

*Supplementary Report of the Independent
Expert on the proposed transfer of insurance
business from Royal & Sun Alliance
Insurance plc to RSA Luxembourg S.A. in
accordance with Part VII of the Financial
Services and Markets Act 2000*

15 November 2018



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LCP



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Appendices

Appendix 1 – Summary of additional data provided for Supplementary Report

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1. Executive summary

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1.1. The Proposed Transfer

Royal & Sun Alliance Insurance plc (RSAI) currently operates across the European Economic Area (EEA) utilising the EEA's Freedom of Services (FoS) and Freedom of Establishment (FofE) arrangements.

In the event of a so-called "Hard Brexit" where RSAI no longer has FofS or FofE rights, RSAI may not legally be able to carry on the non-UK EEA business. For example, RSAI would not be able to issue new insurance policies across the EEA, and might not legally be able to pay valid claims to existing EEA policyholders.

To provide certainty that RSAI can continue to carry on EEA business post-Brexit with minimum disruption, RSAI is proposing to transfer the relevant EEA business from RSAI into RSA Luxembourg S.A. (RSAL), a newly established Luxembourg subsidiary of RSAI.

1.2. My role as Independent Expert

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

As IE, my overall role is to assess whether:

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

I provided a Scheme Report for the Proposed Transfer dated 26 July 2018 ahead of the Directions Hearing which was held on 3 August 2018.

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

1.3. Summary of developments since the Scheme Report

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

3450422 **Activities since the Scheme Report**

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There have been a number of activities in relation to the Proposed Transfer since the Scheme Report was prepared on 26 July 2018. The main activities have been as follows:

- The Scheme Report and other associated scheme documents were presented to the Court at the Directions Hearing on 3 August 2018, where approval was received to start notifications in line with RSAI's communications plan.
- An updated Scheme Document has been prepared by RSAI. The changes are minor and clarificatory only and do not affect my conclusions.
- RSAI has continued to refine their estimates of the numbers of policyholders that may lose access to compensation schemes as a result of the Proposed Transfer.
- RSAI has drafted the reinsurance contract between RSAI and RSAL.
- RSAI has sent notifications to policyholders, intermediaries, reinsurers, selected claimants and other third parties via its external mailing service providers and intermediaries, in line with the communications plan. As of 14 November 2018, c. 19,500 letters have been sent by on behalf of RSA directly to stakeholders. 868 (4.4%) have been returned undelivered. A further c. 12,000 letters have been sent by intermediaries to policyholders and claimants.
- As of 8 November 2018, RSAI has received 4 telephone queries, 41 emails and 1 letter in relation to the Proposed Transfer. The reasons for the contact are:
 - Policyholder was not aware they had an RSA policy: 16
 - Requests for more information to be provided: 9
 - Notification to update contact information: 4
 - Specific questions about the implications of the Proposed Transfer: 11
 - Specific questions about whether consent or endorsement was required: 4
 - Intermediary query on future trading relationship with RSAL: 3
 - Intermediary query on communications instruction to policyholders/claimants: 2
- There have been no objections to the Proposed Transfer.
- RSAL is considering establishing a UK regulated branch to underwrite business. Depending on details of the arrangement, RSAI estimate that the Solvency Capital Requirement (SCR) may increase by around 10%. If this is the case, RSAI will provide additional capital to RSAL so that the SCR coverage ratio for RSAL remains at 160%. This does not affect my conclusions.
- RSAI are exiting certain London Market classes of business and performing a strategic review of another. This could lead to a reduction in the amount of premium expected to be written by RSAL after the Effective Date. The amount of

3450422 premium is less than 1% of the net of reinsurance technical provisions transferring to RSAL and so does not affect my conclusions.

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1.4. Additional considerations for the Supplementary Report

In reaching my conclusions in the Supplementary Report, I have considered the following pieces of updated material and analysis that are now available:

- Updated financial information for RSAI, including booked provisions as at 31 December 2017;
- Updated estimates of the coverage of solvency capital requirements for RSAI and RSAL;
- An external third party report on RSAI's approach to calculating capital requirements;
- Details of the internal reinsurance arrangement between RSAI and RSAL; and
- Any communications and/or objections related to the Proposed Transfer raised by stakeholders.

1.5. Summary of my conclusions

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

- "Non-transferring policyholders", who will remain with RSAI after the Proposed Transfer.
- "Transferring policyholders", who will transfer from RSAI to RSAL as a result of the Proposed Transfer.
- Reinsurers whose contracts with RSAI are transferring to RSAL.

My overall conclusions are unchanged from those set out in the Scheme Report for the Proposed Transfer.

3450422 Non-transferring policyholders

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The non-transferring policyholders are expected to represent c. 93% of RSAI's business based on booked provisions net of reinsurance (compared to an estimate of 94% in the Scheme Report). This means that the significant majority of policyholders will not be transferring and the risk profile of RSAI will not be materially affected by the Proposed Transfer.

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

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

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

Transferring policyholders

The transferring policyholders will remain within the RSA Group, and RSAL will be subject to the same Group-wide policies as RSAI.

RSAL is planning to minimise any changes to how the transferring business is carried out, to avoid disruption to the operating model or its customers. For example, RSAL is not planning any changes to how transferring policyholders are serviced following the Proposed Transfer.

Policyholder security for the transferring policyholders is to be provided through a combination of assets held within RSAL itself and security provided by RSAI. The security provided by RSAI will be a significant quota share arrangement and an arrangement whereby RSAL can call on additional capital from RSAI if required in the future (Solvency II compliant ancillary own funds).

Overall, the quota share will cover up to 90% of RSAL's business which is in line with the plan from the Scheme Report. Since the Scheme Report, RSAI has clarified their plan to achieve this is through 100% reinsurance of the multi-national business and slightly less than 90% reinsurance of the other business written by RSAL.

3450422 Under this structure, the security provided to RSAL policyholders is significantly reliant on RSAI. Given this reliance, I have considered two scenarios where RSAI either remains solvent or the unlikely event it becomes insolvent:

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- Whilst RSAI remains solvent, the combination of the quota share and ancillary own funds arrangements is expected to provide a similar level of protection to transferring policyholders compared to pre-transfer. Therefore, under this scenario, I do not expect the security provided to transferring policyholders to be materially adversely affected by the implementation of the Proposed Transfer.
- In the event that RSAI were to become insolvent post-transfer, then RSAL would no longer have the security provided by the quota share and ancillary own funds arrangements. RSAL will have in place monitoring and other arrangements for RSAL to reclaim assets from RSAI under these circumstances, but these are not a guarantee. If the arrangements were to fail, then the transferring policyholders would be materially adversely affected.

As an illustration, under an RSAI insolvency event where RSAL is unable to reclaim assets from RSAI, if there were sufficient assets to pay c. 90% of valid claims to non-transferring policyholders, then the transferring policyholders might receive only c. 20% of valid claims.

This insolvency scenario is very unlikely, due to the financial strength of RSAI. I have considered a range of factors in this report to assess this, including RSAI's credit ratings, capital strength and findings from RSAI's recovery and resolution planning.

The above considerations relate to the security provided to transferring policyholders following the Proposed Transfer. If the Proposed Transfer does not proceed then, under a Hard Brexit scenario, RSAI might not legally be able to pay any claims to existing EEA policyholders, unless arrangements are agreed as part of the UK Government's Brexit negotiations with the European Union (EU).

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

3450422 Reinsurers

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All of RSAI's reinsurance with external reinsurers that provides cover for the transferring business will be transferred to RSAL. Exposure to claims faced by RSAI's reinsurers will not increase following the Proposed Transfer and they will continue to be required to pay out claims in respect of the same events as before the Proposed Transfer.

I have, therefore, concluded that reinsurers of RSAI will not be materially affected by the Proposed Transfer.

Considerations around the UK EL Part VII transfer

RSAL is currently proposing another insurance business transfer of a legacy book of mainly UK Employer's Liability (EL) latent exposures to a third party external to the RSA Group. The business to be transferred is already reinsured with the third party, so the transfer will not have a material effect on RSAI's overall financial position or risk profile. Therefore, my conclusions would not be changed if the UK EL transfer did not proceed.

The UK EL transfer will be the subject of a separate Scheme Report prepared by a different IE not connected in any way with me. Policyholders may receive separate correspondence relating to the UK EL transfer.

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

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2. Introduction

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2.1. Background

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

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

RSAI and RSAL have jointly nominated Stewart Mitchell (I or me) of Lane Clark & Peacock LLP (LCP, we, or us) to act as the Independent Expert for the proposed insurance business transfer scheme (the Proposed Transfer) of the insurance business of RSAI to RSAL under Section 105 of the FSMA. The Proposed Transfer is intended to be effected on or around 1 January 2019 (the Effective Date).

The Scheme Report was finalised on 26 July 2018 and was presented to the Court on 3 August 2018. In that report I stated that, before the date of the Sanctions Hearing, I would prepare a Supplementary Report (this report) covering any relevant matters which had arisen since the date of the Scheme Report.

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

2.2. Scope of this Supplementary Report

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

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

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

3450422 **2.3. Use of this Supplementary Report**

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This Supplementary Report has been produced by Stewart Mitchell FIA of Lane Clark & Peacock LLP under the terms of our written agreement with Royal & Sun Alliance Insurance plc. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Supplementary Report has been prepared for the purpose of accompanying the application to the Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Supplementary Report is not suitable for any other purpose. The Supplementary Report must be read in conjunction with the Scheme Report of 26 July 2018.

A copy of the Supplementary Report will be sent to the Prudential Regulation Authority, the Financial Conduct Authority and will accompany the evidence filed in Court at the Sanctions Hearing.

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

2.4. Reliances

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

I have used data as at 31 December 2017 for my analysis which is the latest data available that has been subject to full external audit. RSAI has confirmed it has made me aware of all material developments that would affect my conclusions.

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

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

3450422 The conclusions in my report take no account of any information that I have not received, or of any inaccuracies in the information provided to me.

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I have not needed to take any third party legal advice on any aspects of the Proposed Transfer. RSAI's legal advisors have provided advice to them confirming the impact on policyholder rights in the event of insolvency pre- and post- the Proposed Transfer and RSAI has provided me with a copy of this advice. RSAI has confirmed that it has received no other specific legal advice relevant to my role as IE for the Proposed Transfer.

In order to calculate the provisions for the transferring London business, RSAI has made certain assumptions to approximate the proportion of provisions to transfer. This is because RSAI does not hold full claims information for some policies eg where insurance brokers carry out the claims handling process on behalf of a number of insurers who provide cover on the same policy.

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

2.5. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for Supplementary Reports set out by the PRA in their Statement of Policy and by the PRA and the FCA in their Handbooks.

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

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

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

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2.6. Materiality

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

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

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

2.7. Definition of “materially adverse”

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

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

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

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3. My approach as IE and conclusions

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

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

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

3.1. Step 1 – Assessing the provisions of RSAI and RSAL

My overall assessments related to reserving are:

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

These assessments were considered in Section 5 of the Scheme Report, based on data and provisions as at 31 December 2016. I have been provided with updated data and provisions as at 31 December 2017 and an update of any material changes to provisions since 31 December 2017.

Summary of booked positions of RSAI

31 December 2017

£m	Gross of reinsurance	Net of reinsurance
Non-transferring ¹	4,769	3,205
Transferring to RSAL	372	231
Total	5,141	3,436

Source: RSAI

Corresponding table in the Scheme Report is within Section 5.5

¹ Note: this includes £614m of gross booked provisions that will transfer to a third party via the UK EL transfer after the Effective Date of this transfer. These are already fully reinsured to the third party, so there is no impact on the net non-transferring provisions.

3450422 Conclusion

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RSAL have confirmed that the approach and basis of calculating the booked provisions has not changed since the Scheme Report. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that an appropriate level of provisions will be maintained for both the transferring and non-transferring policyholders and that they will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

3.2. Step 2: Assessing the capital positions of RSAI and RSAL

My overall assessments related to capital are:

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

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

Projected SCR coverage ratios

The following tables set out the SCR and coverage ratios, prepared by RSAI, for RSAI and RSAL pre- and post- the Proposed Transfer.

RSAL – SCR and coverage ratio pre- and post- transfer

£m	Pre-Transfer	Post-Transfer
	Day 0	Day 1
Total own funds eligible to meet SCR	3,365	3,365
SCR	1,804	1,804
SCR coverage ratio	187%	187%

Source: RSAI

Corresponding table in the Scheme Report is within Section 6.9

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RSAL – SCR and coverage ratio pre- and post- transfer

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£m	Pre-Transfer	Post-Transfer
	Day 0	Day 1
Total own funds eligible to meet SCR	-	65
SCR	-	41
SCR coverage ratio	-	160%

Source: RSAI

Corresponding table in the Scheme Report is within Section 6.9

RSAL has confirmed the post-transfer projected SCR and SCR coverage ratio for RSAL are unchanged from the figures quoted in the Scheme Report. There has been a small increase in the SCR and SCR coverage ratio for RSAI.

The UK EL transfer is now expected to complete after the Effective Date. RSAI has confirmed that the impact of the later completion date for the UK EL transfer is not material. This is because the risk has already been substantially transferred via a fully collateralised reinsurance arrangement to a third party. My conclusions are not affected by the timing of the UK EL transfer.

Post- Proposed Transfer, both RSAI and RSAL remain “well-capitalised” as defined in the Scheme Report (ie have SCR coverage between 150% and 200%).

Reliance of RSAL on RSAI

A key aspect of the capitalisation of RSAL relies upon significant intra-group reinsurance and ancillary own fund (AOF). This creates a reliance on the continued solvency of RSAI in order that RSAL policyholders will have their claims paid.

At the time of the Scheme Report, the reinsurance contract between RSAI and RSAL had not been drafted nor had the analysis on the appropriate price for the reinsurance been determined. I have now reviewed the draft reinsurance contract between RSAI and RSAL.

The quota share will cover up to 90% of RSAL’s business which is in line with the plan from the Scheme Report. Since the Scheme Report, RSAI have clarified their plan to achieve this is through 100% reinsurance of the multi-national business and slightly less than 90% reinsurance of the other business written by RSAL.

As this is a quota share reinsurance contract, it operates in a relatively straight-forward manner in that, in aggregate across the covered business, RSAL retains at least 10% of premiums and claims and reinsures up to 90% of claims and premiums to RSAI.

3450422 I have analysed the proposed quota share arrangement and draft contract from three key perspectives:

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- *Commercial terms, to confirm that the arrangements are on an arms-lengths basis:* As is standard practice, RSAI plan to carry out a transfer pricing exercise to confirm the contract is on an arms-length basis. The key consideration will be whether the commercial terms (including the commission payable) are in line with the sorts of terms that would be in place with a third party provider. Also, the draft reinsurance contract between RSAI and RSAL is comparable to other similar quota share contracts within the RSA Group. The proposed commission rate is broadly in line with that of the other group contracts, allowing for the higher percentage of business being ceded.
- *RSAL rights under the contract.* As set out in my Scheme Report, RSAI has confirmed that RSAL will have regular monitoring and other arrangements in place to be able to reclaim assets from RSAI from the quota share reinsurance arrangements ahead of a potential RSAI insolvency event. For example, the RSAL Board will have a unilateral right to terminate the quota share arrangements within 3 months. These terms are not currently in the draft contract, but RSAI have confirmed that they will be in place before the reinsurance contract is finalised.
- *Legal advice.* RSAI has also confirmed that RSAL will have legal advice to confirm that the reinsurance contract is appropriate for RSAL before the contract is finalised.

There have been no changes to the anticipated level of reliance on the ongoing solvency of RSAI since the Scheme Report.

In order for this reliance on RSAI to adversely affect transferring policyholders, RSAI would need to become insolvent. In the Scheme Report, I concluded a scenario in which RSAI became insolvent was very unlikely and therefore it is very unlikely transferring policyholders will be materially adversely affected by the Proposed Transfer.

Other developments

At the time of the Scheme Report, the results of a recent independent external review of the RSAI internal model were not yet available. I have now been provided with a copy of the report for my review.

The scope of this review was to give an independent view on the RSAI internal model and highlight areas where improvement or refinement was required.

This review highlighted a number of recommendations and RSAI has made an allowance for the potential impact of making these changes via a loading to the modelled SCR as an interim measure until approval is received to change the internal model. RSAI will seek approval from the PRA in 2019 to make these changes.

3450422 I do not consider the changes described above as material for my considerations of the Proposed Transfer and therefore this has not changed my conclusions.

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There have been no other changes to the way RSAI calculate their SCR. The approach for calculating the RSAL SCR has not changed since the Scheme Report.

Conclusion

RSAL has added a loading to the SCR calculated by the internal model. I do not consider this material to my considerations as IE as the overall coverage ratio for RSAI is slightly improved. There have been no other changes to the approach to calculating the SCR.

The SCR coverage ratio for RSAI has increased due to an increase in eligible own funds (the SCR coverage ratio has increased from 180% pre-transfer to 187%). There have been no material changes to the projected SCR coverage ratio for RSAL since the Scheme Report.

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

The projected capital requirements for RSAI and RSAL have been calculated appropriately for both non-transferring and transferring policyholders.

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

However, I have also concluded that, following the Proposed Transfer, transferring policyholders could potentially be materially adversely affected in the unlikely event of RSAI insolvency.

3450422 **3.3. Step 3: Assessing overall policyholder security**

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My overall assessments related to policyholder security are:

- whether the likelihood of valid policyholder claims being paid is maintained following the Proposed Transfer for both non-transferring and transferring policyholders; and
- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in Section 7 of the Scheme Report.

IFRS balance sheet projections

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

IFRS balance sheets of RSAI and RSAL

31 December 2017

£m	RSAI Pre-Transfers	RSAI Day 1 Post- Brexit transfer	RSAL Day 1 Post- Brexit transfer	RSAI Post-both transfers
Intangible assets	151	151	-	151
Investments	17,903	17,831	72	17,920
Reinsurers' share of technical provisions	1,782	1,309	473	1,335
Debtors	3,256	3,130	127	3,146
Other assets	740	739	-	740
Assets held for sale and disposal groups	644	644	-	-
Total Assets	24,476	23,804	672	23,293
Other capital instruments	32	32	-	32
Technical provisions	6,827	6,321	506	6,331
Provision for other risks	233	233	-	233
Creditors	8,798	8,684	114	8,755
Liabilities for disposal groups	644	644	-	-
Total Liabilities	16,534	15,914	620	15,351
Total Equity	7,942	7,890	52	7,942

Source: RSAI

Corresponding table in the Scheme Report is within Section 7.2

In the Scheme Report, I identified three areas where there will be changes that could have an adverse effect on policyholder security.

3450422 Impact on policyholder rights in the event of RSAI insolvency

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As discussed in section 3.2, the capitalisation of RSAL relies upon significant intra-group reinsurance and AOF. The transferring policyholders will be adversely affected in the event of RSAI becoming insolvent. However, in the Scheme Report I concluded a scenario in which RSAI became insolvent was very unlikely and therefore it is very unlikely transferring policyholders will be materially adversely affected.

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

A number of policyholders currently have access to the FSCS as a result of RSAI being a UK based insurer. Following the Proposed Transfer, as RSAL is a Luxembourg based insurer, this group of policyholders will lose access to FSCS.

At the time of the Scheme Report, RSAI estimated less than 2% of gross written premium (GWP) related to policyholders losing access to the FSCS. Based on the updated analysis of transferring policyholders, RSAI believe less than 1% of GWP relates to policyholders losing access to the FSCS.

In order for this loss of access to adversely affect this group of policyholders, RSAI would need to become insolvent. As discussed above, I have concluded that this scenario is very unlikely and, therefore, it is very unlikely this group of policyholders will be materially adversely affected.

Loss of access to the Financial Ombudsman Service (FOS)

A number of policyholders currently have access to the FOS as a result of RSAI being a UK based insurer. Following the Proposed Transfer, as RSAL is a Luxembourg based insurer, this group of policyholders will lose access to FOS. In Luxembourg, the Commissariat Aux Assurances (CAA) has a similar scheme although the findings are non-binding on the insurer.

At the time of the Scheme Report, RSAI believed that six policyholders will lose access to FOS. Based on the updated analysis of transferring policyholders, RSAI believe no more than [1,061] policyholders will lose access to FOS.

RSAL undertook within the documents submitted to the Court for the Directions Hearing to comply with the FCA rules (set out in DISP, the Dispute Resolution: Complaints part of the FCA Handbook). These apply to the handling of complaints brought to the FOS and any award or direction made or given by the FOS, relating to acts or omissions prior to the Effective Date. I have, therefore, concluded the policyholders losing access to FOS are not disadvantaged by this loss of access.

3450422 Conclusion

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

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

3.4. Step 4: Assessing policyholder communications

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

Communications plan

I have provided a summary of the current status of the communications plan and responses received in Section 1 of this report. This is materially in line with RSAI's original communications plan.

RSAL has made attempts to obtain contact details for policyholders who purchased policies through intermediaries.

There are a number of cases where this has not been possible and RSAI has supplied the intermediary with the relevant policyholder communications to pass onto the policyholder if any queries are received around the Proposed Transfer.

I have seen details of these cases and my view is that the actions RSAI is taking are appropriate. I understand RSAI will also provide details of the cases to the PRA and FCA. This was an anticipated issue and RSAI received dispensation from the Court at the Directions Hearing from the requirement to contact all transferring policyholders. This, therefore, does not affect my conclusions.

RSAL has also become aware that, due to publication requirements, it is not allowed to advertise in the Journal Officiel (the French Official Gazette) and Boletín Oficial del Estado (the Spanish Official Gazette) until after the Sanctions Hearing. As such, RSAI has selected an additional national publication in each country (La Tribune in France and Cinco Días in Spain) to advertise in. I am satisfied this is an appropriate approach and, therefore, this does not affect my conclusions.

Objections

A key aspect of the update on policyholder communications is for me to consider any objections received to the Proposed Transfer. As of [9 November 2018], [0] objections

3450422 have been received. [If any objections are received, I will include summary of these objections in a later version of this report.]

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No objections have been raised by the reinsurers of the transferring business.

Translation of key documents

All publication notices and major documents (including this report) will be translated by RSAI into the appropriate languages for the intended audience. RSA have confirmed that this report will be available in English, German, Dutch, Spanish and French. I am relying on RSAI to ensure that the translations into each language are accurate.

Conclusion

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

I have concluded the planned communications strategy will ensure adequate coverage of affected parties. RSAI is applying for a number of dispensations from communicating to some affected parties. I have concluded that these are appropriate.

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

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

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

Timing of UK EL Transfer

In the Scheme Report, I had assumed that the Effective Date of the UK EL transfer (another Part VII transfer of a portfolio of business from RSAI to an external third party) would be prior to the Effective Date of this Proposed Transfer. The Proposed Transfer is now running ahead of the UK EL transfer, so on the Effective Date, the UK EL transfer will not have been completed. The timing of the transfer has no effect on my conclusions as the liabilities are already fully reinsured to the external third party.

Conclusion

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

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

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4. Conclusions and Statement of Truth

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

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

I have concluded that:

- **The security provided to non-transferring policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for non-transferring policyholders following the Proposed Transfer.**
- **It is very unlikely that the security provided to transferring policyholders will be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for transferring policyholders following the Proposed Transfer.**
- **Reinsurers of RSAI will not be materially affected by the Proposed Transfer.**

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4.1. IE duty and declaration

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

I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

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

4.2. Sign-off



Stewart Mitchell FIA

Partner

15 November 2018

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The use of our work

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

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

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

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

Professional Standards

Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 200: Insurance.

Appendix 1 – Summary of additional data provided for Supplementary Report

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

1. Draft Court and regulatory documents prepared by RSAI for the Proposed Transfer, including:

- Draft RSAI Second Witness Statement (dated November 2018)
- Draft RSAL Second Witness Statement (dated November 2018)
- Draft Scheme Document (dated 15 November 2018)

2. Responses and objections from stakeholders to the Proposed Transfer

- Management information on communications to stakeholders (various dates during October and November 2018)

3. Documents relating to provisions and reserving processes, including:

- Summary of provisions as at 31 December 2017
- Discussions with RSAI's reserving team on key reserving developments since 31 December 2017

4. Documents relating to capital and related processes, including:

- Solvency Financial Condition Report (SFCR) for RSA Insurance Group plc as at 31 December 2017
- RSA Group 2018 Own Risk and Solvency Assessment (ORSA) (dated 20 June 2018)
- Independent internal model validation report (dated 10 April 2018 and 12 April 2018)

5. Other evidence prepared by RSAI to support the Proposed Transfer, including:

- Draft quota share reinsurance between RSAI and RSAL (dated 28 September 2018)

At LCP, our experts provide clear, concise advice focused on your needs. We use innovative technology to give you real time insight & control. Our experts work in pensions, investment, insurance, energy and employee benefits.

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