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**Summary of the Report of the Independent Expert on the proposed transfer of certain legacy business from Royal & Sun Alliance Insurance PLC and from The Marine Insurance Company Limited to Mercantile Indemnity Company Limited**

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## 1. ABOUT THE INDEPENDENT EXPERT'S REPORT AND THIS SUMMARY

- 1.1 I, Derek Newton, am a principal of Milliman LLP and a Fellow of the Institute and Faculty of Actuaries. I have been appointed as the independent expert to provide, in accordance with Part VII of the FSMA, a report on the potential impact of the proposed transfer on the policyholders of the Transferors and Mercantile ("**My Report**"). My Report is intended to assist the Court in properly assessing the effect of the proposed transfer on all affected policyholders, in particular in respect of the security of their policies and the levels of service that they could expect to receive after the transfer.
- 1.2 This section contains a summary (the "**Summary**") of My Report, dated 16 January 2019. The Summary is subject to the same limitations on its use as those set out in My Report. My Report contains the reasoning behind my conclusions, some of the detail of which I have omitted from this Summary. My Report also includes further information regarding the Transferors and Mercantile, which I have also not included within this Summary. While I am satisfied that this Summary provides an appropriate synopsis of My Report, reliance on this Summary alone could be misleading. Copies of My Report and any subsequent update can be obtained at [www.rsagroup.com/rsatransfers](http://www.rsagroup.com/rsatransfers).
- 1.3 The document in which this Summary is included contains a description of the proposed Scheme. Therefore, I have not included further description of the proposed Scheme within this Summary. Furthermore, by way of background, My Report includes material regarding the insurance regulatory environment in the UK and in Bermuda and wider information regarding the companies involved. Again, I have not included that material within this Summary, which instead focuses on what I perceive to be the security and service levels provided to policyholders and the likely effect of the proposed Scheme on policyholders of the Transferors and Mercantile, as applicable.
- 1.4 In the event of any conflict of interpretation between this Summary and My Report, the interpretation contained in My Report will prevail.

## 2. WHO WILL BE AFFECTED BY THE SCHEME?

- 2.1 I have determined that the following policyholder groups might be affected by the proposed Scheme:
- the RSAI transferring policyholders (including individuals with outstanding claims in respect of those policies) (the "**RSAI Transferring Policyholders**");
  - the MIC transferring policyholders (including individuals with outstanding claims in respect of those policies) (the "**MIC Transferring Policyholders**", and together with the RSAI Transferring Policyholders, the "**Transferring Policyholders**");
  - the current policyholders of RSAI who have policies that are not being transferred under the Scheme; and
  - the current policyholders of MIC who have policies that are not being transferred under the Scheme.
- 2.2 Mercantile currently has no policyholders so I have not considered further the likely effects of the Scheme on existing Mercantile policyholders.
- 2.3 I have assessed the circumstances, security and levels of service, separately for each of the groups of policyholders identified in paragraph 2.1 above, and have then similarly considered the changes that the Scheme is likely to cause to those circumstances, security and levels of service. I consider that policyholders of no other insurance companies would be affected by the proposed Scheme.

### 3. WILL THERE BE ANY IMPACT ON SECURITY OF THE TRANSFERRING POLICYHOLDERS?

- 3.1 I have reviewed the level of excess assets held by each of the Transferors (pre-Scheme) and by Mercantile (post-Scheme, assuming that the capital injection underlying the business plan occurs) relative to their respective capital requirements, using, where available, both current and forward looking measures of those requirements. I have noted that the level of excess assets relative to the required capital is lower in Mercantile than it is in either of the Transferors. I have considered key components of solvency calculation and of the funds available to meet the solvency requirements, in particular the reserves. Post-Scheme, Mercantile will assume the gross liabilities in respect of the Transferred Business but the Transferred Business will be reinsured, under a 75% quota share arrangement (the “**Reinsurance Agreement**”), by Cavello Bay Reinsurance Limited (“**Cavello**”). Therefore, the ability of Mercantile to meet its obligations to the Transferring Policyholders will depend on both its own resources and the ability of Cavello to meet its obligations to Mercantile under the Reinsurance Agreement. I have considered the capital resources of both Mercantile and Cavello relative to the risks that both face, and therefore the likelihood that Cavello does not meet its obligations under the Reinsurance Agreement and/or that Mercantile does not meet its obligations to the Transferring Policyholders. I have further considered the likelihood of EGL meeting its obligations to Mercantile under the terms of guarantees that it has provided in respect of the Reinsurance Agreement to Cavello and to Mercantile.
- 3.2 Taking all of these aspects into account, I have concluded that, on an on-going basis, while the security of the Transferring Policyholders will be adversely affected by differences in the financial strength between the Transferors and Mercantile, these differences will not adversely affect their security to a material extent, assuming that the Reinsurance Agreement operates as intended. Moreover, I have concluded that the likelihood is very remote of Cavello and EGL both failing to meet their obligations to Mercantile under, respectively, the Reinsurance Agreement and EGL’s guarantees in respect of the Reinsurance Agreement.
- 3.3 Mercantile has no pre-Scheme relationship with either of the Transferors. Therefore, the Transferring Policyholders would be unaffected were Mercantile to become insolvent prior to the Effective Date, and they would continue to have their claims paid by the Transferors, as appropriate. Were Mercantile to become insolvent after the Effective Date, the Transferring Policyholders would not have any recourse to either of the Transferors. In such circumstances, there would be no other policyholders within Mercantile with whom the Transferring Policyholders would need to compete in accessing the remaining assets of Mercantile. Given the proposed level of excess assets within Mercantile post-Scheme, the post-Scheme insolvency of Mercantile appears to me presently to be only a remote possibility.
- 3.4 I have concluded that the proposed Scheme will not have a materially adverse effect on the security of the Transferring Policyholders.

### 4. WILL THERE BE ANY IMPACT ON SECURITY OF THE REMAINING POLICYHOLDERS OF RSAI OR MIC?

- 4.1 The RSAI Transferred Business is small relative to the business remaining within RSAI. Moreover, Cavello has wholly reinsured the RSAI Transferred Business, as well as RSAI’s existing reinsurance of the MIC Transferred Business, that business currently being recorded within RSAI’s balance sheet at a nil net value. Similarly, the MIC Transferred Business is currently recorded within MIC’s balance sheet at a nil net value. Therefore, the proposed Scheme will have no impact on the assets available to meet the capital requirements of either of the Transferors. However, it will slightly reduce those capital requirements by reducing both Transferors’ exposure to reinsurance counterparty risk.
- 4.2 I have concluded that the impact of the proposed Scheme on the security of the policyholders remaining in both of the Transferors will be negligible and not adverse.

## 5. WILL THE PROPOSED SCHEME AFFECT LEVELS OF SERVICE?

- 5.1 Currently, RSAI performs the management and administration of the Transferred Business. Most of the staff within RSAI who currently are wholly or largely involved in that management and administration of the Transferred Business will transfer to Enstar (EU) Limited ("EEUL"), with effect from the Effective Date. Post-Scheme, Mercantile will outsource to EEUL the management and administration of the Transferred Business, under the same standards of service as applied to the management and administration of the Transferred Business pre-Scheme. The on-going joint RSA Group / Enstar Group separation and migration plan aims to maintain continuity in both service delivery and service standards pre- and post-Scheme.
- 5.2 As it is expected that the separation and migration plan will not have been fully completed by the Effective Date, Mercantile and RSAI have agreed an outsourcing arrangement whereby, for the period between the Effective Date and the full completion of the separation and migration plan, Mercantile will outsource the management and administration of the Transferred Business to RSAI, rather than to EEUL. For that period, the staff who transferred from RSAI to EEUL will be seconded back to RSAI to provide the outsourced services. On full completion of the separation and migration plan, this outsourcing arrangement will cease and will be replaced by the outsourcing arrangement between Mercantile and EEUL, the seconded staff then returning to EEUL.
- 5.3 The management and administration of the business of the Transferors that is not being included within the proposed Scheme will not change in anyway as a result of the Scheme.
- 5.4 I have concluded that no group of policyholders will suffer any reduction in service standards as a result of the proposed Scheme.

## 6. CONCLUSION

- 6.1 I confirm that I have been provided with access to all material facts of which I am aware and which I consider relevant in order to assess the proposals under the proposed Scheme and I further confirm that all information that I have requested in relation to my review has been provided. I have had discussions with senior members of staff within both the RSA Group and the Enstar Group that have helped me to evaluate the potential impact of the proposals on all policyholders under the proposed Scheme. In carrying out my review and in producing My Report, I have relied, without detailed verification, upon the accuracy and completeness of the data and information provided to me by the RSA Group and the Enstar Group. My conclusions depend on the substantial accuracy of this data, information and the underlying calculations. At the time of preparing My Report, I was unaware of any issue that might cause me to doubt the accuracy of the data and other information provided to me by the RSA Group and the Enstar Group. As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the proposed Scheme and in preparing My Report, but that nonetheless should be drawn to the attention of policyholders in their consideration of the proposed Scheme.
- 6.2 In my opinion, provided that the proposed Scheme operates as intended (and I have no grounds for believing it will not do so):
- the security of the policyholders of the Transferors will not be materially adversely affected by the implementation of the proposed Scheme on the Effective Date; and
  - the Scheme will not have an impact on the service standards currently experienced by the policyholders of the Transferors.

## 7. SUPPLEMENTARY REPORT

- 7.1 My analysis has been based upon the material supplied to me, including balance sheets and other information, which themselves are based on accounting positions as at 31 December 2017.

- 7.2 Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a supplementary report covering any relevant matters that might have arisen since the date of My Report. It is intended that the supplementary report will be published on the website dedicated to the proposed Scheme at least one week before the date of the final Court hearing.

Derek Newton / 16 January 2019  
Fellow of the Institute and Faculty of Actuaries