring policyholders' rights in respect of the FSCS, as discussed in paragraph 9.23.

Impact of the Scheme on the security of the Branch Business

Japan Branch Business

If the Japan Branch Business transfers on the Initial Effective Date

9.25 In this scenario, these policyholders will be subject to the same level of security as the Non-Branch Business. Therefore, I am of the opinion that the Scheme would not have a material adverse impact on the security of these policyholders, for the reasons given in paragraph 9.24, above.

If the Japan Branch Transfer Date falls after the Initial Effective Date

9.26 If the Japan Branch Business were to remain in BSIAL temporarily, my analysis in Section 8 suggests that BSIAL would maintain an SCR coverage ratio of at least 206%.

9.27 In my opinion the Scheme will not have a material adverse impact on the security of the policyholders remaining in BSIAL temporarily, including under insolvency, for the following reasons:

- BSIAL's SCR coverage ratio is expected to remain high at the Initial Effective Date
- BSIAL's Japan Branch holds assets locally to support the business within the branch, as is required by local regulation
- The Japan Branch Business will maintain the same reinsurance protection as it currently does prior to the Initial Effective Date and will do so following the Scheme
- BSIAL is a long-established reputable P&I club and the Britannia Group's intention is to transfer the entirety of the busines to BSIAE. It has confirmed to me that its intention is not to leave any group of policyholders in BSIAL. As a result, my expectation is that it will continue to support these policyholders should funds be required.
- As discussed in paragraph 5.47, the reinsurance arrangement with Boudicca ensures that Boudicca will provide funds to top-up available capital to meet the Britannia Group's SCR, if any event were to occur which should cause the Britannia Group's Eligible Own Funds to fall below this level. Therefore, in the event that BSIAL experiences issues in respect of its solo SCR and this event has a corresponding impact on the Britannia Group's SCR, BSIAL will benefit from the protection of Boudicca whilst any of the Branch Business remains in BSIAL, since the Britannia Group will provide BSIAL with the top-up funds from Boudicca in order for the Britannia Group as a whole, as well as BSIAL, to meet their respective SCRs.
- In the event that BSIAL experiences issues in respect of its solo SCR and this does not have a corresponding impact on the Britannia Group's SCR, as discussed in paragraph 8.19, due to the structure of the Britannia Group, I understand from the Britannia Group that USMIA will redistribute funds to BSIAL, via Britannia Holdings, to ensure that BSIAL has sufficient Own Funds to meet its solo SCR.
- These policyholders will remain subject to the same regulations in the event of BSIAL being wound-up during the temporary period as they would have been pre-Scheme
- Policyholder rights in respect of the FSCS in the event of the insolvency of BSIAL during the temporary period will be identical to their rights in the event of the insolvency of BSIAL pre-Scheme
- Once the Japan Branch Business has transferred to BSIAE, these policyholders will be subject to the same level of security as the Non-Branch Business, at which point I am of the opinion that the Scheme would not have a material adverse impact on the security of these policyholders, for the reasons given in paragraph 9.24, above.

Hong Kong Branch Business

If the Hong Kong Branch Business transfers on the Initial Effective Date

9.28 In this scenario, these policyholders will be subject to the same level of security as the Non-Branch Business. Therefore, I am of the opinion that the Scheme would not have a material adverse impact on the security of these policyholders, for the reasons given in paragraph 9.24, above.

If the Hong Kong Branch Transfer Date falls after the Initial Effective Date

9.29 If the Hong Kong Branch Business were to remain in BSIAL temporarily, my analysis in Section 8 suggests that BSIAL would maintain an SCR coverage ratio of at least 227.3%.

9.30 In my opinion the Scheme will not have a material adverse impact on the security of the policyholders remaining in BSIAL temporarily, including under insolvency, for analogous reasons to those given in paragraph 9.27, above.

Singapore Branch Business

If the Singapore Branch Business transfers on the Initial Effective Date

9.31 In this scenario, these policyholders will be subject to the same level of security as the Non-Branch Business. Therefore, I am of the opinion that the Scheme would not have a material adverse impact on the security of these policyholders, for the reasons given in paragraph 9.24, above.

If the Singapore Branch Transfer Date falls after the Initial Effective Date

9.32 If the Singapore Branch Business were to remain in BSIAL temporarily, my analysis in Section 8 suggests that BSIAL would maintain an SCR coverage ratio of at least 304.1%.

9.33 In my opinion the Scheme will not have a material adverse impact on the security of the policyholders remaining in BSIAL temporarily, including under insolvency, for analogous reasons to those given in paragraph 9.27, above.

10 Other financial considerations

10.1 In this section, I discuss the following items in turn:

- Investment strategy
- Liquidity position
- Implications of the Scheme on ongoing expense levels
- Pension arrangements
- Tax implications
- Impact on transferring reinsurers
- Impact of new business strategy
- Impact of other transfers
- Financial impact of COVID 19

Investment strategy

10.2 The principles of BSIAL's investment strategy are:

- To hold a portfolio of government bonds and cash which matches, in terms of average duration and currency, the claims liabilities of BSIAL (the 'matching portfolio').
- To hold a low risk buffer of corporate bonds and other credit instruments managed on an 'absolute return' basis.
- To invest the assets in excess of the matching portfolio and the low risk buffer, in accordance with the 'prudent person principle', in such a way as to achieve the maximum return for an agreed level of risk (BSIAL's investment risk appetite).

10.3 The Britannia Board is responsible for determining and implementing the overall investment strategy of BSIAL, appointing investment advisers and monitoring their performance.

10.4 The CFO is responsible for liaising with the investment managers with respect to investing surplus funds not required for the immediate settlement of claims.

10.5 I understand from BSIAL that the investment strategy and investment management processes for BSIAE are expected to be the same as those currently applied by BSIAL.

10.6 In the event that one or more of BSIAE's Branches are not approved before the Initial Effective Date, I understand from BSIAL that the investment strategy and investment management processes for BSIAL will remain unchanged.

10.7 I do not believe that policyholders in the Transferring Portfolio will be materially adversely impacted as a result of the Scheme. This is primarily due to the fact that the investment strategy and investment management processes are expected to remain materially unchanged following the Scheme.

Liquidity position

10.8 I understand from the Britannia Group that it has adopted an investment policy which requires the maintenance of significant holdings in cash funds and short-term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand for claim payments. I further understand from the Britannia Group that short-term cash needs are monitored frequently by the Director of Finance and the CFO

10.9 At 20 February 2020, the Britannia Group had a very liquid asset holding (approximately 50% of its holding was held in cash or fixed income realisable within the next year).

10.10 I understand from the Britannia Group that its liquidity policy will apply to BSIAE in an analogous way, following the Scheme, to the way in which it currently applies to BSIAL.

10.11 In addition, in the event that one or more of BSIAE's Branches are not approved before the Initial Effective Date, I understand from BSIAL that the liquidity policy of the Britannia Group will continue to apply to BSIAL in the same way it does at present and that the Britannia Group will ensure that liquidity levels are kept similar between the two entities during this temporary period. Based on consideration of the above, I do not anticipate that the Scheme will create any material adverse impact with respect to liquidity for the transferring policyholders.

Implications of the Scheme on ongoing expense levels

10.12 Other than the initial costs to BSIAL of the Scheme, I understand from BSIAL that there are no material additional expenses anticipated in relation to the wind up of BSIAL. In my view, the initial costs of the Scheme (which BSIAL has informed me are approximately £0.9m) are immaterial in the context of the Transferring Portfolio.

10.13 In addition, the significant majority of the costs of setting up BSIAE have already been incurred. I understand from BSIAE that these costs are approximately £1.0m, which I consider to be immaterial in the context of the Transferring Portfolio.

10.14 I understand from the Britannia Group that, since the significant majority of these additional expenses have already been incurred, it has allowed for them in its projections of capital. In addition, I understand from the Britannia Group that it will allow for any additional expenses that might be incurred should one or more of BSIAE's Branches not be authorised by the Initial Effective Date and a group of policyholders are required to remain in BSIAL for a short period until the latest of the Japan Branch Transfer Date, the Hong Kong Branch Transfer Date and the Singapore Branch Transfer Date, although these are expected to be minimal.

10.15 Given the level of security within the Britannia Group, as described in Sections 8 and 9, I do not anticipate that the increases in expense levels will create an adverse impact on the security of the policyholders within the Transferring Portfolio as a result of the Scheme.

Pension arrangements

10.16 I have been informed by BSIAL and BSIAE that neither entity sponsors a defined benefit pension schemes and that there will be no changes to staff pension schemes as a result of the Scheme.

10.17 Consequently, I do not anticipate that the Scheme will create any material adverse impact with respect to pension arrangements for the transferring policyholders.

Tax implications

10.18 BSIAL and BSIAE have both informed me that they do not consider that there are likely to be any material tax implications as a result of the Scheme.

10.19 I have taken advice from the tax experts at Grant Thornton who specialise in the insurance sector. They have reviewed the information provided to me by BSIAL and BSIAE and do not believe there to be any material tax implications that affect the Scheme.

Impact on transferring reinsurers

10.20 As established in paragraph 5.74, the reinsurance cover that currently exists for BSIAL will apply to BSIAE following the Scheme. Since that reinsurance will be covering the same set of policyholders before and after the Scheme, this will not create any additional exposure for any of the transferring reinsurers.

10.21 As explained in paragraph 5.76, I understand from the Britannia Group that existing reinsurance contracts are going to be revised, with effect from the Initial Effective Date, such that covers will apply in aggregate to both BSIAL and BSIAE, to the extent that the wording of the reinsurance contracts does not already provide for this. This will ensure that business written by BSIAL's Branches which remains temporarily in BSIAL will benefit from the same reinsurance protection, during this period, as those policies which have already transferred. However, this will not create any additional exposure for any of the transferring reinsurers

10.22 As a result, my opinion is that the Scheme will have no material impact on the transferring reinsurers.

Impact of new business strategy

10.23 I understand from the Britannia Group that BSIAE's new business strategy will be analogous to the new business strategy that BSIAL currently operates.

10.24 As stated in paragraph 1.15 , following the Scheme, all new general insurance business and renewals that would previously have been underwritten by BSIAL through BSIAL's Branches will instead be underwritten by BSIAE through BSIAE's Branches. All other new business and renewals will be underwritten by BSIAE's UK Branch.

10.25 In the event that one or more of BSIAE's Branches are not approved before the Initial Effective Date, I understand from BSIAL that new business will temporarily continue to be underwritten by the relevant branch(es) of BSIAL until the date on which the relevant Branch Business is transferred to BSIAE. I understand that BSIAL's new business strategy would remain unchanged during this interim period.

10.26 As a result, I do not believe that the Scheme will impact the security of the transferring policyholders' contractual rights as a result of changes in new business strategy. Also, I do not believe that the Scheme will impact the level of service provided to the policyholders in the Transferring Portfolio as a result of changes in new business strategy.

Impact of other transfers

10.27 I understand from BSIAL and BSIAE that neither of them have any other planned transfers of insurance business.

Financial impact of COVID 19

10.28 As discussed in Section 8 of this report, COVID 19 is expected to have a material financial impact on BSIAL and the Britannia Group as a whole. In particular, based on the information available at the date of the calculations, BSIAL has projected that the group regulatory solvency coverage will fall by 20.4 percentage points, whilst the solvency coverage ratio for BSIAL as a solo entity will fall by 27.8 percentage points, over the year between 20 February 2020 and 20 February 2021. I understand from my analysis that this fall in coverage is partly, although not entirely, a result of the impact of COVID 19 on the business.

10.29 However, I do not believe that the financial impact of COVID 19 on the transferring policyholders will be materially impacted by the Scheme, for the following reasons:

- My analysis in Section 8 demonstrated that the Scheme will have an immaterial impact on the Britannia Group's economic capital position
- In Section 8, I explained that the Scheme will have no impact on the Britannia Group's regulatory capital position, other than the impact caused by the CAA's allowance of the Britannia Group's Hydra cell being consolidated into the group result
- My analysis in Section 8 also considered the financial strength on a regulatory capital basis of BSIAL and BSIAE in each permutation of the scenario in which one of more of BSIAE's Branches are not approved by the Initial Effective Date. These projected scenarios demonstrated that each solo entity would be sufficiently capitalised during any temporary period in which a subset of the Branch Business remained in BSIAL. These projections allowed for the expected impact of COVID 19.
- Further to the above and as discussed in paragraph 8.79, this temporary period is expected to be in place for a maximum of 12 months, following which, I understand from BSIAL, that BSIAE's post-Scheme financial position will be slightly stronger than BSIAL's pre-Scheme position on a solo GAAP and regulatory basis.
- My analysis in Section 8 included consideration of the impact on the capital position of the Britannia Group if the impact of COVID 19 is worse than currently expected. This analysis shows that the Britannia Group remains well capitalised, even in this scenario.
- As concluded in Sections 7 and 8, I am comfortable that the Britannia Group is making appropriate allowances for the possible impacts of COVID 19 in its reserving and capital setting processes, and I do not expect this approach to change as a result of the Scheme.

11 Other non-financial considerations

11.1 In this section, I discuss the following items in turn:

- Regulatory jurisdiction
- Claims handling
- Policy administration
- Complaints
- Impact of Brexit
- ELTO
- Recognition of the Scheme in other jurisdictions
- Governance and management framework
- Ruling of Mr Justice Snowden on the proposed Part VII transfer of a book of in-payment annuities from The Prudential Assurance Company Limited to Rothesay Life Plc
- Non-financial impact of COVID 19
- The impact of the Scheme on members' proprietary rights
- The impact on policyholders should the Scheme not become effective
- The impact on policyholders should BSIAE's application to convert its UK Branch into a third country branch following the Scheme not be successful
- The impact on policyholders if one or more of BSIAE's Branches are not approved before the Longstop Date or if one or both of the Branch Schemes are not approved before the Initial Effective Date.

Regulatory jurisdiction

11.2 For the Transferring Portfolio, the prudential regulation will move to the CAA from the PRA. The impact of this change in terms of policyholder security is unlikely to be material as, at the time of writing this report, both regulators are required to operate in line with Solvency II, the common prudential regulatory framework across the EU.

11.3 The Chancellor of the Exchequer announced on 23 June 2020 that the UK Government intends to bring forward a review of certain features of Solvency II to ensure that it is properly tailored to take account of the structural features of the UK insurance sector. In his statement, the Chancellor said that the review will consider areas that have been the subject of long-standing discussion while the UK was a Member State of the EEA including but not limited to the risk margin, the matching adjustment, the operation of internal models and reporting requirements for insurers. At the time of this report, it is too early to conclude on the exact scope and impact of any resulting changes on UK insurers or the timing of those changes.

11.4 As discussed in paragraph 6.19, the UK Parliament has approved the transposition of existing EU laws into UK law, so there will be no immediate changes to laws and regulations in the UK following its departure from the EU. Given this, and the length of time I would expect it to take for the review of Solvency II to be concluded and for any implications to be converted to UK law, my expectation is that the Solvency II regulations will continue to apply in the UK at the time of the Initial Effective Date. If they do change in the UK following the Scheme, and those changes strengthen the financial security standards within the UK, the transferring policyholders will have potentially lost out on the benefit of those strengthened standards.

11.5 However, I am of the opinion that Solvency II provides a robust financial security framework and I have shown in Section 8 that the Britannia Group is sufficiently well capitalised, on both a Solvency II and an ECB basis, to meet policyholder obligations in all but remote scenarios. Therefore, I do not consider that any changes that the PRA might implement to strengthen regulatory standards in the UK will create a material adverse impact on the transferring policyholders.

11.6 Currently, I understand from BSIAL that it adheres to each of the local conduct regulations where risks are located and in locations from which the business is carried out. Following the Scheme, the locations of risks will not change. The locations from which the business is carried out will also remain unchanged, as, following the Scheme, all business written by BSIAL's Branches will be allocated to the respective branches of BSIAE, operated from the same locations, and all Non-Branch Business will be allocated to BSIAE's UK Branch, and therefore continue to be administered from the UK. I understand from the Britannia Group that it will continue to apply conduct principles in the same way as it does currently.

11.7 Therefore, my opinion is that I do not expect there to be a material adverse impact on the transferring policyholders in relation to regulatory jurisdiction as a result of the Scheme.

Claims handling

11.8 BSIAL currently operates its claims handling processes through TRC (which is effectively equivalent to "in-house" claims handling).

11.9 As explained in paragraph 5.17, the vast majority of BSIAL staff are currently employed by TRC. These staff will continue to be employed by TRC following the Scheme, and I understand from BSIAL that the same claims handling team will perform equivalent roles for BSIAE to those they are currently performing for BSIAL.

11.10 At present, responsibility for claims handling is divided geographically amongst the claims staff employed by TRC, which operates a series of subsidiaries to support BSIAL's worldwide membership. Individuals with responsibilities for handling claims arising in each region are clearly documented and separate responsibilities are specified for P&I claims and FD&D claims, respectively.

11.11 In the event that a claim has the potential to exceed the authority held by an individual claims handler, the claim must be referred to a member of staff with higher authority. Further, BSIAL's claims handling documentation specifies criteria under which large, complex or contentious claims must be escalated by claims handlers to the P&I Large Claims Review Sub-Committee or FD&D Large Claims Review Sub-Committee of TR(B) for review.

11.12 I have been informed by BSIAE that identical claims handling policies and procedures to those of BSIAL were adopted by the Board of BSIAE at its meeting of 7 July 2020.

11.13 In the event that one or more of BSIAE's Branches are not approved before the Initial Effective Date, I understand from BSIAL that the claims handling processes for BSIAL will remain unchanged.

11.14 As a result, I do not expect the transferring policyholders to be adversely affected by the Scheme in relation to claims handling.

Policy administration

11.15 As per BSIAL's claims handling processes, the administration of the Transferring Portfolio is currently performed by employees of TRC on BSIAL's behalf and will be performed by the same employees on BSIAE's behalf following the Scheme.

11.16 I have been informed by BSIAL and BSIAE that policy administration will not change as a result of the Scheme. In particular, the same teams will be responsible for administering policies and there will not be any material changes to the processes.

11.17 In the event that one or more of BSIAE's Branches are not approved before the Initial Effective Date, I understand from BSIAL that policy administration for BSIAL will remain unchanged.

11.18 As a result, I do not expect the transferring policyholders to be adversely affected by the Scheme in relation to policy administration.

Complaints

11.19 Prior to the Scheme, any complaints raised in relation to the Transferring Portfolio are handled by TR(B), on behalf of BSIAL.

11.20 Although BSIAL is regulated by the FCA, its permissions exclude the provision of services to retail customers and therefore it is not required to adopt FCA requirements in relation to complaints handling. On the other hand, whilst TR(B) is not authorised by the FCA, it is recognised by the FCA as BSIAL's appointed representative for the purpose of managing and administering BSIAL's regulated activities. As such, TR(B) adopts all applicable FCA requirements in relation to complaints handling.

11.21 TR(B) has provided me with its complaints handling policy, which applies to complaints raised against both BSIAL and TR(B), and which evidences that TR(B) is committed to treating all complaints fairly and upholding a positive complaints culture.

11.22 Following the Scheme, TRE will be responsible for handling complaints on behalf of BSIAE, which is regulated by the CAA. I have been informed by BSIAE that, although BSIAE does not yet have formal documentation in respect of its internal complaints handling processes, BSIAE's internal complaints handling processes will be identical to BSIAL's., with the exception that complaints previously reported to the FCA will subsequently be reported to the CAA, in line with their requirements.

11.23 At present, eligible claimants from the Transferring Portfolio can refer any complaint not dealt with satisfactorily by TR(B) to FOS or the relevant complaints body situated in the country of BSIAL's Branches or to the relevant complaints body situated in the country where the risk is located.

11.24 Prior to 1 April 2019, eligible claimants to FOS were limited to those described in paragraph 6.37. As a result, I understand from BSIAL that it is not aware of having had any eligible FOS claimants amongst its historic policyholders and that no complaints have been made to FOS by policyholders of BSIAL in the past.

11.25 From 1 April 2019 onwards, FOS extended its eligibility to include small businesses, defined as any enterprise which is not a micro-enterprise, has an annual turnover of less than £6.5 million and has a balance sheet total of less than £5 million or employs fewer than 50 employees. I understand from BSIAL that it does not expect this to extend FOS eligibility to any of the policyholders within the Transferring Portfolio.

11.26 I have also been informed by BSIAL that it is not aware of any complaints being raised against BSIAL or TR(B) to any other complaints handling bodies in the past.

11.27 Following the Scheme, any complaints that are not satisfactorily resolved by TRE can be referred to the CAA or to the complaints body situated in the country of the relevant BSIAE branch or where the risk is located. As described in paragraph 6.50, complaints raised in relation to business allocated to BSIAE's UK Branch could still be referred to FOS, subject to the eligibility of the claimant. As a result, the only subset of the Transferring Portfolio which may lose access to FOS as a result of the Scheme is the Branch Business.

11.28 The CAA does not have the power to make binding rulings on an insurer in the same way that FOS does. However, if, following a complaint to the CAA, an insurer does not agree to follow the CAA's opinion or recommendation, the CAA informs the policyholder and provides them with a copy of its opinion or recommendation. Having been provided with the CAA's assessment, a policyholder can take the matter to court, at the policyholder's own cost, by relying upon the CAA's assessment, which is likely to be considered persuasive. As such, instead of a power of determination, the CAA offer the possibility of enforcement of the assessment through a court led judicial process. Therefore, although the regimes are not identical, both regimes are designed to channel complaints and resolve disputes in practice.

11.29 Based on the fact that no complaints have been made to FOS historically and that none of the current policyholders are believed to be eligible claimants from a FOS perspective, I do not consider the replacement of access to FOS with access to the CAA for a subset of the Transferring Portfolio to be a materially adverse change for the Transferring Portfolio.

11.30 In the event that one or more of BSIAE's Branches are not approved before the Initial Effective Date, I understand that BSIAL will continue to adopt the same complaints handling policy in respect of any policyholders that remain in BSIAL temporarily. Further, these policyholders will have access to the same complaints handling bodies as they currently do, so I do not expect them to be adversely impacted in this regard by remaining in BSIAL temporarily.

11.31 I therefore conclude that the Scheme will not create any material adverse impact to the transferring policyholders' access to adequate complaints handling procedures.

Impact of EU referendum ("Brexit")

11.32 On 31 January 2020 the UK ceased to be a member of the EU. There are, however, transitional arrangements in place between the UK and the EU until 31 December 2020.

11.33 Negotiations are underway regarding the future relationship between the UK and the EU. At the time of writing this report, there is no certainty on what that future relationship might be following the Transition Period. However, as discussed in paragraph 6.19, the UK Parliament has approved the transposition of existing EU laws into UK law, so there will be no immediate changes to laws and regulations in the UK following its departure from the EU.

11.34 The Scheme achieves Britannia Group's objective of being able to service all of BSIAL's policyholders regardless of any future relationship between the UK and the EU. This is because, as discussed in paragraph 5.28, the Transferring Portfolio will be transferred to BSIAE as follows:

- the Japan Branch Business will transfer to BSIAE and be allocated to BSIAE's Japan branch on the Japan Branch Transfer Date
- the Hong Kong Branch Business will transfer to BSIAE and be allocated to BSIAE's Hong Kong branch on the Hong Kong Branch Transfer Date
- the Singapore Branch Business will transfer to BSIAE and be allocated to BSIAE's Singapore branch on the Singapore Branch Transfer Date
- The Non-Branch Business will transfer to BSIAE and be allocated to BSIAE's UK Branch on the Initial Effective Date.

11.35 The Non-Branch Business includes non-UK EEA risks, but will be allocated to BSIAE's UK Branch and serviced by TR(B), on behalf of TRE, following the Scheme. I understand from the Britannia Group that BSIAE's UK Branch is expected to be authorised as a Third Country Branch and will have the necessary permissions to act on behalf of BSIAE in respect of underwriting and claims handling. I understand from BSIAE that it has made the CAA aware of this proposed arrangement and that it has complied with the regulator's requirements with regards to having sufficient presence in the EEA. In particular, EEA distribution services will be carried out by TRE, which is headquartered in Luxembourg.

11.36 As a result of the above I do not consider that there are any issues arising as a result of Brexit that will affect my conclusions in this report.

ELTO

11.37 I understand from BSIAL that it is a member of ELTO and that BSIAE, through BSAIE's UK Branch, will become a member of ELTO.

11.38 I further understand from BSIAL that it intends to notify ELTO of any Employers' Liability exposure within the Transferring Portfolio, as this cover will transfer to BSIAE as a result of the Scheme.

11.39 Given that any Employer's Liability exposure will remain within the Britannia Group, and that this business will continue to be administered by the same management company following the Scheme, I am comfortable that any future claimant wishing to make an Employers' Liability claim for which BSIAL was liable would still be able to trace the appropriate insurer following the Scheme, either through ELTO, or through attempting to contact BSIAL.

Recognition of the Scheme in other jurisdictions

11.40 BSIAL has policyholders in a wide range of jurisdictions across the world.

11.41 As discussed in paragraph 3.7, BSIAL is carrying out separate insurance business transfer schemes in respect of the Singapore Branch Business and Hong Kong Branch Business, as the Scheme is not recognised in those jurisdictions.

11.42 In the event that there are transferring policyholders from other jurisdictions which do not recognise the Scheme, and those policyholders were looking to contact BSIAL following the Scheme then, since TRC will still be administering the business and TRC's contact details will be unchanged, TRC staff will be able to ensure that any such policyholders are referred to BSIAE. Since all of the active policyholders that are transferring will become policyholders of BSIAE, it is unlikely that any active policyholders will be unaware of the Scheme.

11.43 I have been informed by BSIAL and BSIAE that, although they consider it unlikely that any issues would arise with the recognition of the Scheme in particular jurisdictions, they would seek legal advice on a case by case basis in the event that such issues did arise in any jurisdictions.

11.44 In addition to the above relating to jurisdictions potentially not recognising the Scheme, I understand from BSIAL that it currently has a number of legal agreements, governed by laws other than English law, in place with third parties, rather than with members. These legal agreements are put in place during the normal course of business, for example to prevent vessels from being arrested, to confirm that BSIAL will cover a specific claim, or in order to support BSIAL in the handling of claims.

11.45 I further understand from BSIAL that it has undertaken some analysis to ascertain whether the transfer of these agreements would be recognised locally and therefore effectively transferred as part of the Scheme. In doing so, I understand from BSIAL that it is in the process of seeking legal advice in respect of a small number of territories, where there is a material value attaching to these agreements. I will comment further on that legal advice in my Supplementary Report.

11.46 However, I understand from BSIAL that from a practical perspective, there is not expected to be any material detriment because of the protections in the Scheme. Those protections include the fact that BSIAE will assume all of BSIAL's liabilities and the assets that support those liabilities, that TR(B) will continue to manage the business which is transferred, and that BSIAE intends to respond to claims in the same way that BSIAL has historically done.

11.47 I believe that BSIAL and BSIAE's plans to deal with the failure of a jurisdiction to recognise the Scheme are appropriate and proportionate.

Governance and management framework

11.48 I understand from the Britannia Group that BSIAE's governance framework is expected to be the same as the current governance framework for BSIAL. The same committees will be created within BSIAE as currently exist in BSIAL and the membership of each committee within BSIAE will be identical to the membership of the equivalent committee in BSIAL.

11.49 In the event that one or more of BSIAE's Branches are not approved before the Initial Effective Date, I understand from BSIAL that the governance framework for BSIAL will remain unchanged.

11.50 Therefore, I do not expect a material adverse impact on the transferring policyholders in respect of management and governance frameworks as a result of the Scheme.

Ruling of Mr Justice Snowden on the proposed Part VII transfer of a book of in-payment annuities from The Prudential Assurance Company Limited to Rothesay Life Plc

11.51 On 16 August 2019, Mr Justice Snowden declined to sanction the proposed insurance Part VII transfer of a £12.9 billion book of in-payment annuities from The Prudential Assurance Company Limited ("Prudential") to Rothesay Life Plc ("Rothesay"). I understand that Prudential and Rothesay have appealed this judgement.

11.52 I have considered the extent to which this ruling is relevant to the Scheme.

11.53 While there are clearly some similarities between the two proposals in that they are both Part VII transfers, I believe that there are the following significant differences that could reasonably lead the court to come to a different conclusion:

- The transfer is between two companies within the same corporate group, whereas the Prudential and Rothesay were in different corporate groups. Therefore, all references made to reputation by Mr Justice Snowden are not relevant in this situation.
- The purpose of the Scheme is to ensure that the Britannia Group can continue servicing its non-UK EEA policyholders following Brexit, which may not be the case if they were to remain in BSIAL. This differs from the Prudential/Rothesay transfer, as the transfer was not a requirement of any of the transferring policyholders.
- Furthermore, under the Scheme all of the business currently underwritten by BSIAL will be transferring to BSIAE, which currently has no insurance liabilities, and therefore the risk profile to which the transferring policyholders will be exposed following the Scheme will be the same as prior to the Scheme. This is different to the Prudential/ Rothesay transfer, where the transferring policyholders were being exposed to a different risk portfolio following the Scheme.
- The transferring policyholders in the Prudential/ Rothesay transfer were individuals whereas those transferring from BSIAL to BSIAE under the Scheme are companies.
- While the business in the Scheme is long tailed, on average it is unlikely to be as long tailed as a book of annuities such as those in the Prudential/Rothesay transfer.
- More than a thousand objections were received to the Prudential/Rothesay transfer. In my experience, it is unlikely that a significant number of objections would be received to a transfer of commercial non-life business, such as the Scheme, and it is extremely unlikely that the number of objections received will be similar in magnitude to the number of objections received to the Prudential/Rothesay transfer. This is particularly the case since the majority of the transferring policyholders are current members of the Britannia Group.

Non-financial impact of COVID 19

11.54 In Sections 7, 8 and 10, I have discussed BSIAL's analysis of the financial impact of COVID 19 on the Britannia Group. BSIAL has identified that COVID 19 also introduces a non-financial risk of operational disruption. Since the start of the pandemic, BSIAL has been required by government guidance, along with many businesses worldwide, to work remotely, as far as practically possible. BSIAL's analysis concluded that the remote working arrangement appears to be resilient, and that BSIAL does not anticipate any adverse effects of this arrangement on the business, for example as a result of reputational damage, or on the provision of services to policyholders or members.

11.55 In addition, I understand from BSIAL that it will be engaging a third party to conduct the mailing exercise for the notification of the Scheme to policyholders and reinsurers, which is discussed in detail in Section 12 of this report. I understand that BSIAL has received confirmation from the third party that the third party does not anticipate COVID 19 having any adverse impact on the mailing exercise, as it has been able to remain fully operational whilst implementing remote working arrangements.

11.56 It is unclear at the time of writing this report how far into the future businesses will be required to, or choose to, operate remotely due to COVID 19 and whether any requirements will differ between the UK and Luxembourg. However, based on the analysis carried out by BSIAL and summarised in paragraph 11.54, above, I am comfortable that the transferring policyholders will not experience any increased exposure to the non-financial impacts of COVID 19 as a result of the Scheme. This is because:

- TRB will continue to manage the business following the Scheme and utilise the same data and systems as it currently does
- No information will be required to be migrated between systems as a result of the Scheme
- I understand from The Britannia Group that it does not anticipate any issues to arise regarding operational readiness of BSIAE since no physical transfer will be required
- Since there are no operational changes, any non-financial impact of COVID 19 will be the same whether the Scheme proceeds or not.

11.57 Based on consideration of the above, I do not expect any group of policyholders to be materially adversely affected by the Scheme as a result of the non-financial impact of COVID 19.

The impact on policyholders should the Scheme not become effective

11.58 I have considered the likely effects on the transferring policyholders should the Scheme not become effective.

11.59 If the Scheme were not to become effective, there would be significant uncertainty regarding the effect of Brexit on the Transferring Portfolio. It is currently unclear whether BSIAL will retain its passporting rights when the Transition Period ends. This would mean that BSIAL could be in a position where it is no longer authorised to underwrite or service business in other EEA countries via Freedom of Services.

11.60 I have demonstrated throughout this report that the position of the transferring policyholders will remain largely unchanged following the Scheme, both in respect of the security offered by their policies and the way in which these policies are serviced.

11.61 Consequently, my opinion is that some policyholders within the Transferring Portfolio could potentially be worse off should the Scheme not proceed as a result of the uncertainty of BSIAL retaining passporting rights following Brexit.

The impact on policyholders should BSIAE's application to convert its UK Branch into a third country branch following the Scheme not be successful

11.62 Following 31 December 2020, BSIAE may be required to apply to the PRA to convert its UK branch to a third country branch, depending on the outcome of the negotiations regarding the UK's future relationship with the EU.

11.63 If this is the case the Temporary Permissions Regime ("TPR") will apply whilst the PRA considers this application so that BSIAE's UK Branch can continue to operate following the Initial Effective Date.

11.64 I understand from the Britannia Group that it considers the likelihood of BSIAE's application to convert its UK branch into a third country branch being unsuccessful to be remote, on the basis of prior communication with the PRA about its intentions for the future structure of the Britannia Group. However, I understand from the Britannia Group that if such a situation were to arise then it would investigate its contingency plans at that point, for example, the establishment of a new, UK-based, insurer. Given the TPR, those contingency plans will not need to be enacted prior to 31 December 2023 at the earliest and so, in my view, the Britannia Group will have sufficient time to investigate its options further.

11.65 Therefore, I do not consider there is any material adverse impact in respect of the conversion of BSIAE's UK Branch to a third country branch.

The impact of the Scheme on members' proprietary rights

11.66 In paragraph 5.73 I explained that BSIAE is not expected to have any external members prior to the Scheme, nor any internal members which differ from the current internal membership of BSIAL.

11.67 I have reviewed the conditions for being accepted as a member in the respective Articles of Association of each of BSIAL and BSIAE and they are, in essence, the same. I understand from the Britannia Group that there have been some minor changes to the Articles of Association in order to comply with Luxembourg law. I do not consider that these changes are expected to have a material adverse impact on the members' proprietary rights.

The impact on policyholders if one or more of BSIAE's Branches are not approved before the Longstop Date or if one or both of the Branch Schemes are not approved before the Initial Effective Date or Longstop Date

11.68 I understand from BSIAL that it is unlikely that one or both of the Branch Schemes would not be approved before the Initial Effective Date. In this scenario, I understand from BSIAL that the associated subset(s) of the Branch Business would remain in BSIAL temporarily, and that BSIAL would continue to pursue approval of the Branch Schemes until the Longstop Date, with the Branch Business transferring to BSIAE as and when the associated Branch Scheme gained approval. In this scenario, as the Branch Schemes, BSIAE's Hong Kong Branch and BSIAE's Singapore Branch are all expected to be approved by the Longstop Date, my conclusions are analogous to those contained in Section 9 of the Report in relation to the scenarios in which one or more of BSIAE's Branches are not approved ahead of the Initial Effective Date.

11.69 As explained in paragraph 3.6, I understand from BSIAL that it is unlikely that one or more of BSIAE's applications to establish BSIAE's Branches will not be approved by the Longstop Date.

11.70 In this event, or else if one or both of the Branch Schemes had not gained approval by the Longstop Date, I understand from BSIAL that any Branch Business which has not yet transferred to BSIAE at the Longstop Date will no longer form part of this Scheme and will remain in BSIAL.

11.71 I note that these scenarios do not give rise to any issues with regards to BSIAL's ability to service its policyholders following Brexit, as the Branch Business does not include EEA risks.

11.72 In the scenarios in which any of BSIAE's Branches have not been approved ahead of the Longstop Date, or any of the Branch Schemes have not been approved before the Longstop Date, I do not consider that there is any material adverse impact on those policyholders which remain in BSIAL following the Longstop Date, for the following reasons:

- My analysis of the regulatory capital requirements in Section 8 demonstrates that BSIAL would be sufficiently well capitalised in any scenario in which a subset of the Branch Business remained in BSIAL, whilst the rest of the Transferring Portfolio transferred to BSIAE as part of the Scheme
- My analysis of the ECB measure in Section 8 has also reassured me that the Britannia Group as a whole holds a comfortable surplus of capital above its anticipated capital requirements. My understanding is that, in an extreme adverse scenario in which BSIAL's solvency was threatened, other members of the Britannia Group would provide capital support to BSIAL.
- As discussed in Section 10, I understand from BSIAL that it will continue to adopt the same approach to servicing policies if there are policies remaining in BSIAL temporarily. I understand from BSIAL that this will continue to hold true in there are policies which stay in BSIAL beyond the Longstop Date. Therefore, there will be no impact on the level of customer service these policyholders receive.

11.73 In the scenario in which any of BSIAE's Branches have not been approved ahead of the Longstop Date, or any of the Branch Schemes have not been approved before the Longstop Date, I do not consider that there is any material adverse impact on those policyholders which transfer to BSIAE ahead of the Longstop Date, for the following reasons:

- My analysis of the regulatory capital requirements in Section 8 demonstrates that the Branch Business represents only a small proportion of the Transferring Portfolio and that BSIAE's regulatory capital position would therefore be similar to the regulatory capital position of BSIAL before the Scheme in any scenario in which a subset of the Branch Business remained in BSIAL. As such, I do not anticipate this scenario having a material impact on the security of those policyholders which transfer to BSIAE ahead of the Longstop Date.
- My analysis of the ECB measure in Section 8 has also reassured me that the Britannia Group as a whole holds a comfortable surplus of capital above its anticipated capital requirements. My understanding is that, in an extreme adverse scenario in which BSIAE's solvency was threatened, other members of the Britannia Group would provide capital support to BSIAE.
- As discussed in Section 10, I understand from BSIAE that it will be adopting the same approach to servicing policies as is currently used by BSIAL, and that policies will continue to be serviced by the same teams of employees following their transfer to BSIAE. As such, I am comfortable that there will be no material changes to the level of service provided to these policyholders following their transfer to BSIAE, regardless of whether or not some of the Branch Business remains in BSIAL.

12 Communication strategy

Policyholder notifications

12.1 The regulations surrounding Part VII transfers require that, unless the Court orders otherwise, all policyholders in all affected companies should be written to in order to inform them of the Scheme. The affected companies may apply for waivers considering, amongst other things, the likely benefits of contacting the policyholders compared with the practicality and costs of doing so.

12.2 Note that BSIAL will not have any remaining policyholders following the Scheme, and BSIAE is not expected to have any policyholders prior to the Scheme. As such, the focus of this section of my report is on BSIAL's proposed communications strategy with its existing and historic policyholders, all of whom will be transferred to BSIAE under the Scheme.

12.3 BSIAL is seeking waivers from the requirement to write to all policyholders and has selected specific groups of policyholders that it intends to notify. Paragraph 12.4 sets out a summary of the policyholders that BSIAL intends to notify directly.

Summary of notifications to policyholders

12.4 BSIAL intends to directly notify the following groups of policyholders:

- Any policyholder with an active policy as at the date of the Directions Hearing
- Any former policyholder whose period of insurance with BSIAL ended between 20 February 2015 and 20 February 2020
- Any policyholder with a notified outstanding claim

12.5 BSIAL does not intend to directly notify the following group of policyholders:

- Any policyholder in respect of whom there are no notified outstanding claims and whose period of insurance with BSIAL ended prior to 20 February 2015
- Some policyholders with a small tonnage that are jointly represented by a "group representative" and who fall into one or more of the categories described in paragraph 12.4

12.6 This is discussed further in paragraphs 12.7 to 12.10.

Rationale for seeking waivers

12.7 As discussed in paragraph 12.5, I understand that BSIAL proposes to not notify any policyholder in respect of whom there are no notified outstanding claims and whose period of insurance with BSIAL ended prior to 20 February 2015.

12.8 I understand from BSIAL that it believes it would not be proportionate to directly notify such policyholders for the following reasons:

- Although BSIAL holds address details for these policyholders, BSIAL's analysis indicates that a significant proportion of these details are incomplete, making direct notification difficult. Out of the 11,937 policyholders in this group, BSIAL has identified that there are 2,362 policyholders in respect of which BSIAL holds incomplete address details. The estimated cost of obtaining complete address details for these 2,362 policyholders and mailing the whole group of 11,937 policyholders is £30,000, which BSIAL considers to be disproportionate to the benefits conferred on these policyholders by direct notification of the Scheme.
- With the exception of asbestos-related claims, BSIAL's analysis suggests that over 99% of claims in relation to policies under which insurance cover ended prior to 20 February 2015 will have been notified by the Initial Effective Date of the Scheme. This is reflected in BSIAL's actuarial best estimate reserves, which do not include any allowance for new claims being reported in relation to policies concluded over five years prior.
- In the event that a policyholder in this group decided to make a claim to BSIAL following the Scheme, they would be able to notify this claim to BSIAE by following the same process as they would have taken prior to the Scheme. This is because, as explained in more detail in paragraphs 11.8 to 11.14, claims handling will continue to be carried out by the same management company and team of employees following the Scheme, who will also be following the same claims handling processes.
- BSIAL expects that this group of policyholders will still be made aware of the Scheme through the broad advertising campaign it proposes undertaking in relation to the Scheme, which is described in detail below.
- In the case of asbestos-related losses, which generally arise over a much longer time period than BSIAL's other claim types, such claims are usually notified through a law firm on a claimant's behalf. BSIAL intends for relevant law firms to be made aware of the Scheme through the broad advertising campaign it proposes undertaking in relation to the Scheme. However, if a law firm attempted to notify BSIAL of a claim following the Scheme, they would be able to notify this claim to BSIAE by following the same process as they would have taken prior to the Scheme.

12.9 In addition, there are some policyholders of BSIAL with a small tonnage who are jointly represented by a "group representative", who interacts with BSIAL on their behalf. In the case of these policyholders, where they fall into one or more of the categories given in paragraph 12.4, BSIAL proposes to notify the group representative, rather than the individual policyholders, as this in line with the usual communication approach taken by BSIAL and the individual policyholders are unlikely to have the necessary infrastructure to process the notification appropriately. I consider this an appropriate approach to notifying this subset of the transferring policyholders.

12.10 BSIAL has provided me with the analysis undertaken in relation to the waiver in respect of the requirement to individually notify all policyholders. I have reviewed this and challenged it where necessary and my opinion is that it is proportionate and reasonable for BSIAL to seek this waiver, given the reasons stated above.

Advertisements

Part VII advertising regulations

12.11 Regulations surrounding Part VII transfers require that a notice stating that an application has been made in connection with the Scheme must be published:

a) in the London, Edinburgh and Belfast Gazettes

b) in two national newspapers in the UK

c) where an EEA State other than the UK is the state in which the risk is situated for any direct (as opposed to reinsurance) policy that is being transferred, in each of two national newspapers in that EEA State

d) where, for any inwards reinsurance policy that is being transferred, an EEA State other than the UK is the State in which the establishment of the policyholder to which the policy relates is situated at the date when the contract was entered into, once in one business newspaper which is published or circulated in that EEA State.

Approach to advertising to EEA policyholders

12.12 I understand that BSIAL has conducted an exercise to determine which EEA states may be captured by the requirements c) and d) of paragraph 12.11 and has found that there are twelve such states: Cyprus, Denmark, France, Germany, Greece, Italy, Malta, the Netherlands, Norway, Portugal, Spain and Sweden.

12.13 BSIAL has performed an analysis of the cost of publishing a notice in two national, and one business, newspaper in each of the aforementioned EEA states, as well as in two national newspapers in the UK, and has estimated this to be £7,900 per state.

12.14 I understand from BSIAL that, given the nature of the business written by BSIAL, as well as the fact that BSIAL's members are corporate entities, rather than members of the public, BSIAL believes it would be more effective to publish a notice in Lloyd's List and Tradewinds, two publications produced for, and widely read by, the maritime industry. The cost of publishing the notice in these publications has been estimated by BSIAL at £7,700 and $7400, respectively.

12.15 In light of the above considerations, BSIAL intends on publishing a notice stating that the Part VII application has been made in:

- the London, Edinburgh and Belfast Gazettes
- The Financial Times (UK edition)
- Lloyd's List
- Tradewinds.

12.16 BSIAL also intends on publishing a notice of the Scheme in the following overseas publication:

- the Financial Times (international edition)

12.17 BSIAL is therefore seeking a waiver from the requirements given in b), c) and d) of paragraph 12.11 for the following reasons:

- Given the comparative costs of the notification approaches discussed in paragraphs 12.13 and 12.14, as well as the likely reach of publication in Lloyd's List and Tradewinds, BSIAL considers the requirement to publish a notice in two national, and one business, newspaper in each relevant non-UK EEA state, as well as two national newspapers in the UK, to be disproportionate to the expected benefit of the exercise.
- BSIAL intends to publish a notice in the UK and international editions of the Financial Times, the international edition of which circulates in all relevant non-UK EEA states. As such, BSIAL considers that publicity of the Scheme will be achieved in all relevant EEA states, notwithstanding the proposed waiver.
- As discussed in paragraph 12.4, individual notice of the Scheme will be sent by BSIAL to all active and recent transferring policyholders, as well as any transferring policyholders with a notified outstanding claim, regardless of where the risk is located.
- As highlighted in paragraph 12.8, in the event that a policyholder whose period of insurance with BSIAL ended prior to 20 February 2015 remained unaware of the Scheme, and wished to raise a claim against BSIAL after the transfer, they would be able to do so by following the same process as they would have taken prior to the Scheme. This is because claims handling will continue to be carried out by the same management company and team of employees following the Scheme.

12.18 Additionally, BSIAL recognises that the PRA and the FCA may wish to consult local supervisory authorities in the relevant EEA states to confirm their expectations for publicity in respect of the transfer. BSIAL intends to comply with any publicity requirements of such local supervisory authorities.

12.19 It is my opinion that the above advertising strategy is proportionate and reasonable with regards to the Scheme.

12.20 Having reviewed BSIAL's notification approach and challenged it where necessary, in my view it is reasonable and proportionate with regards to the Scheme.

Documentation

12.21 I have reviewed the drafts of the following proposed communications materials:

- Notice of the Scheme, to be included in the publications detailed above
- Covering letter for notification of policyholders
- Summary of the Scheme and the IE Report (to be enclosed with the letter of notification to policyholders)
- Letter of notification to the IG
- Letter of notification to current members of the IG
- Letter of notification to reinsurers and reinsurance brokers

12.22 In my opinion:

- The material is appropriately tailored to the members and policyholders of the Britannia Group, who are corporate entities, rather than members of the public. In particular, the communications have been produced in the English language with Japanese translations, which is in line with the Britannia Group's historic communications with its membership.
- The material is straightforward, provides sufficient information for the policyholders to understand the Scheme, and details any required actions where relevant
- It explains to the policyholders their right to object and the ways in which they can exercise this right
- The access to the available documentation and relevant information is clear.

12.23 In addition to the communications discussed above, all of the material related to the Scheme will be published on a website hosted by the Britannia Group. I have seen a draft of the text to be contained on this website.

12.24 Having reviewed the proposed documentation and the website text, and challenged it where necessary, it is my opinion that it is clear, proportionate and reasonable.

Reinsurer notifications

12.25 Regulations surrounding Part VII transfers require that notifications be sent to every reinsurer whose contracts of reinsurance are to be transferred, in part or in whole. In addition, it is a requirement to notify person(s) in cases where such a contract has been placed with or through a person authorised to act on behalf of the reinsurer.

12.26 BSIAL intends to directly notify the following reinsurers and reinsurance brokers:

- In respect of the external reinsurance programme organised by the IG for policy years commencing after 20 February 2002:
  - the IG's brokers, who will be asked to notify the relevant reinsurers
  - the IG itself
- In respect of reinsurances placed in respect of all policy years starting after 20 February 2017, including the current policy year, other than those reinsurances organised by the IG:
  - each reinsurer
  - the broker of each reinsurer
  - the relevant Lloyd's managing agent, where any such reinsurances were provided by a syndicate
- In respect of reinsurances placed in respect of all policy years starting on or before 20 February 2017 but after 20 February 2002, other than those reinsurances organised by the IG:
  - the broker through which the reinsurance was placed, who will be asked to notify the relevant reinsurers
- current and historic members of the IG

12.27 Prior to the policy year running from 20 February 2017 to 20 February 2018, I understand that BSIAL's reinsurance programme involved a greater number of reinsurance contracts, many of which were subscription policies and therefore involved multiple reinsurers. All contact with reinsurers in respect of these policy years was conducted via the reinsurance brokers, and, as indicated in paragraph 12.26, BSIAL therefore considers it more appropriate to directly notify these brokers of the Scheme to enable notification of the relevant reinsurers. BSIAL expects this approach to be more cost-effective than attempting direct notification of each reinsurer, but also more fruitful, as the brokers are more likely to hold current contact details for the reinsurers. BSIAL is therefore seeking a waiver from the requirement to notify these reinsurers directly.

12.28 In respect of the external reinsurance programme organised by the IG, BSIAL intends to notify the IG and the IG's brokers of the Scheme, and request that the IG's brokers notify all relevant reinsurers on BSIAL's behalf. BSIAL is therefore seeking a waiver from the requirement to notify these reinsurers directly.

12.29 Having reviewed the proposed approach to reinsurer notification and challenged it where necessary, I believe the proposed approach to be proportionate and reasonable.

Opinion

12.30 In reviewing the policyholder and reinsurer notification strategy, I have:

- Held discussions with BSIAL
- Reviewed the analysis undertaken in respect of waivers requested
- Reviewed information provided to the PRA and FCA setting out the approach to policyholder and reinsurer notifications
- Reviewed the witness statement setting out the policyholder and reinsurer notification strategy
- Reviewed the proposed communications materials
- Reviewed the draft text for the website.

12.31 Given the size and implications of the Scheme, I believe that the proposed approach to policyholder and reinsurer notifications is proportionate and reasonable.

12.32 In my Supplementary Report, I will discuss how the policyholder and reinsurer notification strategy has been implemented. In addition, I will discuss any objections that have been received following notification of the Scheme.

13 Reliances and limitations

Events following the valuation date

13.1 The conclusions in this report are based on analyses that have been undertaken on data as at 20 February 2020 and projections to 20 February 2021.

13.2 As discussed throughout this report BSIAL and BSIAE have made adjustments in light of COVID 19 in respect of the information provided as at 20 February 2020 and the projections to 20 February 2021.

13.3 In addition, in its projections to 20 February 2021, BSIAL and BSIAE have informed me that they have made adjustments in respect of developments in respect of certain balance sheet movements between 21 February 2020 and 20 May 2020.

13.4 I have been informed by BSIAL and BSIAE that there have been no other changes between 20 February 2020 and the date of this report which would materially impact the analysis I have performed. However, future events could occur between the date of this report and the Initial Effective Date that could change my conclusions.

13.5 I will provide a Supplementary Report prior to the Court hearing at which the sanction of the Scheme is sought to update the Court on whether there have been any material changes since the issue of this report.

Reliance on other parties

13.6 In developing the conclusions in this report, I have relied on the data and accompanying explanations provided to me by and on behalf of BSIAL, BSIAE and the Britannia Group. I have not specifically reviewed the data for accuracy and completeness, but I have reviewed it for reasonableness.

13.7 I have carried out investigations, as detailed in this report, to gain comfort on the appropriateness of the methodology and conclusions for the most significant liabilities and capital requirements.

13.8 I have also relied on correspondence and discussions that I have had with the managements of BSIAL, BSIAE and the Britannia Group. Where appropriate, I have sought documentation from them to evidence the assertions made to me in discussions.

Other

13.9 In my judgement, the results and conclusions contained in this report are reasonable given the information made available to me.

13.10 However, there is a limitation upon the accuracy of any estimate of claims reserves in that there is an inherent uncertainty in any estimate of future liabilities. This is due to the fact that the claims will be subject to the outcome of events yet to occur, such as judicial decisions, legislative actions, claim consciousness amongst potential claimants, claims management, claim settlement practices, changes in inflation, and economic decisions. As a result, it should be recognised that future claim emergence will likely deviate, perhaps materially, from any estimate of claims reserves.

13.11 In addition, there is a limitation upon the accuracy of any estimate of capital requirements in that there is an inherent uncertainty in any estimation of future assets and liabilities. It follows that it should be recognised that the actual capital required will likely deviate, perhaps materially, from any estimate of the capital requirements.

13.12 The underlying figures in this report are calculated to many decimal places. Consequently, in the presentation of the figures in the various tables, there may be reconciliation differences due to the effect of rounding.

14 Conclusions

14.1 I have considered the Scheme and its likely effects on the transferring policyholders.

14.2 In reaching the conclusions set out below, I have applied the following principles as set out in relevant professional guidance. I have sought to:

- Exercise my judgement in a reasoned and justifiable manner
- Describe the impact on all classes of beneficiaries (for the purposes of this report, this is the Non-Branch Business, the Japan Branch Business, the Hong Kong Branch Business and the Singapore Branch Business) and reinsurers, as well as the impact on the proprietary rights of the current members of BSIAL
- Indicate how the Scheme might lead to any changes in the material risks to the benefits of the different classes of beneficiaries
- Assess the impact on all classes of beneficiaries
- Indicate the proposed rationale for the Scheme to proceed
- Include (in summary) the most material information on which my opinion is based
- Describe the rationale for my opinion.

Non-Branch Business

14.3 I have concluded that there will be no material adverse impact to the service provided to the Non-Branch Business and no material adverse impact on the security, including under insolvency, provided to them. Therefore, I do not consider that the Non-branch Business would be materially adversely affected by the Scheme.

14.4 Note that this conclusion extends to the scenario in which one or more of BSIAE's Branches are not approved before the Initial Effective Date, and therefore a subset of the Branch Business remains in BSIAL temporarily. It also extends to the scenario in which one or more of BSIAE's Branches are not approved before the Longstop Date, and therefore a subset of the Branch Business does not transfer under the Scheme.

Japan Branch Business

14.5 I have concluded that there will be no material adverse impact to the service provided to the Japan Branch Business and no material adverse impact on the security, including under insolvency, provided to them. Therefore, I do not consider that the Japan Branch Business would be materially adversely affected by the Scheme.

14.6 Note that this conclusion extends to the scenario in which one or more of BSIAE's Branches are not approved before the Initial Effective Date, and therefore a subset of the Branch Business remains in BSIAL temporarily. It also extends to the scenario in which one or more of BSIAE's Branches are not approved before the Longstop Date, and therefore a subset of the Branch Business does not transfer under the Scheme.

Hong Kong Branch Business

14.7 I have concluded that there will be no material adverse impact to the service provided to the Hong Kong Branch Business and no material adverse impact on the security, including under insolvency, provided to them. Therefore, I do not consider that the Hong Kong Branch Business would be materially adversely affected by the Scheme.

14.8 Note that this conclusion extends to the scenario in which one or more of BSIAE's Branches are not approved before the Initial Effective Date, and therefore a subset of the Branch Business remains in BSIAL temporarily. It also extends to the scenario in which one or more of BSIAE's Branches are not approved before the Longstop Date, and therefore a subset of the Branch Business does not transfer under the Scheme.

Singapore Branch Business

14.9 I have concluded that there will be no material adverse impact to the service provided to the Singapore Branch Business and no material adverse impact on the security, including under insolvency, provided to them. Therefore, I do not consider that the Singapore Branch Business would be materially adversely affected by the Scheme.

14.10 Note that this conclusion extends to the scenario in which one or more of BSIAE's Branches are not approved before the Initial Effective Date, and therefore a subset of the Branch Business remains in BSIAL temporarily. It also extends to the scenario in which one or more of BSIAE's Branches are not approved before the Longstop Date, and therefore a subset of the Branch Business does not transfer under the Scheme.

Reinsurers of the Transferring Portfolio

14.11 In addition, I have concluded that the reinsurers of the Transferring Portfolio would not be materially adversely affected by the Scheme.

Conclusion

14.12 Given the above, I conclude that the risk of any group of policyholders or transferring reinsurers being materially adversely affected by the Scheme is sufficiently remote that there is no reason why the Scheme should not proceed.

14.13 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 that I have expressed and conclusions that I have drawn represent my true and complete professional opinions on the matters to which they refer.

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

14.15 I do however consider it necessary that I review the most recent information, up to the date of the Court Hearing at which the sanction of the Scheme is sought, when this becomes available, before confirming my conclusions and opinions.

S. Sheaf

Simon Sheaf FIA
Partner and Head of General Insurance Actuarial & Risk
Grant Thornton UK LLP

A Information received

Information provided by or on behalf of the Britannia Group

- Appropriateness of the Standard Formula Report 2019
- Solvency and Financial Condition Report (SFCR) for the year ended 20 February 2020
- Regular Supervisory Report (RSR) February 2019
- Draft Annual Report for the year ended 20 February 2020
- The Britannia Group Own Risk and Solvency Assessment (ORSA) Report October 2019
- Premium Risk Model Validation February 2019
- GAAP Reserve Report, February 2020
- Britannia Reserving Group minutes and slides for discussion, March 2020 & May 2020
- Schedule of reinsurance with Boudicca for the 2020/2021 underwriting year
- Response to PRA on COVID 19 approach
- Explanatory note on the Britannia Group's reinsurance program for the PRA, January 2019
- Actuarial Function Report February 2020
- Scenario modelling to quantify the effect of management actions for the PRA, 2019
- Ancillary Own Funds application November 2019
- Draft Solvency II technical provisions Methodology and Assumptions
- Boudicca Bermuda Solvency Capital Requirement (BSCR) 2019
- Group Solvency II balance sheet February 2020
- Projected Group Solvency II balances February 2021
- Projected Group SCR requirements February 2021
- Group ECB requirement and resources February 2020
- Projected Group ECB requirement and resources February 2021
- ECB calculations by risk type February 2020
- Modelling of the best estimate and 'worst case' impacts of COVID 19
- Results of validation testing of the ECB performed for the Part VII IE Review
- Analysis of change between ECB as at 20 February 2020 and as at 20 February 2021
- Additional GAAP reserves and Technical Provisions information on Transferring Portfolio
- Analysis of material tax risks to the Britannia Group as at March 2020

Information provided by or on behalf of BSIAL

- BSIAL CVs
- Firm A CVs
- Part VII indicative project timeline
- Actuarial best estimate reserves February 2020
- GAAP reserves February 2020

- Solvency II technical provisions February 2020
- GAAP balance sheet February 2020
- Solvency II balance sheet February 2020
- Projections of Solvency II balances at February 2021
- Projected solo SCR requirements February 2021
- BSIAL Management Responsibility Map
- BSIAL Claims Handling Policy
- BSIAL Complaints Handling Policy
- Standard & Poor's credit rating reports, August 2018, December 2019

Information provided by or on behalf of BSIAE

- Application to the CAA with appendices
- Service & Secondment Agreement between BSIAE and TRC (and subsidiaries)
- GAAP balance sheet February 2020
- Solvency II balance sheet February 2020
- Projections of Solvency II balances at February 2021
- Projected solo SCR requirements February 2021

Information provided by or on behalf of TRC

- Tindall Riley (Britannia) Organisation Structure

Information provided by legal advisers

- Draft Scheme Document
- Draft Claim Form
- Daft Summary of the Scheme
- Draft Notification Programme
- Draft Notice of the Scheme and notification letters to policyholders, reinsurers and brokers of reinsurers
- Draft website text, explaining the Scheme
- Draft First Witness Statement on Behalf of the Transferor and the Transferee

Other

I also relied on information arising from correspondence and discussions with BSIAL, BSIAE and their legal advisers.

I have checked that all of the above information has been supplied by persons appropriately qualified to provide such information and I am satisfied that it is reasonable for me to rely on this information.

A number of the items received are of a commercially sensitive or confidential nature. All relevant information received has been used to inform the conclusions given in this report, whilst taking care to respect the confidentiality of the entities involved. It should be noted that there are no instances where I have omitted implications of the documentation received from this report for the sake of respecting confidentiality. Therefore, in my opinion it is not necessary to produce a separate document exclusively for the Court providing further details of these data items although such a document can be made available to the Court if required.

B Definitions

Absolute return basis	Managing assets on an absolute return basis involved managing assets with the objective of maximising absolute investment returns
Asbestos	A material historically commonly employed for its fire-retardant and insulation properties. Exposure to asbestos has subsequently been determined to cause cancer.
Asset	Generally, any item of property whether tangible or intangible, that has financial or monetary value.
Available capital / Capital resources	Total assets less total liabilities.
Bad debt	A debt that cannot be recovered. Under Solvency II, technical provisions include an allowance for reinsurance bad debt.
Balance Sheet	A statement of the assets, liabilities, and capital of a business or other organisation at a point in time.
Booked reserve	The claims reserve shown in the financial statements.
Bornhuetter-Ferguson method	An actuarial reserving method, used to estimate incurred but not reported claims, which blends chain ladder and expected loss ratio reserving methods.
Branch Schemes	Two insurance business transfer schemes which are separate to the Scheme and are required by local regulators in Singapore and Hong Kong to be carried out in addition to the Scheme, as the Scheme is not recognised in these jurisdictions.
Brexit	The impact of the EU Referendum.
BSIAE's Branches	BSIAE is currently in the process of establishing branches in Japan, Hong Kong and Singapore, which are collectively known as BSIAE's Branches
BSIAE's UK Branch	A recently established UK-based branch of BSIAE
BSIAL's Branches	BSIAL's branches in Japan, Hong Kong and Singapore are collectively known as BSIAL's Branches
Call	Call income refers to the traditional approach to pricing business written by P&I clubs, whereby members are charged based on the amount of risk they are perceived to contribute to the club's portfolio.
Capital requirements	The level of funds that an insurance or reinsurance undertaking is required to hold.
Catastrophe	An event that can cause severe damage or suffering. The event could be natural or man-made.
Chain Ladder Method	An actuarial reserving method, used to estimate incurred but not reported claims, which is based on the assumption that historical loss development patterns are indicative of future loss development patterns.

Chartered tonnage	Tonnage which is entered for insurance by a member who does not own the ship
Charterers'' bunkers	A class of insurance which provides cover for loss or damage caused by, or to, ship fuel.
Claims reserve	Funds held for the payment of future claims.
Corporate Bond	A bond issued by a corporation.
Counterparty default risk	Risk of losses due to default or downgrade of reinsurers or due to non-payment of receivables from third parties
Coverage Ratio	The quantum of available capital or capital resources or Own Funds, expressed as a percentage of its capital requirements.
Credit rating	A measure of the financial security of a company provided by a third party agency.
Default	A failure to perform a legal or contractual obligation.
Deferred call	The portion of total estimated call for a member which is not charged at the start of the policy year.
Direct policyholders	Policyholders of an insurance undertaking who are not themselves insurers or reinsurers.
Initial Effective Date	The date at which the Scheme becomes legally binding. This is expected to be 20 February 2021.
Eligible Own Funds	The portion of own funds that can be used to meet capital requirements after taking account of any restrictions.
Employers' Liability Tracing Office (ELTO)	An independent body which helps potential claimants identify the insurer of a former employer when they wish to notify an employers' liability insurance claim.
Equity	Shares issued by a company
Excess of Loss	This is a type of reinsurance contract whereby cover is provided by the reinsurer above a certain amount, up to a certain limit.
Facultative policies	Reinsurance for a single risk or a defined package of risks.
Fronting arrangement	An arrangement whereby an insurer underwrites a policy to insure a specific risk but then reinsures the entire risk with a reinsurer. The insurer that underwrites the policy is called the fronting company. The fronting company cedes all risks to the reinsurer but receives a percentage of the premium.
GEOL programme	The IG's reinsurance programme for covering pool claims above \$100m. The programme provides for reinsurance at varying levels for different categories of claims.
Government Bond	A bond issued by a country's government, promising to repay borrowed money at a fixed rate of interest at a specified time.
Gross	Excluding the effect of reinsurance arrangements. For example, 'gross insurance liabilities' refers to insurance liabilities before taking into account any offsetting reinsurance assets.

Incurred but not reported (“IBNR”)	Claims that have occurred prior to a particular date but have not yet been reported to the insurer plus future developments on claims that have already been reported to the insurer.
Independent Expert	The suitably qualified person that produces an independent report on the Scheme, in accordance with FSMA
Internal Model	A bespoke model developed by an insurance or reinsurance undertaking to calculate its Solvency Capital Requirement under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either an Internal Model or the Standard Formula.
Large claims	Individual claims with a relatively high value which may be modelled at an individual level for reserving and capital modelling.
Lay-ups	To lay-up a vessel means to stop using it for a period of time. Usually a vessel in lay-up would be anchored in appropriate waters.
Liability	A claim against the assets, or legal obligations of a person or organisation, arising out of past or current transactions or actions.
Liquidity	The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset’s price.
Longstop Date	The date prior to which the Branch Business (or a subset of the Branch Business) must transfer to BSIAE in order to still comprise part of the Scheme. This is expected to be 20 February 2022.
Member	Mutual companies are owned by their members, who often have voting rights in respect of key operational decisions.
Mesothelioma	Cancer that affects the lining of the lungs, heart or abdomen often caused by inhalation or asbestos fibers.
Minimum Capital Requirement (“MCR”)	The lower level of regulatory capital requirement under the Solvency II regime.
Net	Including the effect of reinsurance arrangements. For example, 'net insurance liabilities' refers to insurance liabilities after deducting any offsetting reinsurance assets from the gross insurance liabilities.
Outstanding claims	The estimate of the claims made by the claims handling team of an insurer for claims that have been reported but not yet paid.
Owned tonnage	Tonnage which is entered for insurance by a member who owns the ship
Own Funds	The excess of an insurer's admissible assets over its liabilities on a Solvency II basis.
Own Risk and Solvency Assessment (“ORSA”)	The insurance or reinsurance undertaking’s own assessment of the risks to which it is exposed and its solvency, as required under Solvency II.
Parent	An enterprise that controls another (called the subsidiary) through the ownership of greater than 50 percent of its voting stock.
Peer Review	Process by which a piece of work is considered by at least one other individual, having appropriate experience and expertise, for the purpose of providing assurance as to the quality of the work in question.

Premium	The amount charged by an insurer or reinsurer as the price of granting insurance or reinsurance cover, as stated before or after the subtraction of brokerage and other deductions.
Quota share reinsurance	A type of reinsurance whereby risks are shared in pre-determined proportions between the insurer and reinsurer.
Reinsurance	An arrangement with another insurer or reinsurer whereby risks are shared or passed on.
Reserve strength	A measure of the likelihood that the claims reserve will be sufficient to meet future claims
Retrocession	A type of insurance wherein a reinsurance company takes on part of the risk assumed by another reinsurance company.
Risk Margin	Under Solvency II, insurers must hold a risk margin in excess of their best estimate of liabilities. This risk margin is designed to represent the amount of capital a third party would require to take on the obligations of a given insurance company. It effectively means that if an insurer were, as a result of a shock, to use up all its free surplus and capital, then it would still have sufficient assets to safely wind-up and transfer its obligations to a third party.
Run-off	A line of insurance business or an insurance undertaking that does not accept new business but continues to provide coverage for claims arising on its policies still in force and that makes payments for claims that have occurred on its policies.
SCR coverage ratio	The Own Funds an insurer has to meet its regulatory Solvency Capital Requirement, expressed as a percentage of its regulatory Solvency Capital Requirement
Segregated cell company	A company which consists of a core linked to several cells, in respect of which it holds segregated assets and liabilities. Each cell is independent of each other and of the company's core, but the entire unit comprises a single legal entity.
Solvency Capital Requirement ("SCR")	The higher level of regulatory capital requirements under the Solvency II regime.
Solvency II	A regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising regulation across all EU and EEA countries.
Standard Formula	A standardised calculation for the Solvency Capital Requirement of an insurance or reinsurance undertaking, as prescribed under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either the Standard Formula or an Internal Model.
Stress and scenario testing	An analysis to test the robustness of a financial quantity by varying a number of underlying assumptions (either one at a time or in various combinations) and observing the resulting change in the quantity of interest.
Subsidiary	An enterprise controlled by another (called the parent) through the ownership of greater than 50 percent of its voting stock.

Technical provisions	The insurance liabilities of an insurer, as determined for regulatory purposes. These are calculated as the provisions for the ultimate costs of settling all claims arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for claims arising on unexpired periods of exposure less any premium in respect of the business written that has not yet been received.
the Branch Business	Insurance business underwritten by BSIAL through its branches in Japan, Hong Kong and Singapore
the Britannia Group	Britannia Holdings, BSIAL, BSIAE and their respective branches and subsidiaries
the Hong Kong Branch Business	Insurance business underwritten by BSIAL through its branch in Hong Kong on or before the Hong Kong Branch Transfer Date
the Hong Kong Branch Transfer Date	The date on which the insurance business underwritten by BSIAL through its Hong Kong branch will transfer to BSIAE
the Japan Branch Business	Insurance business underwritten by BSIAL through its branch in Japan on or before the Japan Branch Transfer Date
the Japan Branch Transfer Date	The date on which the insurance business underwritten by BSIAL through its Japan branch will transfer to BSIAE
The Non-Branch Business	All insurance business underwritten by BSIAL on or before the Initial Effective Date, other than the Branch Business
the Singapore Branch Business	Insurance business underwritten by BSIAL through its branch in Singapore on or before the Singapore Branch Transfer Date
the Singapore Branch Transfer Date	The date on which the insurance business underwritten by BSIAL through its Singapore branch will transfer to BSIAE
the Scheme	Insurance Business Transfer Scheme of a portfolio of policies from BSIAL to BSIAE
Tonnage	A measure of the cargo-carrying capacity of a ship
Transferring Portfolio	The Transferring Portfolio consists of: • Business underwritten by BSIAL's Japan branch on or before the Japan Branch Transfer Date • Business underwritten by BSIAL's Hong Kong branch on or before the Hong Kong Branch Transfer Date • Business underwritten by BSIAL's Singapore branch on or before the Singapore Branch Transfer Date • All other business underwritten by BSIAL on or before the Initial Effective Date

Underwrite	This term may refer to (a) the process of evaluating, defining and pricing insurance and reinsurance risks including where appropriate the rejection of such risks; or (b) the acceptance of the obligation to pay or indemnify the insured or reassured under a contract of insurance or reinsurance.
Unearned premium	The premium corresponding to the time period remaining on an insurance policy. Unearned premiums are in respect of the unexpired portion of the insurance and appear as a liability on the insurer's balance sheet.

C Abbreviations

AAL	Annual Aggregate Deductible
ASEAN	Association of Southeast Asian Nations
APS	Actuarial Professional Standards
Britannia Holdings	The Britannia Steam Ship Insurance Association Holdings Limited
BSIAE	The Britannia Steam Ship Insurance Association Europe
BSIAL	The Britannia Steam Ship Insurance Association Limited
CAA	Commissariat aux Assurances
COVID 19	Corona Virus Disease 2019
ECB	Economic Capital Benchmark
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ELTO	Employers' Liability Tracing Office
ENIDs	Events Not In Data
FCA	UK Financial Conduct Authority
FD&D	Freight Demurrage and Defence
FIA	Fellow of the Institute and Faculty of Actuaries
FOS	UK Financial Ombudsman Service
FRC	UK Financial Reporting Council
FSA	UK Financial Services Authority
FSCS	UK Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
GAAP	Generally Accepted Accounting Principles
Grant Thornton	Grant Thornton UK LLP
IBNR	Incurred But Not Reported
IDD	Insurance Distribution Directive
IFoA	Institute and Faculty of Actuaries
IFRS	International Financial Reporting Standards
IG	International Group of P&I Clubs
MCR	Solvency II Minimum Capital Requirement

Non-EEA	Outside of the European Economic Area
ORSA	Own Risk and Solvency Assessment
P&I	Protection & Indemnity
PRA	UK Prudential Regulation Authority
Prudential	The Prudential Assurance Company Limited
Rothesay	Rothesay Life Plc
SCR	Solvency II Solvency Capital Requirement
SUP18	Chapter 18 of the Supervision Manual from the FCA handbook
TAS	Technical Actuarial Standard
TR(B)	Tindall Riley (Britannia) Limited
TRC	Tindall Riley & Co Limited
TRE	Tindall Riley (Europe) SARL
the Court	the High Court of England & Wales
UK	United Kingdom
UPR	Unearned Premium Reserves
USP	Undertaking Specific Parameter

D Checklist against PRA's Statement of Policy and SUP18

The table below cross references the relevant sections of this report to the requirements for the Scheme Report, as set out in the Statement of Policy produced by the PRA in April 2015, namely "The Prudential Regulation Authority's approach to insurance business transfers".

It also cross references the relevant sections of this report to the guidance set out in Chapter 18 of the Supervision Manual ("SUP18") contained in the FCA Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. These requirements are identical to those set out in the PRA's Statement of Policy. However, please note that the paragraph references in the table below are to the PRA Statement of Policy rather than to SUP18.

Reference to the PRA's approach to business transfers	Reference to relevant section within this report
2.30 The Scheme report should comply with the applicable rules on expert evidence and contain the following information:	
(1) who appointed the independent expert and who is bearing the costs of that appointment;	Paragraphs 1.3 and 1.6
(2) confirmation that the independent expert has been approved or nominated by the PRA;	Paragraph 1.4
(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	Paragraphs 1.19 to 1.22 and Appendix E
(4) whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence and details of any such interest;	Paragraphs 1.23 and 1.24
(5) the scope of the report;	Section 3
(6) the purpose of the Scheme;	Paragraph and paragraphs 5.1 to 5.4
(7) a summary of the terms of the Scheme in so far as they are relevant to the report;	Paragraphs 5.1 to 5.5
(8) what documents, report and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided;	Appendix A and paragraph 3.22 to 3.25
(9) the extent to which the independent expert has relied on:	
(a) information provided by others; and	Section 13
(b) the judgement of others;	Section 13

(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	Section 13 and throughout the report.
(11) Their opinion of the likely effects of the Scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:	
(a) transferring policyholders;	Section 14, paragraphs 2.24 to 2.39
(b) policyholders of the transferor whose contracts will not be transferred; and	Not applicable
(c) policyholders of the transferee;	Not applicable
(12) Their opinion on the likely effect of the Scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the Scheme;	Section 14, paragraph 2.40
(13) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' considerations of the Scheme; and	Paragraphs 3.20
(14) for each opinion that the independent expert expresses in the report, an outline of their reasons.	Throughout the report
2.32 The summary of the terms of the Scheme should include:	
(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the Scheme; and	Section 5
(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	There are no guarantees or additional reinsurance that will cover the transferred business. There is no internal or external reinsurance of the transferor that will not be transferred.
2.33 The independent expert's opinion of the likely effects of the Scheme on policyholders should:	
(1) include a comparison of the likely effects if the Scheme is or is not implemented;	The likely effects if the Scheme is implemented are discussed throughout the report and summarised in Sections 2 and 14. An assessment of the likely effects should the Scheme not be implemented is discussed in paragraphs 11.58 to11.61

(2) state whether they considered alternative arrangements and, if so, what;	Paragraph 3.20
(3) where different groups of policyholders are likely to be affected differently by the Scheme, including comments on those differences they consider to be material to the policyholders; and	Sections 7 to 12
(4) include their views on:	
(a) the effect of the Scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;	Section 9
(b) the likely effects of the Scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect:	Investment management: paragraphs 10.2 to 10.7 New business strategy: paragraphs 10.23 to 10.26 Claims handling, complaints handling and policy administration: paragraphs 11.8 to 11.31 Expense levels: paragraphs 10.12 to 10.15 Valuation bases: sections 7 and 8
(i) the security of policyholders' contractual rights;	Section 9
(ii) levels of service provided to the policyholders; or	Paragraphs 11.8 to 11.31
(iii) for the long-term insurance business, the reasonable expectations of policyholders; and	Not applicable to the Scheme – the Scheme does not involve long term insurance business
(c) the cost and tax effects of the Scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	Cost implications: paragraphs 10.12 to 10.15 Tax implications: paragraphs 10.18 and 10.19
2.35 For any mutual company involved in the scheme, the report should:	
(1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders	Paragraph 11.66

(2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and	Not applicable – no diminuation of proprietary rights
(3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	Not applicable – no compensation required
2.36 For a scheme involving long-term insurance business, the report should:	
(1) describe the effect of the Scheme on the nature and value of any rights of policyholders to participate in profits:	N/A
(2) if any such rights will be diluted by the Scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	N/A
(3) describe the likely effect of the Scheme on the approach used to determine:	
(a) the amount of any non-guaranteed benefits such as bonuses and surrender values; and	N/A
(b) the levels of any discretionary charges;	N/A
(4) describe what safeguards are provided by the Scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;	N/A
(5) include the independent expert's overall assessment of the likely effects of the Scheme on the reasonable expectations of long-term insurance business policyholders;	N/A
(6) state whether the independent expert is satisfied that for each firm, the Scheme is equitable to all classes and generations of its policyholders; and	N/A
(7) state whether, in the independent expert's opinion, for each relevant firm the Scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function	N/A

holders) to ensure that the Scheme operates as presented.	

E My experience

My professional experience is set out below:

- I have worked in or consulted to the general insurance industry for nearly 30 years.
- I am a Partner in Grant Thornton and lead Grant Thornton's provision of actuarial and risk services to the general insurance sector.
- I have fulfilled or are fulfilling the role of Independent Expert for 11 Part VII Transfers and Section 13 Transfers of insurance liabilities, with my other transaction experience including acting as Scheme Actuary for several schemes of arrangements; independent expert assignments; and due diligence for mergers and acquisitions.
- The table below sets out the Part VII Transfers and Section 13 Transfers on which I have acted as the Independent Expert or Independent Actuary.

Transfer	Transfer Type	Date sanctioned
A Brexit-driven transfer from the UK entity of a P&I club to the Irish entity of the same club	Part VII	Expected to be sanctioned in May 2021
A Brexit-driven transfer from a UK entity of an insurance group to an Irish entity of the same group	Part VII	Expected to be sanctioned in December 2020
Aviva Insurance Limited to Aviva Insurance Ireland DAC	Part VII	January 2019
CNA Insurance Company Limited to CNA Insurance Company Europe) S.A.	Part VII	December 2018
Zurich Insurance plc to Catalina Insurance Ireland DAC	Section 13	October 2018
Zurich Insurance plc to East West Insurance Company Limited	Section 13	March 2018
Congregational & General Insurance plc to International Insurance Company of Hannover SE	Part VII	November 2017
Colbourne Insurance Company Limited to NRG Victory Reinsurance Limited	Part VII	July 2017
Guardian Assurance Limited to R&Q Insurance (Malta) Limited	Part VII	September 2016
Harworth Insurance Company Limited to Royal & Sun Alliance plc	Part VII	August 2014

- I have substantial reserving experience for an extensive variety of classes of business, including personal and commercial lines, and for a very wide range of companies.
- I also have substantial experience of determining and assessing the capital requirements of general insurance companies, including those under Solvency II.
- My other experience in the general insurance sector includes: producing skilled persons reports under s166 of FSMA 2000; Solvency II including all three pillars; design and construction of capital models; IFRS 17; provision of strategic advice; design and implementation of management information systems; rating of portfolios and individual risks; reviews of rating adequacy; development of pricing models; and review and design of reinsurance programmes.
- In 2010, I set up an actuarial team for Quinn Insurance Limited (Under Administration) ("Quinn"). Between 2010 and 2012, I acted as the de facto Chief Actuary and Chief Underwriting Officer for Quinn.

- Prior to joining Grant Thornton in 2006, I was the Chief Actuary for Travelers Insurance Company Limited in the UK and Ireland.

- Before that, I was a senior consultant in the general insurance division of Towers Perrin.

- I am a Fellow of the Institute and Faculty of Actuaries.

- I hold a Chief Actuary (Non-life with Lloyd's) Practising Certificate and a Lloyd's Syndicates Practising Certificate, both issued by the Institute and Faculty of Actuaries. I have previously also held an Irish Signing Actuary Practising Certificate issued by the Society of Actuaries in Ireland, and been recognised as a Responsible Actuary by the financial regulator in Liechtenstein.

- My professional experience includes terms on the Institute and Faculty of Actuaries' Council, Management Board, General Insurance Board, Education Board, General Insurance Reserving Oversight Committee, General Insurance Education and CPD Committee (including a term as chair), and Education Committee.

F Extract from Engagement Letter

Terms of engagement between The Britannia Steam Ship Insurance Association Limited, The Britannia Steam Ship Insurance Association Europe and Grant Thornton UK LLP

Acting as the Independent Expert on the proposed Part VII transfer from The Britannia Steam Ship Insurance Association Limited to The Britannia Steam Ship Insurance Association Europe

1 Introduction

1.1 This letter, together with our standard Terms and Conditions (further details of which are provided below), sets out the basis on which we will provide the services set out below to The Britannia Steam Ship Insurance Association Limited ("Britannia") and The Britannia Steam Ship Insurance Association Europe ("Britannia Europe") (together known as **you** or the **Client(s)**).

2 Scope of work

2.1 Our agreed scope of work (the **Services**) is set out below.

2.2 You have asked us to provide an Independent Expert to report on the proposed insurance business transfer scheme to transfer business from Britannia to Britannia Europe (the "Scheme"). The Independent Expert's report will be prepared in accordance with and for the purposes set out in Part VII of the Financial Services and Markets Act 2000 ("FSMA") and for no other purpose.

2.3 As part of this assignment, the Independent Expert will produce the following reports:

- The main Independent Expert report, prior to the Directions Hearing (the first Court hearing)
- The summary report, prior to the Directions Hearing
- The supplementary report, prior to the Sanctions Hearing (the second and final Court hearing)

2.4 The different groups of policyholders affected by the Scheme are expected to be:

- The transferring policyholders
- The policyholders who are with Britannia Europe prior to and following the transfer

2.5 It is not expected that any policyholders will remain with Britannia following the transfer.

2.6 The Independent Expert's analysis and formal reports will follow the relevant FSMA requirements and associated supplemental guidance. His reports will consider the Scheme as a whole and its effect on the policyholders of Britannia and Britannia Europe. In particular, it will include, but not be limited to, an opinion on:

- The terms of the Scheme generally and the effect which the Scheme will have on the insurance policies of Britannia and Britannia Europe
- The way in which Britannia and Britannia Europe will conduct their (re)insurance business but taking into account the particular circumstances of each of the different groups of policyholders
- The likely scope for deteriorations in each of Britannia's and Britannia Europe's claims reserves (i.e. the likelihood and extent to which each of the companies' reserves may prove inadequate)
- The impact of the Scheme on the security/ financial strength afforded to the different groups of policyholders of Britannia and Britannia Europe involved in the Scheme

- The corporate governance structures operating in Britannia and Britannia Europe and the impact on the different groups of policyholders of Britannia and Britannia Europe involved in the Scheme
- The investment policies of Britannia and Britannia Europe
- The impact of the Scheme on the policyholders' access to compensation schemes such as the Financial Service Compensation Scheme
- The impact of the Scheme on the policyholders' access to complaints schemes such as the Financial Ombudsman Service
- The impact of the Scheme on the levels of service, including claims handling, provided to different groups of policyholders of Britannia and Britannia Europe involved in the Scheme
- The existing and proposed agreements between Britannia and Britannia Europe and their reinsurers
- Guarantees and/or agreements (if any) between Britannia and Britannia Europe
- Transactions (outside the Scheme) that impact upon one or both of Britannia and Britannia Europe
- The terms and conditions (if any) expected to be imposed by the Scheme to be presented to the Court
- The adequacy of any safeguards in the Scheme intended to protect the interests of the affected policyholders
- The fairness of any mechanism implemented at the same time as the Scheme, but not included in the Scheme
- The communications made to policyholders
- The matters required by applicable provisions of the PRA's Policy Statement PS7/15, Chapter 18 of the supervision manual in the FCA's Handbook and the FCA's finalised guidance, FG18/4
- Any other matters drawn to the Independent Expert's attention by the PRA or FCA or which are required by the PRA or FCA to be addressed with the Independent Expert's reports

The above list is not intended to be exclusive to any other aspects which may be identified during the completion of the project and which are considered by the Independent Expert to be relevant.

2.7 The Independent Expert will not be directly involved in the formulation of the proposed Scheme although he expects to give guidance during the evolution of the detailed proposals on those issues which concern the Independent Expert or which the Independent Expert considers unsatisfactory. The Independent Expert will meet with Britannia and Britannia Europe at an early stage to identify key issues and will support the companies in their liaison with and provision of information to the PRA and FCA, and share his reports (and drafts of them) with the legal advisers retained by Britannia and Britannia Europe and those employees and directors of Britannia and Britannia Europe or their affiliates involved in the Scheme.

2.8 Any changes to the scope of the assignment should be by mutual agreement and confirmed in writing.

3 Duty to the Court

3.1 The Independent Expert's main and supplementary reports will be addressed to the Court and will include, inter alia, the following matters:

- an express statement that the Independent Expert understands his duty to the Court and that he has complied with and will continue to comply with that duty
- a summary of the matters dealt with in the report together with the reasons for those opinions
- a statement setting out the substance of all material facts and instructions that the Independent Expert has received (whether written or oral), which are material to the opinions expressed in his report or upon which those opinions are based
- whether any questions or issues specifically fall outside his expertise, and how he has dealt with those questions or issues
- any other matters requited under FSMA, the PRA's Policy Statement PS7/15, Chapter 18 of the Supervision Manual ("SUP18") contained in the FCA Handbook of Rules or the FCA's Finalised Guidance FG18/4.

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