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**Supplementary 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. PURPOSE AND SCOPE

- 1.1 I, Derek Newton, prepared a report ("the Report") to the Court, dated 16 January 2019 and entitled "*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*".
- 1.2 The conclusions of the Report were based on financial information up to 31 December 2017 and other information available to me when I prepared the Report. Since preparing the Report, I have been provided with more recent financial and other information in respect of the Companies ("the Additional Information"). Details of the material elements of the Additional Information are set out in Appendix B.
- 1.3 In paragraphs 1.38 and 2.4 of the Report, I stated that, shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I would review any relevant matters which might have arisen since the date of the Report (I further referred to such a review in paragraphs 1.55, 5.34, 5.42, 6.143, 6.36 and 8.7 of the Report). Such relevant items would typically include:
- the extent to which the operational plans of RSAI, MIC, Mercantile and/or Cavello Bay have altered (relative to the position at the date of the Report);
  - the latest financial statements of RSAI, MIC, Mercantile and/or Cavello Bay; and
  - the most recently prepared figures relating to the solvency capital position of RSAI, MIC, Mercantile and/or Cavello Bay.
- 1.4 I also said in the Report that I would consider explicitly the following items:
- the Claims Handling Agreement between RSAI and Mercantile (referred to in the Report as the "Outsourcing Agreement", the details of which had yet to be agreed as at the date of the Report);
  - progress made in relation to the Separation and Migration Plan; and
  - the internal review conducted by RSAI into its reserving for asbestos claims (the review had been completed as at the date of the Report, but its conclusions had not yet fed through to the full-year reserve analysis).
- 1.5 This report (the "Supplementary Report") provides a brief summary of my review of the Additional Information and explains how, if at all, I have changed my conclusions from those set out in the Report as a result of my review of the Additional Information. As such, the Supplementary Report should be considered supplementary to the Report and does not supersede it. Unless stated otherwise in the Supplementary Report, all analyses and conclusions as set out in the Report remain valid.
- 1.6 The Supplementary Report should be read in conjunction with the Report and the full terms of the Scheme. The Supplementary Report has been produced on the same bases as set out at Section 1 of the Report. In particular, it has the same scope, and is subject to the same reliances and limitations. Terms used in this Supplementary Report have the same meanings as in the Report (I have attached, in Appendix A, a list of definitions).
- 1.7 Reliance has been placed upon, but is not limited to, the Additional Information, as well as upon the information set out in Appendix G of the Report. My opinions depend on the accuracy and completeness of this data, information and the underlying calculations. I have discussed the Additional Information with RSAI (on behalf of RSAI and MIC) and with the Enstar Group (on behalf of Mercantile and Cavello Bay), and have considered how it has changed from similar information provided in support of the Report. Except where stated otherwise, I have not re-reviewed the methodology and assumptions used by RSAI, MIC, Mercantile and Cavello Bay in their assessments of the liabilities and solvency capital of their respective firms, and I have not attempted to review in detail the calculations performed. I am unaware of any issue that might cause me to doubt the material accuracy of the Additional Information, but I give no warranty as to its accuracy. RSAI (on behalf of RSAI and MIC) and the Enstar Group (on behalf of Mercantile and Cavello Bay) have provided to me Letters of Representation confirming that, to the best of their knowledge and belief, all data and information that they have provided to me is accurate and complete (see Appendix C).

- 1.8 In all cases, I have requested the most recent information available. Both RSAI (on behalf of RSAI and MIC) and the Enstar Group (on behalf of Mercantile and Cavello Bay) have informed me that there have been no developments since the date of the Report, other than as provided in the Additional Information, that might be relevant to the Scheme.
- 1.9 I am required to comply with relevant professional standards and guidance maintained by the Financial Reporting Council and by the Institute and Faculty of Actuaries, including *TAS 100: Principles for Technical Actuarial Work* and *TAS 200: Insurance*. I confirm that I have complied with such standards, subject to the principles of proportionality and materiality.
- 1.10 In accordance with *Actuarial Profession Standard X2*, as issued by the Institute and Faculty of Actuaries, I have considered whether this Supplementary Report should be subject to Work Review. I concluded that it should, and I have also decided that the Work Review should be conducted by an individual who has not otherwise been involved in the analysis underlying, or in the preparation of, this Supplementary Report, but who would have the appropriate experience and expertise to take responsibility for the work himself. In other words, I have decided that the Supplementary Report should be subject to Independent Peer Review. I confirm that this Supplementary Report has been subject to Independent Peer Review prior to its publication.
- 1.11 In paragraph 6.5 of the Report, I explained that certain measures of capital requirements are private matters for insurers and, therefore, I was not at liberty to disclose in the Report actual figures relating to those requirements, or figures by which those amounts could be calculated<sup>1</sup>. As part of my analysis, I considered the extent to which RSAI, MIC, Mercantile and Cavello Bay each held capital in excess of their regulatory solvency levels, and referred to the ratio of the actual capital that the entity under consideration held relative to the regulatory solvency capital requirement to be the “Capital Cover Ratio”. Purely for comparative purposes in the Report, I defined the following terms:
- “sufficiently capitalised” refers to a Capital Cover Ratio between 100% and 119%;
  - “more than sufficiently capitalised” refers to a Capital Cover Ratio between 120% and 149%;
  - “well-capitalised” refers to a Capital Cover Ratio between 150% and 199%; and
  - “very well-capitalised” refers to a Capital Cover Ratio of 200% or more.
- In this Supplementary Report, I have adopted the same terminology.
- 1.12 The remainder of the Supplementary Report follows, for ease of reference, a structure that is similar to that of the Report, albeit omitting background information and explanation that does not require repeating:
- **Section 2:** I provide an executive summary of the Supplementary Report.
  - **Section 3:** I consider any changes in the information underlying the Report for the Companies. This is equivalent to Section 4 of the Report; I have not repeated in the Supplementary Report the background to the regulatory environment in which the Companies operate, which was described in Section 3 of the Report and which has not changed.
  - **Section 4:** I consider any changes resulting from the Additional Information in my view of the likely impact of the Scheme on the Transferring Policyholders. This is equivalent to Section 6 of the Report; I have not repeated in the Supplementary Report the key provisions of the Scheme, which had appeared in Section 5 of the Report (although I draw readers’ attention to paragraph 1.14, below).
  - **Section 5:** I consider any changes, resulting from my review of the Additional Information, in my view of the likely impact of the Scheme on the policyholders remaining behind, post-Scheme, in either RSAI or MIC. This is equivalent to Section 7 of the Report.

<sup>1</sup> Such private measures do not include the solvency capital requirements and available own funds under Solvency II as at each year-end, which insurers are required to include within their SFCRs, the SFCRs being public documents.

- **Section 6:** I cover more general issues relating to the Scheme and the management of the Companies, as well as developments regarding the Claims Handling Agreement and the Separation and Migration Plan. This is equivalent to Section 8 of the Report.

1.13 I summarise my conclusions in Section 7.

1.14 I note that there have been some changes made to the Transfer Document since the date of the Report. These have been primarily to clarify the treatment of collateral arrangements within RSAI and within MIC that relate to both Transferring Business and business that will not be transferring under the Scheme. The Transfer Document also includes: within Schedule 3, a list of an additional 27 specific policies that will not be transferring under the Scheme; and, within a new Schedule 4, a list of 190 specific policies that will be transferring under the Scheme. I have considered these changes and have concluded that, essentially, they add clarity to the Transfer Document and that the financial impact of these changes to the scope of the Transferring Business is immaterial and does not change the Scheme to the extent that I would need to reconsider my conclusions. I do not discuss further within the Supplementary Report these changes to the Transfer Document.

## 2. EXECUTIVE SUMMARY

### CONCLUSION

- 2.1 In my opinion, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so:
- The security of benefits to the Transferring Policyholders of RSAI and MIC will not be materially adversely affected by the implementation of the Scheme on the Effective Date;
  - The security of benefits to policyholders of RSAI and MIC who are not being transferred under the Scheme will not be materially adversely affected by the implementation of the Scheme on the Effective Date; and
  - The Scheme will have no impact on service standards (operated in accordance with TCF criteria) experienced by the policyholders of RSAI and MIC and Mercantile, both those being transferred under the Scheme and those not transferring.
- 2.2 As such, my opinion is unaltered from that expressed in the Report.

### THE IMPACT OF THE SCHEME UPON THE TRANSFERRING POLICYHOLDERS

- 2.3 I remain satisfied that the proposed Scheme does not affect in a materially adverse way either the security or the policy servicing levels of the Transferring Policyholders. I have reached this conclusion by forming the view that:
- the reserves of RSAI and MIC appeared reasonable as at 31 December 2018, as do those of Mercantile on a pro forma basis;
  - there is no reason to think that the reserve strength of RSAI, MIC or Mercantile will be impacted by the Scheme;
  - as at 31 December 2018, RSAI is a well-capitalised company, MIC is a very well-capitalised company, and, on a pro forma basis, Mercantile is a more than sufficiently capitalised company and is expected to remain so in the foreseeable future (I have defined these terms in paragraph 1.11, above);
  - the policyholders of the Transferring Business will not be materially adversely affected due to relative differences in the financial strength of Mercantile post-Scheme to those of RSAI and MIC pre-Scheme;
  - the financial well-being of Mercantile will be reliant to a significant extent, via the Reinsurance Agreement, on the financial well-being of Cavello Bay – as at 31 December 2018, Cavello Bay is a very well-capitalised company and, on a pro-forma basis, is expected to remain so post-Scheme and post-completion of other anticipated transactions;
  - in the remote event that Cavello Bay were unable to fulfil its obligations under the Reinsurance Agreement and that the value of the remaining collateral were less than the value of the remaining liabilities under the Reinsurance Agreement, EGL will meet any shortfall under the guarantee that it has provided;
  - although the proposed Scheme will lead to a change to the risk exposures of the Transferring Business, this will not have a materially adverse impact on the security of policyholder benefits; and
  - the proposed Scheme is unlikely to have any impact on the standards of policy servicing experienced by the Transferring Policyholders compared with their current position.

- 2.4 At the time of finalising this Supplementary Report, the status of the Separation and Migration Plan is “Amber”, which indicates that there is some risk that it will not be completed and fully implemented during the quarter following the Effective Date (i.e. by 1 October 2019) as had been anticipated. Nonetheless, I draw comfort from the Claims Handling Agreement between RSAI and the Enstar Group, by which EEUL will outsource the administration of the Transferring Business back to RSAI with effect from the Effective Date until the Migration Date. Moreover, RSAI has agreed to support EEUL in the administration of the Transferring Business for a period of four months from the Migration Date. Thus, even if the Migration Date were to be delayed beyond 1 October 2019, I believe that the measures put in place by RSAI and the Enstar Group will ensure the continuity of policy servicing and the maintenance of servicing standards post-Effective Date.

## THE IMPACT OF THE SCHEME UPON THOSE POLICYHOLDERS REMAINING WITHIN THE TRANSFERORS

- 2.5 I remain satisfied that the Scheme would have negligible impact on those policyholders remaining within the Transferors.

## THE IMPACT OF THE SCHEME IN RESPECT OF OTHER MATTERS

- 2.6 I remain satisfied that the Scheme will not have a materially adverse effect on those third party reinsurers whose reinsurance contracts cover the Transferring Business.
- 2.7 I have been informed that the Scheme is not expected to have tax implications that would affect any of the Companies or any of the groups of policyholders identified in paragraph 2.9 of the Report.
- 2.8 I have been provided with an estimate of the external costs of the Scheme. I consider it unlikely that the costs of the Scheme will be such as to jeopardise the security of any of the groups of policyholders.

## COMMUNICATION WITH POLICYHOLDERS AND THEIR RESPONSES

- 2.9 The RSA Group has attempted to notify directly the policyholders, lawyers, reinsurers, brokers, agents, managers of insurance pools and relevant bodies identified in paragraph 5.55 of the Report (13,353 individual mailings). As at 3 June 2019, 574 mailings had been returned as “unknown at this address”, with a further 65 returned with a forwarding address supplied, enabling the Transferors to re-notify these policyholders.
- 2.10 In addition to direct, written correspondence, the Companies also placed notifications in various publications in all EEA member states, in particular in the UK.
- 2.11 As at 3 June 2019, 978 responses had been received in response to the notification process. The majority of responses have requested either copies of the various documents relating to the Scheme that have been made available to interested parties or further information regarding the policies involved (these copies and this information have been provided).
- 2.12 I have been told that, as at the date of finalising the Supplementary Report, no objections to the Scheme have been received.
- 2.13 RSAI and Mercantile have informed the insurance regulators in each of the 30 non-UK EEA states about the Scheme. I have also been told that, as at the date of finalising the Supplementary Report, the insurance regulators in thirteen non-UK EEA states have confirmed their non-objection to the Scheme and that the remaining seventeen regulators have yet to confirm their view. None has objected. As at the date of finalising the Supplementary Report, I have no reason to expect any EEA insurance regulator to withhold its non-objection to the Scheme.
- 2.14 No response to the notifications that has been received by RSAI or the Enstar Group by the date of finalising the Supplementary Report has caused me to alter any of my conclusions that I set out in the Report.

### 3. CHANGES IN THE ENTITIES CONCERNED IN THE SCHEME

#### RSAI

##### Business written and financial performance during 2018

- 3.1 During 2018, RSAI underwrote a similar mix of insurance business<sup>2</sup> as it did during 2017 (as described in the Report). Gross premiums written during 2018 are as set out in Table 3.1 below (inwards reinsurance premiums relates mainly to reinsurance of other RSA Group companies):

**Table 3.1**  
**RSAI's Gross Written Premiums in 2018 and 2017 (£ million)**

	Gross Premiums Written		Increase/ decrease
	2018	2017	
Direct	2,966	3,110	-5%
Inwards reinsurance	788	1,255	-37%
<b>TOTAL</b>	<b>3,754</b>	<b>4,365</b>	<b>-14%</b>

- 3.2 RSAI generated a profit on ordinary activities before tax of £270 million for the financial year ended 31 December 2018 (compared with a profit of £1,187 million for 2017). This was due principally to dividend income of £262 million from subsidiary undertakings and £179 million of investment income, offset by a loss on the technical account of £43 million. The reduced profit in 2018 relative to that in 2017 was due largely to dividend income from subsidiary undertakings being unusually high in 2017.
- 3.3 As at 31 December 2018, funds attributable to equity holders of RSAI were £8,312 million, increased from £7,942 million as at 31 December 2017.
- 3.4 RSAI's financial strength ratings remain as stated in the Report.

##### Risk management

- 3.5 I have been told by RSAI that its risk profile, and its approaches to managing those risks, save for its review of Conduct Risk (as detailed in the following paragraph), remain as described in the Report.
- 3.6 Over the course of 2018, RSAI carried out a review of its Conduct Risk Framework, in order to identify areas for improvement and strengthening. This has led to the development of a refreshed Conduct Risk Framework, which is now being rolled out across RSAI's UK business, with staff training on the new framework being provided over the course of 2019. As part of the refresh, RSAI has introduced a new Customer Policy, which describes how its strategy, decisions, products, processes and communications contribute to, and evidence, good customer outcomes. All business areas have been required to conduct a gap analysis against this policy to identify any gaps and to put plans in place to address these. It has also defined its Customer Principles, which underpin its interactions with customers, as well as defining expected Customer Outcomes for each stage of a customer's dealings with the RSAI. A new Customer Committee was formed during 2018, with responsibility for overseeing the operation of the Conduct Risk Framework and monitoring the delivery of customer outcomes, as well as identifying areas for enhancement or improvement. RSAI expects that the Conduct Risk Framework will continue to evolve as it is embedded across its business, and to reflect emerging themes and regulatory developments.
- 3.7 RSAI has confirmed to me that there have been no changes in its capital policy, risk appetite or investment policy from those described in the Report.

<sup>2</sup> Based on RSAI's Annual Report as at 31 December 2018, Note 4.

## Claim provisions

3.8 In its statutory accounts as at 31 December 2018, RSAI held the following technical provisions:

**Table 3.2**  
**RSAI's Technical Provisions on a GAAP Basis, as at year-ends 2018 and 2017 (£ million)**

	2018	2017	Increase/ decrease
UPR	2,199	2,300	-4%
Claims Outstanding	4,583	4,527	1%
Transferring Business	582	614	-5%
<b>TOTAL GROSS RESERVES</b>	<b>7,364</b>	<b>7,441</b>	<b>-1%</b>
Ceded UPR	-694	-691	0%
Ceded Claims Outstanding	-1,246	-1,091	14%
Ceded Transferring Business	-582	-614	-5%
<b>TOTAL CEDED RESERVES</b>	<b>-2,522</b>	<b>-2,396</b>	<b>5%</b>
Net UPR	1,505	1,609	-6%
Net Claims Outstanding	3,337	3,436	-3%
Net Transferring Business	0	0	
<b>TOTAL NET RESERVES</b>	<b>4,842</b>	<b>5,045</b>	<b>-4%</b>

- 3.9 The value of the Transferring Business (i.e. the value of the RSAI Transferring Business and RSAI's reinsurance of the MIC Transferring Business), as shown in Table 3.2, above, has been discounted for the time value of money. All of the other technical provisions shown in Table 3.2 are on an undiscounted basis. I show the undiscounted value of the Transferring Business in Table 3.6, below.
- 3.10 In the Report, I presented an overview of the review that I had undertaken of the provisions held by RSAI in respect of the Transferring Business as at 31 December 2017. As noted in the Report, the RSAI actuaries had subsequently completed a further internal review of RSAI's reserving for asbestos claims and this has now fed through into the technical provisions held as at 31 December 2018.
- 3.11 The reserves as at 31 December 2018 incorporated the results of a review of the main UK asbestos elements of the Transferring Business that the RSAI actuaries conducted during the third quarter of 2018, based on data as at 30 June 2018. RSAI has provided me with documentation summarising the results of that analysis. It has additionally provided me with documentation of a high-level review of emerging experience during the third and fourth quarters of 2018.
- 3.12 The results of the main review, based on data as at 30 June 2018, gave rise to a release of reserves of around £31.4 million, gross of reinsurance and undiscounted (£25.5 million net of reinsurance), for the UK asbestos components of the Transferring Business (including Timber and General). The main source of this movement was the EL mesothelioma claims category (see paragraph 3.13, below), although there were also small movements in the other direction in respect of the Pleural Plaque and Pleural Thickening categories.
- 3.13 The release in reserves for EL mesothelioma claims resulted from reductions in both claims frequency and claims severity. RSAI reduced its average cost per claim assumptions, largely as a result of data suggesting that both its time on risk share of claims and its share of untraced claims were lower than previously assumed. The number of notifications was also lower than would have been expected as at the time of the previous review. However, RSAI's projection of the ultimate proportion of nil claims was reduced, compared with the previous review, which offset some of the benefit from the reduced number of notifications.
- 3.14 The documentation pertaining to developments in the third and fourth quarters of 2018 shows adverse developments relating to the EL mesothelioma claims. It shows a further reduction in claim notifications, but this is offset by reduced nil rates and increased average costs per claim. RSAI did not undertake a full review as at 31 December 2018, rather it inserted the up-to-date data into the model that it had parameterised as part of its full review in the third quarter of 2018. Therefore, the model parameters do not reflect the developments in the third and fourth quarters of 2018. I believe that, had they done so, the consequential undiscounted gross reserves would have been about £20 million more than the amount booked.

- 3.15 The documentation also highlighted the risk of potential increases to claims costs associated with a new immunotherapy drug that has started to be used to treat mesothelioma. The drug is not currently approved by the National Institute for Health and Care Excellence (“NICE”) for use within the NHS in England and Wales, although the drug is currently being offered to some patients on a private basis, with the costs of the treatment potentially being met by EL insurers. RSAI has estimated that funding the cost of treatment with this new drug could potentially lead to a material increase in reserves relating to mesothelioma claims. I note that, if NICE approves the drug for use in the NHS in the next few years, then the impact is likely to be minimal, as insurers will not need to fund the purchase of the drugs on a private basis.
- 3.16 As I described in the Report, RSAI relies heavily upon the work of the AWP in its estimation of its outstanding liabilities in respect of its exposure to UK asbestos claims. In paragraph 6.63 of the Report, I stated that the AWP is expected to publish the results of updated projections in 2019. That remains the case as at the date of the Supplementary Report, and the AWP has yet to announce an expected publication date.
- 3.17 During the fourth quarter of 2018, RSAI updated its estimates for some of the non-asbestos elements of the Transferring Business, including deafness and abuse. It also allowed for the results of the latest review of the EIROS pool by external actuaries. The net result of these updates was an increase in the estimated ultimate claims costs of £9.6 million, gross of reinsurance (£9.1 million net). Deterioration (net of reinsurance) of £7.5 million and £4.6 million for deafness and abuse respectively were partially offset by a favourable movement on EIROS (£3.4 million). The deterioration in the deafness claims has resulted primarily from reductions in the nil claim rate (I highlighted in the Report that this aspect could potentially give rise to future reserve deterioration). The abuse claims deterioration has been driven mainly by an increased volume of football-related claims.
- 3.18 The movements in the ultimate claim costs shown above also reflect an increase of 0.25% (i.e. from 0% to 0.25%) in the Ogden Rate assumed by RSAI in its projection of claims settlement costs for personal injuries, although, in relation to the Transferring Business, I note that RSAI continues to use a 0% Ogden Rate in its projection of the ultimate costs. Since the Report was finalised, the Lord Chancellor has announced the start of the first review of the Ogden Rate since the passing of the Civil Liberties Act 2018, which is now legally bound to be completed by early August 2019. It is widely expected that the review will result in the Ogden Rate being increased from -0.75% to a percentage between 0% and 1%.
- 3.19 The results of my review of developments of the claims reserves of the RSAI Transferring Business during 2018 lead me to believe that the best estimate reserves as at 31 December 2018 in respect of the UK asbestos claims are deficient by about £20 million, gross of reinsurance and on an undiscounted basis (I discuss the implications of this further in paragraph 3.24, below). I believe that the remainder of the reserves in respect of the RSAI Transferring Business are reasonable, although there remains a high degree of uncertainty.
- 3.20 I am unaware of any changes to the reserving for the non-transferring business of RSAI that would have made a material difference to the strength of those reserves. I note that the increase in the Ogden Rate, which I referred to in paragraph 3.18, above, resulted in a small decrease in the reserves in respect of the non-transferring business of RSAI.

### Solvency capital

- 3.21 As I explained in the Report, RSAI has been approved to use the RSA Group Internal Model in order to calculate its SCR. I was satisfied with the way that RSAIG calculated the SCR for RSAI as at 31 December 2017, as well as the calculation of the available own funds.
- 3.22 I noted in paragraphs 6.92 and 6.93 of the Report that, following an independent review of the RSA Group Internal Model, the RSA Group was undertaking a number of developments to its model. RSAI has informed me that these developments have now been completed and that the impact was in-line with expectations, as had been allowed for in the reported RSA Group SCR since 31 December 2017. The developments will be subject to a major model change application to the PRA. I have been informed that there have been no other significant model developments.
- 3.23 RSAI’s MCR and SCR, together with its available capital to meet those requirements, as per RSAIG’s SFCR as at 31 December 2018, are shown in Table 3.3, below. I note that these figures and the resulting Capital Cover Ratios are very similar to those as at 31 December 2017, as detailed in the Report. RSAI’s Capital Cover Ratio relative to its SCR is such that it can be considered to be a well-capitalised company.

**Table 3.3**  
**RSAI Solvency Capital Requirements and Own Funds as at 31 December 2018 (£ million)**

	MCR	SCR
Funds available to meet solvency requirement	2,862	3,354
Solvency requirement	613	1,743
Surplus	2,249	1,611
Capital Cover Ratio	467%	192%

- 3.24 In paragraph 3.14, above, I noted that the GAAP reserves as at 31 December 2018 in respect of UK asbestos claims had been based on a detailed review as at 30 June 2018, and that, had the model parameters as at 31 December 2018 reflected the claims experience in the third and fourth quarters of 2018, the consequential reserves would have been higher (by about £20 million, gross of reinsurance and undiscounted). This, in turn, would have resulted in higher Solvency II technical provisions and thus lower amounts of own funds available to meet the solvency requirements. However, the reduction in the own funds available to meet the solvency requirements would not have been sufficient so as to alter materially the Capital Cover Ratios shown in Table 3.3, above, or to alter my conclusions.
- 3.25 RSAI's ORSA has not been updated since that to which I referred in the Report.

### Brexit

- 3.26 In the Report, I provided details of RSAI's preparations for Brexit, the cornerstone of those preparations being the transfer of RSAI's non-UK EEA business to RSAL (a new Luxembourg-domiciled subsidiary of RSAI). That transfer was completed with effect from 1 January 2019.
- 3.27 At the time of writing, both the timing and the terms upon which the UK will leave the EU remained uncertain. The UK had been expected to leave the EU on 29 March 2019; however, the failure of the UK parliament to ratify a withdrawal agreement with the EU has led to a delay in the UK's withdrawal. As currently agreed with the EU, the UK's withdrawal from the EU should take place on the first day of the month following the completion of the ratification procedures or on 1 November 2019, whichever is the earlier<sup>3</sup>. I highlighted in the Report that there are a number of non-UK EEA policyholders within the Transferring Business. I also highlighted the risk that, were a "hard" Brexit to occur prior to the Scheme being sanctioned, there could be a short interruption in the ability of the RSA Group to service its business in those EEA states that require the establishment of a locally authorised branch to ensure the continued payment of claims under contracts in run-off by a third country insurer/reinsurer. This situation is unchanged from the time of writing the Report. However, I note that, since I wrote the Report, it has come to light that, whereas it had been thought that all of the non-UK EEA policyholders of the Transferring Business were MIC policyholders, there are in fact 28 claimants, relating to 10 inwards reinsurance policyholders of RSAI, that are domiciled in non-UK EEA states. These policies are all within the Profin class of business, with policyholders located within a number of countries, all of which, with the exception of Spain, were countries within which are domiciled the MIC non-UK EEA policyholders that had already been identified. I am informed that legal advice obtained by the Enstar Group indicates that the payment of inwards reinsurance claims by a third country insurer/reinsurer in run-off is not a regulated activity in Spain and, therefore, can be carried out from the insurer/reinsurer's home state without the need for local authorisation (by way of a branch) in Spain.
- 3.28 The emergence of these non-UK EEA policyholders of RSAI does not materially alter the risks relating to Brexit that I discussed in the Report. The intended approach to dealing with these risks (by both the RSA Group and the Enstar Group, pre- and post-Scheme) is likewise unchanged since that detailed in the Report.

<sup>3</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/794750/Council\\_Decision.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/794750/Council_Decision.pdf)

MIC

**Business written and financial performance during 2018**

- 3.29 During 2018, MIC continued to underwrite US surplus lines business. As was the case during 2017, the main classes of business written were Marine, Aviation and Transport and Renewable Energy. MIC also wrote a small amount of Wholesale International Property business during 2018. Total gross written premium income amounted to £37.0 million (compared with £37.7 million in 2017). As was the case in 2017, the business was 100% reinsured by RSAI.
- 3.30 MIC generated a profit on ordinary activities before tax of £3.2 million (post-tax £2.8 million) for the financial year ended 31 December 2018 (compared with a profit of £4.0 million for 2017).
- 3.31 As at 31 December 2018, funds attributable to equity holders of MIC were £52.4 million, increased from £49.7 million as at 31 December 2017.

**Risk management**

- 3.32 I have been told that MIC’s risk profile, and its approaches to managing those risks, including Conduct Risk, remain as described in the Report. I have been told that there have been no changes in MIC’s capital policy, risk appetite or investment policy from those described in the Report.

**Claim provisions**

- 3.33 In its statutory accounts as at 31 December 2018, MIC held the following gross technical provisions:

**Table 3.4  
MIC’s Gross Technical Provisions on a GAAP Basis, as at year-ends 2018 and 2017 (£ million)**

	2018	2017	Increase/ decrease
UPR	24.1	23.2	4%
Claims Outstanding	20.3	16.2	25%
Transferring Business	78.9	73.0	8%
<b>TOTAL GROSS RESERVES</b>	<b>123.3</b>	<b>112.4</b>	<b>10%</b>

- 3.34 As noted above, the business is 100% reinsured by RSAI.
- 3.35 The value of the MIC Transferring Business shown in Table 3.4, above, has been discounted for the time value of money. All of the other technical provisions shown in Table 3.4 are on an undiscounted basis.
- 3.36 I noted in the Report that, subsequent to 31 December 2017, the RSAI actuaries had reviewed the reserves relating to US pollution claims within the MIC Transferring Business. This resulted in US pollution claims reserves being strengthened by around £2.5 million. A further re-evaluation of health hazard claims relating to Monsanto led to an adverse movement of £2.3 million. These developments, as well as depreciation of sterling against the US dollar, have driven an increase in the reserves for the MIC Transferring Business relative to those as at 31 December 2017. I note that, subsequent to their reserving exercise as at 31 December 2018, the RSAI actuaries completed a re-evaluation of the reserves of Triple A Machine Shop, one of its major US asbestos policyholders. This indicated a modest improvement in reserves relative to those booked at 31 December 2018.
- 3.37 The results of my review of developments of the claims reserves of the MIC Transferring Business during 2018 do not lead me to alter my conclusions about the reserve strength of the MIC Transferring Business as set out in the Report. I note that the reserves of MIC, when expressed in sterling, are susceptible to movements in the exchange rate against the dollar.
- 3.38 I am unaware of any changes to the reserving for the non-transferring business of MIC that would have made a material difference to the strength of those reserves.

### Solvency capital

- 3.39 As I explained in the Report, MIC has been approved to use the RSA Group Internal Model in order to calculate its SCR. I was satisfied with the way that RSAIG calculated the SCR for MIC as at 31 December 2017, as well as the calculation of the available own funds.
- 3.40 As noted in paragraph 3.22, above, following an independent review of the RSA Group Internal Model, the RSA Group undertook a number of developments to its model that have now been completed with the impact of the changes being in line with expectations.
- 3.41 MIC's MCR and SCR, together with its available capital to meet those requirements, as per RSAIG's SFCR as at 31 December 2018, are shown in Table 3.5, below. I note that these figures and the resulting Capital Cover Ratios are similar to those as at 31 December 2017, as detailed in the Report. RSAI's Capital Cover Ratio relative to its SCR is such that it can be considered to be a very well-capitalised company.

**Table 3.5**  
**MIC Solvency Capital Requirements and Own Funds as at 31 December 2018 (£'000)**

	MCR	SCR
Funds available to meet solvency requirement	51,177	51,211
Solvency requirement	3,281	9,079
Surplus	47,896	42,132
Capital Cover Ratio	1560%	564%

### Brexit

- 3.42 MIC's positions with regard to Brexit is essentially the same as RSAI's as described from paragraph 3.26, above, and is unchanged from that described in the Report.

### MERCANTILE

- 3.43 Mercantile wrote no business during 2018, and, until such time as the Scheme is effected, there is no intention for Mercantile to underwrite any insurance business. As discussed in the Report, Mercantile currently has no insurance liabilities.
- 3.44 The position of Mercantile is, therefore, essentially unchanged from that described in the Report.

### CAVELLO BAY

- 3.45 The balance sheet has grown considerably during 2018, through the acquisition of several portfolios of business. However, these were anticipated in the pro-forma balance sheet (shown in Table 5.4 of the Report). In Table 4.4, below, I have set out the balance sheet for Cavello Bay as at 31 December 2018, and have then shown what it would have looked like had the Scheme been effected as at the 2018 year-end, along with three other transactions that are currently proposed (or underway) for Cavello Bay.
- 3.46 There have been few changes to the risk profile of Cavello Bay during 2018, although I note the following:
- Cavello Bay's exposure to asbestos-related claims has reduced during 2018, in both relative and absolute terms. 51% of the net reserves as at 31 December 2017 related to asbestos; as at 31 December 2018 that proportion has fallen to 36%.
  - Cavello Bay's relative exposure to workers' compensation business has increased slightly (22% of net reserves as at 31 December 2018, from 19% as at 31 December 2017), and a material amount of its net reserves (16%) as at 31 December 2018 relates to motor insurance.

As the drivers of development in, say, asbestos claims and motor claims are different, these changes have increased the diversity within the portfolio and would thus have reduced (in proportional terms) the capital requirements relating to the reserve risk. I note that the three anticipated transactions described in paragraph 4.6, below, will, if realised, lead to Cavello Bay assuming additional asbestos liabilities. I discuss the implications of this in paragraph 4.29 below.

- 3.47 I have been told by the Enstar Group that, during 2018, the asset allocation to Private Equity and other investments was increased materially. However, the allocation remains within Cavello Bay's risk appetite.

## ENSTAR GROUP LTD

- 3.48 In paragraphs 6.124-6.125 of the Report, I considered EGL's ability to meet its obligations under the terms of its guarantee in respect of the reinsurance of the Transferring Business. I now consider, in light of more up-to-date information, to what extent that ability has changed. I note that, in its draft GSSA for the year ended 31 December 2018, EGL reported available capital of US\$4.4 billion (approximately £3.5 billion) against a BSCR of US\$2.2 billion (approximately £1.7 billion), giving a Capital Cover Ratio of approximately 202% and free assets over and above the capital requirement of approximately US\$2.2 billion (£1.7 billion). Therefore, as at 31 December 2018, there are significant excess assets within EGL to meet the terms of the guarantee, should that be required.
- 3.49 The BMA has announced changes to the BSCR, which will be phased in over three years, starting with effect from the 2019 year-end. I note that EGL has estimated that, had the changes been fully implemented as at the 2018 year-end, they would have increased its BSCR as at 31 December 2018 by about 8%. This would have reduced the excess assets within EGL, but the reduction would not have significantly affected EGL's ability to meet the terms of the guarantee.
- 3.50 I further note that EGL has made no further guarantees beyond those that were discussed in the Report and the fair value of those has fallen slightly, to US\$937 million. I remain of the view that, while the likelihood of any of the guarantees being triggered is small, the likelihood of all being triggered is very remote.

## THE TRANSFERRING BUSINESS

- 3.51 In the Report (paragraph 4.133 onwards), I provided a summarised description of the Transferring Business. I am now aware of certain exceptions to the description contained therein in respect of the RSAI Transferring Business, whereby certain policies written prior to 2006 will remain with RSAI and certain other policies written from 2006 will transfer under the Scheme to Mercantile. This is in order to allow for the continuity of certain policyholder relationships where cover straddles 1 January 2006 and in respect of which collateral arrangements are in place. I have seen an analysis that indicates that this will affect 33 policyholders, and that the net impact on the liabilities of the Transferring Business will be to reduce them by £42,124. This amount is immaterial and I have not considered it further. I also understand that the 33 affected policyholders have been appropriately notified.
- 3.52 Table 3.6, below, shows the make-up of RSAI's reserves (on an undiscounted basis) in respect of the Transferring Business as at 31 December 2018. Reserves have reduced relative to those as at 31 December 2017 by approximately £64.1 million, gross of reinsurance, and £52.6 million, net of reinsurance. These reductions reflect payments made during 2018 (£47.1 million net of reinsurance), RSAI's amendments to its estimates of ultimate claims (a reduction of £7.7m net of reinsurance) and the revaluation of liabilities for changes in exchange rates and other movements (an increase of £2.2 million net of reinsurance).

**Table 3.6**  
**Reserves of the Transferring Business by Segment as at 31 December 2018 (£ million)**

Entity	Segment	Gross			Net		
		OS	IBNR	Total	OS	IBNR	Total
RSAI	Asbestos	63.5	434.0	497.5	58.8	400.2	459.0
RSAI	NIHL	24.5	12.4	36.9	22.9	12.5	35.4
RSAI	EIROS	14.1	49.7	63.9	14.1	49.7	63.9
RSAI	Timber & General	6.0	35.9	41.9	2.0	11.9	13.9
RSAI	Abuse	40.3	31.1	71.4	36.8	31.4	68.2
RSAI	Other Diseases	3.2	3.1	6.4	2.9	3.1	6.0
RSAI	Other Non-Disease and Profin	25.2	2.5	27.8	21.7	2.4	24.1
RSAI	Non-US Pollution	2.3	0.6	2.9	2.3	0.6	2.9
<i>Total RSAI</i>		<i>179.1</i>	<i>569.5</i>	<i>748.6</i>	<i>161.4</i>	<i>511.9</i>	<i>673.4</i>
MIC	Aviation Pools	13.1	12.5	25.5	9.4	9.3	18.7
MIC	Aviation Other	2.8	2.9	5.7	0.0	0.0	0.0
MIC	Marine	37.4	17.6	55.0	23.7	19.0	42.7
<i>Total MIC</i>		<i>53.3</i>	<i>33.0</i>	<i>86.3</i>	<i>33.1</i>	<i>28.3</i>	<i>61.4</i>
<b>Grand Total</b>		<b>232.4</b>	<b>602.5</b>	<b>834.9</b>	<b>194.6</b>	<b>540.3</b>	<b>734.8</b>

## 4. CHANGES IN THE IMPACT OF THE SCHEME ON THE TRANSFERRING POLICYHOLDERS

### EFFECT OF THE SCHEME ON THE BALANCE SHEETS OF RSAI, MIC, MERCANTILE AND CAVELLO BAY

4.1 Table 4.1, below, shows simplified balance sheets for RSAI as at 31 December 2018<sup>4</sup> in two situations:

- The “Actual” column shows the actual balance sheet as at 31 December 2018.
- The “Post-Scheme” column shows what the balance sheet would have looked like as at 31 December 2018 had the Scheme been approved and become effective as at 31 December 2018. This would have reduced both the gross technical provisions and reinsurers’ share of technical provisions by £582 million, this amount being included within the assets and liabilities for disposal amounts shown in Table 4.1, below, which also include a further £28 million of debtors/creditors. I note that the residual asset held for disposal of £3 million post-Scheme relates to unrelated transactions. I have assumed that no further margins would be transferred as part of the Scheme.

**Table 4.1**  
**Simplified Balance Sheets for RSAI as at 31 December 2018 (in £ million)**

	Actual	Post-Scheme
<b>Assets</b>		
Investments	17,725	17,725
Reinsurers' share of technical provisions	1,940	1,940
Debtors and salvage	3,432	3,432
Other assets	292	292
Prepayments and accrued income	510	510
Intangible assets	165	165
Assets held for sale and disposal groups	613	3
<b>Total Assets</b>	<b>24,677</b>	<b>24,067</b>
<b>Liabilities</b>		
Capital and reserves	8,344	8,344
Gross technical provisions	6,782	6,782
Other provisions	44	44
Creditors	8,677	8,677
Accruals and deferred income	220	220
Liabilities for disposal groups	610	0
<b>Total Liabilities</b>	<b>24,677</b>	<b>24,067</b>

4.2 Table 4.2, below, shows simplified balance sheets for MIC pre- and post-Scheme, based on its statutory accounts as at 31 December 2018<sup>5</sup>.

<sup>4</sup> Based on RSAI's Annual Report as at 31 December 2018.

<sup>5</sup> Based on MIC's Annual Report as at 31 December 2018.

**Table 4.2**  
**Simplified Balance Sheets for MIC as at 31 December 2018 (in £'000)**

	Actual	Post-Scheme
<b>Assets</b>		
Investments	33,629	33,629
Reinsurers' share of technical provisions	44,410	44,410
Debtors and salvage	28,055	28,055
Other assets	404	404
Prepayments and accrued income	6,221	6,221
Assets held for sale and disposal groups	81,836	0
<b>Total Assets</b>	<b>194,555</b>	<b>112,719</b>
<b>Liabilities</b>		
Capital and reserves	52,447	52,447
Gross technical provisions	44,410	44,410
Creditors	9,891	9,891
Accruals and deferred income	5,971	5,971
Liabilities for disposal groups	81,836	0
<b>Total Liabilities</b>	<b>194,555</b>	<b>112,719</b>

- 4.3 Table 4.3, below, shows simplified balance sheets for Mercantile pre- and post-Scheme, based on its statutory accounts as at 31 December 2018<sup>6</sup>. The Post-Scheme figures include additional technical provisions and reinsurers' shares of those technical provisions to allow for the anticipated deficiency as at 31 December 2018 in RSAI's estimate of the reserves for UK asbestos claims, as described in paragraphs 3.14 and 3.19, above (I note that these additional amounts were not included within Table 3.6, above).

**Table 4.3**  
**Simplified Balance Sheets for Mercantile as at 31 December 2018 (in £'000)**

	Pre-Scheme	Post-Scheme
<b>Assets</b>		
Investments	4,083	406,966
Cash	0	21,702
Third party reinsurers' share of technical provisions	0	102,123
Cavello Bay's share of technical provisions	0	566,054
Other reinsurance recoverables	0	11,166
Other assets	83	0
<b>Total Assets</b>	<b>4,166</b>	<b>1,108,012</b>
<b>Liabilities</b>		
Capital and reserves	4,148	241,954
Gross technical provisions	0	856,863
Creditors	0	3,285
Accruals, reinsurance accounts payable	18	5,911
<b>Total Liabilities</b>	<b>4,166</b>	<b>1,108,012</b>

- 4.4 It should be noted that the provisions in respect of Transferring Liabilities in the pro forma balance sheets shown in Table 4.1 and Table 4.2, above, are on a discounted basis, whereas they are shown in the pro forma balance sheet in Table 4.3, above, on an undiscounted basis.

<sup>6</sup> Based on Mercantile's Annual Report and Financial Statements as at 31 December 2018.

4.5 Table 4.4, below, shows simplified balance sheets for Cavello Bay as at 31 December 2018:

- The “Actual” column shows the actual balance sheet as at 31 December 2018.
- “Effect of known developments” shows the impact that three pipeline transactions (see paragraph 4.6, below) would be expected to have had on the balance sheet had they been in place as at 31 December 2018.
- “Effect of the Scheme” shows the impact that the Scheme would be expected to have had on the balance sheet had it been effective as at 31 December 2018.
- “Post-Scheme” shows what the balance sheet would have looked like had those transactions and the Scheme taken place as at 31 December 2018.

**Table 4.4**  
**Simplified Balance Sheets for Cavello Bay as at 31 December 2018 (in US\$’000)**

	Actual	Effect of known developments	Effect of the Scheme	Post-Scheme
<b>Assets</b>				
Investments	2,148,395	1,138,013	-272,850	3,013,558
Cash, restricted cash and equivalents	68,466	0	0	68,466
Funds held - directly managed	260,291	0	0	260,291
Reinsurance balances recoverable	530,885	0	-30,960	499,925
Funds held by reinsured companies	318,305	0	0	318,305
Investments in (partially) owned KaylaRe	431,869	0	0	431,869
Amounts due from related parties	213,398	0	0	213,398
Other assets	80,862	129,189	-6,911	203,140
<b>Total Assets</b>	<b>4,052,471</b>	<b>1,267,202</b>	<b>-310,721</b>	<b>5,008,952</b>
<b>Liabilities</b>				
Capital and reserves	1,605,127	53,000	-67,127	1,591,000
Gross technical provisions	2,282,214	1,208,955	-234,657	3,256,512
Amounts due to related parties	98,788	0	0	98,788
Other liabilities	66,342	5,247	-8,937	62,652
<b>Total Liabilities</b>	<b>4,052,471</b>	<b>1,267,202</b>	<b>-310,721</b>	<b>5,008,952</b>

4.6 As at the date of this Supplementary Report, only one of the three pipeline transactions within the “known developments” had been announced publicly, so I cannot discuss them in detail. However, they cover the following:

- An ADC for a portfolio of workers’ compensation and commercial property & casualty business (with assumed initial reserves of roughly \$500 million);
- 50% quota share of a portfolio including workers’ compensation, construction defect and other commercial products to medium-sized insureds within specialised industries (current reserves are approximately \$120 million); and
- The assumption, under an LPT, of a portfolio of middle market APH business that has been in run-off for over 30 years (the assumed initial reserves are \$644 million) – this transaction was announced in April 2019, the counterparty being a subsidiary of Zurich Insurance Group.

4.7 I have been informed by the Enstar Group that it has no specific plans for Cavello Bay to be involved in further transactions during 2019 (or beyond). However, the strategy of the Enstar Group remains to acquire and manage insurance portfolios that are in run-off, and it will use the companies within the Enstar Group to effect such acquisitions in a capital efficient manner. Therefore, it is possible that Cavello Bay might be involved in further transactions as and when such opportunities present themselves. Any such opportunity would be considered in the context of Cavello Bay’s existing capital and other resources and its risk appetite, prior to Cavello Bay agreeing to a transaction.

- 4.8 The Post-Scheme figures shown in Table 4.4, above, additionally include the impact of the Scheme, had it taken place as at 31 December 2018. Following the Scheme, the Reinsurance Agreement will be novated from RSAI to Mercantile and the cession will be reduced from 100% to 75%. Recognising the reduction in the proportion of business ceded, Cavello Bay will make a payment to Mercantile (effectively returning some premium). As can be seen from Table 4.4, above, post-Scheme, Cavello Bay's investments will reduce by \$272.9 million, its gross technical provisions (calculated using the "fair value" option, which includes discounting the technical provisions for the time value of money and including a risk margin) will reduce by \$234.7 million, its reinsurance recoverables will reduce by \$31.0 million, and its capital and reserve will reduce by \$67.1 million.

## RESERVE STRENGTH (PRE AND POST SCHEME)

### RSAI

- 4.9 As noted in paragraph 6.68 of, and as explained in the preceding paragraphs in, the Report, I concluded that, as at 31 December 2017, RSAI's reserves appeared reasonable and, in paragraph 6.69, I concluded that I had no reason to think that the reserve strength of RSAI would be impacted by the Scheme. Based on my further review of the reserves of RSAI as at 31 December 2018, as described in Section 3, above, I have noted that the undiscounted best estimate reserves in respect of UK asbestos claims as at 31 December 2018 are anticipated to be deficient by about £20 million, gross of reinsurance. Otherwise, I have no reason to change my conclusions as set out in the Report in relation to the reserve strength of RSAI, both pre and post-Scheme.

### MIC

- 4.10 As noted in paragraph 6.73 of my report, based on my review of RSAI's reserves (which includes the MIC liabilities that are 100% reinsured by RSAI) as at 31 December 2017, I concluded that the reserves of MIC appeared reasonable and that the reserve strength of MIC should not be affected by the Scheme. Based on my further review of the reserves of RSAI (including those relating to its reinsurance of MIC), as described in Section 3, above, I have no reason to change my conclusions as set out in the Report in relation to the reserve strength of MIC, both pre and post-Scheme.

### Mercantile

- 4.11 Mercantile currently has no insurance liabilities and will not do so until it receives the Transferring Business, as and when the Scheme is effected. I concluded in paragraphs 6.77 and 6.78 of the Report that I would not expect there to be a material change in the level of reserves that Mercantile holds in respect of the Transferring Business, relative to those currently held by RSAI. I reached this conclusion (1) because Mercantile is intending to adopt a similar approach to reserving for the Transferring Business as has been practised by RSAI, (2) because there is some continuity in the personnel operating the reserving models, and (3) because essentially the same reserving basis is adopted for Solvency II purposes. My opinion in this regard is unchanged since the time of writing the Report. I note that the Enstar Group has continued to use RSAI's reserve estimates (updated to 31 December 2018) for the purpose of its updated solvency capital projections for Mercantile as at 31 December 2018. However, in calculating the amount of capital to be injected from EGL into Mercantile on or before the Effective Date, the Enstar Group has allowed fully for the anticipated deficiency in RSAI's reserves as at 31 December 2018 in respect of UK asbestos claims.

## EXCESS ASSETS OF RSAI, MIC AND MERCANTILE

### RSAI

- 4.12 As noted in paragraph 6.94 of the Report and as explained in the preceding paragraphs in the Report, I concluded that, as at 31 December 2017, the policyholders of RSAI, including those who will transfer under the proposed Scheme, benefited from the financial strength provided by a well-capitalised company. As detailed in paragraph 3.23, above, RSAI's updated capital calculations as at 31 December 2018 continue to show that it can be considered to be a well-capitalised company and, as such, my conclusions with regard to the excess assets of RSAI are unchanged from those expressed in the Report.

## MIC

- 4.13 As noted in paragraph 6.94 of the Report and as explained in the preceding paragraphs in the Report, I concluded that, as at 31 December 2017, the policyholders of MIC, including those who will transfer under the proposed Scheme, benefited from the financial strength provided by a very well-capitalised company. As detailed in paragraph 3.41, above, RSAI's updated capital calculations as at 31 December 2018 continue to show that it can be considered to be a very well-capitalised company and, as such, my conclusions with regard to the excess assets of MIC are unchanged from those expressed in the Report.

## Mercantile

- 4.14 In paragraph 6.112 of the Report and based on my review of the projected excess assets of Mercantile for the period between 31 December 2017 and 31 December 2022, as described in the preceding paragraphs of the Report, I concluded that, upon receiving the Transferring Business and assuming that (1) it has already received the capital injection underlying the Business Plan and (2) the appropriate level of collateral is maintained in respect of the Reinsurance Agreement, Mercantile would be a more than sufficiently capitalised company. I also concluded that its capitalisation was expected to strengthen during the projection period.
- 4.15 The Enstar Group has now provided me with updated capital projections for Mercantile based on the updated reserves for the Transferring Business, and updated forecast balance sheets for Mercantile. The revised pro-forma SCR for Mercantile as at 31 December 2018 (including the Transferring Business) is slightly less than that projected previously, due to the technical provisions being slightly less than had been expected, and due to the investment profile giving rise to a slightly reduced market risk charge. The Enstar Group's plan continues to be to capitalise Mercantile such that its Capital Cover Ratio is 130% of SCR at the time of receiving the business. This is reflected in the capital projections, and the Capital Cover Ratios continue to be projected to improve over time as the business runs off.
- 4.16 I have been provided by the Enstar Group with a copy of the spreadsheet used to calculate the capital injection that Mercantile will require so that its Capital Cover Ratio is at least 130% of SCR immediately post-Scheme. This has been based on RSAI's estimation of the reserves in respect of the Transferring Business as at 31 December 2018, adjusted for the anticipated deficiency in respect of the UK asbestos claims and reduced for the expected payments in respect of the Transferring Business between the 2018 year-end and the Effective Date. I reviewed the calculation and consider it to be reasonable. Hence, I consider the proposed capital injection to be appropriate.
- 4.17 My conclusions with regard to the excess assets of Mercantile are unchanged from those stated in the Report: upon receiving the Transferring Business and assuming (1) that it has already received the capital injection to ensure that it has a Capital Cover Ratio of 130% of its SCR at the time of the transfer, and (2) that the appropriate level of collateral is maintained in respect of the Reinsurance Agreement, Mercantile will be a more than sufficiently capitalised company and, other things being equal, its capitalisation is expected to strengthen thereafter as the Transferring Business runs off.
- 4.18 I note that, should the Enstar Group not provide additional capital to Mercantile, then Mercantile will have insufficient funds available to meet its post-Scheme solvency capital requirements. However, I have reviewed a Deed of Amendment, between Mercantile, Cavello Bay and EGL, that sets out EGL's obligation to capitalise Mercantile such that its Capital Cover Ratio is 130% of SCR at the time of receiving the business.
- 4.19 I note that the Enstar Group has also provided me with updated OECA projections for Mercantile, which have been prepared on a similar basis to those I reviewed previously and commented upon in the Report. As described in the Report, the reserve risk charge within the OECA is based on a 97.5<sup>th</sup> percentile to ultimate confidence level (which contrasts with the 99.5<sup>th</sup> percentile over a one-year period under the standard formula SCR). Enstar Group has continued to estimate the 97.5<sup>th</sup> percentile using modelling of the Transferring Business undertaken by RSAI. RSAI has updated its modelling of the Transferring Business using a similar methodology to that which I reviewed previously, and I continue to believe the results of this modelling are reasonable, albeit that there is inevitably a high degree of uncertainty associated with estimates of extreme outcomes in the distribution. I note that the Enstar Group's assessment of the credit default risk charge within Mercantile remains small. Mercantile's main exposure to credit default risk post-Scheme will be to Cavello Bay and the comparatively small credit default risk charge reflects both the small likelihood of Cavello Bay being unable to fulfil its obligations under the terms of the Reinsurance Agreement and also the existence of the collateral arrangement. I discuss this further in paragraph 4.29, below.

- 4.20 The results of the updated OECA projections for Mercantile are similar to those that I reviewed previously and commented upon in the Report. They show that Mercantile would have been a more than sufficiently capitalised insurer as at 31 December 2018, had the Transferring Business been transferred to Mercantile at that time, and had Mercantile been capitalised so as to have a 130% Capital Cover Ratio relative to its standard formula SCR as at 31 December 2018. The projections show that Mercantile's OECA Capital Cover Ratio would be expected to increase over time (to the level of a well-capitalised insurer by 31 December 2024).

#### Cavello Bay

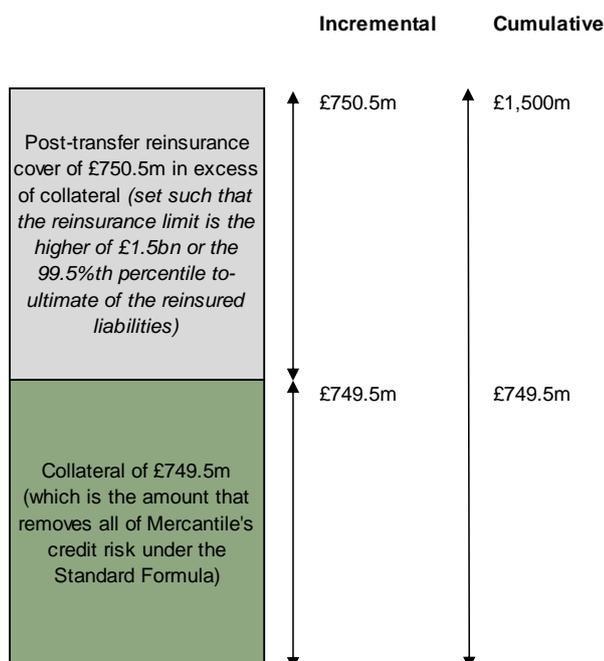
- 4.21 Although not party to the Scheme, given that 75% of the Transferring Business will be ceded to Cavello Bay after the implementation of the Scheme, in the Report I also considered the excess assets and solvency position of Cavello Bay.
- 4.22 I have been provided with a draft of Cavello Bay's CISSA as at 31 December 2018, which details the latest solvency calculations for the company, calculated in accordance with the regulations in Bermuda. I have also been provided with figures showing how those solvency capital projections are expected to change during 2019 as a result of the anticipated transactions detailed in paragraph 4.6, above.
- 4.23 The draft CISSA shows that, as at 31 December 2018, Cavello Bay had assets in excess of liabilities of approximately US\$1,523 million and a capital requirement of US\$721 million, implying a Capital Cover Ratio of 211%. This means that, as at 31 December 2018, Cavello Bay is a very well-capitalised company. Cavello Bay's capital requirement has increased since 31 December 2017 due to a number of transactions (as noted in the Report). Its excess assets have also increased, mainly due to the retention of earnings and to capital contributions (totalling \$133 million) received from the Enstar Group. These changes have increased Cavello Bay's Capital Cover Ratio from 186% as at 31 December 2017. If the Scheme is implemented, Cavello Bay's reinsurance of the Transferring Business will reduce from 100% to 75%. As indicated in Table 4.4 above, this will lead to a reduction in the excess assets of Cavello Bay, but this will be more than offset by a reduction in the reserve risk charge in the BSCR, resulting in an improvement in the Capital Cover Ratio.
- 4.24 The projections that I have seen for Cavello Bay's economic balance sheet and capital requirements during 2019 show that the effect of the expected transactions, as well as the natural run-off of Cavello Bay's legacy liabilities, would be to increase Cavello Bay's capital requirement by the end of 2019 by approximately \$150 million. The impact of the transactions is expected to be beneficial to the excess assets of Cavello Bay, by about \$80 million in total. It is further expected that, during 2019, Cavello Bay will generate earnings of around \$200 million. The net effect of these expected movements would be to leave Cavello Bay's Capital Cover Ratio at approximately the same level as at 31 December 2018 – i.e. Cavello Bay would still be a very well-capitalised company.

#### RELATIVE FINANCIAL STRENGTH OF TRANSFERRING POLICYHOLDERS PRE AND POST SCHEME

- 4.25 In the Report, I noted that the Transferring Policyholders of both RSAI and MIC would see a weakening in the financial strength afforded to them (relative to solvency capital requirements) as a result of the Scheme. However, I concluded that, while the security of benefits of the Transferring Policyholders would be diminished through differences in the financial strength of Mercantile post-Scheme, relative to RSAI and MIC pre-Scheme, the effect on the policyholders would not be material.
- 4.26 Based on my review of the updated financial position of each of the entities involved in the Scheme, it remains the case that the Transferring Policyholders will see a weakening of the financial strength afforded to them relative to solvency capital requirements.

- 4.27 I explained in the Report that the collateral under the Reinsurance Agreement will be set such that Mercantile has no counterparty default risk charge in its standard formula SCR, and that this means that the collateral held is expected to be more than adequate to pay for 75% of the net liabilities of the Transferring Business at a 99.5% confidence interval over a one-year time horizon. The Reinsurance Agreement provides for additional (uncollateralised) cover up to a limit of the greater of £1.5 billion and the estimated 99.5<sup>th</sup> percentile to ultimate of the distribution of the reserves of Transferred Business at the Effective Date. Based on its calculations as at 31 December 2018 (which, in turn, have been based on the results of RSAI's updated modelling of the Transferring Business as referred to in paragraph 4.19 above), the Enstar Group has calculated that the 99.5<sup>th</sup> percentile is currently below £1.5 billion and, therefore, the limit of the Reinsurance Agreement would be £1.5 billion. Based on my understanding of the modelling, I consider this calculation to be reasonable, although I note that modelling at the extremes of the distribution of possible outcomes is very uncertain. However, it is clear that a limit of £1.5 billion provides Mercantile with a very significant degree of cover, which is very unlikely ever to be exhausted. In the Report, I undertook a stress test that considered the implications of a deterioration in the net claims liabilities of the Transferring Business by 100%. I stated that I thought this stress scenario to be extreme and unlikely, but that, even in this scenario, the limit of the reinsurance would not be exhausted. This remains the case. The net technical provisions, on a GAAP basis, of the Transferring Business as at 31 December 2018 were £734.8 million. In addition to this, EEUL has estimated a run-off expense provision of about £40 million. Therefore, the combined claims and expense reserves total approximately £775 million, 75% of which (£581 million) is ceded to the Reinsurance Agreement. Hence, it is clear that the reserves would have to increase by over 150% before the limit of the Reinsurance Agreement were exhausted, a possibility that I regard as being extremely unlikely.
- 4.28 The amount of cover provided by the Reinsurance Agreement, split between the collateralised and uncollateralised portions, is illustrated in Figure 4.1, below.

**Figure 4.1**  
**Cover provided by Cavello Bay to Mercantile under the amended terms of the Reinsurance Agreement, the amendments to be operational from the Effective Date (based on the year-end 2018 position)**



- 4.29 Based on Cavello Bay's capital position as at 31 December 2018, as detailed in paragraph 4.23, above, it had (pre-Scheme) excess assets of \$1,523 million and a capital requirement of \$721 million. The Capital Cover Ratio has improved since 31 December 2017 and indicates that Cavello Bay has sufficient assets to be able to pay the full limit of the Reinsurance Agreement. I note that, in circumstances so extreme that the limit is near exhaustion, the Reinsurance Agreement might be competing with other covers provided by Cavello Bay and it might have difficulties meeting its solvency capital requirements. However, EGL has guaranteed Cavello Bay's obligations under the Reinsurance Agreement. I also note that the calculations of Cavello Bay's future capital requirements allow for the risk profile of the business. While the anticipated transactions will lead to Cavello Bay being more exposed to APH risks than it was as at 31 December 2018, any heightened risk (e.g. concentration risk) will be reflected within the calculated solvency requirement. Despite the greater exposure to APH risks following the anticipated transactions, Cavello Bay will remain a very well-capitalised company and its likelihood of being unable to meet its obligations under the Reinsurance Agreement are very small.
- 4.30 In the Report, I discussed EGL's ability to meet its obligations under the terms of its guarantee. I have been provided with a draft version of EGL's GSSA as at 31 December 2018, as well as projections showing the expected development of EGL's capital position throughout 2019, including the impact of a number of expected transactions during the year. The draft GSSA shows that, as at 31 December 2018, EGL has excess assets of \$4.4 billion, a BSCR of \$2.2 billion and a Capital Cover Ratio of 202%. EGL's Capital Cover Ratio has increased from 170% as at 31 December 2017 and its excess assets have increased considerably over the same period, from \$2.9 billion, primarily as a result of the raising of additional capital. I noted in the Report that EGL had provided other guarantees totalling more than \$940 million. I have been provided with an updated schedule of guarantees as at 31 December 2018. The schedule shows that the total value of the guarantees has fallen slightly from that provided previously, with the total value now at \$937 million.
- 4.31 In the Report, I conducted a number of stress tests in order to assess the ability of Mercantile (as well as Cavello Bay and EGL, through the Reinsurance Agreement and guarantee respectively) to meet the liabilities of the Transferring Business in the event of adverse circumstances. I have not repeated those tests in preparing this Supplementary Report but I have considered the assumptions underlying those tests and have observed that, since those tests, they have, in general, developed favourably. Therefore, I have concluded that the results of those tests would not have been adversely affected by the changes since the Report.
- 4.32 In paragraph 6.131 of the Report, I noted that, while it appears that Mercantile will be a more than sufficiently capitalised company at the time the Scheme is implemented, it will be heavily dependent on the cover provided under the Reinsurance Agreement with Cavello Bay. This remains the case. I went on to provide three reasons why I did not regard this as leading to a materially adverse change in the security afforded to the Transferring Policyholders:
- The collateral arrangements should be adequate to meet Cavello Bay's reinsurance obligations in respect of the Transferring Business in the majority of scenarios. This remains the case. Up to the limit of the Reinsurance Agreement, Cavello Bay will continue to collateralise the Reinsurance Agreement up to the 99.5<sup>th</sup> percentile of the reserves on a one-year time horizon.
  - Cavello Bay is currently a very well-capitalised company. Therefore, I would expect it to be able to meet its reinsurance obligations in all but extreme circumstances, and should be able to top-up the collateral in respect of the cover for the Transferring Business in all but extreme circumstances. I note that, based on figures provided to me as at 31 December 2018, Cavello Bay's solvency position has improved since that as at 31 December 2017, as detailed in the Report, so its ability to fulfil its obligations under the Reinsurance Agreement should have improved accordingly. I also note that its solvency position is expected to improve further over the course of 2019, notwithstanding the impact of the anticipated transactions highlighted in paragraph 4.6, above, through the effect of the gradual run-off of the business currently within Cavello Bay.
  - In the event of such extreme circumstances that resulted in Cavello Bay being unable to meet its obligations under the Reinsurance Agreement, the guarantee provided by EGL would be triggered. EGL currently has sufficient free assets over and above its capital requirement to be able to meet any shortfall by Cavello Bay against its obligations under the Reinsurance Agreement. While possible, it is unlikely that the other guarantees provided by EGL would have been triggered to such an extent that EGL would be unable to honour its guarantee in respect of the Reinsurance Agreement. I note that, based on the latest information available to me, EGL's excess assets have increased and the value of the guarantees made are essentially unchanged. Therefore, EGL's ability to fulfil its obligations according to the terms of the guarantee should have improved.

- 4.33 Therefore, I continue to be satisfied that, although the policyholders of the Transferring Business will be adversely affected by relative differences in the financial strength of Mercantile post-Scheme to those of RSAI and MIC pre-Scheme, the effect on the policyholders will not be material.

#### CHANGES IN RISK EXPOSURES

- 4.34 As noted in paragraph 6.139 of the Report and as explained in the preceding paragraphs in the Report, I concluded that, although the proposed Scheme will lead to a change to the risk exposures of the Transferring Business, this will not have a materially adverse impact on the security of policyholder benefits. As I have explained in Section 3, above, the risk profiles of RSAI, MIC and Mercantile are essentially unchanged from those described in the Report. Therefore, my conclusion remains unchanged.

#### POLICY SERVICING

- 4.35 There have been no changes to the policy administration arrangements of the Transferring Business, either pre or post-Scheme, from those described in the Report. Therefore, I continue to hold the opinion that the proposed Scheme is unlikely to have a materially adverse impact on the standards of policy servicing experienced by the Transferring Policyholders compared with their current position.
- 4.36 I comment on the Separation and Migration plan in Section 6, below.

#### CONCLUSION FOR THE TRANSFERRING POLICYHOLDERS

- 4.37 I continue to be satisfied that the proposed Scheme does not affect in a materially adverse way either the security or the policy servicing levels of the Transferring Policyholders.

## **5. CHANGES IN THE IMPACT OF THE SCHEME ON THE POLICYHOLDERS OF THE TRANSFERORS WHO WILL NOT TRANSFER UNDER THE SCHEME**

### **RSAI**

- 5.1 I concluded in the Report that the non-transferring policyholders in RSAI (including holders of RSAI Non-Transferred Policies) would be largely unaffected by the Scheme and nothing has emerged within, or from analysis of, the Additional Information to persuade me otherwise. I remain satisfied that the Scheme will not have a materially adverse effect on the security of, or the service levels enjoyed by, the non-transferring policyholders in RSAI.

### **MIC**

- 5.2 I also concluded in the Report that the non-transferring policyholders in MIC (including holders of MIC Non-Transferred Policies) would be largely unaffected by the Scheme and nothing has emerged within, or from analysis of, the Additional Information to persuade me otherwise. I remain satisfied that the Scheme will not have a materially adverse effect on the security of, or the service levels enjoyed by, the non-transferring policyholders in MIC.

## 6. OTHER CONSIDERATIONS

### SEPARATION AND MIGRATION PLAN, AND THE CLAIMS HANDLING AGREEMENT

- 6.1 As I explained in the Report, responsibility for the administration of the Transferring Business will move from RSAI to Mercantile as a result of the Scheme, and that, following completion and full implementation of the Separation and Migration Plan, Mercantile will outsource the administration to EEUL. I also explained that the Separation and Migration Plan was unlikely to be completed by the Effective Date but was expected to be completed and fully implemented during the quarter following the Effective Date. To ensure the continuity of policy servicing and the maintenance of servicing standards post-Effective Date, Mercantile and RSAI had agreed that, between the Effective Date and the Migration Date, RSAI will continue to provide all claims handling services in respect of the Transferring Business on behalf of Mercantile under the Claims Handling Agreement. As part of this agreement, the Assumed Employees, who will be transferred on the Effective Date from RSAI to EEUL, will be immediately seconded back to RSAI, until the Migration Date.
- 6.2 I noted in the Report that, while RSAI and Mercantile had agreed the Term Sheet for the Claims Handling Agreement, the Claims Handling Agreement itself had not yet been signed. I said that I would report on the signing of the Claims Handling Agreement, and on progress against the Separation and Migration Plan, in my Supplementary Report.
- 6.3 I have been provided with the papers from the meeting on 25 April 2019 of the Steering Committee that is overseeing the implementation of the Separation and Migration Plan. This indicates the status of the project to be “Amber” (on a ‘Red Amber Green’ scale), i.e. there is a material possibility that the Separation and Migration Plan will not be fully implemented on or before 1 October 2019, as planned. At the time of the meeting, there were several areas of concern. These areas are currently being addressed by a combination of additional internal resources and some reordering of activities. In addition, RSAI and the Enstar Group have engaged an independent firm of consultants to augment the core programme team and to deliver specific elements of the project. Moreover, RSAI and the Enstar Group intend to effect the migration of the Reinsurance, Marine and Profin business on 1 July 2019, using these discrete business migrations to prove the general processes to be used subsequently for the remaining migration. In this way, as at the date of finalising this Supplementary Report, despite the “Amber” status, RSAI and the Enstar Group remain confident that the Separation and Migration Plan will be completed and fully implemented by 1 October 2019. Progress against the Separation and Migration Plan will remain subject to close management focus by both RSAI and the Enstar Group until the Migration Date is achieved.
- 6.4 Although RSAI and the Enstar Group are taking steps to bring it back on track, there remains a risk that the Separation and Migration Plan will not be completed and fully implemented by 1 October 2019. However, with the Claims Handling Agreement in place, any such delay beyond 1 October 2019 will have no impact on the claims servicing for the Transferring Business. I have reviewed the terms of the Claims Handling Agreement and am confident that it will ensure the continued servicing of the Transferring Business, in accordance with the agreed standards, between the Effective Date and the Migration Date, even if the Migration Date occurs after 1 October 2019. RSAI and the Enstar Group have told me that they are making final preparations to implement the Claims Handling Agreement with effect from the Effective Date (expected to be 1 July 2019). Furthermore, RSAI has agreed to provide support to Mercantile (and EEUL) in respect of the ongoing management and operation of the Transferring Business for a period of four months following the Migration Date.
- 6.5 I conclude that I have no reason to change my opinion, stated in paragraph 4.35, above, that the proposed Scheme is unlikely to have a materially adverse impact on the standards of policy servicing experienced by the Transferring Policyholders compared with their current position.

### OPERATIONAL PLANS AND CHANGES IN ASSETS AND LIABILITIES UP TO THE EFFECTIVE DATE

- 6.6 RSAI (on behalf of itself and MIC) and the Enstar Group (on behalf of Mercantile, Cavello Bay and EGL) have both confirmed to me that, other than matters indicated earlier in the Supplementary Report, they have made no changes to their operational plans or to their assets or liabilities. Moreover, they have both confirmed that no such changes are expected between now and the Effective Date.

## THE LIKELY EFFECTS OF THE SCHEME UPON REINSURERS OF THE TRANSFERRING BUSINESS

6.7 I remain satisfied that the Scheme will not have a materially adverse effect on the reinsurers of RSAI and MIC whose contracts of reinsurance are to be transferred by the Scheme.

## THE APPROACH TO COMMUNICATION WITH POLICYHOLDERS

6.8 I have been informed that RSAI has written to:

- all RSAI Transferring Policyholders that have open claims and/or claims that closed within the last 10 years and for which an address can be traced/verified (other than RSAI policyholders in the non-disease portfolio with closed claims); and
- all lawyers representing individual claimants with open and closed claims in respect of RSAI Transferring Policyholders for which records have been found on systems within the RSA Group.

6.9 I have been informed that MIC has written to:

- all MIC policyholders for which records have been found on systems within the RSA Group and for which an address can be traced/verified (other than MIC policyholders who have short-tail policies); and
- all US attorneys who are named in a policy as the prospective recipient of a service of suit claim against MIC or who have represented MIC in its dealings with a US direct assured.

6.10 I have been informed that RSAI and MIC have written to

- all active reinsurers with reinsurance agreements relating to the Transferring Business that will be transferred by the Scheme and for which an address can be traced/verified;
- all current known/identifiable brokers or agents with delegated authority, involvement in distribution of policies or managing claims, who are active in the UK commercial market and in respect of which the RSA Group has a current commercial relationship, and for whom records have been found on systems within the RSA Group;
- the managers of all of the insurance pools, business of which is included within the Transferring Business;
- other relevant bodies such as industry trade associations and claims representation organisations in relevant jurisdictions with a request that they publicise the Scheme to their members;
- ELTO;
- the NAIC; and
- the British Insurance Brokers' Association.

6.11 I understand that the Court granted the waivers outlined in paragraph 5.56 of the Report. Therefore, RSAI has not directly notified any of its policyholders that are not transferring under the Scheme, or any Transferring Policyholder or lawyer for which it has no valid current address, or any policyholders in the non-disease portfolio with closed claims. Similarly, MIC has not directly notified any of its policyholders for which it has no valid current address or policyholders who have short-tail policies.

6.12 In addition to direct, written correspondence, RSAI and MIC have also arranged indirect notification in the UK via advertisements and notices in the London, Edinburgh and Belfast Gazettes, as well as in four national newspapers, several insurance related publications, and various specialist publications. Similarly, indirect notification has occurred in all other EEA member states via local gazettes and national newspapers.

6.13 The letters, notices and advertisements have referred all queries to a postal address, a telephone number, a website or a dedicated email address.

6.14 As at 3 June 2019, of the 13,353 mailings sent, 639 direct notifications had been returned (4.8% of those sent). Forwarding addresses had been provided for a small proportion of these and those notifications have been reissued. For the remainder, RSAI has sought alternative contact addresses and, when such addresses have been found, the notifications have been reissued. I have considered the steps taken by RSAI to identify suitable addresses for the policyholders, etc. and consider them to have been reasonable and proportionate.

**Responses**

6.15 As at 3 June 2019, 978 responses to the above notifications had been received. These responses have all been logged by date and time, as applicable, together with replies. Copies of all correspondence have been retained.

6.16 I set out in Table 6.1, below, the breakdown of the queries received in respect of the Scheme.

**Table 6.1  
Breakdown of the Queries Received in Respect of the Scheme as at 3 June 2019**

Query Type	Number of Queries
Document Request	714
General Enquiry	102
Technical Enquiry	14
Objections	0
Complaints	0
Other	148
<b>TOTAL</b>	<b>978</b>

6.17 The majority of responses have requested copies of the Scheme or policy documentation. This information has been provided. The other queries have all been effectively about how, if at all, the Scheme might affect the recipient (or the recipient's client).

6.18 'Other' enquiries comprise 15% of the responses received to date and relate to RSAI's current business activities (and not at all to the Transferring Business). Over 80% of these queries are in respect of Personal Lines and small Commercial Lines policyholders wishing to make policy amendments, and roughly 10% are from brokers who wish to update their contact details on RSAI's agency systems.

6.19 I have been provided with a spreadsheet that includes a summary of each of the responses received and how they have been dealt with. I have also been provided with a complete copy of the correspondence in respect of a small, randomly selected, sample of the responses received. I consider the categorisation by RSAI of the responses within the sample to be appropriate. This gives me a satisfactory degree of comfort that the categorisation of all responses has been appropriate. I have also reviewed RSAI's responses to the requests and queries received within the sample, and I consider those also to have been appropriate.

6.20 The number of responses is tailing off rapidly. 27% were received in the first week following the start of the notification programme, a further 27% in the following two weeks, 25% over the next three weeks, and 14% over the next 5 weeks. The remaining 7% were accumulated over the last seven weeks.

6.21 I note also that, by 3 June 2019, the website pages dedicated to the Scheme have received visits from 2,156 unique users who, between them, have completed 714 downloads of documents. The number of unique views is slowly declining week-on-week but remains about 40 per week. I have concluded from this that the webpages dedicated to the Scheme and their contents have been generally accessible since early February 2019.

6.22 At the time of finalising the Supplementary Report, no objections to the Scheme have been recorded.

**Responses of EEA non-UK regulators**

6.23 As at 3 June 2019, the insurance regulators in thirteen of the 30 non-UK EEA states had confirmed their non-objection to the Scheme. Twelve regulators had yet to respond to being notified about the Scheme, and RSAI, MIC and/or Mercantile have had some discussion with the remaining five regulators, mostly regarding what business has been written in those particular countries. No EEA insurance regulator has thus far raised any objections to the Scheme and, based on the questions raised by the regulators and the answers provided by RSAI, MIC and/or Mercantile, I have no reason to expect any EEA insurance regulator to withhold its non-objection to the Scheme.

## 7. CONCLUSIONS

### CONFIRMATION OF OPINION

- 7.1 I have further considered the effect of the proposed Scheme on the policyholders of RSAI and MIC in the light of the Additional Information made available to me since the date of the Report. I confirm that my overall opinion and conclusions as set out in Section 9 of the Report are unchanged.
- 7.2 In reaching this opinion, I have complied in all material respects with the principles set out in paragraph 9.2 of the Report.

### DUTY TO THE COURT

- 7.3 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court and have complied with that duty and that I am aware of and have complied with the requirements of Part 35 of the Civil Procedure Rules, of Practice Direction 35 which supplements Part 35 of the of the Civil Procedure Rules, and of the Guidance for the Instruction of Experts in Civil Claims 2014.

### STATEMENT OF TRUTH

- 7.4 I confirm that, insofar as the facts stated in this Supplementary Report are within my own knowledge, I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.



Derek Newton / 6 June 2019

Fellow of the Institute and Faculty of Actuaries

## APPENDIX A DEFINITIONS

ADC	Adverse Development Cover, which is a type of reinsurance cover that applies to a portfolio of business and limits the deterioration of claims costs on an aggregate basis for that portfolio beyond a pre-agreed point.
APH	Asbestos, pollution and health hazards.
Assumed Employees	Those RSAI employees who are wholly or mainly engaged in relation to the Transferring Business and who will be transferred to the Enstar Group entity that post-Scheme will be assuming the claims handling and management of the Transferring Business at the same time as the Scheme becomes effective.
Available Capital	Capital available to meet solvency capital requirements.
BMA	Bermuda Monetary Authority, which acts as Bermuda's financial system regulator.
Brexit	"Brexit" is a portmanteau of "British Exit", which refers to the impending exit of the UK from the European Union, following the referendum on continuing membership held in the UK in June 2016. As at the time of drafting this Report, the terms and timing of Brexit were unknown.
BSCR	Bermuda Solvency Capital Requirement, which is a standard risk-based capital adequacy model required of all insurers regulated by the BMA.
Business Plan	The 2017 Regulatory Business Plan for Mercantile.
Capital Cover Ratio	The ratio of Available Capital to Required Capital. This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the company.
Cavello Bay	Cavello Bay Reinsurance Limited, a member of the Enstar Group.
CISSA	Commercial Insurance Solvency Self-Assessment, which is a regime operated by the BMA that requires commercial insurers to perform an assessment of their own risk and solvency requirements. The CISSA provides the BMA with the insurer's perspective of the capital resources necessary to achieve its business strategies and remain solvent given its risk profile, as well as insight into the risk management and governance procedures surrounding this process.
Claims Handling Agreement	An agreement between RSAI and Mercantile, signed on 5 June 2019, whereby Mercantile will outsource to RSAI the servicing of the Transferring Business from the Effective Date until the Migration Date.
The Companies	The collective term for RSAI, MIC and Mercantile.
The Court	The High Court of Justice of England and Wales.
EEA	The European Economic Area ("EEA") was established by the EEA Agreement on 1 January 1994. The EEA unites the 28 EU member states with Iceland, Liechtenstein, and Norway into an internal market governed by the same basic rules. These rules aim to enable goods, services, capital, and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms.
EEUL	Enstar (EU) Limited, a member of the Enstar Group.
Effective Date	The date on which the Scheme shall become operative.
EIROS	Electricity Supply Industry Run-Off Services Limited, which has been fully in run-off since 1982.
EL	Employers' Liability, a form of commercial insurance that enables employers to meet the cost of compensation to any of their employees who suffer injury or illness through their work.
ELTO	Employers' Liability Tracing Office, which is an independent, not-for-profit UK company limited by guarantee and funded by a levy, and which aims to help claimants suffering from a disease/injury caused at work to find the insurer of their former employer.
EGL	Enstar Group Limited, the ultimate parent company in the Enstar Group.
The Enstar Group	A collective term for EGL and its direct and indirect subsidiaries.

Fitzwilliam	Fitzwilliam Insurance Limited, a member of the Enstar Group, acting in respect of its segregated account number 38.
GSSA	Group Solvency Self-Assessment.
Independent Expert	The Independent Expert prepares the FSMA Report and provides it to the Court in order that it may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. In the case of the Scheme, I have been appointed as the Independent Expert.
Independent Peer Review	Work Review undertaken by one or more individual(s) who is, or are, not otherwise involved in the work in question and who would have had the appropriate experience and expertise to take responsibility for the work themselves.
LPT	Loss Portfolio Transfer, a reinsurance agreement under which all or a distinct part of an insurer's existing insurance liabilities are 100% reinsured by a third party.
MIC	The Marine Insurance Company Limited, a subsidiary of RSAI.
Mercantile	Mercantile Indemnity Company Limited, a member of the Enstar Group.
MCR	The Solvency II Minimum Capital Requirement ("MCR") is lower than the SCR, and defines the point of intensive regulatory intervention. The MCR calculation is less risk sensitive than the SCR calculation and is calibrated to a confidence level of 85% over one year (compared with 99.5% for the SCR).
Migration Date	The date on which the Separation and Migration Plan is successfully completed and implemented.
NICE	National Institute for Health and Care Excellence
Non-Transferred Policy	A contract of insurance (if any) written or assumed by RSAI or by MIC under which any liability remains unsatisfied or outstanding as at the Effective Date and which would have formed part of the Transferring Business but which, for any reason, is not transferred by order of the Court pursuant to Part VII of FSMA on the Effective Date. I have referred separately to such a policy as a RSAI Non-Transferred Policy if it emanates from RSAI and as a MIC Non-Transferred Policy if it emanates from MIC.
OECA	Own Economic Capital Assessment.
Ogden Rate	The colloquial term given to the discount rate applied when calculating lump sum payments in respect of personal injury claims.
ORSA	The Own Risk Solvency Assessment ("ORSA") is a fundamental set of processes under Solvency II constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.
Own Funds	In Solvency II terminology, the amount of capital or excess assets of an insurance company. Own funds are divided into basic own funds and ancillary own funds (e.g. unpaid share capital), which require regulatory approval.
PRA	The Prudential Regulation Authority ("PRA") is part of the Bank of England and carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
QRTs	Quantitative Reporting Templates, which must be completed by insurers and submitted to the regulator on a regular basis in accordance with Solvency II. The QRTs cover a wide range of quantitative financial information about the insurer including details of its balance sheet, capital requirements and reserves.
Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (for example the SCR).
Reinsurance	An arrangement with another insurer whereby risks are shared (or passed on). If reinsurance is termed as being "inwards" then the reinsurer in question has accepted risk from an(other) (re)insurer; if reinsurance is termed as being "outwards" then the (re)insurer in question has passed risk to a(nother) reinsurer.

The Reinsurance Agreement	The agreement entered into on 7 February 2017 by RSAI and Fitzwilliam whereby, with effect from 31 December 2016, the RSAI Transferring Business plus RSAI's 100% reinsurance of the MIC Transferring Business was wholly reinsured by Fitzwilliam. The Reinsurance Agreement has subsequently been novated from Fitzwilliam to Cavello Bay.
The Report	The report entitled <i>Report of the Independent Expert on the proposed transfer of certain legacy business from Royal &amp; Sun Alliance Insurance PLC and from The Marine Insurance Company Limited to Mercantile Indemnity Company Limited</i> and dated 16 January 2019.
RSA Group	A collective term for RSAIG and its direct and indirect subsidiaries.
RSA Re	Royal & Sun Alliance Reinsurance Limited, a member of the RSA Group.
RSA Group Internal Model	The internal model developed, maintained and used by RSAIG and its subsidiaries for business planning and solvency capital estimation purposes.
RSAI	Royal & Sun Alliance Insurance plc, an indirect subsidiary of RSAIG.
RSAIG	RSAI Insurance Group plc ("RSAIG"), the ultimate parent company of the RSA Group.
RSAL	This is the term used to denote the insurance company that RSAI proposes establishing in Luxembourg, into which RSAI intends transferring its non-UK EU business and which, post-Brexit, will write its non-UK EU business.
The Scheme	In the context of this Report, the proposal that the transferring business of RSAI and of MIC be transferred to Mercantile under the provisions of Part VII of FSMA.
SCR	The Solvency Capital Requirement ("SCR") under Solvency II is the amount of capital required to ensure continued solvency over a one-year trading period with a likelihood of 99.5%.
Separation and Migration Plan	A plan, jointly developed by RSAI and Enstar, for the transfer from RSAI and MIC systems to Mercantile systems of the claims and policy information relating to the Transferring Business. This includes the development, where necessary, of Mercantile systems that are appropriate for handling these policy and claims records.
SFCR	Each insurer is expected to publish a Solvency Financial Condition Report ("SFCR") annually, which will contain certain qualitative and quantitative information, the quantitative information being in the format of certain prescribed QRTs.
Solvency II	The system for establishing (among other things) minimum capital requirements for EU (re)insurers under the Solvency II Directive 2009/138/EC.
Supplementary Report	This report, which I have prepared in advance of the Court hearing to sanction the Scheme covering any relevant matters that might have arisen since the date of the Report.
TCF	The TCF ('treating customers fairly') principles aim to raise standards in the way firms carry on their business by introducing changes that will benefit consumers and increase their confidence in the financial services industry. Specifically, TCF aims to: help customers fully understand the features, benefits, risks and costs of the financial products they buy; and minimise the sale of unsuitable products by encouraging best practice before, during and after a sale.
Technical Provisions	Liabilities determined for regulatory purposes. In particular, the provisions for the ultimate costs of settling all claims arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
Transfer Document	The document that sets out the terms of the Scheme.
Transferors	The insurers from which business is being transferred – in the case of the Scheme these are RSAI and MIC.
Transferring Business	The business of RSAI and MIC that is to be transferred to Mercantile under the Scheme. I have referred separately to such business as RSAI Transferring Business if it is currently covered by RSAI (this excludes RSAI's reinsurance of the MIC Transferring Business) and as MIC Transferring Business if it is currently covered by MIC.
Transferring Policyholders	The policyholders of the Transferring Business. I have referred separately to such policyholders as RSAI Transferring Policyholders if they are currently covered by RSAI and as MIC Transferring Policyholders if they are currently covered by MIC.

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Work Review	Process by which a piece of actuarial work is considered by at least one other individual for the purpose of providing assurance as to the quality of the work in question.
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## APPENDIX B ADDITIONAL INFORMATION

B.1. In writing the Supplementary Report, I relied upon the accuracy of certain documents provided by RSAI and the Enstar Group, in addition to those that they provided when I prepared the Report. These included, but were not limited to the following:

### RSAI

- Cluster Board Risk Updates, dated 19 December 2018 and 22 February 2019
- RSAI annual report and accounts as at 31 December 2018
- RSAIG's SFCR as at 31 December 2018 (incorporating SFCRs for RSAI and for MIC)
- Paper entitled UK Capital Projections 2019-21 RSAI plc, dated 29 March 2019
- A list of open Profin claims, dated 27 March 2019
- Presentation to Assumed Employees, dated 14 March 2019
- Papers for the each quarterly Legacy Reserving Overview Meeting, from the first quarter 2017 to the second quarter 2018, including various spreadsheets that supported the reserve estimates contained therein
- A spreadsheet setting out the SCR, MCR and available own funds elements of the QRTs as at 31 December 2019, covering RSAI, MIC and the RSA Group separately

### MIC

- MIC annual report and accounts as at 31 December 2018

### Mercantile

- Mercantile annual report and accounts as at 31 December 2018
- Spreadsheet setting out on a pro forma basis the standard formula calculation of the SCR as at 31 December 2018, and projections for the subsequent 6 years
- Spreadsheet setting out on a pro forma basis the standard formula calculation of the OECA as at 31 December 2018, and projections for the subsequent 6 years
- Spreadsheet calculating the amount of capital to be injected into Mercantile as at 30 June 2019 that would result in a Capital Cover Ratio as at that date that was at least 130% of the SCR, calculated using the standard formula

### Cavello Bay

- CISSA for the year ending 31 December 2018, dated 12 April 2019
- Undated note summarising 2019 pipeline transactions involving Cavello Bay
- Pro forma balance sheet as at 31 December 2018, including both the pipeline transactions and the expected impact of the Scheme
- Capital projections for Cavello Bay as at 31 December 2018 and 31 March 2019, and forecast as at 31 December 2019
- Management information summarising the unaudited balance sheet and composition of the claims reserves as at 31 December 2018

### Enstar Group

- Deed of Amendment, between Mercantile, Cavello Bay and EGL, dated 4 June 2019
- Draft GSSA for EGL, for the year ending 31 December 2018

- A list of the parental guarantees provided by EGL as at 31 December 2018, including the value of the guarantee
- Capital projection for EGL as at 31 December 2018 and 31 March 2019
- Press release, dated 16 April 2019, entitled *Enstar Group Limited Announces Reinsurance of \$0.5 Billion of Zurich's Legacy A&E Business*

#### Scheme

- Draft Transfer Document, dated 1 April 2019
  - Draft Shared Asset Protocol
  - Claims Handling Agreement (signed), dated 5 June 2019
  - Fortnightly reports (up to 3 June 2019) of the communications made and the responses received
  - A spreadsheet summarising all responses to the notification that had been forwarded to the RSA Group for action, and the response of the RSA Group to each
  - Complete copies of the communication between the stakeholder and the RSA Group in respect of a sample of stakeholder responses to the notification
  - Notes for the meeting of the Separation & Migration Steering Committee, dated 27 February 2019
  - Notes for the meeting of the Separation & Migration Steering Committee, dated 25 April 2019
  - First witness statement by Scott Egan.
- B.2. Information relating to the items listed above was also gathered during discussions (both oral and via correspondence) with staff of RSAI and the Enstar Group.

## APPENDIX C LETTERS OF REPRESENTATION



Royal & Sun Alliance Insurance plc  
St Mark's Court  
Chart Way  
Horsham  
West Sussex  
RH12 1XL  
Tel +44 (0) 1403 232323

Derek Newton  
Milliman LLP  
11 Old Jewry  
London  
EC2R 8DU

6 June 2019

Dear Mr Newton,

**Letter of Representation – Part VII transfer of certain legacy business from Royal & Sun Alliance Insurance PLC and from The Marine Insurance Company Limited to Mercantile Indemnity Company Limited**

### 1. INTRODUCTION

I refer to the proposed insurance business transfer (the "Scheme") by which certain business of Royal & Sun Alliance Insurance plc ("RSAI") and of The Marine Insurance Company Limited ("MIC") will be transferred to Mercantile Indemnity Company Limited ("Mercantile") by an insurance business transfer scheme ("the Scheme"), as defined in Section 105 of the Financial Services and Markets Act 2000 ("FSMA"). I, Scott Egan, am a Director of RSAI and MIC and have been authorised by RSAI and by MIC to provide the representations set out in this letter, on behalf of both RSAI and MIC.

### 2. DATA ACCURACY STATEMENT

I hereby affirm that the data and information provided by RSAI and MIC to Derek Newton of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by RSAI and/or MIC (and their professional advisors) and, to the best of our knowledge and belief, are accurate and complete in all material respects.

### 3. OTHER STATEMENTS

- 3.1 To the best of our knowledge and belief, there are no material inaccuracies or omissions in the description of RSAI's and MIC's business and practices (including details of specific contracts and claims) or in any statements attributed to RSAI and/or MIC (and/or the wider RSA Group) in the Independent Expert's Report dated 16 January 2019 and the Independent Expert's Supplementary Report dated 6 June 2019 (together the "Reports") on the proposed Scheme.
- 3.2 We have disclosed all the information that, in our opinion, is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Scheme, including but not limited to discussions or disputes with regulatory authorities and key reinsurance and commercial counterparties.

Royal & Sun Alliance Insurance plc  
Registered in England No. 89792. The Registered Office is St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1JL.  
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

- 3.3 We confirm that the Reports accurately and fairly reflect our understanding of the proposed Scheme and the facts relied upon in the Reports are true and accurate to the best of our knowledge and belief.
- 3.4 We will keep the Independent Expert apprised up to the date of the Court hearing to sanction the Scheme of all matters and issues, which, in our opinion, may be relevant to the Independent Expert in opining on the proposed Scheme.
- 3.5 We hereby undertake to provide the Independent Expert, prior to the submission to the Court of the final Court (and supporting) documents relating to the Scheme, full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents and full details of any differences between the data and information underlying such draft and final documents.
- 3.6 In particular, the facts stated below are true and accurate to the best of our knowledge and belief:
- The financial position as stated in the balance sheets of RSAI and MIC as at 31 December 2017 and 31 December 2018, as summarised in the Reports, give a true and fair view of the affairs of RSAI and MIC at those dates;
  - The Technical Provisions of RSAI's and MIC's business to be transferred as stated as at 31 December 2017 and 31 December 2018 provide a true and fair view in accordance with appropriate actuarial standards at those dates;
  - Other financial projections relating to RSAI and MIC provided by us, which the Independent Expert has used to prepare the Reports, have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions.
- 3.7 We confirm that the capital assessments as at 31 December 2018, prepared using the RSA Group internal model as per the Solvency II Directive 2009/138/EC, continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.
- 3.8 We confirm that there are currently no plans pursuant to the Scheme to materially change:
- the reserving basis/approach and strength of reserves carried/booked by RSAI or MIC; and/or
  - the capital basis/approach and capital strength adopted by RSAI and MIC.
- 3.9 In respect of RSAI and MIC, we confirm that there is currently no other relevant information concerning the business written, the claims procedures and the processing situation which could have a material impact on the Independent Expert's assessment of the proposed Scheme. In particular, we confirm that:
- there were no unusual backlogs of unprocessed claims correspondence at 31 December 2017 or as at 31 December 2018; and
  - appropriate case estimates were applied to all reported claims which remained open, both as at 31 December 2017 and 31 December 2018.
- 3.10 We confirm that, in relation to RSAI's and MIC's existing and transferring policyholders, the proposed Scheme is not expected to have tax implications that would affect any such policyholders.

3.11 To the best of our knowledge and belief, there have been no material changes since 31 December 2018 to RSAI's or MIC's operational plans that, in our opinion, might have a material impact on the Scheme and which have not been communicated to the Independent Expert.

3.12 In respect of RSAI and MIC, we confirm that there have been no material events that in our opinion would have a material impact on the Scheme between 31 December 2018 and the date of this letter.

Yours sincerely,



Scott Egan  
CEO UK and International

*For and on behalf of Royal & Sun Alliance Insurance plc and of The Marine Insurance Company Limited*



**6 June 2019**

Derek Newton  
Milliman LLP  
11 Old Jewry  
London  
EC2R 8DU

Dear Mr Newton,

**Letter of Representation – Part VII transfer of certain legacy business from Royal & Sun Alliance Insurance PLC and from The Marine Insurance Company Limited to Mercantile Indemnity Company Limited**

### **1. INTRODUCTION**

I refer to the proposed insurance business transfer (the “Scheme”) by which particular blocks of business of Royal & Sun Alliance Insurance plc (“RSAI”) and of The Marine Insurance Company Limited (“MIC”) be transferred to Mercantile Indemnity Company Limited (“Mercantile”) by an insurance business transfer scheme (“the Scheme”), as defined in Section 105 of the Financial Services and Markets Act 2000 (“FSMA”). I, Guy Bowker, am Group Chief Financial Officer, and am authorised by Enstar Group Limited (“EGL”) to provide the representations set out in this letter, on behalf of EGL and its subsidiaries (collectively, the “Enstar Group”).

### **2. DATA ACCURACY STATEMENT**

We hereby affirm that the data and information provided by the Enstar Group to Derek Newton of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by the Enstar Group (and its professional advisors) and, to the best of our knowledge and belief, are accurate and complete in all material respects.

### **3. OTHER STATEMENTS**

- 3.1** To the best of our knowledge and belief, there are no material inaccuracies or omissions in the descriptions of the business and practices (including details of specific contracts and claims) of Mercantile or Cavello Bay Reinsurance Limited (“Cavello Bay”) or in any statements attributed to Mercantile or Cavello Bay (and/or

P.O. Box HM 2267, Windsor Place, 3<sup>rd</sup> floor, 22 Queen Street, Hamilton HM JX, Bermuda  
Tel: {441} 292-3645 Fax: {441} 296-0895

the Enstar Group) in the Independent Expert's Report dated 16 January 2019 and the Independent Expert's Supplementary Report dated 6 June 2019 (together the "Reports") on the proposed Scheme.

- 3.2 We have disclosed all the information that, in our opinion, is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Scheme, including but not limited to discussions or disputes with regulatory authorities and key reinsurance and commercial counterparties.
- 3.3 We confirm that the Reports accurately and fairly reflect our understanding of the proposed Scheme and the facts relied upon in the Reports are true and accurate to the best of our knowledge and belief.
- 3.4 We will keep the Independent Expert apprised up to the date of the Court hearing to sanction the Scheme of all matters and issues, which, in our opinion, may be relevant to the Independent Expert in opining on the proposed Scheme.
- 3.5 We hereby undertake to provide the Independent Expert, prior to the submission to the Court of the final Court (and supporting) documents relating to the Scheme, full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents and full details of any differences between the data and information underlying such draft and final documents.
- 3.6 In particular, the facts stated below are true and accurate to the best of our knowledge and belief:
  - The financial position as stated in the balance sheets of Mercantile and Cavello Bay as at 31 December 2017 and 31 December 2018, as summarised in the Reports, give a true and fair view of the affairs of Mercantile and Cavello Bay;
  - The financial projections relating to Mercantile, Cavello Bay and EGL, including those showing the impact of the Scheme on the balance sheets and solvency position of the companies, as provided by us, which the Independent Expert has used to prepare the Reports, have been prepared in good faith by persons with appropriate knowledge and experience, in accordance with applicable regulations, on a reasonable basis and based on reasonable assumptions.
  - The management of the business affected by the Scheme will remain substantially unchanged following implementation of the Scheme.
- 3.7 We confirm that there are currently no plans pursuant to the Scheme to materially change:



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04 June 2019

- the reserving basis/approach and strength of reserves for the business that will transfer under the Scheme once it has been transferred to Mercantile, as compared to that currently in the transferors; and/or
- the capital basis/approach and capital strength adopted by Mercantile or Cavello Bay, as compared to that used in the solvency capital projections provided to the Independent Expert.

3.8 We confirm that, in relation to the policyholders being transferred under the Scheme, the proposed Scheme is not expected to have tax implications that would affect any such policyholders.

3.9 To the best of our knowledge and belief, there have been no material changes since 31 December 2018 to Mercantile's operational plans (or to those of the Enstar Group) that, in our opinion, might have a material impact on the Scheme and which have not been communicated to the Independent Expert.

3.10 In respect of Mercantile (and the Enstar Group), we confirm that there have been no material events that in our opinion would have a material impact on the Scheme between 31 December 2018 and the date of this letter.

Yours sincerely,



**Guy Bowker**  
**Chief Financial Officer**  
**Enstar Group Limited**  
**For and on behalf of Enstar Group Limited and its subsidiaries**

