



# Additional Supplementary 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

Updated Final Report

18 January 2022



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# 1 Introduction

- 1.1 The Britannia Steam Ship Insurance Association Limited ("BSIAL") and The Britannia Steam Ship Insurance Association Europe ("BSIAE") jointly nominated Simon Sheaf ("I" or "me") of Grant Thornton UK LLP ("Grant Thornton", "we" or "us") to act as the Independent Expert for the proposed insurance business transfer of a portfolio of insurance business from BSIAL to BSIAE ("the Scheme"). This nomination has been approved by the PRA in consultation with the FCA.
- 1.2 A transfer of the majority of policyholders from BSIAL to BSIAE occurred on 20 February 2021 ("the Initial Effective Date"), however it was not possible to transfer the insurance and reinsurance business of BSIAL's branch in Japan ("the Japan Branch Business"). This transfer is expected to occur on 20 February 2022 ("the Longstop Date").
- 1.3 The groups of policyholders that transferred from BSIAL to BSIAE on the Initial Effective Date were those within the EEA Business, the Remaining Non-Branch Business, the Hong Kong Branch Business and the Singapore Branch Business. Collectively, these will be referred to in this report as the Existing BSIAE Business, and the policyholders currently within BSIAE will be referred to as the Existing BSIAE Policyholders.

## Scope of this report

- 1.4 I prepared a report ("the Report") for the High Court of Justice, England and Wales ("the Court") dated 16 September 2020 and entitled "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". I prepared another report ("the Supplementary Report") for the Court dated 15 January 2021 and entitled "Supplementary 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". These reports set out my considerations as to the likely effects of the proposed Scheme on the affected policyholders. This included my assessment as to whether the Scheme will result in material detriment to any policyholders affected by the Scheme relative to their current situation.
- 1.5 The conclusions within the Report were based on financial information as at 20 February 2020 and other information available to me when I prepared the Report. The conclusions within the Supplementary Report were based on financial information as at 20 August 2020 and other information available to me when I prepared the Supplementary Report. Since submitting the Supplementary Report to the Court, I have been provided with more recent information, including data up to 20 November 2021. A list of the additional information that I have been provided with is contained within Appendix A.
- 1.6 This report ("the Additional Supplementary Report") provides an update to those conclusions that are relevant to the transfer of the Japan Branch Business I set out in the Report and the Supplementary Report in light of this additional information and assesses whether any affected group of policyholders could be materially disadvantaged by the transfer of the Japan Branch Business.
- 1.7 I am not aware of any further matters not discussed in this report that have the potential to change the conclusions in the Report and the Supplementary Report.

## Layout of this report

- 1.8 This report is structured as follows:
- This section sets out an introduction to the transfer of the Japan Branch Business and to this report
  - Section 2 is an executive summary, which summarises the transfer of the Japan branch Business and the various analyses conducted and describes my conclusion
  - Section 3 sets out significant changes to each of BSIAL and BSIAE since the Supplementary Report, along with any relevant developments external to BSIAL and BSIAE
  - Section 4 describes the work that I have carried out to review my conclusions in respect of the claims reserves for BSIAL and BSIAE
  - Section 5 describes the work that I have carried out to review my conclusions in respect of the capital requirements of BSIAL and BSIAE
  - Section 6 describes the work that I have carried out to review my conclusions in respect of policyholder security, including under insolvency
  - Section 7 describes the work that I have carried out to review my conclusions in respect of my assessment of other financial considerations
  - Section 8 describes the work that I have carried out to review my conclusions in respect of my assessment of other non-financial considerations
  - Section 9 describes the work I have done to consider the communications process relating to the proposed transfer of the Japan Branch Business on the Longstop Date
  - Section 10 sets out my conclusions on the proposed transfer of the Japan Branch Business on the Longstop Date.

## Independence

- 1.9 I have no financial interest in, nor have I previously advised in a professional capacity, BSIAL, BSIAE or the group of companies to which BSIAL and BSIAE belong (“the Britannia Group”).
- 1.10 I do not believe that any of my previous professional assignments impair my independence to act as the Independent Expert in relation to the Scheme.

## Use of this report

- 1.11 This Additional Supplementary Report should be read in conjunction with the Report and the Supplementary Report as reading this report in isolation may be misleading. In particular, this report has an analogous scope and is subject to the same reliances and limitations and restrictions on distribution and use as the Report. All abbreviations and technical terms used in this Additional Supplementary Report have the same meaning as in the Report and the Supplementary Report.
- 1.12 This report is provided for the use of the Court, the BSIAL Board, the BSIAE Board, BSIAL’s policyholders, BSIAE’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.

- 1.13 Copies of the final version of this report will 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 will also be made available on websites hosted by or on behalf of BSIAE and/or BSIAL in connection with the Scheme.
- 1.14 However, notwithstanding the above, Grant Thornton UK LLP 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 the reports we have issued in connection with the Scheme.
- 1.15 Judgments 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.
- 1.16 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.
- 1.17 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.

## Professional Guidance

- 1.18 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.
- 1.19 This report has been prepared under the terms of the Statement of Policy produced by the PRA in January 2022, 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". Further to the above, this report has considered a consultation from the FCA in respect of updates to its guidance. This consultation closed at the end of August 2021 and updated FCA guidance is due to be issued in the near future.
- 1.20 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.
- 1.21 This report has also been produced in line with the requirements of APS X3: The Actuary as an Expert in Legal Proceedings, issued by the IFoA.
- 1.22 In addition, this report has been internally peer reviewed in line with the requirements of APS X2: Review of Actuarial Work, issued by the IFoA.
- 1.23 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. I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

# 2 Executive Summary

## My approach

- 2.1 In preparing this report, I have considered relevant events and experience since issuing the Supplementary Report and their impact on the conclusions set out in the Report and Supplementary Report. In particular, I have sought to:
- Understand changes to BSIAL and BSIAE since the Supplementary Report, both financial and non-financial
  - Understand the impact of changes in the external environment on BSIAL and BSIAE
  - Consider the implications of these changes on the level of security provided to the affected policyholders
  - Consider the potential impact of changes since the Supplementary Report on levels of customer service
  - Consider the changes in other factors that might affect policyholders since the Supplementary Report
  - Consider the implication of changes since the Supplementary Report on the proprietary rights of existing members of BSIAL and BSIAE
  - Consider the implication of changes since the Supplementary Report on any reinsurers transferring as a result of the transfer of the Japan Branch Business.
- 2.2 Since the Report and the Supplementary Report were issued, I have been provided with financial information as at 20 February 2021, and high level financial information as at 20 August 2021 and as at 20 November 2021 for the Britannia Group. In addition, I have held discussions with the Britannia Group and been provided with confirmation from them of the changes in respect of financial and non-financial factors relating to BSIAL and BSIAE.
- 2.3 I have also considered the correspondence with policyholders and third parties that has taken place in connection with the Scheme and the transfer of the Japan Branch Business since the Supplementary Report and the responses received up to 3 December 2021.

## Findings

- 2.4 The findings set out in this report are summarised in this section. The detailed explanation behind these conclusions follows in the body of this report and within the Report and the Supplementary Report.

### Policyholder security

#### Existing BSIAE Business

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

#### Japan Branch Business

- 2.6 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 transfer of the Japan Branch Business. These policyholders would be moving to a company that I consider to have a sufficient level of capital in order to meet policyholder obligations.

**Levels of service**

- 2.7 I do not anticipate any material changes to the level of service provided to any of the groups of policyholders following the transfer of the Japan Branch Business.

**Other financial and non-financial considerations**

- 2.8 I do not expect any material adverse impact to any group of policyholders following the transfer of the Japan Branch Business as a result of the other financial and non-financial factors considered.

- 2.9 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

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

- Regulatory jurisdiction
- Claims handling
- Policy administration
- Complaints
- Impact of 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 and the appeal against that ruling
- Non-financial impact of COVID 19
- The impact of the transfer of the Japan Branch Business on members' proprietary rights
- The impact on policyholders should the transfer of the Japan Branch Business not become effective
- The impact on policyholders should BSIAE's application to convert its UK Branch into a third country branch following the transfer of the Japan Branch Business not be successful
- The impact on policyholders if BSIAE's Japan Branch is not approved before the Longstop Date.

**Impact on transferring reinsurers**

- 2.11 I have not identified any reinsurers transferring from BSIAL to BSIAE that would be materially adversely affected by the transfer of the Japan Branch Business.

## Conclusion

- 2.12 I conclude that I do not expect any group of policyholders or reinsurers to be materially adversely affected by the transfer of the Japan Branch Business and therefore I see no reason why the transfer of the Japan Branch Business should not proceed.
- 2.13 Note that this conclusion is conditional on BSIAE receiving the formal approval of the transfer from the Japanese Financial Services Agency (“JFSA”) in advance of the Longstop Date.



# 3 Business developments

## The Britannia Group

- 3.1 I understand from the Britannia Group that, since the publication of the Supplementary Report, Standard & Poor's has placed the Britannia Group, along with a number of other members of the IG, onto negative outlook in respect of its A rating. I understand from the Britannia Group that this is in response to the IG's pool claims experience over recent years and the expected unprofitability of members of the IG, including Britannia, over the short term. I understand from the Britannia Group that, whilst there is no general increase for the renewals at 20 February 2022, a 12.5% increase in total estimated call income has been targeted with all members underwritten on a case by case basis. This change applies equally to the Japan Branch Business as well as the Existing BSIAE Business, and will continue to apply to the Japan Branch Business whether the transfer proceeds or not. As such, I am comfortable that these latest developments do not give me any reason to change my conclusions in the Report or the Supplementary Report.
- 3.2 I understand from the Britannia Group that there has been a change in the governance structure, which was expected at the time of the Report and Supplementary Report. The Chief Actuary role is now fulfilled internally rather than externally. In addition, there has been a change of Chief Financial Officer following the retirement of the previous incumbent.
- 3.3 I understand from the Britannia Group that there has also been a change in external auditor with the outgoing auditor retiring as required due to the length of tenure as the auditor of the Britannia Group.
- 3.4 The governance changes described in paragraphs 3.2 and 3.3 apply equally to the Japan Branch Business as well as the Existing BSIAE Business, and will continue to apply to the Japan Branch Business whether the transfer proceeds or not. I am comfortable that these latest governance developments do not give me any reason to change my conclusions in the Report or the Supplementary Report.

## Other developments

- 3.5 I understand from the Britannia Group that there have been no other material changes in its business since the Supplementary Report was issued.

## BSIAL

- 3.6 At the time of writing the Supplementary Report, BSIAL was in the process of establishing new reinsurance agreements with Hydra, Boudicca and USMIA, to come into effect at the Initial Effective Date. I understand from the Britannia Group that, at the time of this report, the reinsurance agreements with Boudicca and USMIA, as well as a new Hydra reinsurance agreement with members of the IG, which includes BSIAE, have all been agreed and came into effect as expected. Therefore I am comfortable that these latest developments do not give me any reason to change my conclusions in the Report or the Supplementary Report.

## Other developments

- 3.7 I understand from BSIAL that there have been no other material changes in its business since the Supplementary Report was issued.

## BSIAE

- 3.8 As discussed in paragraph 5.6 of the Report, BSIAE's UK Branch was initially established under EEA passporting rights, and BSIAE's intention was for this to become a third country branch following the Transition Period. I understand from the Britannia Group that it applied to the PRA in September 2021 for BSIAE's UK Branch to become a third country branch. At the time of this report, the Britannia Group is awaiting a response from the PRA. Consequently, there have been no developments with respect to BSIAE's UK Branch that give me reason to change my conclusions in the Report or the Supplementary Report.
- 3.9 On the Initial Effective Date, the Existing BSIAE Business transferred to BSIAE from BSIAL. The Japan Branch Business did not transfer because BSIAE's Japan Branch did not receive approval from the JFSA ahead of the Initial Effective Date. I understand from BSIAE that it has now received a licence to carry on business from the JFSA and formal approval from the CAA for the Japan Branch. In addition, I understand from BSIAE that it made its formal application to the JFSA for the transfer on 18 January 2022. BSIAE has informed me that it understands that an invitation to make such an application amounts to an informal approval. I understand from BSIAE that it has been informed by the JFSA that it is likely to be granted formal approval around 28 January 2022 and therefore expects to receive formal approval from the JFSA in advance of the Longstop Date. Should such approval not be granted in advance of the Longstop Date, then the transfer of the Japan Branch Business will need to be delayed until such approval has been granted. As such, I am comfortable that the latest developments with respect to BSIAE's Japan Branch application do not give me any reason to change my conclusions in the Report or the Supplementary Report, as long as formal approval is received from the JFSA in advance of the Longstop Date.
- 3.10 As discussed in paragraph 3.5 of the Supplementary Report, the Britannia Group intended for the Non-Branch Business to be subdivided into two tranches, whereby the EEA Business would be transferred to BSIAE and allocated directly to BSIAE on the Initial Effective Date and the Remaining Non-Branch Business would be transferred to BSIAE and allocated to BSIAE's UK Branch on the Initial Effective Date. I understand from The Britannia Group that, in a change of plan, all business except UK business is directly written into BSIAE. I am comfortable that the latest developments with respect to the Non-Branch Business do not give me any reason to change my conclusions in the Report or the Supplementary Report.

## Other developments

- 3.11 I understand from BSIAE that there have been no other material changes in its business since the Supplementary Report was issued.

## Brexit

- 3.12 I am not aware of any developments in relation to Brexit that give me reason to change the conclusions in the Report or the Supplementary Report.

## COVID 19

- 3.13 At the time of the Report, COVID 19 had already had a considerable impact on the day-to-day operations and risk profiles of many businesses, and the possible financial and non-financial impacts of COVID 19 on the Scheme were considered throughout the Report and Supplementary Report. I discussed the capital implications of COVID 19 in paragraphs 8.41 to 8.44 and 8.66 to 8.70 of the Report, and paragraphs 5.16 and 5.23 of the Supplementary Report.

- 3.14 I understand from the Britannia Group that it has not made explicit allowance for COVID 19 in its revised capital projections given in tables 5.6 and 5.8 of this report. However, I understand from the Britannia Group that, as set out in the ORSA, \$25m of the ECB headroom has been allocated for the next 12 months to allow for future communicable disease exposure and malicious cyber.
- 3.15 I have also provided an updated view of the Britannia Group's claims experience in relation to COVID 19 in paragraphs 4.27 to 4.29 of this report, and of the non-financial impact of COVID 19 on the Scheme in paragraphs 8.14 to 8.17 of this report.
- 3.16 I am comfortable that the latest developments with respect to COVID 19 do not give me any reason to change my conclusions in the Report or the Supplementary Report.

## Other developments

### BSIAE guarantee

- 3.17 I understand from the Britannia Group that BSIAL and BSIAE established an agreement under which BSIAE will guarantee BSIAL's payment obligations to policyholders in respect of any policies which did not transfer to BSIAE on the Initial Effective Date, which will operate until such a time as all policies have transferred to BSIAE.
- 3.18 Given my analysis in this report of the financial strength of BSIAL and BSIAE following the Initial Effective Date, I consider it unlikely that this guarantee will need to be relied upon to ensure payment of any of BSIAL's policyholders whether or not the transfer of the Japan Branch Business proceeds. Furthermore, at the time of this report, this guarantee has not been required to ensure payment of any of BSIAL's policyholders. However, this guarantee serves to afford greater security to those policyholders which remain in BSIAL temporarily following the Initial Effective Date.
- 3.19 I am also comfortable that BSIAE would be in a position to fulfil its obligations under this guarantee, if necessary, without introducing a threat to the financial security of its own policyholders. This conclusion is based on the projected SCR coverage ratios and absolute levels of Eligible Own Funds of BSIAL and BSIAE in the scenario in which BSIAE's Japan Branch is not approved by the Longstop Date, as set out in paragraph 8.103 of the Report, and further discussed in paragraphs 5.33 to 5.34 of this report.

### The recognition of unbudgeted supplementary calls on members as Eligible Own Funds

- 3.20 As discussed in paragraphs 8.12 and 8.13 of the Report, at the time of the Report, the Britannia Group had regulatory approval from the PRA to recognise unbudgeted supplementary calls on members as Tier 2 AOF under Solvency II. The Britannia Group had applied for approval from the CAA to recognise unbudgeted supplementary calls as Tier 2 capital following the Scheme.
- 3.21 The CAA approved the application for the Britannia Group to recognise unbudgeted supplementary calls as Tier 2 capital before the Initial Effective Date. I have received evidence of the approval letter from the CAA.
- 3.22 I am comfortable that this agreement does not materially impact any of the conclusions I made in the Report or the Supplementary Report.

### Other

- 3.23 I am not aware of any other market or financial developments since the date of the Supplementary Report that would have an impact on my conclusions.

# 4 Claims reserves

- 4.1 In this section, I discuss the claims reserve strength of the Britannia Group, BSIAL and BSIAE. In doing so, I have considered:
- The governance processes relating to the reserves of the Britannia Group, BSIAL and BSIAE, which is discussed in paragraphs 4.2 to 4.3
  - The developments in the claims and policy system that has been implemented, which is discussed in paragraphs 4.4 to 4.5
  - The process for setting reserves, which is discussed in paragraphs 4.6 to 4.9
  - The best estimate reserves for the Britannia Group, BSIAL and BSIAE, which are discussed in paragraphs 4.10 to 4.34
  - The adjustments applied to the best estimate reserves to determine the Solvency II technical provisions, which are discussed in paragraphs 4.35 to 4.42.

## Reserve strength of the Britannia Group

### Governance process

- 4.2 I understand from the Britannia Group that there has been a change in the governance structure, which was expected at the time of the Report and Supplementary Report. The Chief Actuary role is now fulfilled internally rather than externally. I understand from the Britannia Group that there have been no other changes to the governance process surrounding the calculation and setting of reserves.
- 4.3 I understand from the Britannia Group that the governance process that currently applies to BSIAE already applies to and will continue to apply to the Japan Branch Business following the Longstop Date, in the event the transfer becomes effective. Further, in the event that the Japan Branch Business does not transfer, I understand from the Britannia Group that the governance process that currently applies in respect of the Japan Branch Business will continue to apply.

### Data

- 4.4 I understand from the Britannia Group that, since the Report and Supplementary Report, a new claims and policy system has been further implemented and now the claims data for the reserving process is sourced from this new system. I further understand from the Britannia Group that the volume of checks, monitoring of data quality and reconciliations have increased compared to previous years.
- 4.5 In addition, I understand from the Britannia Group that this change in the system has highlighted some small data issues and that suitable adjustments were made during the reserving process. Based on my discussions with the Britannia Group, I am satisfied that the data used for the reserving process remains appropriate.

### Process for setting reserves

- 4.6 I have been informed by the Britannia Group that there have not been any material changes to its processes for calculating its GAAP reserves and Solvency II technical provisions since the Supplementary Report, with the exception of the designation of Hydra as a third party reinsurer, which is no longer required. This is discussed in paragraphs 7.46 and 7.68 of the Report.
- 4.7 I understand from the Britannia Group that the processes used to calculate the GAAP reserves and Solvency II technical provisions for the Japan Branch Business will not change following the transfer of this business.

- 4.8 Following the Initial Effective Date, all of BSIAL's business, except the Japan Branch Business, transferred to BSIAE. Therefore, the reserves of BSIAL and BSIAE were reported separately as at 20 February 2021. This was carried out by allocating the total reserves at the Britannia Group level to each of BSIAL and BSIAE. This method of allocation is the same as the approach used to allocate the reserves to each Branch prior to the Scheme. This method will continue to be the same once the transfer of the Japan Branch Business has occurred in order to allocate reserves within BSIAE, specifically to each of the Hong Kong Branch, the Singapore Branch, the Japan Branch and the UK Branch. Following the transfer, BSIAL will not contain any business and therefore no reserves will be allocated to it.
- 4.9 Based on the above and my discussions with the Britannia Group, I am satisfied that the process for setting reserves remains appropriate.

## GAAP reserves

### Reserves as at 20 February 2021

- 4.10 The table below shows the total GAAP claims reserves for the Britannia Group's business as at 20 February 2021, both gross and net of reinsurance, and shown separately for each of BSIAL and BSIAE. The reserves ceded to each of Boudicca, the Britannia Group's Hydra cell and USMIA are shown separately.

**Table 4.1: GAAP reserves for the Britannia Group as at 20 February 2021**

\$m	Gross of reinsurance	Ceded reserves				Net of reinsurance
		Boudicca	Hydra	USMIA	Other	
BSIAL GAAP booked reserves	65.50	-1.39	0.00	-56.71	-1.10	6.30
BSIAE GAAP booked reserves	1,155.35	-142.96	-78.09	-443.46	-440.64	50.20
USMIA Group Adjustment	0.00	0.00	0.00	500.18	0.00	500.18
Hydra Group Adjustment	0.00	0.00	77.16	0.00	0.00	77.16
<b>Total GAAP booked reserves</b>	<b>1,220.86</b>	<b>-144.35</b>	<b>-0.93</b>	<b>0.00</b>	<b>-441.74</b>	<b>633.84</b>

- 4.11 As discussed in paragraph 4.6, Hydra is no longer treated as a third party reinsurer for the Britannia Group and therefore the net of reinsurance reserves have increased, although this is purely a presentational change. The USMIA Group Adjustment and the Hydra Group Adjustment rows in the table above are due to the fact that on a solo basis, the entities get the benefit of the USMIA and Hydra reinsurance recoveries, but on a group basis they consolidate away.
- 4.12 As discussed in paragraph 7.18 of the Report, 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. Paragraph 7.42 of the Report describes the process used to determine the margin, and this process has not changed.
- 4.13 The Britannia Group has performed a bootstrapping uncertainty exercise on its GAAP reserves, which has shown that, for the policy years 2005/06 to 2020/21 in aggregate, the reserves are above the 99<sup>th</sup> percentile.

- 4.14 The table below shows the Britannia Group's actuarial best estimate claims reserves, both gross and net of reinsurance, at 20 February 2021. The reserves ceded to each of Boudicca, the Britannia Group's Hydra cell and USMIA are shown separately.

**Table 4.2: Actuarial best estimate claims reserves by reserving group for BSIAL at 20 February 2021**

\$m	Gross of reinsurance	Ceded reserves				Net of reinsurance
		Boudicca	Hydra	USMIA	Other	
P&I retention claims	35.23	0.00	0.00	-31.98	0.30	3.55
Pool P&I claims	19.52	0.00	-9.47	-9.04	0.00	1.00
FD&D claims	0.14	0.00	0.00	-0.12	0.00	0.01
Asbestos-related claims	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total best estimate claims reserve</b>	<b>54.89</b>	<b>0.00</b>	<b>-9.47</b>	<b>-41.14</b>	<b>0.30</b>	<b>4.57</b>

**Table 4.3: Actuarial best estimate claims reserves by reserving group for BSIAE at 20 February 2021**

\$m	Gross of reinsurance	Ceded reserves				Net of reinsurance
		Boudicca	Hydra	USMIA	Other	
P&I retention claims	698.49	-54.10	0.00	-203.32	-418.47	22.59
Pool P&I claims	123.01	0.00	-55.55	-60.72	0.00	6.75
FD&D claims	9.54	0.00	0.00	-8.51	-0.08	0.95
Asbestos-related claims	38.57	0.00	0.00	-34.71	0.00	3.86
<b>Total best estimate claims reserve</b>	<b>869.61</b>	<b>-54.10</b>	<b>-55.55</b>	<b>-307.26</b>	<b>-418.55</b>	<b>34.14</b>

- 4.15 The methodology used to determine the best estimate claims reserves for each risk group is discussed in paragraphs 7.19 to 7.38 of the Report. This methodology has not changed.

#### Updates to reserves after 20 February 2021

- 4.16 As discussed in paragraph 7.4 of the Report, although the Britannia Group only produces a formalised set of GAAP accounts at each year end, it carries out an AvE reserve review at each quarter end, to assess the appropriateness of the GAAP reserves and make any necessary adjustments. This analysis is carried out separately for pool and retained claims, and separately by policy year.
- 4.17 AvE reserve reviews have been carried out by the Britannia Group using claims data as at 20 August 2021 and as at 20 November 2021. The Britannia Group has provided me with the calculations and internal documentation in respect of these exercises and I have held discussions with the Britannia Group to understand the drivers behind the more significant movements observed. The below paragraphs discuss my review of the AvE exercise as at 20 August 2021. My review of the AvE exercise as at 20 November 2021 is discussed in paragraphs 4.30 to 4.32.

#### Reserves as at 20 August 2021

##### 20/21 policy year and prior

- 4.18 For the 20/21 policy year (i.e. the policy year ending 20 February 2021) and prior policy years, the AvE analysis showed deviations between actual and expected incurred claims on policy years of varying sizes. As expected, the differences were more substantial on the more recent policy years, which are less developed and hence less stable.

- 4.19 Overall, the aggregate AvE deviation with respect to retained claims arising across all policy years was 1.1% of the overall incurred claims as at 20 August 2021 with the movement in actual incurred claims being heavier than expected. For pool claims, the aggregate AvE deviation arising across all policy years was 1.0% of the overall incurred claims as at 20 August 2021, with the movement in actual incurred claims being lighter than expected. I do not consider the AvE analysis to demonstrate an atypical level of deviation from the Britannia Group's expected incurred balance as at 20 February 2021.
- 4.20 I understand from the Britannia Group that it has updated the best estimate view of ultimate claims for these policy years in light of the AvE exercise. The Britannia Group has increased the ultimate in respect of retained claims by c.1.0% since 20 February 2021, in line with the AvE deviation. In addition, it has increased the ultimate in respect of pool claims by c.0.2% since 20 February 2021, despite the AvE showing an improvement on the basis that it expects some adverse movement on pool claims over the near future. I have discussed the potential for adverse experience in pool claims to materialise and based on these discussions with the Britannia Group, I am comfortable that the reserves in respect of pool claims continue to lie within a reasonable range of reserves.
- 4.21 The Britannia Group recognised a small improvement in its half year management accounts for the retained and pool claims. Since the latest best estimate view of ultimate claims has increased, this implies that the reserve margin has reduced. However, the aggregate movement in the GAAP ultimate cost of claims between 20 February 2021 and 20 August 2021 on these policy years was immaterial in the context of the overall reserve position.
- 4.22 Overall, given my understanding of the claims movements since 20 February 2021, and the adjustments made to the GAAP reserves in light of these movements, I am comfortable that the GAAP reserves for these policy years continue to lie within a range of reasonable estimates for the Britannia Group, on the basis that the claim movements have not been material in the context of the overall reserve position. Also, given my understanding of the allocation approach to the solo entities, I am comfortable that the GAAP reserves for BSIAL and BSIAE for these policy years continue to lie within a range of reasonable estimates. It should be noted that the increased best estimate view of ultimate claims has been used in the projections of capital discussed in Section 5.
- [21/22 policy year](#)
- 4.23 The policy year ending 20 February 2022 is currently at a very early stage of development and emerging experience is therefore considerably less stable than on prior policy years.
- 4.24 I understand from the Britannia Group that an initial expectation of the ultimate claims for the 21/22 policy year was estimated in October 2020 using the premium risk model. The premium risk model is described in further detail in paragraph 8.35 of the Report.
- 4.25 In respect of retained claims, I understand from the Britannia Group that attritional claims are broadly in line with expectations, while the claims experience arising from COVID 19 is slightly heavier than expected which is discussed further in paragraphs 4.27 to 4.33 below.
- 4.26 In respect of pool claims, I understand from the Britannia Group that the loss experience so far this year has been worse than in previous years, and this is due to several large claims against the pool (none of which are arising from members of the Britannia Group). Nevertheless, as described in the Report, under the pooling arrangement, the Britannia Group takes its share of these pool losses. As a result, the Britannia Group has increased its initial gross best estimate ultimate claims for the policy year by c.\$100m on a 100% share basis. As discussed above, the 2021/22 policy year is at a very early stage of development, and due to the heavier than expected pool experience, it is not unreasonable for the Britannia Group to increase its ultimate view by this quantum.

### COVID 19 claims

- 4.27 In addition to discussing the Britannia Group's analysis as at 20 February 2021 and its half year AvE analysis, I have also held discussions with the Britannia Group to understand its latest view of claims arising from COVID 19. The position as at 20 November 2020 was described in paragraph 4.16 of the Supplementary Report. I have summarised the latest position in respect of COVID 19 claims, as at 20 August 2021 below:
- 4.28 There were 141 COVID 19 related claims in the 20/21 policy year. The total incurred amount of those claims was \$6.9m, which makes up a small proportion of the total retained claims. In the 21/22 policy year, the average cost per claim of COVID 19 related claims has remained steady, however the number of COVID 19 related claims has increased compared to the 20/21 policy year, leading to a higher total cost of these claims. At the 20 August 2021, the total incurred amount of these claims was \$12.1m for the 21/22 policy year. At this point, COVID 19 claims make up approximately 20% of the incurred for the retained claims for the 21/22 policy year. This percentage is higher than in 20/21 since there has been better than expected large claims experience to this point.
- 4.29 In conclusion, I understand from the Britannia Group that, although claims related to COVID 19 in the 21/22 policy year have increased, based on its latest view of claims arising from COVID 19, it does not consider these claims to be significant in the context of the total reserves for all policy years, and it has not considered it necessary to reserve for COVID 19 related claims in a separate manner, although it continues to monitor the situation. In my view, this is a reasonable approach to take.

### Reserves as at 20 November 2021

- 4.30 Both retained and pool business showed slight improvements in the AvE analysis at 20 November 2021 when compared to 20 August 2021. As a result, the Britannia Group's actuarial best estimate has reduced slightly over this period.
- 4.31 The Britannia Group recognised a small improvement in its half year management accounts for the retained and pool claims. However, the aggregate movement in the GAAP ultimate cost of claims between 20 August 2021 and 20 November 2021 across all policy years was immaterial in the context of the overall reserve position.
- 4.32 Overall, given my understanding of the claims movements since 20 February 2021, and the adjustments made to the GAAP reserves in light of these movements, I am comfortable that the GAAP reserves continue to lie within a range of reasonable estimates for the Britannia Group, on the basis that the claim movements have not been material in the context of the overall reserve position. Also, given my understanding of the allocation approach to the solo entities, I am comfortable that the GAAP reserves for BSIAL and BSIAE for these policy years continue to lie within a range of reasonable estimates.

### Conclusion

- 4.33 I have performed an analysis to satisfy myself that the Britannia Group'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. In addition to the reviews conducted for the Report and the Supplementary Report, this analysis involved:
- A review of the Britannia Group's annual reserve report as at 20 February 2021, produced by the Britannia Group's actuarial team, which discusses the adequacy of the claims reserves of the Britannia Group, BSIAL and BSIAE
  - A review of the methods used by the Britannia Group to estimate the reserves compared with industry best practice
  - A review of the allocation approach of the Britannia Group's reserves to each of BSIAL and BSIAE



- A review of the AvE analysis as at 20 August 2021, produced by the Britannia Group's actuarial team
  - A review of the AvE analysis as at 20 November 2021, produced by the Britannia Group's actuarial team
  - Discussions with individuals at the Britannia Group 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 Supplementary Report.
- 4.34 I believe that the GAAP reserves for the Britannia Group, as well as for BSIAL and BSIAE, lie within a range of reasonable estimates. In reaching this assessment, I have considered the following:
- I have concluded that the Britannia Group's claims reserving process appears appropriate and robust in paragraph 7.3 of the Report and, as this process has not changed, this conclusion stands
  - The Britannia Group has utilised market standard approaches in determining its actuarial best estimates and the assumptions utilised by the Britannia Group in determining its estimates appear reasonable
  - The reasonableness of the outputs compared to the historical experience
  - At 20 November 2021, the Britannia Group 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 the Britannia Group's assumption that COVID 19 related claims should not be reserved for separately reasonable in light of their analysis
  - As discussed in paragraph 7.44 and 7.45 of the Report, I am satisfied that the individuals at the Britannia Group 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
  - My experience and expertise relating to claims reserving.

## Solvency II technical provisions

- 4.35 I have been informed by BSIAL and BSIAE that the process and methodologies used to calculate the Solvency II technical provisions for the Japan Branch Business will not change following the transfer becoming effective.

### Solvency II Group basis

- 4.36 The table below shows the Solvency II technical provisions for the Britannia Group as at 20 February 2021. As explained in paragraph 5.90 of the Report, the Britannia Group's Hydra cell is now no longer treated as a third party reinsurer on a Solvency II basis at Group level, and therefore the ceded reserves figure below includes recoveries from Boudicca, the IG and the Britannia Group's various other reinsurance arrangements, but not from the Britannia Group's Hydra cell. Note that this is true at the Britannia Group level, but not at solo entity level.

**Table 4.4: Group Solvency II technical provisions as at 20 February 2021**

\$m	Gross of reinsurance	Ceded reserves	Net of reinsurance
Solvency II best estimate reserves	1,015.01	533.25	481.76
Risk margin	94.09	0.00	94.09
<b>Total technical provisions</b>	<b>1,109.10</b>	<b>533.25</b>	<b>575.85</b>

### Solvency II Solo basis

- 4.37 The table below shows the Solvency II technical provisions for BSIAL, which contains just the Japan Branch Business, as at 20 February 2021. The ceded reserves figure below includes recoveries from Boudicca, the IG, USMIA and the Britannia Group's various other reinsurance arrangements, and from the Britannia Group's Hydra cell.

**Table 4.5: BSIAL Solvency II technical provisions as at 20 February 2021**

\$m	Gross of reinsurance	Ceded reserves	Net of reinsurance
Solvency II best estimate reserves	64.87	60.55	4.32
Risk margin	2.85	0.00	2.85
<b>Total technical provisions</b>	<b>67.72</b>	<b>60.55</b>	<b>7.17</b>

- 4.38 The table below shows the Solvency II technical provisions for BSIAE, as at 20 February 2021. The ceded reserves figure below includes recoveries from Boudicca, the IG, USMIA and the Britannia Group's various other reinsurance arrangements, and from the Britannia Group's Hydra cell.

**Table 4.6: BSIAE Solvency II technical provisions as at 20 February 2021**

\$m	Gross of reinsurance	Ceded reserves	Net of reinsurance
Solvency II best estimate reserves	911.66	846.63	65.03
Risk margin	25.76	0.00	25.76
<b>Total technical provisions</b>	<b>937.41</b>	<b>846.63</b>	<b>90.78</b>

- 4.39 The Britannia Group does not produce a formal calculation of its Solvency II technical provisions at half year.
- 4.40 I understand from the Britannia Group that in estimating its projected capital on both a Solvency II basis and an ECB basis, it has used its view of reserves as at 20 August 2021 as a starting point, and therefore the uplifts highlighted in paragraphs 4.19 and 4.20 have been included within the assessment.

### Conclusions in respect of the Solvency II technical provisions

- 4.41 I have performed an analysis to satisfy myself that the estimate of the Solvency II technical provisions for each of the Britannia Group, BSIAL and BSIAE are consistent with my expectations for insurance business of the nature that it writes. In addition to the reviews undertaken for the Report and the Supplementary Report, this analysis involved:
- An analysis to satisfy myself that the GAAP reserves are consistent with my expectations for insurance business of the nature that the Britannia Group, BSIAL and BSIAE write, as discussed in paragraph 4.34
  - A review of the Britannia Group's Actuarial Function Report which discusses the adequacy of the technical provisions of BSIAL, BSIAE and the Britannia Group as at 20 February 2021
  - Discussions with individuals at the Britannia Group 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.

4.42 I believe that the Solvency II technical provisions for both the Japan Branch Business and the Existing BSIAE Business lie within a range of reasonable estimates. In reaching this assessment, I have considered the following:

- I have concluded that the Britannia Group's reserving and Solvency II technical provisions process appears appropriate and robust, as described in the Report and these processes have not changed
- I consider the GAAP reserves to be reasonable for each of BSIAL, BSIAE and the Britannia Group, as concluded in paragraph 4.34
- In estimating its projected capital on both a Solvency II basis and an ECB basis, the Britannia Group has considered the reserves as at 20 August, and therefore the uplifts highlighted in paragraphs 4.19 and 4.20 have been directionally included within the assessment.
- Where the Britannia Group 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
- The analyses that the Britannia Group has conducted in relation to its own experience are appropriate
- The reasonableness of the outputs compared to the historical experience
- As discussed in paragraphs 7.65 and 7.66 of the Report, I am satisfied that the individuals at the Britannia Group 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.

# 5 Capital Requirements

- 5.1 In this section, I discuss the solvency positions of the Britannia Group, BSIAL and BSIAE. In doing so, I have considered:
- The capital strategy and fungibility of capital of the Britannia Group, BSIAL and BSIAE, which is discussed in paragraphs 5.2 to 5.5
  - Impact of the transfer of the Japan Branch Business on the balance sheets, on both a GAAP and Solvency II basis, which is discussed in paragraphs 5.6 to 5.22
  - Impact of the transfer of the Japan Branch Business on the economic capital positions, which is discussed in paragraphs 5.23 to 5.36
  - The scenario where the transfer of the Japan Branch Business is not approved before the Longstop Date, which is discussed in paragraphs 5.37 to 5.38.

## Capital strategy and fungibility of capital

- 5.2 I understand from the Britannia Group that, since the Supplementary Report, there has been no change in its capital strategy or its approach to fungibility of capital, as set out in paragraphs 8.9 to 8.19 of the Report.
- 5.3 As described in the Report, the Britannia Group aims to maintain capital resources in line with the ECB, although there is considered to be an acceptable corridor around the ECB capital requirement. Since the Report, the acceptable corridor has been slightly widened to allow for a provision to be held in respect of exposure related to future communicable diseases and malicious cyber which appears reasonable.
- 5.4 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 BSIAE, and also to BSIAL until the Japan Branch Business is transferred to BSIAE. Subject to these reinsurers meeting their respective capital requirements, it is possible for them to provide short term funding to either BSIAL or BSIAE, where necessary. It is also possible for USMIA to transfer capital to BSIAL or BSIAE via the payment of dividends to Britannia Holdings, should a capital injection be required.
- 5.5 At the time of writing the Supplementary Report, BSIAE planned to apply for approval from the CAA to recognise unbudgeted supplementary calls as Tier 2 capital following the Scheme. I understand from the Britannia Group that it has now received approval from the regulator and, as a result, it now recognises unbudgeted supplementary calls as Tier 2 capital.

## Impact of the transfer of the Japan Branch Business on the balance sheet

### Impact on a GAAP basis

- 5.6 I have repeated below Table 8.1 of the Report, which showed the GAAP balance sheets for BSIAL and BSIAE before the Scheme and after the Scheme on the basis that the Scheme had become effective as at 20 February 2020 and that the whole Transferring Portfolio had transferred to BSIAE on this date.

**Table 5.1: GAAP balance sheets at 20 February 2020, before and after the Scheme (\$m)**

	<b>BSIAL before Scheme</b>	<b>BSIAE before Scheme</b>	<b>BSIAL after Scheme</b>	<b>BSIAE after Scheme</b>
<b>Assets:</b>				
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
<b>Total assets</b>	<b>1,559.5</b>	<b>26.7</b>	<b>0.0</b>	<b>1,580.0</b>
<b>Liabilities:</b>				
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
<b>Total liabilities</b>	<b>1417.0</b>	<b>6.2</b>	<b>0.0</b>	<b>1417.0</b>
<b>Net assets</b>	<b>142.5</b>	<b>20.5</b>	<b>0.0</b>	<b>163.0</b>

- 5.7 The table below shows the GAAP balance sheets for BSIAL and BSIAE before and after the Japan Branch Business is transferred on the basis that the transfer had become effective as at 20 February 2021 and that the Japan Branch Business had transferred to BSIAE on this date.

**Table 5.2: GAAP balance sheets at 20 February 2021, before and after the Scheme (\$m)**

	<b>BSIAL before Scheme</b>	<b>BSIAE before Scheme</b>	<b>BSIAL after Scheme</b>	<b>BSIAE after Scheme</b>
<b>Assets:</b>				
Financial investments	32.9	104.5	0.0	137.4
Cash	54.5	88.3	0.0	142.8
Reinsurers' share of reserves	59.2	1,105.2	0.0	1,164.4
Insurance and other receivables	10.9	113.6	0.0	124.4
Other assets	0.2	12.7	0.0	12.9
<b>Total assets</b>	<b>157.7</b>	<b>1,424.2</b>	<b>0.0</b>	<b>1,581.9</b>
<b>Liabilities:</b>				
Insurance reserves	65.5	1,155.4	0.0	1,220.9
Intra-group loans	73.4	99.2	0.0	143.0
Other liabilities	0.9	24.1	0.0	25.0
<b>Total liabilities</b>	<b>139.8</b>	<b>1278.6</b>	<b>0.0</b>	<b>1388.9</b>
<b>Net assets</b>	<b>17.9</b>	<b>145.6</b>	<b>0.0</b>	<b>193.0</b>

- 5.8 As discussed in paragraph 8.78 of the Report, the tables above demonstrates that there are no differences in the calculation of key balance sheet items arising as a result of the different accounting 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 continue to expect that there will be no impact on the Japan Branch Business arising from changes in the accounting valuation bases underlying the balance sheets.
- 5.9 As mentioned in paragraph 4.16, the Britannia Group does not produce GAAP accounts at interim quarters. However, I understand from the Britannia Group that each of BSIAL and BSIAE's net asset balance at 20 November 2021, are broadly unchanged from the position as at 20 February 2021.

### Impact on a Solvency II basis

- 5.10 I have repeated below Table 8.2 of the Report, which showed the simplified indicative Solvency II balance sheets and SCR coverage ratios for BSIAL, BSIAE and the Britannia Group as at 20 February 2020, both before and after the Scheme.
- 5.11 These balance sheets and capital requirements were prepared by BSIAL and BSIAE on the basis that the Scheme had become effective on 20 February 2020 and that the whole Transferring Portfolio (including the Japan Branch Business) transferred to BSIAE on this date.
- 5.12 Note that the BSIAE and Britannia Group positions after the Scheme assumed that the CAA had granted BSIAE approval to recognise supplementary calls as Tier 2 Own Funds. As discussed in paragraph 5.5, this approval was granted.

**Table 5.3: Solvency II balance sheets and SCR coverage ratios at 20 February 2020, before and after the Scheme (\$m)**

	<b>BSIAL before Scheme</b>	<b>BSIAE before Scheme</b>	<b>Britannia Group before Scheme</b>	<b>BSIAL after Scheme</b>	<b>BSIAE after Scheme</b>	<b>Britannia Group after Scheme</b>
<b>Assets:</b>						
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
<b>Total assets</b>	<b>1462.3</b>	<b>26.7</b>	<b>1417.7</b>	<b>0.0</b>	<b>1,482.9</b>	<b>1,456.1</b>
<b>Liabilities:</b>						
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
<b>Total liabilities</b>	<b>1127.6</b>	<b>6.2</b>	<b>1021.2</b>	<b>0.0</b>	<b>1,127.6</b>	<b>1,023.4</b>
<b>Own Funds:</b>						
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
<b>Total Eligible Own Funds</b>	<b>409.1</b>	<b>20.5</b>	<b>526.0</b>	<b>0.0</b>	<b>429.6</b>	<b>562.2</b>
<b>SCR Coverage Ratio:</b>						
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
<b>SCR coverage ratio</b>	<b>274.9%</b>	<b>513.3%</b>	<b>201.4%</b>	<b>0.0%</b>	<b>288.3%</b>	<b>212.6%</b>

- 5.13 The table below shows the simplified Solvency II balance sheets and SCR coverage ratios of BSIAL, BSIAE and the Britannia Group at 20 February 2021, both before and after the Scheme. The balance sheets and capital requirements after the Scheme have been prepared by BSIAL and BSIAE on the basis that the Scheme had become effective at 20 February 2021 and that the Japan Branch Business had transferred to BSIAE on this date along with the Existing BSIAE Business. 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.

- 5.14 Note that the pre-transfer group results and the post-transfer group results are gross of the Britannia Group's Hydra cell, since the CAA has allowed the Britannia Group to fully consolidate the Britannia Group's Hydra cell.

**Table 5.4: Solvency II balance sheets and SCR coverage ratios at 20 February 2021, before and after the Scheme (\$m)**

	<b>BSIAL before Scheme</b>	<b>BSIAE before Scheme</b>	<b>Britannia Group before Scheme</b>	<b>BSIAL after Scheme</b>	<b>BSIAE after Scheme</b>	<b>Britannia Group after Scheme</b>
<b>Assets:</b>						
Investments	32.9	390.1	819.4	0.0	423.0	819.4
Cash	54.5	88.3	154.6	0.0	142.8	154.6
Reinsurers' share of technical provisions	60.6	814.2	533.3	0.0	874.8	533.3
Insurance and other receivables	0.1	56.5	54.7	0.0	56.6	54.7
Other assets	0.0	7.5	0.8	0.0	7.6	0.8
<b>Total assets</b>	<b>148.2</b>	<b>1,356.6</b>	<b>1,562.8</b>	<b>0.0</b>	<b>1,504.8</b>	<b>1562.8</b>
<b>Liabilities:</b>						
Gross best estimate technical provisions	64.9	879.3	1015.1	0.0	944.1	1015.1
Risk margin	3.0	25.8	94.1	0.0	22.8	94.1
Other liabilities	67.0	80.5	18.1	0.0	147.6	18.1
<b>Total liabilities</b>	<b>134.9</b>	<b>985.6</b>	<b>1127.3</b>	<b>0.0</b>	<b>1114.5</b>	<b>1127.3</b>
<b>Own Funds:</b>						
Net assets	13.2	371.1	435.5	0.0	390.3	435.5
Ancillary Own Funds	4.9	72.8	129.5	0.0	74.1	129.5
<b>Total Eligible Own Funds</b>	<b>18.2</b>	<b>443.8</b>	<b>565.0</b>	<b>0.0</b>	<b>464.4</b>	<b>565.0</b>
<b>SCR Coverage Ratio:</b>						
Solvency Capital Requirement (SCR)	9.5	145.5	298.1	0.0	148.3	298.1
Eligible Own Funds	18.2	443.8	565.0	0.0	464.4	565.0
<b>SCR coverage ratio</b>	<b>190.6%</b>	<b>305.0%</b>	<b>189.6%</b>	<b>0.0%</b>	<b>313.2%</b>	<b>189.6%</b>



- 5.15 As mentioned in paragraph 4.39, the Britannia Group does not recalculate its Solvency II position at interim quarters. However, I requested that the Britannia Group carry out an updated projection of the SCR and level of solvency coverage as at the Longstop Date, using data available as at 20 August 2021.
- 5.16 As can be seen in the table above, BSIAE's SCR coverage ratio is expected to increase slightly following the transfer of the Japan Branch Business.
- 5.17 Table 5.5 below is a repeat of table 5.4 from the Supplementary Report, which shows the projected SCR coverage ratios of the Britannia Group, both before and after the Scheme, as at the Initial Effective Date, using data as at 20 August 2020.

**Table 5.5: SCR coverage ratio projected to the Initial Effective Date, before and after the Scheme (\$m), projected from 20 August 2020**

	Britannia Group before Scheme	Impact of Scheme	Britannia Group after Scheme
Solvency Capital Requirement (SCR)	269.3	7.1	276.4
Eligible Own Funds	488.1	36.4	524.5
<b>SCR coverage ratio</b>	<b>181.2%</b>	<b>8.5%</b>	<b>189.8%</b>

- 5.18 Table 5.6 below shows the projected SCR coverage ratios of BSIAL, BSIAE and the Britannia Group, both before and after the transfer of the Japan Branch Business, as at the Longstop Date, using data available as at 20 August 2021.

**Table 5.6: SCR coverage ratio projected to the Longstop Date, before and after the transfer of the Japan Branch Business (\$m), projected from 20 August 2021**

	BSIAL before transfer of Japan Branch	BSIAE before transfer of Japan Branch	Britannia Group before transfer of Japan Branch	Impact of transfer of Japan Branch	Britannia Group after transfer of Japan Branch
Solvency Capital Requirement (SCR)	10.2	164.6	302.7	0.0	302.7
Eligible Own Funds	22.4	480.9	563.4	0.0	563.4
<b>SCR coverage ratio</b>	<b>219.2%</b>	<b>292.2%</b>	<b>186.1%</b>	<b>0.0%</b>	<b>186.1%</b>

- 5.19 The table above demonstrates that both the solo entities are expected to have SCR coverage ratios of over 200% prior to the transfer of the Japan Branch Business and are therefore very well capitalised on a regulatory basis.
- 5.20 As described in paragraph 8.86 of the Report, the Britannia Group's Hydra cell is consolidated into the Group position. This is the cause of the apparent increase in the Eligible Own Funds compared to the solo entities.
- 5.21 Unlike in table 5.5, the transfer in table 5.6 has no impact on the Britannia Group SCR or Own Funds. At the time of the Supplementary Report, the Britannia Group allowed for additional operational risk as a result of transferring to Luxembourg. At this point in time, this adjustment has already been allowed for prior to the transfer of the Japan Branch Business and so no further adjustment has been made. I understand that the Britannia Group Risk Margin will be slightly lower following the transfer, causing the Britannia Group Own Funds to increase slightly following the transfer. However, I understand from the Britannia Group that it considers this change to be immaterial, and it has not included it in these calculations. As the movement is expected to be negligible, and would cause the SCR coverage ratio to increase, I consider this to be a reasonable approach to take.

- 5.22 Overall, the updated projections have produced only a small movement in the anticipated SCR coverage ratio of the Britannia Group between the Initial Effective Date and the Longstop Date. Although the anticipated coverage ratio following the transfer of the Japan Branch Business has decreased slightly since the Supplementary Report, I remain comfortable that the latest projection demonstrates that the Britannia Group is expected to be very well capitalised on a regulatory basis, both before and after the transfer of the Japan Branch Business, as the SCR coverage ratio remains over 180%.

## Impact of the transfer of the Japan Branch Business on the economic capital position

- 5.23 Table 5.7 below is a repeat of table 5.6 from the Supplementary Report, which shows the projected ECB coverage ratios of the Britannia Group, both before and after the Scheme, as at the Initial Effective Date, using data as at 20 August 2020.

**Table 5.7: ECB coverage ratio projected to the Initial Effective Date, before and after the Scheme (\$m), projected from 20 August 2020**

	Britannia Group before Scheme	Impact of Scheme	Britannia Group after Scheme
<b>ECB coverage ratio</b>	<b>117.0%</b>	<b>-0.3%</b>	<b>116.6%</b>

- 5.24 Table 5.8 below shows the projected ECB coverage ratio of the Britannia Group before and after the transfer of the Japan Branch Business, as at the Longstop Date, using data available as at 20 August 2021.

**Table 5.8: ECB coverage ratio projected to the Longstop Date, before and after the transfer of the Japan Branch Business (\$m), projected from 20 August 2021**

	Britannia Group before transfer of Japan Branch	Impact of transfer of Japan Branch	Britannia Group after transfer of Japan Branch
<b>ECB coverage ratio</b>	<b>122.5%</b>	<b>0.0%</b>	<b>122.5%</b>

- 5.25 I understand from the Britannia Group that the projected increase in ECB coverage ratio at the Longstop Date, compared to the ECB coverage ratio at the Initial Effective Date, is mainly due to the fact that the approach it takes to modelling COVID 19 has changed, due to a greater level of knowledge about its behaviour and the reduced uncertainty. The Britannia Group has removed its explicit COVID 19 loading, and instead has assumed that insurance risk will include an implicit allowance for COVID 19 claims. This is not unreasonable, since claims arising to date from COVID 19 for the Britannia Group have not been material and are all of low value. I understand that Britannia has additionally set a precautionary provision aside of \$25m for COVID 19, as outlined in paragraph 3.14. Further details of COVID 19 claims are discussed in paragraph 4.28.
- 5.26 In line with my observation in paragraph 8.99 of the Report, the transfer of the Japan Branch Business continues to have a negligible impact on the Britannia Group's ECB coverage ratio.

## Testing of the ECB

### Internal validation of premium risk

- 5.27 As discussed in paragraphs 8.45 to 8.47 of the Report, I understood from the Britannia Group that it normally carries out annual validation of the model used to calculate its premium risk, as a component of the ECB.
- 5.28 I understand from the Britannia Group that no internal validation of the premium risk model took place this year. Instead, the Britannia Group has utilised the time available to make some updates to the model in order to address some of the limitations raised in previous iterations of the internal model validation. I have discussed these updates with the Britannia Group and believe them to be reasonable improvements to the premium risk model. I understand from the Britannia Group that it plans to next validate the premium risk model once further improvements have been made.

### Independent testing of the ECB

- 5.29 Given that the ECB coverage ratio has increased slightly since the Supplementary Report, I have not sought to revisit all the testing of the ECB that I conducted in the Report as I do not expect that reperforming this testing will alter my conclusions.
- 5.30 I have decided to reperform the reverse stress tests, to test the likelihood of the Britannia Group's assets falling below its liabilities on an ECB basis.

### Reverse stress testing

- 5.31 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 Longstop 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 an extreme reinsurer default event
- 5.32 These are the same scenarios as were used to assess the ECB in the Report, and are discussed in paragraphs 8.63 to 8.65 of the Report. 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.
- 5.33 I asked the Britannia Group to quantify the percentile of the relevant risk distributions at which each of the elements of the specified scenarios is expected to occur, 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 the Britannia Group, I consider the likelihood of a deterioration of the Britannia Group's assets to below its liabilities, as measured on an ECB basis, to be remote.

## ORSA

- 5.34 I have been provided with a copy of the Britannia Group's most recent ORSA report. The document is dated November 2021 and has been approved by the Britannia Board. The ORSA report provides the Britannia Group's forward-looking assessment of its risk profile and regulatory and economic capital requirements.

### Stress tests within the ORSA report

- 5.35 The Britannia Group has considered various stress and scenario tests within the 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 continued instability from the COVID 19 pandemic, climate change risks and cyber risks. I have reviewed the variety of tests undertaken and the approach adopted to undertake them and I consider the variety, approach and key assumptions to be reasonable.
- 5.36 In paragraph 8.73 of the Report I noted that, in the Britannia Group's previous ORSA report, none of the stress tests undertaken had a capital impact greater than the Britannia Group's ECB capital held for the relevant risk category, and only a small number had an impact greater than the SCR capital held for the relevant risk category. This remains the case in the Britannia Group's latest ORSA report. As such, I have no reason to change my conclusions set out in paragraph 8.73 of the Report.

## What if the transfer of the Japan Branch Business is not approved before the Longstop Date?

- 5.37 If the transfer of the Japan Branch Business does not occur in advance of the Longstop Date, then the Japan Branch Business will remain in BSIAL.
- 5.38 I understand from the Britannia Group that emerging claims experience with respect to the Japan Branch Business has been broadly in line with its expectations as at 20 February 2021. As a result, the Britannia Group has informed me that it would expect the SCR coverage ratios of BSIAL and BSIAE following the Longstop Date, in the scenario in which the transfer of the Japan Branch Business is not approved by the Longstop Date, to remain broadly in line with the ratios shown in Table 5.6 prior to the Longstop Date. Therefore, in this scenario, both entities would still hold sufficient capital and the policyholders would not be worse off.

# 6 Policyholder security

## Impact of the transfer of the Japan Branch Business on the security of policyholders

### Impact of the transfer of the Japan Branch Business on the Britannia Group's solvency position at the Longstop Date

#### ECB solvency position

- 6.1 As discussed in Section 5, Table 5.8 demonstrates that the anticipated impact of the transfer of the Japan Branch Business on the Britannia Group's ECB coverage ratio at the Longstop Date is still immaterial.

#### SCR solvency position

- 6.2 As shown in Section 5, the Britannia Group had an SCR coverage ratio of 189.6% at 20 February 2021, prior to the transfer of the Japan Branch Business, and this would be unchanged following the transfer of the Japan Branch Business, in the hypothetical scenario in which the transfer was effected on 20 February 2021. In this same hypothetical scenario, BSIAL had an SCR coverage ratio of 190.6% at 20 February 2021 prior to the transfer. Following the transfer, this coverage ratio went down to 0% as all the business was transferred out of BSIAL. BSIAE had an SCR coverage ratio of 305.0% at 20 February 2021 prior to the transfer, and this increased to 313.2% following the transfer of the Japan Branch Business. This shows that, prior to the transfer, both solo entities are well capitalised, and BSIAE remains well capitalised following the transfer.
- 6.3 I understand from the Britannia Group that the projected SCR coverage ratio of the Britannia Group at the Longstop Date, projected from 20 August 2021, is 186.1%, both before and after the transfer of the Japan Branch Business. This remains similar to the post-Scheme coverage ratio projected in the Supplementary Report at the Initial Effective Date, which was 189.8%. As discussed in Section 5, although the anticipated coverage ratio following the transfer has decreased slightly since the Supplementary Report, I remain comfortable that the latest projection demonstrates that the Britannia Group is expected to be very well capitalised on a regulatory basis, both before and after the transfer of the Japan Branch Business, as the SCR coverage ratio remains above 180%.
- 6.4 I understand from the Britannia Group that the projected SCR coverage ratio of BSIAL at the Longstop Date, projected from 20 August 2021, is 219.2%, before the transfer of the Japan Branch Business. I also understand from the Britannia Group that the projected SCR coverage ratio of BSIAE at the Longstop Date, projected from 20 August 2021, is 292.2%, before the transfer of the Japan Branch Business. As discussed in Section 5, this demonstrates that both the solo entities have SCR coverage ratios of over 200% prior to the transfer of the Japan Branch Business and are therefore very well capitalised on a regulatory basis. Also, as can be seen in Table 5.4, the coverage ratio of BSIAE is expected to increase marginally after the transfer of the Japan Branch Business, and it will remain very well capitalised on a regulatory basis. This suggests the coverage ratio of BSIAE after the transfer will be higher than the coverage ratio of both BSIAL and BSIAE before the transfer, which means no policyholder will be in an entity with a lower coverage ratio compared to prior to the transfer of the Japan Branch Business.
- 6.5 Considering the above, as well as the analysis discussed in Section 8 of the Report and Section 5 of the Supplementary Report, 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 Japan Branch Business is remote.

### **Impact of the transfer of the Japan Branch Business on the insolvency arrangements**

- 6.6 Since the Existing BSIAE Business has already transferred, there is no change in respect of the insolvency arrangements for the Existing BSIAE Business as a result of the transfer of the Japan Branch Business.
- 6.7 Based on the information I have seen since the Report and Supplementary Report were issued, I have no reason to change the conclusion set out in paragraph 9.19 of the Report in respect of the impact of the change in insolvency regulations for the Japan Branch Business.

### **Impact of the transfer of the Japan Branch Business on compensation schemes**

- 6.8 Since the Existing BSIAE Business has already transferred, there is no change in respect of the compensation schemes for the Existing BSIAE Business as a result of the transfer of the Japan Branch Business.
- 6.9 As discussed in paragraph 9.20 of the Report, the Japan Branch Business will not experience any change in FSCS protection as a result of the transfer of the Japan Branch Business since it is not covered by the FSCS.

### **Conclusion**

- 6.10 Based on the information I have seen since the Report and Supplementary Report were issued, I have no reason to change the conclusions set out in paragraphs 9.24 to 9.33 of the Report, in respect of the security of the Existing BSIAE Business or of the Japan Branch Business. In reaching this conclusion, I have considered the following:
- The Britannia Group's coverage of its ECB is materially unchanged by the transfer of the Japan Branch Business becoming effective.
  - The Britannia Group is expected to have substantial Own Funds in excess of its SCR following the transfer of the Japan Branch Business, with a projected coverage ratio of over 180%, and it remains the case that the regulatory solvency position of the Britannia Group will be materially unchanged by the transfer becoming effective.
  - BSIAE is expected to have substantial Own Funds in excess of its SCR following the transfer of the Japan Branch Business. It remains the case that the regulatory solvency position of BSIAE will be materially unchanged by the transfer becoming effective.
  - As discussed in paragraph 3.1, Standard & Poor's has placed the Britannia Group's A (stable) rating onto negative outlook, mainly because of the recent claims experience in the IG pool. The Britannia Group has taken positive action to increase profitability. Considering this alongside the fact that the Britannia Group has surplus capital in excess of its ECB to draw upon if necessary, I do not consider this change in rating agency outlook to alter my conclusions regarding policyholder security.
  - There has been no change in the information available, or the conclusions drawn, in respect of policyholder access to compensation schemes, or the impact of insolvency on the transferring policyholders, as a result of the transfer of the Japan Branch Business becoming effective.

# 7 Other financial considerations

- 7.1 I considered the following financial aspects in Section 10 of the Report and Section 7 of the Supplementary Report:
- 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
- 7.2 In addition, in Section 7 of the Supplementary Report I considered the financial impact of the EEA Business.
- 7.3 In paragraphs 4.27 to 4.29 of this report I have provided an updated view of the Britannia Group's claims experience in relation to COVID 19. Tables 5.4 and 5.6 of this report, together with acknowledgment of the \$25m provision for communicable diseases and malicious cyber in regards the ECB available funds, allow for the latest available view of the financial impact of COVID 19 on the capital position of the Britannia Group. Based on my analysis, as discussed in paragraph 5.25, I consider my conclusions in paragraph 10.29 of the Report to remain appropriate. I have also provided an updated view of the non-financial impact of COVID 19 on the Scheme in paragraphs 8.14 to 8.17 of this report.
- 7.4 Based on my discussions with The Britannia Group, I understand that there have been no developments since the Supplementary Report with respect to any of the other financial aspects outlined above that would give me reason to change the conclusions contained in the Report and Supplementary Report with respect to the Existing BSIAE Business or the Japan Branch Business.

# 8 Other non-financial considerations

- 8.1 I considered the following non-financial aspects in Section 11 of the Report and Section 8 of the Supplementary Report:
- 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.
- 8.2 In addition, in Section 11 of the Supplementary Report, I considered the non-financial impact of the EEA Business. I have provided an update to this in paragraphs 8.18 to 8.20 below.
- 8.3 I provide an update on the recognition of the Scheme in other jurisdictions in paragraphs 8.8 to 8.10 below.
- 8.4 I discuss the appeal in respect of Mr Justice Snowden's ruling on the proposed Part VII transfer of a book of in-payment annuities from The Prudential Assurance Company Limited to Rothesay Life Plc in paragraphs 8.11 to 8.13 below.
- 8.5 I discuss the developments in respect of the non-financial impact of COVID 19 in paragraphs 8.14 to 8.17 below.
- 8.6 In Section 3 of this report, I have discussed the latest available information on the status of BSIAE's application to convert its UK Branch into a third country branch and the application to establish BSIAE's Japan Branch. Subject to these updates and based on my discussions with the Britannia Group, I understand that there have been no other developments since the Supplementary Report that would give me reason to change the conclusions contained in the Report and Supplementary Report with respect to these aspects.
- 8.7 Based on my discussions with the Britannia Group, I understand that there have been no developments since the Supplementary Report with respect to any of the other non-financial aspects outlined above that would give me reason to change the conclusions contained in the Report and the Supplementary Report.



## Recognition of the Scheme in other jurisdictions

- 8.8 In paragraph 11.45 of the Report, I noted that the Britannia Group was in the process of seeking legal advice in a small number of territories to ascertain whether certain legal agreements held would be effectively transferred as a result of the Scheme.
- 8.9 In paragraph 8.12 of the Supplementary Report, I noted that, in respect of this process, since the publication of the Report, and prior to the publication of the Supplementary Report, BSIAL had contacted 74 third parties to seek their consent to the transfer of these legal agreements, as well as to notify them of the Scheme. At the time of this report, none of these third parties have refused consent.
- 8.10 As discussed in paragraph 11.46 of the Report, I understand from the Britannia Group that, from a practical perspective, there is not expected to be any material detriment as a result of not receiving consent. This is because of the protections in the Scheme. Based on this, I believe that BSIAL's approach to deal with the failure of a jurisdiction to recognise the Scheme is appropriate and proportionate.

## Appeal in respect of Mr Justice Snowden's ruling on the proposed Part VII transfer of a book of in-payment annuities from The Prudential Assurance Company Limited to Rothesay Life Plc

- 8.11 I considered Mr Justice Snowden's ruling on the proposed Part VII transfer of a book of in-payment annuities from Prudential to Rothesay in paragraphs 11.51 to 11.53 of the Report.
- 8.12 I discussed in paragraph 8.15 of the Supplementary Report that the Court of Appeal had overturned Mr Justice Snowden's ruling, and that a new hearing was due to take place at the High Court to decide if the transfer should proceed. This hearing began on 8 November 2021 and concluded on 10 November 2021. On 24 November 2021, the High Court approved the transfer.
- 8.13 Based on this, I do not see any reason to change my comments in paragraph 11.53 of the Report.

## Non-financial impact of COVID 19

- 8.14 I discussed the non-financial impact of COVID 19 on BSIAL and BSIAE in paragraphs 11.54 to 11.57 of the Report.
- 8.15 The Britannia Group has informed me that, subsequent to the Supplementary Report, most employees initially continued to work remotely, although more recently employees have returned to the office with some remote working in place. The Britannia Group has also informed me that there have been no material delays or failures in their operations in relation to remote working. In addition, the Britannia Group has confirmed that there have not been any material adverse impacts, up to the time of the writing of this report, on its claims handling or policy administration processes. As a result, there has been no material adverse impact on the service standards experienced by its policyholders.
- 8.16 The Britannia Group has also informed me that it remains the case that it does not anticipate any adverse effects from any future remote working arrangements on its businesses.
- 8.17 Following from the above, I have no reason to change the conclusion set out in paragraph 11.57 of the Report in respect of the non-financial impacts of COVID 19 on the transferring policyholders following the Scheme.

## EEA Business

- 8.18 As discussed in paragraph 11.35 of the Report, I understand from the Britannia Group that it is still the case that BSIAE's UK Branch is expected to be authorised as a third country branch following the Scheme, and that it will have the necessary permissions to act on behalf of BSIAE in respect of underwriting and claims handling. As discussed in paragraph 3.8 of this report, the Britannia Group submitted the application to the PRA in September 2021 for BSIAE's UK Branch to become a third country branch. At the time of this report, the Britannia Group is awaiting a response from the PRA.
- 8.19 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 the Supplementary Report with respect to the EEA Business.
- 8.20 Furthermore, for the reasons set out in the Supplementary Report, I do not expect there to be a material adverse impact on policyholders within the EEA Business in relation to regulatory jurisdiction as a result of the transfer of the Japan Branch Business.

# 9 Considerations of the communications process and objections received

## Policyholder and reinsurer communications

- 9.1 I understand from the Britannia Group that the approach to policyholder and reinsurer notifications set out in the Report proceeded as planned. The advertisements were placed in accordance with the Directions Order and the policyholder and reinsurer communications were undertaken as planned.
- 9.2 As a result, I am satisfied that that the communications exercise was appropriate.

### Policyholder notification

- 9.3 As discussed in paragraphs 9.3 to 9.6 of the Supplementary Report, notifications had been sent to all policyholders who BSIAL intended to notify, which totalled 7,157 notifications. This included notifications to the policyholders of the Japan Branch. There are no additional requirements to notify policyholders in respect of the additional transfer of the Japan Branch Business since the provision was included in the Scheme. I understand from the Britannia Group that there have been no further communications regarding the transfer of the Japan Branch Business. Given that the renewal notices would have made clear that the Japan Branch Business would be renewing in BSIAL as at 20 February 2021, I am comfortable that no further communication was required for the Japan Branch policyholders.
- 9.4 I understand from the Britannia Group that it intends to send out further communications to members of the Japan Branch in respect of the 20 February 2022 renewals which will remind those policyholders that the new policies will be written by BSIAE's Japan Branch and existing policies are expected to be transferred to BSIAE.

### Reinsurer notification

- 9.5 As discussed in paragraph 9.7 of the Supplementary Report, the Britannia Group informed me that it had contacted all of the reinsurers and reinsurance brokers which it intended to notify and that, as of 15 January 2021, it had not received any returned mail in respect of this exercise. I understand from the Britannia Group that there have been no further communications regarding the transfer of the Japan Branch Business since the reinsurers know that they are covering both entities at this point and that the Japan Branch Business is expected to transfer at a later date.

### Policyholder correspondence

- 9.6 At 3 December 2021, I understand from the Britannia Group that there were:
- no objections to the Scheme from policyholders
  - one enquiry arising from policyholders or their representatives. This enquiry was a request for more information and BSIAL has responded to it. This was discussed in paragraph 9.8 of the Supplementary Report.
- 9.7 There have been no new objections or enquiries from policyholders since the Supplementary Report.
- 9.8 I have reviewed this enquiry and BSIAL's response to it and I consider this response to be appropriate. Furthermore, the enquiry gives me no reason to change my conclusions on the Scheme as set out in the Report.

## Reinsurer correspondence

- 9.9 At 3 December 2021, I understand from the Britannia Group that there were no objections or enquiries to the Scheme from reinsurers.

# 10 Conclusions

- 10.1 I have further considered the effect of the proposed transfer of the Japan Branch Business on the transferring policyholders and reinsurers, and on the Existing BSIAE Policyholders. I confirm that the substance of my overall opinion and conclusions as set out in paragraphs 14.3 to 14.11 of the Report are unchanged. I set out my conclusions in respect of each group of policyholders and reinsurers in the following paragraphs.

## **Existing BSIAE Business**

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

## **Japan Branch Business**

- 10.3 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 transfer of the Japan Branch Business.

## **Reinsurers of the Transferring Portfolio**

- 10.4 In addition, I have concluded that the reinsurers of the transferring Japan Branch Business would not be materially adversely affected by the transfer of the Japan Branch Business.

## **Conclusion**

- 10.5 Given the above, I conclude that the risk of any group of policyholders or transferring reinsurers being materially adversely affected by the transfer of the Japan Branch Business is sufficiently remote that there is no reason why the transfer of the Japan Branch Business should not proceed.
- 10.6 Note that this conclusion is conditional on BSIAE receiving the formal approval of the transfer from the JFSA in advance of the Longstop Date.

*Simon Sheaf*

Simon Sheaf FIA

Partner and Head of General Insurance Actuarial & Risk

Grant Thornton UK LLP

# A Additional information received

## Information provided by or on behalf of the Britannia Group

- Solvency and Financial Condition Report (SFCR) for the year ended 20 February 2021
- Annual Report and Financial Statements for the year ended 20 February 2021
- The Britannia Group Own Risk and Solvency Assessment (ORSA) Report November 2021
- Actuarial Function Report on TPs as at 20 February 2021
- The Britannia Group Reserving Report as at 20 February 2021
- The Britannia Group ECB Model as at 20 February 2021
- Projected Group Solvency II balances February 2022
- Projected Group SCR requirements February 2022
- Projected Group ECB requirement and resources February 2022
- 2021/22 Policy Year Statement as at 20 August 2021
- 2021/22 Policy Year Statement as at 20 November 2021
- Group and solo entity standard formula calculations as at 20 February 2021
- Actual versus expected reserve analysis August 2021
- Actual versus expected reserve analysis November 2021
- Analysis of claims related to COVID 19 August 2021 and September 2021
- The Britannia Group Premium Risk Model change log as at 27 September 2021
- Letter from the CAA stating that it has no objections to the establishment of the Japan Branch
- Approval letter from the CAA regarding Unbudgeted Supplementary Calls as at 18 February 2021
- The Britannia Group complaints log October 2021
- Information on communications sent to, and received from, policyholders, third parties and reinsurers
- Information on application to the PRA for BSIAE's UK Branch to become a third country branch

## Other

I also relied on information arising from correspondence and discussions with the Britannia Group, 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 while 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 this documentation 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 these items can be made available to the Court if required.

