Supplemental Report of the Independent Expert on the proposed transfer of the Irish, French, German and Dutch branches of Travelers Insurance Company Limited to Travelers Insurance DAC

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TABLE OF CONTENTS

1. INTRODUCTION

1.1 I, Gary G Wells, prepared a report to the Court, dated 10 December 2018, entitled, “Report of the Independent Expert on the proposed transfer of the Irish, French, German and Dutch branches of Travelers Insurance Company Limited to Travelers Insurance DAC” (the **Report**).

1.2 In 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 prepare a Supplemental Report covering any relevant matters that might have arisen since the date of the Report. In particular, I stated that I would consider the extent to which the operational plans of TICL and/or TIDAC (collectively the **Companies**) have altered (relative to the position as at the date of the Report) and the actual changes in assets and liabilities (relative to the position as at 31 December 2017, as I had discussed in the Report). In particular, I would consider whether there have been any changes (including those associated with current economic conditions) that would affect my overall opinion as expressed in the Report.

1.3 I set out below my considerations with regard to changes in operational plans and the changes in assets and liabilities of the Companies. I also comment on other relevant developments.

1.4 In order to provide this Supplemental Report (the **Supplemental Report**), TICL and TIDAC have provided me with additional information, including updated financial information. The additional data provided is set out in Appendix A.

1.5 This Supplemental Report should be read in conjunction with the Report (together the **Aggregate Report**). This Supplemental 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 Supplemental Report have the same meanings as used in the Report. Further, unless stated otherwise, where necessary, the rates of exchange[1] I have used in the Supplemental Report are £1.00 = \$1.27 = €1.12 (as at 30 June 2019).

1.6 Reliance has been placed upon, but is not limited to, the data and other information provided to me by TICL and TIDAC (as set-out in the Report) and the additional information (detailed in Appendix A). My opinions depend on the substantial accuracy of this data, information and the underlying calculations. TICL and TIDAC have each confirmed to me that, to the best of their knowledge and belief, all data and information they have provided to me is accurate and complete (see Letter of Representation, Appendix B). They have also informed me that there have been no developments since the latest information made available to me that are relevant to the Scheme.

1.7 The conclusions set out in this Supplemental Report are based on audited financial statements as at 31 December 2017 and 31 December 2018 for TICL (and unaudited data provided by TICL and TIDAC as at 30 June 2019). I have also referred to audited financial data from the Travelers Companies, Inc. (“Travelers”) as at 31 December 2017 and 31 December 2018 (as well as unaudited accounts as at 30 June 2019), and to SPF&M’s audited accounts as at 31 December 2017 and 31 December 2018 (as well as unaudited accounts as at 30 June 2019). In all cases, I have requested the most recent data available.

1.8 The technical actuarial work underlying this Supplemental Report has been undertaken in accordance with the applicable principles of Technical Actuarial Standard (“TAS”) 100 and TAS 200 as issued by the Financial Reporting Council (“FRC”) with effect from 1 July 2017, subject to the principles of proportionality and materiality.

[1] Source: Lloyd’s Market Bulletin Y5255, dated 1 July 2019.

2. CHANGES IN ASSETS, LIABILITIES AND SOLVENCY CONSIDERED IN THE REPORT

TICL

2.1 I have been provided with the audited accounts for TICL (i.e. the balance sheet and income statement information) for the twelve-month period to 31 December 2018 (and unaudited management accounts for the six-month period to 30 June 2019).

2.2 The accounts as at 31 December 2018 show that TICL had assets of £1,325.0 million and liabilities of £859.8 million, resulting in net assets (on a GAAP basis) of £465.2 million. The net assets (on a GAAP basis) have therefore increased by £19.7 million relative to those booked as at 31 December 2017 of £445.5 million (i.e. in line with the change of equity booked for TICL in the twelve month period to 31 December 2018 of £19.7 million) driven largely by a capital contribution of £29 million from Travelers in the fourth quarter of 2018, more than offsetting the reported loss for 2018 of £9.3m, which was propelled by £12.9m of unrealised investment losses. I note that the management accounts as at 30 June 2019, show that TICL enjoyed a trading profit of £14.5 million over the six-month period to 30 June 2019 and received a capital contribution of £34 million (see paragraph 2.4 below), resulting in a commensurate increase in net assets (on a GAAP basis) to £513.7 million as at 30 June 2019 (see Table 2.1 below, which illustrates the change in TICL's equity over 2018 and the first half of 2019, i.e. the movement in net assets on a GAAP basis and Own Funds on a Solvency II basis).

Table 2.1

Change in TICL's Equity over 2018 and the first half of 2019

£m	Net Assets (GAAP)	Own Funds (Solvency II)	SCR[1]	CCR
Pre-Scheme position as at 31/12/17	445.5	436.8	309.7	141%
Trading performance in 2018	(9.3)	(9.3)		
Solvency II adjustments		10.3	(30.9)	
Capital contribution from Travelers in 2018	29.0	29.0		
Pre-Scheme position as at 31/12/18	465.2	466.8	278.8	167%
Trading performance in H1 2019	14.5	14.5		
Solvency II adjustments		(8.4)		
Capital contribution from Travelers in H1 2019	34.0	34.0		
Pre-Scheme position as at 30/06/19	513.7	506.9	278.8	182%

[1] The Solvency II adjustments for the SCR are largely driven by the additional layer of property catastrophe reinsurance purchased by TICL on 30 April 2018 (see paragraph 4.15 of the Report).

2.3 I have also been provided with TICL's ORSA (dated December 2018). This analysis includes updated testing of the ability of TICL to withstand adverse performance (over a range of stress scenarios) on a forward-looking basis.

<u>Scenario Tests</u>

These tests reflect the key risks faced by TICL, and include:

(1) A profitability challenge, i.e. an underwriting environment leading to combined ratios in excess of 100%;

(2) Premiums being less than assumed in multi-year plan, i.e. reduced premium income over a 3 – 5 year period due to a challenging underwriting environment and difficulty in replacing lost business;

(3) No further reinsurance being purchased/available;

(4) Cyber-attack and data breaches;

(5) Severe disruption of business through external events; and

(6) A major internal fraud event.

Stress tests (1) and (2) are scenarios that I might expect to arise once in every 5 years (or thereabouts). While they are projected in the ORSA to significantly reduce profits or cause a loss, they did not require a material injection of capital.

Stress test (3) is not an immediately likely scenario, but could occur if there were a shortage of reinsurance capacity as a result of significant worldwide catastrophe losses. I might expect this scenario to arise once every 20 – 100 years or more. This scenario would likely cause TICL to seek an injection of capital from Travelers, because it would significantly increase the SF SCR; and

Stress tests (4), (5) and (6) were assessed on a qualitative basis and indicated that, while the risk inherent in each scenario is potentially high, sufficient controls have been established and are in place to manage such events, which thereby would not necessitate a material injection of capital.

Based on these scenario tests, I am of the view that TICL appears to be sufficiently well capitalised to withstand a range of adverse scenarios (as tested in its ORSA).

<u>Reverse Stress Tests ("RSTs")</u>

The TICL ORSA also includes the results of RSTs, which illustrate the severity of scenarios that would need to arise to exhaust (or nearly exhaust) all of TICL's EOF (over the forward-looking projection period), and thereby cause TICL to be unable to meet fully its policyholders' claims without recourse to additional capital support from Travelers. These tests include:

(1) Severe reserve deteriorations (e.g. due to changes in the legal environment causing a revaluation of existing claims); and

(2) Other top 10 risk register scenarios (e.g. inadequate pricing and/or selection of risks that fails substantially to assess the underlying risk exposures).

The RSTs on TICL show that it is able to withstand losses that I consider to be very severe but also only likely to arise in extreme circumstances.

<u>Out-of-cycle ORSA</u>

I further note that while the aforesaid ORSA is based on financials and forecasts that have been superseded by business developments as outlined in paragraph 2.25 below, these changes are not considered by TRV[2] to be material for TICL, such that there is no plan to produce an out-of-cycle TICL ORSA. I believe this to be a not unreasonable approach, because as explained in paragraph 3.15 below, the impact of the aforesaid business developments does not materially change the projected premium volumes relative to those contained in the aforesaid original business plan and hence the results contained in the ORSA.

2.4 I am informed by TRV that:

- TICL received a further capital contribution from Travelers on 15 May 2019 of $44 million (equivalent to broadly £34 million, using the exchange rates given in paragraph 1.5 above) which has been used to provide half (i.e. €15 million in the form of bonds) of the additional financial resources for TIDAC (totalling €30 million), with the remainder held as an asset pledged at Lloyd's to support the underwriting activity of TRV Syndicate 5000 (the "Syndicate"); and
- TICL has supplemented the aforesaid capital contribution to TIDAC by €15 million (in the form of bonds) prior to the implementation of the Scheme, in each case to augment directly TIDAC's financial resources to meet policyholder liabilities (including those of the Transferring Business).

[2] TRV is a term used to refer to one or more companies in the Travelers Group. The relevant companies in the context of the Supplemental Report are set-out (and shown) in Figure 5.1 of the Report. In particular, The Travelers Companies, Inc. is the 100% shareholder of both TICL and Travelers Syndicate Management Limited (as well as TML); and TICL is the 100% shareholder of TIDAC.

The additional capital (totalling €30 million) was contributed to TIDAC from TICL as outlined above on 9 September 2019, and is hereinafter referred to as the "Capital Contribution". Further explanation of this situation is given in paragraph 2.27 below.

2.5 Gross written premiums in the twelve months to 31 December 2018 totalled £269.6 million, compared to £230.3 million in the twelve months to 31 December 2017, i.e. an increase of £39.3 million. For the six-month period to 30 June 2019, TICL received gross written premiums of £136.6 million compared to £123.0 million in the six months to 30 June 2018, i.e. an increase of £13.6 million. I also note (as confirmed in Appendix B) that, in 2018 (and, to the date of finalising the Supplemental Report, during 2019), TICL continued to write a similar range of business.

2.6 TICL has provided me with its 31 December 2018 and 30 June 2019 QRTs, which provide details of its Solvency II balance sheet and capital requirements (as submitted to the PRA). EOF[3] as at 31 December 2018 have increased by £31.1 million, to £466.8 million, relative to their position as at 31 December 2017. Further, based on a reported SCR of £278.8 million, TICL had a Capital Cover Ratio ("CCR") of 167% and was therefore a well-capitalised company, according to the classifications[4] I used in the Report (see paragraph 6.5 therein). I note that the figures reported for TICL's EOF and SCR as at 30 June 2019 show an EOF and SCR of £506.9 million and £278.8 million respectively, giving a reported CCR of 182%, i.e. an EOF increase in monetary terms of £40.1 million relative to the year-end 2018 position.

2.7 The figures for TICL as at 31 December 2018 as discussed above as well as comparatives as at 31 December 2017 are displayed in Table 2.2 below. I note again (for the reason identified in the footnote to Table 2.1 above, i.e. the additional reinsurance purchased by TICL in 2018) that the SCR (calculated using the SF) for TICL as at 31 December 2018 is somewhat lower than that as at the prior year-end. This reduction arises because the additional layer of reinsurance purchased by TICL (on 30 April 2018) substantially reduces the catastrophe risk component of the SCR while at the same time increasing the counterparty risk component but by only a minor amount (due to the high credit rating of Travelers). I have reviewed the presentation prepared by TRV for the TICL Board Training (dated 18 September 2018) as to the impact of the aforesaid additional layer of reinsurance on the SCR (calculated using the SF) and, in particular, the size and direction of the movements in the components of the SF SCR. Based on my qualitative review of these risk components of the SCR, I continue to be of the view that the SF SCR is unlikely to underestimate the financial resource requirements of TICL (as per my view as expressed in paragraph 6.43 of the Report).

Table 2.2

Selected Financials for TICL

£m	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
GAAP			
Assets	1,256.8	1,325.0	1,428.3
Liabilities	811.3	859.8	914.6
Net Assets	445.5	465.2	513.7
Gross Written Premiums	230.3	269.6	136.6
Solvency II			
Own Funds	436.8	466.8	506.9
Solvency Capital Requirement (SCR)	309.7	278.8	278.8
Capital Cover Ratio (CCR)	141%	167%	182%

[3] Eligible Own Funds ("EOF") as defined in Appendix A of the Report.

[4] For comparative purposes (as per the Report) I have defined the following terms to describe a company's regulatory capital position:

- "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 in excess of 200%

2.8 As mentioned in the Report (see paragraph 4.61 therein) there have been a number of catastrophe events (outside the UK and Ireland) in 2018 (particularly in the second half of 2018) that together with the catastrophe events in 2017 have given rise to significant recent losses to the (re)insurance industry. I further noted that TICL is not directly exposed to these catastrophe events through underwriting activity, but it has indirect exposure to them (in severe loss circumstances) from the assets that TICL has pledged at Lloyd's to support the underwriting activity of the Syndicate.

2.9 I note that, during 2018, TICL increased the assets it has pledged at Lloyd's (Funds at Lloyd's or "FAL") from £29 million as at 31 December 2017 to £88 million at fourth quarter 2018. This change was to enable TRV to cover fully the Syndicate's losses arising during 2017 and to meet the capital required to support its underwriting at Lloyd's for the 2019 underwriting year.

2.10 I am informed by TRV that TICL further increased the assets it has pledged at Lloyd's, from £88 million as at 31 December 2018 to £131 million during the first half 2019, i.e. in overall terms a large increase, from the £29 million TICL had deposited as at 31 December 2017 (the date of TICL's most recent audited financial statements as used in the Report). This further change was to enable TRV to cover fully the Syndicate's losses arising during the second half of 2018 and to continue to meet the capital required to support its underwriting at Lloyd's for the 2019 underwriting year.

2.11 TRV believe that, if required by TICL, the assets pledged at Lloyd's can be replaced at short notice by TRV injecting funds into the TRV corporate member (at Lloyd's) in return for the issuance of shares (of equivalent value). Nonetheless, given the relatively large FAL and the risk of the funds not being available when needed (e.g. the Syndicate might experience severe losses, wider capital losses within TRV and/or general market liquidity issues restricting the rapid injection of funds) I have examined the impact of a reduction or "haircut" to the FAL value of 25% as part of my updated assessment of TICL's financial resources as described in paragraph 5.24 below.

2.12 I also note that TICL has contributed €65 million in cash (and bonds) to TIDAC ahead of the implementation of the Scheme, i.e. €35 million paid as described in paragraph 2.21 below, and a further €30 million paid on 9 September 2019 (in the form of bonds). As with the FAL, there is a risk of TIDAC's shareholder funds not being available to TICL when needed, not least because TIDAC must continue to meet regulatory capital requirements and CBI approval would be needed for any capital extraction. Thus, as with the FAL, I have examined the impact of a "haircut" (but a larger one) of 75% to the value of TICL's shareholding in TIDAC as part of my updated assessment of TICL's financial resources as described in paragraph 5.24 below.

2.13 I have also been provided with a copy of the TICL 2018 Actuarial Function Report (the "AFR") that provides the results of, and a commentary on, the actuarial analysis undertaken by TICL during 2018.

2.14 The AFR shows for accident years 2017 & prior (relative to the position as at 31 December 2017): a £1.3 million favourable net reserve movement for TICL's core business[5] (incorporating a release on the ULAE reserve); and a £1.9 million adverse net reserve movement for TICL's non-core business (mainly due to strengthening of specific IBNER[6] provisions for the European run-off portfolio). Notwithstanding the adverse net reserve movement on the non-core business, TICL's overall net reserves as at 31 December 2018 for accident years 2017 & prior (relative to the position as at 31 December 2017) have experienced a favourable movement of £4.1 million as recorded in the finalised 2018 year-end accounts, because of the one-off benefit arising from the late recognition on a particular claims issue not contained in the AFR).

[5] TICL's core business is essentially the ongoing business written by TICL (pre-Scheme, such business includes ongoing business in the UK, Ireland and elsewhere). TICL's non-core core business is essentially business that it no longer writes and is in run-off, which pre-Scheme includes the European run-off portfolio made up of the French, German and Dutch branches.

[6] Incurred but not enough reported ("IBNER") provision is the expected future development on a loss that has occurred and been reported.

2.15 For the 2018 accident year, the overall booked loss ratio for TICL's (core) business exposed up to 31 December 2018 was 55.6% net (54.4% gross), which is 3.1% points above TICL's 2018 net plan (1.9% points above the 2018 gross plan), due primarily to claims arising from Storm Emma (impacting the UK and Ireland in March 2018) and two large fire losses. I note that the outcome for the 2018 accident year is very uncertain at this stage as it is founded on only the twelve-month incurred position as at 31 December 2018.

2.16 I have additionally been provided with copies of the TRV Actuarial Reserve Previews for Q1 2019 and Q2 2019 that provide, in each case, a summary of the quarterly movement in the net ultimate loss forecasts for the vast majority of TICL's core business, including the Irish branch, as well as a brief commentary on those net ultimate loss movements.

2.17 Taken together the TRV Actuarial Reserve Previews for Q1 2019 and Q2 2019 essentially show the movement in TICL's net ultimate loss forecasts for accident years 2018 & prior (relative to the position as at 31 December 2018) at end-June 2019 allowing for the claims activity during the first half of calendar year 2019. In overall terms, the 2019 first half movement in TICL's net ultimate loss forecasts in relation to its core business (for accident years 2018 & prior relative to the position as at 31 December 2018) has resulted in a reduction in net claims reserves compared to those held as at 31 December 2018. However, within TICL's overall favourable first half 2019 result there was adverse development (of the order of £1 million) on TICL's Irish branch business (i.e. the business that will form the bulk of the Transferring Business), which I discuss further in paragraph 3.8 below.

2.18 Furthermore, at the date of this Supplemental Report, I am informed by the management of TICL that, other than the capital contribution outlined in paragraph 2.4 above, there have been no significant developments in the assets and liabilities of TICL since 30 June 2019 (the most recent date at which financial information is available).

2.19 ***I have considered the updated financial information of TICL, including the impact of the recent trading performance (and the Capital Contribution outlined in paragraph 2.4 above), and have identified no matters arising which would materially change the findings of the analysis that support the conclusions in the Report.***

TIDAC

2.20 As per paragraph 5.1 below, TIDAC received full authorisation from the CBI on 28 January 2019, and was scheduled to begin renewing the business to be transferred from TICL (and writing new business) on and from the Effective Date (originally anticipated to be 31 March 2019, but now expected to be 1 October 2019). However, I am now informed by TRV that while the Effective Date has been delayed (by an expected six months), TIDAC did indeed begin renewing business from TICL (and writing new business) from end-March 2019, due to the uncertainty regarding the Brexit date (now postponed to 31 October 2019).

2.21 Further, on 21 December 2018 and 11 February 2019, TIDAC received capital contributions of €6 million and €29 million respectively, thereby funding TIDAC's (initial) share capital of €35 million. In addition, TIDAC enjoyed a share premium[7] of €1.4m, thereby generating total opening shareholder funds (net assets) of €36.4 million (on a GAAP basis), and likewise EOF of €36.4 million (on a Solvency II basis). Therefore, had the Scheme been implemented at end-January 2019, TIDAC's approximate SCR would have been circa €27.2 million, thereby generating a CCR of 136%, i.e. TIDAC would have been characterised as a more than sufficiently capitalised company (as per my classification range as defined in paragraph 6.5 the Report).

[7]Part of the funding of TIDAC's initial capital (€35 million) was made by transferring some fixed income securities from TICL. Between TRV earmarking the securities and physically transferring them the market value increased and TRV treated this increase as share premium.

2.22 I have been provided with the unaudited management accounts for TIDAC (i.e. the balance sheet and income statement information) as at 30 June 2019, which show the gross premiums written by TIDAC in essentially the three (trading) month period (i.e. from end-March 2019 to 30 June 2019) totalled €26.0 million, and that TIDAC enjoyed a trading profit (together with unrealised gains on investments) of €0.2 million. TIDAC's net assets (on a GAAP basis) have therefore increased to €36.6 million as at 30 June 2019, i.e. by €0.2 million relative to the opening position of €36.4 million (see paragraph 2.21 above). In overall terms, TIDAC had assets of €81.1 million and liabilities of €44.5 million (again producing net assets of €36.6 million) as at 30 June 2019.

2.23 TIDAC has also provided me with its 30 June 2019 QRT, which provides details of its Solvency II balance sheet and capital requirements (as submitted to the CBI) which show EOF[8] of €37.0 million, i.e. an increase of €0.6 million relative to the opening position of €36.4 million (see paragraph 2.21 above). The 30 June 2019 QRT also shows an (anticipated) SCR of €24.1 million (subsequently restated to €27.2 million as per the ORSA as outlined in paragraph 2.28 below) thereby producing a CCR for TIDAC of 136%, i.e. TIDAC would have been characterised as a more than sufficiently capitalised company as at 30 June 2019 (again as per my classification range as defined in paragraph 6.5 the Report).

2.24 The figures for TIDAC as at 30 June 2019 as discussed above are summarised in column (1) of Table 2.3 below.

2.25 The business anticipated for renewal from TICL into (and the new business projected to be written by) TIDAC (as per the original financial forecasts submitted to the CBI as part of the authorisation process) has been amended following: (1) the revision/finalisation of the TICL (and hence TIDAC) business plans for 2019 (with a knock-on impact for the 2020 and 2021 forecasts), in each case allowing for the anticipated renewal of a relatively substantial volume of Solicitors Professional Indemnity accounts directly in to TIDAC utilising its UK branch (with around 70% of such renewals expected during the fourth quarter of 2019), rather than in to TICL as originally planned; and (2) the delay in moving the Transferring Business from TICL to TIDAC (originally planned for end-March 2019). I consider the impact of these changes to the TICL and TIDAC business plans for 2019 (and 2020 and 2021) in paragraphs 3.14 to 3.18 inclusive below.

2.26 I have liaised with Michael John Gent ("MJG"), the Chief Financial Officer for TRV in Europe, and a Director of TICL, on the expected volumes of business to be renewed in to TIDAC during the six month period from end-March 2019 to the (postponed) Effective Date, expected to be 1 October 2019, (together with the effect of the delay in moving the Transferring Business from TICL to TIDAC). I note that the aforesaid expected volumes of business (i.e. gross written premiums of circa €36 million, of which around €14 million is Solicitors Professional Indemnity accounts) are ahead of those forecast in the original TIDAC business plan for 2019. Nonetheless, allowing for the Whole Account Quota Share Reinsurance Contract (the "WAQS", as outlined in paragraph 4.97 of the Report, and discussed further in paragraphs 5.16 to 5.21 inclusive below), the additional volume of business expected over the six-month period to 1 October 2019 (i.e. net written premiums of less than €3 million) together with the delay in moving the Transferring Business, are not forecast neither to impact significantly the trading performance of TIDAC over the said six-month period to the Effective Date, nor to change materially the financial resources of TIDAC (initially capitalised at €35 million with the additional Capital Contribution totalling €30 million paid on 9 September 2019).

2.27 I further note (as per paragraph 2.4 above) that TIDAC received the Capital Contribution (in the form of bonds) from TICL (in the amount of €30 million) to augment the financial resources available to meet policyholder liabilities, as further explained in paragraph 5.24 below. The Capital Contribution was approved by the respective boards of TICL and TIDAC, and was made on 9 September 2019 (as confirmed in the second witness statement of MJG made on 10 September 2019 (and in Appendix B). To illustrate the effect of the Capital Contribution (totalling €30 million), I show in column (1) of Table 2.3 below, the booked financial position of TIDAC as at 30 June 2019 (i.e. pre Capital Contribution), and in column (2) of Table 2.3 the pro-forma view had the Capital Contribution been made on said date (i.e. post Capital Contribution).

[8]The increase in EOF of €0.6 million is made up of trading profits (together with unrealised gains on investments) of €0.2 million (in the period to 30 June 2019) plus Solvency II adjustments of €0.4 million (arising from the alternate treatment of assets and liabilities under Solvency II relative to their treatment under GAAP as outlined in Appendix H of the Report).

Table 2.3

Selected Financials for TIDAC

€m	As at 30 June 2019 (1)	As at 30 June 2019 post Capital Contribution (2)
GAAP		
Assets	81.1	111.1
Liabilities	44.5	44.5
Net Assets	36.6	66.6
Gross Written Premiums	26.0	26.0
Solvency II		
Own Funds	37.0	67.0
Solvency Capital Requirement (SCR)[1]	27.2	30.7
Capital Cover Ratio (CCR)	136%	218%

[1]The SCR represents the estimated capital requirement had the Scheme been implemented as at 30 June 2019, and for column (2) also includes the effect of the increased business volumes anticipated over 2019 - 2021(see paragraph 2.25 above).

2.28 I have also been provided with TIDAC's recently prepared (out-of-cycle) ORSA (dated August 2019). This analysis includes updated testing of the ability of TIDAC to withstand adverse performance (using stress tests) on a forward-looking basis allowing for the increased business volumes (as outlined in paragraph 2.25 above) and receipt of the Capital Contribution of €30 million (as outlined in paragraph 2.27 above). From this I have satisfied myself that the stress (and reverse stress) tests contained in the aforesaid ORSA continue to reflect the nature and size of the risks faced by TIDAC and are a reasonable representation of the downside risk of the portfolio, notwithstanding the business plan changes. I discuss the results of the aforesaid ORSA in paragraph 3.17 below.

2.29 ***I have considered the updated financial information of TIDAC, including the impact of the recent trading performance (and the Capital Contribution outlined in paragraph 2.27 above), and have identified no matters arising that would materially change the findings of the analysis that support the conclusions in the Report.***

Travelers

2.30 I have been provided with the audited accounts (Form 10-K) for Travelers as at 31 December 2018 (and unaudited First Half 2019 results). Table 2.4 below summarises the assets, technical reserves (i.e. gross loss and loss adjustment expense reserves plus unearned premium reserves) and financial ratios for Travelers as at 31 December 2017 (the financial position as per the Report) and 31 December 2018. I also note that Travelers reported post-tax profits for the twelve months to 31 December 2018 of $2.5 billion.

Table 2.4

Changes in Financial Accounting Ratios for Travelers

	As at 31 December 2017	As at 31 December 2018
$bn		
Net Assets	23.7	22.9
Total Assets	103.5	104.2
Technical Reserves	62.6	64.2
Ratios		
Net Assets : Total Assets	23%	22%
Net Assets : Technical Reserves	38%	36%

2.31 Table 2.4 above shows financial ratios as at 31 December 2018 that are broadly consistent with those generated as at 31 December 2017 (the financial position as per the Report). I also note that Travelers' First Half 2019 results, show that Travelers enjoyed net income[9] of $0.5 billion over the six-month period to 30 June 2019, resulting in a commensurate increase in net assets to $23.4 billion. ***As such, based on this additional information, I see no need to revise any of the conclusions that I set out in the Report in relation to Travelers***.

SPF&M

2.32 I have been provided with the audited Annual (and unaudited Half Year) Statements (containing balance sheet and revenue accounts) for SPF&M as at 31 December 2018 (and as at 30 June 2019). Table 2.5 below summarises the assets, technical reserves (i.e. net loss and loss adjustment expense reserves plus unearned premium reserves) and financial ratios for SPF&M as at 31 December 2017 (the financial position as per the Report) and 31 December 2018. I also note that SPF&M generated overall income in the twelve months to 31 December 2018 of $337.3 million (after dividends to shareholders of $255.0 million).

Table 2.5

Changes in Financial Accounting Ratios for SPF&M

	As at 31 December 2017	As at 31 December 2018
$bn		
Net Assets	5.4	5.7
Total Assets	18.7	19.5
Technical Reserves	12.2	12.6
Ratios		
Net Assets : Total Assets	29%	29%
Net Assets : Technical Reserves	44%	45%

2.33 Table 2.5 above shows financial ratios as at 31 December 2018 that are consistent with those generated as at 31 December 2017 (the financial position as per the Report). I also note that SPF&M's Half Year Statement as at 30 June 2019, shows that SPF&M made a dividend payment to shareholders of $363 million largely offsetting net income/gains over the six-month period to 30 June 2019, resulting in a static net assets position of $5.7 billion ***As such, based on this additional information, I see no need to revise any of the conclusions that I set out in the Report in relation to SPF&M***.

[9] Net income is made up of retained earnings of $1.4m plus shares issued of $0.2m offset by dividends paid of $0.4m and shares repurchased of $0.7m.

3. FURTHER CONSIDERATION OF THE TRANSFERRING BUSINESS

Quantum of Transferring Business

3.1 In the Report, I considered the business that is proposed to transfer to TIDAC. In particular, I considered the amount of the technical provisions transferring (together with the financial forecasts for TICL and TIDAC in 2019, 2020 and 2021).

3.2 The expected amount of net liabilities (unearned premiums plus case reserves plus IBNER/IBNR provisions) to be assumed by TIDAC in relation to the Transferring Business on the Effective Date (expected to be 1 October 2019) has been updated to £109 million prior to the operation of the WAQS to reflect the business written and claims incurred for the six months (April 2019 – September 2019 inclusive) prior to being moved under the Scheme. Therefore, the net liabilities (unearned premiums plus case reserves plus IBNER/IBNR provisions) transferring to TIDAC have reduced by circa 20% relative to that estimated and used in the Report (see Table 5.3 therein). This reduction is driven by the fact that the Transferring Business will, in essence, have been in run-off in TICL for six months prior to being moved to TIDAC, rather than as originally intended moved at the point at which new business and renewals commenced to be written in TIDAC.

3.3 I note, as per paragraph 2.14 above, that there was an estimated £1.9 million adverse net reserve movement for TICL's non-core business during 2018 (mainly due to strengthening of specific IBNER provisions for the European run-off portfolio) and that the said European run-off portfolio will form part of the Transferring Business. I have therefore looked into the reasons for this adverse movement and whether it requires me to change any of my conclusions for TIDAC based on this updated information.

3.4 The TICL Actuarial Reserving team has undertaken a reserve review of the European run-off portfolio (i.e. the French, German and Dutch run-off branches) as at 30 September 2018 (using data as at 30 June 2018 supplemented with claim updates in the 3 months to 30 September 2018) and has prepared a short report (the "Memo") which forms an appendix to the main TICL 2018 Reserve Report as at 30 September 2018.

3.5 The Memo gives a reserve estimate on an undiscounted actuarial central estimate basis in respect of the IBNR (including IBNER) claims for the European run-off portfolio. The analysis was undertaken on a claim by claim basis (in collaboration with the local claim manager for this portfolio) to generate specific IBNER reserves for certain claims (to reflect possible future case reserve movements) and a bulk IBNR by country for the possibility of additional future claims development over and above the latest case reserves. Moreover, a management uplift above the actuarial central estimate was added to bring the reserves within the reserve risk appetite range[10] of TICL (and hence TIDAC).

3.6 Given, as at 30 September 2018, the maturity of the European run-off portfolio (in run-off for over 17 years), the small number of open claims (circa 60) and the size of the annual movement in claims (net incurred increased by €1.2 million), TICL has used reserving techniques (as outlined in paragraph 3.5above) that I believe are in line with normal market practice to estimate the IBNR (including IBNER) reserves for this portfolio. Further, I interpret the point estimate, as outlined in paragraph 3.5 above, as conceptually equivalent to the mean (average) value of the IBNR (including IBNER) claims, and therefore on a basis higher than a 50% confidence level[11] (as the claim distribution is expected to be positively skewed[12]). Nonetheless, I note that there remains significant uncertainty as to the ultimate outcome of the European run-off portfolio due to the long-tail nature of the business, and potential changes to the legal environment that could impact the quantum of open claims.

[10] The reserve risk appetite for TICL is for reserves to be adequate 60% - 75% of the time based on the actuarial range of possible outcomes.

[11] A 50% confidence level, in relation to the claim reserve, is the likelihood that the claim reserve estimate will prove adequate to meet the corresponding claims in half of the outcomes. For a symmetrical claims distribution the average corresponds to the 50% confidence level.

[12] A claims distribution of potential losses is said to be positively skewed as the loss cannot be less than zero, but can be many times larger than the average loss (alternatively, this may be viewed as a distribution of potential losses having a higher frequency of lower value losses, and a lower frequency of higher value losses, e.g. observed losses of: 1, 2, 3, 4, 100).

3.7 Therefore, while the European run-off portfolio moving to TIDAC has a high degree of uncertainty attached to its ultimate outcome, I consider the reserves have been established with a confidence level of greater than 50%. As such**,** I see no need to change any of the assumptions as set out in the Report in relation to the reserves to be established for the European run-off portfolio moving to TIDAC based on the additional information contained in the Memo.

3.8 I further note, as per paragraph 2.17 above, that there was an adverse net reserve movement for TICL's Irish branch business (due to a deterioration in the emerging claims experience) during the first half of 2019 and that the said Irish branch business will form a large part of the Transferring Business. I have therefore looked into the causes for this adverse movement (as described below) and have considered whether it requires me to change any of my conclusions for TIDAC based on this updated information.

3.9 The reserving methodology employed by the TICL Actuarial Reserving team in general, and hence also in relation to the Irish branch business, is described in the Report (see paragraphs 6.6 – 6.16 inclusive therein). The reserving techniques used are, I believe, in line with normal actuarial practice to estimate undiscounted claims reserves for such business. Further, I interpret the reserves so estimated to be on the basis of an Actuarial Central Estimate, which is conceptually similar to the mean (average) value of the claims reserve. Nonetheless, I note that there remains uncertainty as to the ultimate outcome of the Irish branch business due in large part to the long-tail nature of the liability business (written in the Irish branch), bodily injury claims (arising from motor and liability risks), and potential changes to the legal environment that could impact claims.

3.10 Nonetheless, I take comfort that a management uplift over and above the Actuarial Central Estimate is added to bring the claims reserves within the reserve risk appetite range of TICL (and hence TIDAC). Therefore, while (as I note in paragraph 3.9 above), the ultimate outcome of Irish branch business moving to TIDAC remains uncertain, I believe that the reserves to be established for the Irish branch business moving to TIDAC will be set at a confidence level greater than 50%, and will make an appropriate allowance for the emerging claims activity up to the Effective Date. As such, based on the additional information contained in the TRV Actuarial Reserve Previews for Q1 2019 and Q2 2019, I see no need to change any of the assumptions set out in the Report in relation to the reserves established for the Irish branch business moving to TIDAC.

3.11 Moreover, assets (including the associated reinsurance arrangements) equal to the estimated gross claims reserve (determined as outlined above) together with the gross UPR for the Transferring Business will move to TIDAC on the Effective Date. Thus, on the Effective Date, TIDAC will receive assets in relation to the Transferring Business of equivalent value to the sum of the UPR and claims reserve (the latter expected to be adequate to meet all claims with a confidence level greater than 50% and augmented by the management uplift on top of the Actuarial Central Estimate).

3.12 Furthermore, in the Report (see paragraph 6.81 therein), I considered the impact on TIDAC of potential adverse stresses in the near to medium term. In particular, I considered a 50% increase in gross technical provisions. However, since I completed the Report, I am informed by TRV that, as described in paragraph 5.23 below, TIDAC will not proceed with the stop-loss (re)insurance arrangement (as outlined in paragraph 5.22 below) but, instead, has received the Capital Contribution of €30 million from TICL (on 9 September 2019) and as per paragraph 3.16 below, will write a substantially higher volume of business than originally planned (and reviewed in the Report). I have therefore reassessed the adverse stress test of a 50% increase in gross technical provisions in this light (see sub-paragraph 5.24 (3) below) and find that TIDAC's own funds remain positive (i.e. assets greater than liabilities) over the projection period 2019 – 2021.

3.13 ***Overall, I see no matters arising from the updated quantum of business transferring under the Scheme to TIDAC that would cause me to change any of my conclusions based on the updated information***.

Resources of the Companies (post-Scheme)

3.14 As mentioned in paragraph 3.12 above, TRV has updated the original business plan and financial projections for the Companies to reflect the revision of the 2019 business plan for TICL (and hence TIDAC) together with a knock-on impact for 2020 and 2021. The projections include, among other items, forecast Own Funds and SF SCR for each of the Companies on pre- and post-Scheme bases.

3.15 Overall, the changes to TICL's original (pre- and post-Scheme) financial forecasts (dated 2 August 2018) result in TICL's updated forecast net written premiums ("NWP") for 2019, 2020 and 2021 each increasing by 2% relative to the corresponding NWP contained in the aforesaid original business plan financial forecasts. The increases are essentially a result of moving a number of Solicitors Professional Indemnity accounts from the TRV Lloyd's platform (i.e. the Syndicate) to the TRV company platform (i.e. TICL and, to the extent that they contain non-UK EEA risks, TIDAC). In addition, TRV has adjusted TICL's forecast investment gains position to give a more conservative view relative to that contained in the original (pre- and post-Scheme) financial forecasts (dated 2 August 2018). Overall, the changes in TICL's business plan result in more conservative financial forecasts (driven in large part by the revised assumption on investment gains) relative to those contained in TICL's aforesaid original business plan financial forecasts. Nonetheless, TICL is projected to continue making operating profits in each year (2019, 2020 and 2021), albeit at around 50% of the average level (over the three year period 2019 – 2021) as compared to that contained in TICL's original (pre- and post-Scheme) financial forecasts (dated 2 August 2018).

3.16 As described in paragraph 2.25 above, there have been changes to TIDAC's original financial forecasts (as submitted to the CBI as part of the authorisation process) following the revision/finalisation of the TICL (and hence TIDAC) business plan(s) for 2019 (including a knock-on impact for the 2020 and 2021 forecasts). I also note that, within the overall volumes of business projected to be written by TIDAC, the proportions of future business written through its UK branch will be influenced by client preference (e.g. ease of access to London market expertise). In practice, TRV has substituted the 2019 financial forecast (as submitted to the CBI as part of the authorisation process) with the revised 2019 plan and has then updated the 2020 and 2021 forecasts accordingly. Overall, the changes for TIDAC are substantial, with revised forecast NWP for 2019, 2020 and 2021 increasing on average by over 80% relative to that contained in TIDAC's aforesaid original financial forecasts, due to the additional volume of Solicitors Professional Indemnity accounts (as well as potential EEA financial lines) renewing directly in to TIDAC rather than TICL (albeit on a net basis this amounts to roughly €8 million a year).

3.17 As mentioned in paragraph 2.28 above, TRV has recently prepared an out-of-cycle ORSA for TIDAC so as to review the impact of the updated business plan on TIDAC's risk profile; confirm (or otherwise) that the Capital Contribution (totalling €30 million) is sufficient to support the new risk profile; and review/update the stress testing/scenarios. Based on my review I am satisfied that the out-of-cycle ORSA adequately reflects the risks and capital requirements for TIDAC following the change to the business plan and that the financial projections included in the ORSA report are appropriate. Specifically, I find:

- the revised business plan is suitable for use in the out-of-cycle ORSA and in determining TIDAC's overall solvency needs (as discussed further in paragraph 3.18 below);
- the change to the business plan, and hence the risks considered are limited to new risks, in the main those arising on Solicitors Professional Indemnity accounts (accordingly my review was similarly limited in scope). Overall, I am satisfied with the changing risks captured in the out-of-cycle ORSA report;
- the new stress scenario models multiple losses from a single event on the Solicitors Professional Indemnity book (based on the three largest claims in TRV experience and this aggregation, based on the volume of TICL experience over a sufficiently long period of time) is severe enough to address the risks currently faced by TIDAC;
- the stress scenarios in the original ORSA (accompanying the application for the authorisation of TIDAC by the CBI) continue to reflect the nature and size of the risks faced by TIDAC and are a reasonable representation of the downside risk of the portfolio, notwithstanding the business plan changes;
- the reverse stress tests in the original ORSA continue to be suitable to examine scenarios under which TIDAC would be unable to meet all of its policyholders' claims without recourse to additional capital support from TICL; and
- the financial projections included in the out-of-cycle ORSA have been prepared by the TRV Capital Modelling team with input from the TIDAC Actuarial function. I am therefore satisfied that they have been carried out at a sufficiently detailed level with assumptions provided by the relevant TRV teams.

3.18 I have compared the revised projections (as also used in the recently completed ORSA) with those used in my original analysis (and liaised with the Chief Financial Officer for TRV in Europe, who is a Director of TICL, on the said revised projections) in order to identify if the conclusions in the Report would change. I note that:

- TICL's financial resources have increased in both monetary and CCR terms over the six-month period from 31 December 2018 (the closest accounting date to when the Report was finalised on 10 December 2018) through to 30 June 2019, i.e. from £466.8 million (CCR = 167%) to £506.9 million (CCR = 182%). The aforesaid increase in EOF is essentially a function of TICL's trading profit in the six-month period plus the capital contribution from TRV received in May 2019 (as outlined in paragraph 2.2 above). Thus, TICL would have been characterised as a well-capitalised company over the six-month period to 30 June 2019 (as per paragraph 2.6 above);
- TIDAC's financial resources have been quite stable over the period from its authorisation by the CBI (in late-January 2019) through to 30 June 2019, with a steady CCR of circa 136%, and as such, would be characterised as a more than sufficiently capitalised company (as per paragraph 2.23 above) over said period;
- The revised financial forecasts are consistent with my understanding of the changes to the business plans for the Companies over the projection period (2019 – 2021). In particular, the additional volume of Solicitors Professional Indemnity accounts (as well as potential EEA financial lines) renewing directly in to TIDAC rather than TICL (as originally planned);
- The delay (of circa 6 months) in moving the Transferring Business from TICL to TIDAC is not material to the updated financial forecasts for the Companies; and
- The updated (Solvency II) Own Funds and SF SCR and consequent CCR (which acts as a proxy for implied capital adequacy) for TICL (post the capital contribution as outlined in paragraph 2.4 above) are greater than those I considered when preparing the Report, essentially because of the aforementioned capital contribution . As such, the increase in the CCR for TICL (see paragraph 5.24 below) infers greater capital adequacy than that prior to the aforementioned capital contribution; and
- The updated (Solvency II) Own Funds and SF SCR and consequent CCR for TIDAC (post the Capital Contribution as outlined in paragraph 2.27 above) are greater than those I considered when preparing the Report, essentially because of the aforementioned Capital Contribution. As such, the increase in the CCR for TIDAC (see paragraph 5.24 below) infers greater capital adequacy than that prior to the Capital Contribution.

3.19 ***Given the above particulars, I identify no matters arising from the updated financial projections that would give me cause to change my conclusion on the impact of the Scheme on the levels of security of each affected policyholder group (as identified in paragraphs 2.10 and 2.11 of the Report)***.

4. THE IMPACT OF THE SCHEME ON THE CURRENT TIDAC POLICYHOLDERS

4.1 Under the Scheme, the existing policyholders of TIDAC will remain in TIDAC in the same position as prior to the Effective Date of the Scheme. The main effect of the Scheme on these TIDAC policyholders arises from the transfer into TIDAC of the Transferring Business currently in the Irish, French, Dutch and German branches of TICL.

4.2 As noted in paragraph 2.20 above, TIDAC only commenced underwriting business from end-March 2019 and as at the Effective Date of the Scheme will have only a limited portfolio of existing insurance business. As at 30 June 2019, the gross technical provisions for TIDAC as recorded in its QRT submitted to the CBI amounted to €2.9 million; and as at 31 July 2019, as informed to me by TRV, TIDAC held roughly €5m of gross technical provisions in respect of approximately 4,000 policyholders.

4.3 The Transferring Business will be relatively large compared to the existing portfolio on a gross of reinsurance basis, but will be 80% reinsured back to TICL via the WAQS (as outlined in paragraph 4.97 of the Report, and discussed further in paragraphs 5.16 to 5.21 inclusive below). Therefore, while TIDAC's SCR will increase as a result of the Scheme, the size of the increase will be largely mitigated via the operation of the WAQS. Nonetheless, as TIDAC was initially capitalised at €35 million, and received the Capital Contribution of €30 million on 9 September 2019 (as per paragraph 2.27 above), it is forecast to be a well-capitalised company (on the boundary of very well-capitalised) over the projection period (2019 – 2021), notwithstanding the increased business volumes (see paragraph 3.16 above). Therefore, I do not believe that the financial security of the existing TIDAC policyholders will be materially adversely affected as a result of the Scheme.

4.4 I note that the risk exposures within TIDAC will broaden as a result of the Scheme, but also that the Transferring Business (other than the business of the French, Dutch and German branches that have all been in run-off for many years) is of the same type (other than the Solicitors Professional Indemnity accounts, see paragraph 2.25 above) that is expected to be underwritten by TIDAC going forward.

4.5 I also note that the Scheme essentially has the effect of combining the business written historically by the Irish branch of TICL with the same business written from end-March 2019, but on behalf of TIDAC.

4.6 As indicated in the Report (see paragraph 4.105 therein) TIDAC has entered into an inter-company services agreement with TML (that was executed by the parties at end-March 2019, i.e. before TIDAC started trading and ahead of the delayed Effective Date). Under the services agreement TIDAC has access to services provided by TML to all of Travelers European subsidiaries, including TICL, viz. IT systems, support services and controls. Thus there will be no change to the services provided by TML to TIDAC, including the administration/policy servicing enjoyed by the existing TIDAC policyholders, as a result of the Scheme.

4.7 ***For the reasons discussed above, I am satisfied that the Scheme will not have a materially adverse effect on the security or service levels of the existing TIDAC policyholders***.

5. OTHERS MATTERS

Regulatory Approvals and Supervision

5.1 TRV has confirmed to me that TIDAC received a certificate of authorisation from, and was authorised by, the CBI with permissions to carry out contracts of non-life insurance in classes of business (investment types) 1, 5 to 13, 15 and 16 inclusive with effect from 28 January 2019.

5.2 TRV has confirmed to me that TIDAC filed with the CBI its notifications to pursue insurance business by way of a branch establishment in the UK. I am also informed by TRV that the CBI filed the notifications with the host Member State regulator (in February 2019). On 28 February 2019, TRV/TIDAC received confirmation (via a letter attached to an e-mail) from the PRA of the establishment of the TIDAC pass-ported UK branch in the classes of business specified in paragraph 5.1 above save for class 10. (I also noted in the Report, see sub-paragraph 2.28.3 therein, that TIDAC plans to establish, if necessary, a third country branch in the UK, subject to approval from the PRA, on or before the end of the Brexit Transition Period or expiry of any temporary permissions regime. I also noted that I did not anticipate that TIDAC would have received the necessary permissions and hence authorisation of its UK branch, established on a third country basis, at the time I completed my Supplemental Report, which is indeed the case.)

5.3 I noted in the Report (see paragraph 8.47 therein) that the prudential supervision of TIDAC might change following the Scheme. I am informed by TRV that the CBI will be the sole prudential supervisor for TIDAC and the prudential supervisor for its UK branch. Nonetheless, I note that in the letter attached to an e-mail from the PRA to TRV (as per paragraph 5.2 above) the PRA has stated that it will collaborate closely with the CBI regarding TIDAC's operations in the UK (and that the FCA will be the conduct regulator and oversee anti-money laundering controls in the UK). I separately noted in the Report (see paragraph 8.48 therein) that Solvency II has essentially harmonised prudential supervision across the EU (including the UK). As such, I continue to be of the view that the prudential regulatory regime in Ireland is unlikely to impact adversely the Transferring Policyholders to a material degree.

Financial Services Compensation Scheme ("FSCS")

5.4 In the Report (see sub-paragraph 2.14.8 therein) I referenced the PRA consultation document (CP26/18) issued in October 2018 that contains proposals relating to FSCS protection as regards Brexit. I note that in February 2019, the Bank of England / PRA Policy Statement (PS5/19) was issued, which sets out details of "near-final" amendments to the European Union (Withdrawal) Act 2018 (including responses to CP26/18).

5.5 In relation to policyholder protection, PS5/19 provides that:

- FSCS protection for insurance policies issued prior to Brexit (exit day) will be maintained as long as the insurer remains a 'relevant person' (which includes firms within the Temporary Permission Regime[13] or the "TPR"). I note that TIDAC is a TPR insurer. It appears, therefore, that access to the FSCS will be maintained in respect of Transferring Policyholders eligible for FSCS protection; and
- Alternatively, where an insurer transfers FSCS-protected insurance liabilities to an insurer without UK authorisation, FSCS protection will only be available for claims in respect of acts or omissions that arose before the transfer to the non-authorised successor. Therefore, if TIDAC, an Irish authorised non-life insurer, fails to get direct authorisation from the PRA for its UK branch on or before the TPR expires, the Insurance Compensation Fund (the "ICF") in Ireland (as outlined in paragraph 3.23 of the Report) will operate to protect those Transferring Policyholders eligible for ICF protection[14] following completion of the transfer under the Scheme.

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[13] Since I issued the Report, the pass-ported UK branch of TIDAC has been authorised (see paragraph 5.2 above). Furthermore, TIDAC has entered the TPR and thus has been deemed to have permission (to carry on regulated activities) for a period of three years from the date of Brexit (the UK's exit from the EU). Therefore, TIDAC (including its UK branch) is a TPR insurer, and will become a member of the FSCS, and by extension, eligible TIDAC policyholders will have access to FSCS protection (as outlined in paragraph 5.27 of the Report).

[14] The ICF and FSCS offer differing levels of protection as outlined in the Report (see paragraphs 3.9 and 3.23 therein).

Therefore, and notwithstanding that the ICF and FSCS offer differing levels of protection, I see no matters arising from PS5/19 in relation to access to the FSCS for those Transferring Policyholders eligible for FSCS protection that would cause me to change any of my conclusions based on the updated information.

The TCSCE Transfer

5.6 I noted in the Report (see paragraph 4.56 therein) the TCSCE Transfer whereby the entire business of TCSCE is to be transferred to TICL. This transfer was sanctioned by the Court at a hearing on 18 February 2019, and became effective on 28 February 2019 without any changes. I have therefore not identified any matter that would cause me to perform additional analysis or lead me to revise the conclusions set out in the Report (including, for the avoidance of doubt, that contained in paragraph 4.60 of the Report, i.e. the TCSCE Transfer will not materially affect the policyholders of TICL).

5.7 I also noted in the Report (see paragraph 4.59 therein) that there was one Surety Bond (the "Bond"), written by TCSCE on a FoS basis in Ireland that will move to TICL under the TCSCE Transfer. As stated in paragraph 5.6 above, the TCSCE Transfer has now been implemented, and, as such, the Bond is now part of the Transferring Business moving from TICL to TIDAC under the Scheme.

5.8 I am informed by TRV that the Bond expires in 2019, and no claims have been made under the Bond (including within the limitation period following the end of the policy duration of the Bond). Furthermore, the holder of the Bond has been notified of the Scheme (as outlined in sub-paragraph 5.27 (9) below). As such, I have not identified any matter that would cause me to perform additional analysis or lead me to revise the conclusions set out in the Report.

Transferring Reinsurance Arrangements

5.9 TRV intends to modify the outwards reinsurance arrangements that currently provide reinsurance protection to the business written by TICL. Therefore, after the modification of reinsurance is completed, there would be no material change to the reinsurance protecting the business written by TICL (including that transferred to TIDAC).

5.10 I noted in the Report (see paragraph 8.14 therein) that TRV has reached an internal agreement in principle to proceed with modifications with those reinsurers of TICL that are part of the Travelers Group. These agreements have now been formally recorded in legally binding documents. There are, however, a number of reinsurers of TICL that are external to the Travelers Group.

5.11 In relation to this external reinsurance, I am informed by TRV that it has carried out a review of certain outwards reinsurance agreements covering the Irish portfolio within the Transferring Business – in particular, the property treaties for 2018 and the casualty treaties for 2015. Of the contracts sampled in both years, all were found to be subject to English governing law. Further, I am informed by TRV that its reinsurance team expect all treaties to be subject to English law.

5.12 To the extent that outwards reinsurance is governed by English law, TIDAC and TICL can rely on the Court recognising that the Scheme provides that the reinsurance will cover:

- TIDAC, to the extent that the underlying business will be (re)insured by TIDAC following the Scheme; and
- TICL, to the extent that the underlying business will be (re)insured by TICL following the Scheme.

In each case without any further step (such as obtaining a consent from a reinsurer) needing to be taken.

5.13 The result of the points made above is that TRV believes that the Order made under the Scheme will be effective across the external reinsurance programme. I also note that, as set out in the second witness statement, all reinsurers have been notified of the transfer under the Scheme.

5.14 While the risk of loss of outwards reinsurance is essentially mitigated for TIDAC and TICL for the reasons set out in paragraphs 5.10, 5.11 and 5.12 above, there is a risk that TRV might fail to reach agreement to endorse TIDAC onto all of the historical reinsurance contracts that currently provide protection to the business bound with TICL that transfers to TIDAC. Nonetheless, as set out in the Report (see paragraph 6.81 therein), I have considered the impact on TIDAC of a potential adverse stress in the near to medium term in order to assess the impact of a 10% reduction in TIDAC's reinsurance asset. However, as outlined in paragraph 3.12 above, TIDAC will not proceed with the stop-loss (re)insurance arrangement, but instead received the Capital Contribution of €30 million from TICL (prior to the implementation of the Scheme). I have therefore reconsidered the impact of the adverse stress test of a 10% reduction in TIDAC's reinsurance asset in this light, but also that of the increased volumes of business forecast to be written by TIDAC (see sub-paragraph 5.24 (3) below). I find that the results indicate that TIDAC would continue to meet its Solvency II regulatory capital requirements (with a CCR of between 120% and 150%) under this severe stress scenario throughout the projection period (2019 – 2021).

5.15 In light of the above, I have identified no significant matters that would cause me to change my conclusion regarding the effect of the Scheme on the levels of security afforded to those Transferring Policyholders relating to the possible failure of TRV to reach agreement to endorse TIDAC onto all of the historic reinsurance contracts currently providing protection to the business bound within TICL that transfers to TIDAC.

Whole Account Quota Share Reinsurance Contract between TICL and TIDAC

5.16 I have received draft copies of the (80%) Whole Account Quota Share Reinsurance Contract and the Collateral Agreement, both as furnished to the CBI, and note that the certificate of authorisation (see paragraph 5.1 above) was provided by the CBI on the basis of these drafts.

5.17 I further note that the terms of the WAQS (and the Collateral Agreement) have been updated/amended subsequent to the authorisation of TIDAC by the CBI (and hence as reviewed in the Report). Accordingly, I have compared the terms of the updated WAQS (and Collateral Agreement) with those used in my original analysis (and liaised with the General Counsel, Europe of TRV on the said updated WAQS and Collateral Agreement) in order to identify if the conclusions in the Report would change.

5.18 In relation to the WAQS treaty (and the Collateral Agreement) between TIDAC and TICL, I note that, other than minor drafting changes to the WAQS (and the Collateral Agreement), the changes are as follows:

(1) the Loss Settlements and Cash Loss Limit clauses of the WAQS have been amended so that, for the avoidance of doubt, claims (and related expenses) can and will (provided sufficient funds exist) be paid directly to TIDAC from the Escrow Account, subject to the terms of the Collateral Agreement. Likewise, the terms of the Collateral Agreement have been amended, again for the avoidance of doubt, to enable the direct payment of claims (and related expenses) to TIDAC from the Escrow Account;

(2) the terms of the WAQS have been amended to include a dispute resolution clause whereby both parties (TICL and TIDAC) agree to try in good faith to settle any dispute by non-binding mediation, before resorting to arbitration. In addition, a new schedule has been inserted in the Collateral Agreement that sets out a further dispute resolution mechanism to deal with the situation where TIDAC and TICL cannot agree (per Accident Year) on the amount of assets in excess of liabilities ("Surplus") in the Escrow Account available to TICL;

(3) as the WAQS incepted on 30 March 2019 (see paragraph 5.20 below), i.e. ahead of the implementation of the proposed Scheme, an endorsement has been added whereby the parties agree upon the Effective Date to endorse the WAQS to confirm that the Transferring Business is duly reinsured by TICL on the terms of the WAQS as and from the Effective Date (i.e. the date on which the Transferring Business will move from the TICL to TIDAC); and

(4) the termination provisions of the Collateral Agreement have been amended to deal with the situation of TIDAC's insolvency (so as to allow TICL to withdraw Surplus from the Escrow Account). Furthermore, the termination events contained in the WAQS have been included in the Collateral Agreement, so that the two agreements are mutually consistent.

5.19 The amendments to the WAQS (and the Collateral Agreement), as outlined above, provide for more thoroughly worded contracts and ones that, in my view, will operate more smoothly in practice. The TRV General Counsel, Europe has also confirmed to me that the PRA has reviewed the amendments to the WAQS and Collateral Agreement. The operation (and financial effect) of the WAQS (in concert with the Collateral Agreement) remains consistent with that intended and outlined in the Report (see paragraphs 4.97 to 4.103 inclusive therein).

5.20 I am informed by TRV that the WAQS incepted on 30 March 2019, i.e. to facilitate the commencement of TIDAC renewing business from TICL (and writing new business) from end-March 2019 (as per paragraph 2.20 above.

5.21 ***Given the above particulars, I identify no significant matters arising from the updated Whole Account Quota Share Reinsurance Contract (and Collateral Agreement) that would give me cause to change my conclusion regarding the effect of the Scheme on the levels of security afforded to the policyholders of TICL (be they Non-Transferring Policyholders or Transferring Policyholders)***.

Changes to the Capitalisation of TICL and TIDAC

5.22 At the time of preparing and finalising the Report, TRV provided me with draft terms for the Stop-Loss (re)insurance arrangement that was planned to operate post-Scheme between TICL and TIDAC (the "Stop-Loss"). Under the Stop-Loss, TIDAC would make an "arms-length" (commercial) premium payment to TICL at outset (and as further determined on each subsequent renewal), and, in return would, seek a "recovery" (from TICL) from an event (or events) that resulted in TIDAC's Own Funds falling below its SCR, which would restore TIDAC's CCR to 100% (subject to a maximum "recovery" of €10 million in any one policy year).

5.23 However, since I completed my Report, TRV has informed me that:

- Travelers contributed $44 million of capital to TICL on 15 May 2019 (equivalent to broadly £34 million or €38 million, using the exchange rates given in paragraph 1.5 above). From this capital amount, on 9 September 2019, TICL contributed, as bonds, €15 million (representing half of the Capital Contribution) to TIDAC, and the remainder was pledged at Lloyd's to support the underwriting activity of the Syndicate;
- It will not proceed with the Stop-Loss (as outlined in paragraph 5.22 above) to provide additional security (over and above the initial capital resources of €35 million held within TIDAC) as per paragraph 2.14 of the Report, but instead rely on the Capital Contribution to augment directly TIDAC's financial resources to meet policyholder liabilities (including those of the Transferring Business).

I note (as per paragraph 2.25 above) that TIDAC will enjoy increased volumes of business relative to that originally planned, and also the decision by TRV not to proceed with the Stop-Loss, both of which, all other things being equal, have potentially unfavourable capital implications for TIDAC. It is against this background that TRV has made the Capital Contribution from TICL into TIDAC (of €30 million) as discussed further elsewhere in this Supplemental Report.

5.24 Therefore, I have considered these changes to financial resources of TICL and TIDAC and whether they require me to change any of my conclusions. I find that:

(1) The additional capital contributed into TICL from Travelers, of broadly £34 million, will increase both TICL's net assets/own funds (by an equivalent amount) and SCR (because of the risks associated with the increased exposure to both TIDAC and Syndicate 5000). I have considered the revised projections of own funds and SCR for TICL (as prepared by TRV), and note that, post the aforesaid capital contribution, TICL would continue to be considered a well-capitalised company (with a CCR of circa 180%) over the projection period 2019 – 2021 inclusive. I note, however, that making allowance for the "haircuts" described in paragraphs 2.11 and 2.12 above, while TICL would continue to be considered a well-capitalised company, it would lie close to the lower boundary of my classification range (as defined in paragraph 6.5 the Report) with an adjusted CCR of circa 150% over the projection period 2019 – 2021;

(2) Likewise, the Capital Contribution into TIDAC from TICL, of €30 million (see paragraph 2.27 above), has increased both TIDAC's net assets/own funds (by an equivalent amount) and SCR (because of the increased market risk, and to a lesser extent counterparty default risk, associated with the cash/investments resulting from the additional funds of €30 million). In addition, TIDAC's SCR will increase further, because of the higher non-life insurance risk associated with the increased business volumes, higher counterparty default risk, associated with greater use of the WAQS, and higher operational risk associated with greater gross technical provisions. Based on the revised projections of own funds and SCR for TIDAC (as prepared by TRV), I note that, post the Capital Contribution, TIDAC would be considered a well-capitalised company (on the boundary of very well-capitalised, i.e. with a CCR of circa 200%) over the projection period 2019 – 2021 inclusive;

(3) Notwithstanding the results of TIDAC's out-of-cycle ORSA (as discussed in paragraph 3.17 above), I have also tested the impact of the Capital Contribution of €30 million (rather than the contingent benefit of the Stop-Loss) and the forecast higher business volumes on TIDAC's financial resources relative to the three stress tests I performed in the Report (see paragraph 6.81 therein). I have found that, in each stress scenario, TIDAC will continue to have assets considerably in excess of its liabilities (i.e. own funds remain strongly positive) over the projection period 2019 - 2021. Indeed, other than for the technical provisions stress test (i.e. a 50% increase in technical provisions), TIDAC is forecast to continue to satisfy its Solvency II capital requirements over the projection period 2019 – 2021 post stress[15] event. I summarise the results for each separate stress event occurring at end-2020 as shown in Table 5.1 below).

Table 5.1

TIDAC Capital Requirement Stress Tests for 2020

€m	Base[1]	Technical Provisions +50%	Reinsurance Asset -10%	Investments -25%
SCR	34.7	40.3	35.1	34.1
EOF	66.9	36.7	46.5	35.7
Surplus	32.2	(3.6)	11.4	1.6
CCR	193%	91%	132%	105%

[1]The EOF and SCR figures are as provided by TRV.

In relation to the technical provisions stress test, the CCR is forecast to fall to a level of circa 90% (i.e. less than 100%) in 2020 and 2021. I have estimated the additional capital required under this stress scenario to bring TIDAC back into compliance with its target capital (equivalent to, at least, 125% of its SCR, as outlined in paragraph 4.77 of the Report), across all years of the projection period (2019 – 2021), and note that the amount of additional capital required (circa €14 million/£13 million) is significantly less than the amount of adjusted capital (own funds after "haircuts") of circa £440 million projected to be held (at each year-end over the period 2019 – 2021) in TIDAC's immediate parent (i.e. TICL).

However, I further note that in the technical provisions stress test both the technical provisions and (adjusted) capital of TICL would also be impacted, because it reinsures 80% of the business of TIDAC under the WAQS. I estimate that the effect of this stress to be of the order of £100 million on the technical provisions and hence (adjusted) capital of TICL over the period 2019 – 2021.

[15] For the three stress tests I have performed, the conclusions rely on judgements regarding very remote scenarios (often estimated as being less likely than 1 outcome in every 200). As such, I do not believe it is appropriate to assume any degree of precision or reliability for such forecasts, their purpose is to provide estimates of the orders of magnitude on capital levels in the very remote scenarios considered.

Nonetheless, I have concluded that a further capital contribution should be a feasible approach (and could be actioned so that both TICL and TIDAC continue to meet their respective Solvency II capital requirements and target capital levels) for the following reasons:

- Over the period 2019 – 2021, TICL has projected own funds of circa £520 million relative to estimated SCRs of circa £280 million, i.e. “free” own funds of circa £200 million relative to TICL’s target capital level of (at least) 113% of its SF SCR (as per paragraph 4.47 of the Report, and as reiterated in TICL’s ORSA dated December 2018). I also note that TICL’s assets (as represented on its projected balance sheets) are predominantly tradeable/liquid bonds and cash. Thus, and notwithstanding that TICL has contributed additional capital (totalling €30 million) to TIDAC ahead of the final Court hearing to sanction the proposed Scheme (scheduled for 20 September 2019), there is projected to be a sufficient amount of readily realisable capital in TICL that it can further contribute capital to TIDAC.

- In the event that TICL were to suffer a capital reduction at the same time as TIDAC (e.g. a scenario such as a 50% deterioration in TIDAC’s technical provisions as examined above) then to the extent that TICL also needed to replenish its capital, the Companies would have the following two more immediate options to mitigate any capital shortfall(s) in the future:

  - *Requesting financial support from Travelers Group companies*. Given the size of TICL (net assets of circa \$0.6 billion) relative to the wider Travelers Group companies net assets of circa \$23 billion), it is reasonable to believe that the wider Travelers Group companies would be likely to be able to support TICL and hence TIDAC to remain above regulatory capital requirements, and that it would be in the interests of the Travelers Group to do so in order to protect its reputation; and

  - *Reducing its premium income*. In the event that no capital support were provided by other companies within the wider Travelers Group, TICL and/or TIDAC (with or without regulatory intervention) could elect to reduce or, in an extreme case, cease underwriting and run-off their liabilities. Since prospective underwriting forms a significant part of the risks faced by TICL and TIDAC, and the duration for the bulk of its liabilities is relatively short, this would help TICL and/or TIDAC improve its capital position to cover its SCR relatively quickly.

The above analysis enables me to conclude that the Companies would be able to withstand a range of plausible adverse scenarios, meet policyholder claims as they fall due, and have realistic and achievable options available to them to restore their respective financial resources or amend their business plans to a level to enable them to continue trading.

(4) In my *quantitative* tests of the standalone financial strength of TICL and TIDAC pre- and post-Scheme (in Sections 6 and 7 of the Report and) in this paragraph 5.24 I have not taken any explicit account of the benefit of the SPFMG. I consider this to be a reasonable approach, because the SPFMG is a guarantee to meet claims of policyholders of TICL in the event that TICL proves unable to do so in a timely fashion, but it is not an eligible component of TICL’s own funds (under Solvency II) when determining the financial resources available to enable it to meet its regulatory capital requirements. I have, nonetheless, taken account of its benefit *qualitatively* when considering the wider security protecting policyholders pre- and post-Scheme.

Based on my updated review of the EOF of the Companies as set out above, I am of the view that:

- TICL is a well-capitalised company and forecast to be a well-capitalised company on the Effective Date following the implementation of the Scheme, and this status is projected to continue in the near term thereafter (i.e. 2019 – 2021);

- TIDAC is a well-capitalised company (close to the boundary of very well-capitalised) and forecast to be a well-capitalised company (close to the boundary of very well-capitalised) on the Effective Date following the implementation of the Scheme, and this status is forecast to continue in the near term thereafter (i.e. 2019 – 2021).

The Transferring Policyholders will therefore be transferring to a company (i.e. TIDAC) with a similar (albeit increased) level of capital coverage to that of their existing insurer (i.e. TICL).

Furthermore, the policyholders of TIDAC (including the Transferring Policyholders) will receive the indirect benefit of the SPFMG post-Scheme (to the extent of 80% of the risk) since the TIDAC business (including the Transferring Business) will be 80% reinsured back into TICL (via the WAQS, that falls within the scope of the SPFMG, which effectively removes the risk that the WAQS will have any shortfall).

For the Non-Transferring Policyholders the financial effect of the proposed Scheme on their security will continue to be de minimis (because the operation of the WAQS results in a small decrease to the liabilities of TICL) such that I continue to be of the view that their security levels are effectively unchanged on both the pre-Scheme and the post-Scheme positions).

I also note that the Non-Transferring Policyholders continue to directly and fully benefit from the added security of the SPFMG pre- and post-Scheme

5.25 ***Given the above particulars, I identify no significant matters arising from the changes to the capitalisation of TICL and TIDAC that would give me cause to change my conclusion regarding the effect of the Scheme on the levels of security afforded to the policyholders of TICL (be they Non-Transferring Policyholders or Transferring Policyholders)***.

Excluded Policies

5.26 If any Transferring Policies are excluded from the Scheme for any reason, then those policies will not be transferred to TIDAC. However, I am informed that the Companies have no reason to believe that any Transferring Policy will be excluded from the Scheme.

Policyholder Notification

5.27 I have reviewed the second witness statement of Michael John Gent (“MJG”), the Chief Financial Officer, Europe, a Director of TICL, made on 10 September 2019, which sets out how the policyholder notification exercise was carried out. I note that:

(1) During the period 14 – 21 January 2019, a copy of the notice of the Scheme was placed in the London, Edinburgh and Belfast Gazettes, and appropriate publications in the UK, Ireland, France, Germany and the Netherlands, in accordance with the Court’s sealed directions order (dated 13 December 2018). Further, to ensure additional publicity/coverage of the Scheme, a copy of the notice of the Scheme was also placed in the European edition of The Times, the European edition of the Financial Times, and "Insurance Day" on 16 January 2019;

(2) In his capacity as a Director of TICL (the Transferor) it was the duty of MJG to oversee the various mailing activities associated with the Scheme and to ensure that they were carried out in compliance with the order of the Court referred to in sub-paragraph 5.27 (1) above. The actual mailings were carried-out by a company external to TRV (working with employees of TICL to assist with the mailing process and those few tasks carried-out in-house by TICL), and were completed as described below;

(3) Save as indicated in paragraph 5.28 below, the notifications took place as intended and the bulk of the mailings were dispatched around 14 January 2019;

(4) For the policyholders/third party claimants with active claims, approximately 2,068 copies of the mailing pack (the Circular and a covering letter printed on TRV letterhead) were sent by first class post in each case personalised with the name and address of the policyholder or third party claimant (as the case may be). I also note that TRV is undertaking a weekly review of its records to capture on an ongoing basis any new claimants;

(5) For brokers, approximately 706 copies of the mailing pack were sent by first class post in each case personalised with the name and address of the broker. In addition, 706 follow-up letters have been sent to brokers to check receipt of mailing packs;

(6) For TICL policyholders of ‘live’ Irish branch business (taking address details as at the directions hearing date, i.e. 13 December 2018) approximately 7,636 copies of the mailing pack were sent by first class post in each case personalised with the name and address of the policyholder (including mailings as noted under paragraph 5.28 below);

(7) For new policyholders of TICL's Irish branch (after the directions hearing on 13 December 2018) ongoing mailings are taking place based on weekly reviews of records by TRV (with approximately 754 mailing packs dispatched as at date of this Supplemental Report);

(8) For outwards reinsurers, approximately 120 copies of the mailing pack were sent by first class post in each case personalised with the name and address of the reinsurer;

(9) Six third party contract holders and other interested parties have been notified, e.g. a bank with a letter of credit transferring as part of the Scheme, and the policyholder with a Surety Bond under the "incoming" TCSCE Transfer (see paragraph 5.6 above).

5.28 As per the second witness statement of MJG (dated 10 September 2019), I understand that, due to a technical issue arising from the TRV IT system that was used to provide the mailing addresses, approximately 1,000 *former* policyholders of TICL's Irish branch were also/additionally notified of the Scheme (although not strictly necessary as a dispensation from notifying these policyholders was granted with the Court's sealed directions order). As these polices are also (technically) transferring under the Scheme, I concur with the view expressed in the aforesaid witness statement, i.e. no prejudice has been suffered by any policyholders as a result of these additional inadvertent mailings.

5.29 Based on my review of the policyholder (and other parties) notification exercise as outlined in paragraph 5.27 above, I am satisfied that it was carried out in accordance with the proposals put forward at the directions hearing for the Scheme (and as outlined in Section 8 of the Report).

5.30 I note that TRV is sending notifications to approximately 100 policyholders who were placed with TICL post end-March 2019 (and that no further new policyholders are anticipated to be placed with TICL) and to approximately 400 third party claimants who have notified TRV following the original communication exercise (as per paragraph 5.27 above) as these claimants did not receive the policyholder communications previously. I further note that TRV anticipates that there may be further third party claimants up to the sanction hearing date (scheduled for 20 September 2019) and that TRV will continue to notify them. After the sanction hearing date and up to the Effective Date, TRV will send out a notification letter to any further third party claimants.

5.31 Additionally I note that TRV does not intend to notify directly TIDAC policyholders (placed with TIDAC post end-March 2019) of the proposed Scheme. Rather, TRV believes that as their policy documentation and letters/e-mails all include links to the TRV website, where the TIDAC policyholders can access information about the Scheme. Furthermore, many of the TIDAC policyholders are renewing TICL policyholders, and so would have been made aware of the Scheme through the original communication exercise (as per paragraph 5.27 above), either directly or through their broker. TRV has also informed all brokers directly and publicised the Scheme in the Irish press. As such, TRV does not believe it necessary to conduct a separate communications exercise.

5.32 I have considered the indirect communications approach adopted by TRV in relation to TIDAC policyholders (placed with TIDAC post end-March 2019), and believe it to be not unreasonable for two main reasons: (1) such policyholders would be placed with TIDAC via their broker whom it is reasonable to assume would be aware of the Scheme and bring it to their attention prior to placing the business; and (2) as per my analysis in Section 4 of the Supplemental Report, I am satisfied that the Scheme will not have a materially adverse effect on the security or service levels of the existing TIDAC policyholders (i.e. those TIDAC policyholders placed with TIDAC post end-March 2019).

5.33 TRV has provided me with a document summarising the results of the policyholder notification process sent to the PRA and the FCA on 9 September 2019. The queries as per this latest communication with the PRA/FCA shows a total of 26 document requests and general enquiries from recipients (i.e. a relatively small number compared to the number of letters sent, see paragraph 5.27 above). The overwhelming majority of the general enquiries relate to questions as to what the letter means, why recipients received the letter and requests for details of what policy/policies are held by TICL. I note that there have been no objections relating to the Scheme made by policyholders or other relevant parties.

5.34 I further note that in the second witness statement of MJG, there are recorded 672 returns[16] (i.e. a relatively large number compared to the number of letters sent, see paragraph 5.27 above). TRV has reviewed the details of the returned mailings, and identified that the majority of these relate to the former policyholders additionally notified, as per paragraph 5.28 above. The result of the aforesaid TRV review is as I would have expected given that such policyholders typically no longer have any connection with TRV.

5.35 Based on there being no objections to the Scheme (as at the date of this Supplemental Report) and my review of the enquiries received by and related responses from TRV, I have not identified any matter that would cause me to perform additional analysis or lead me to revise the conclusions set out in the Report and this Supplemental Report.

Future Intentions of TICL and TIDAC

5.36 Based on my discussions with the management team of TRV, and as supported in subsequent written communications, I understand that TICL currently has no planned significant future transactions and/or other changes (e.g. corporate restructuring) that would materially affect policyholders post-Scheme (i.e. other than the changes in operational plans as outlined in paragraphs 5.40 and 5.41 below, the future intentions of TICL are consistent with my understanding at the date of the Report).

5.37 I have also held discussions with the management team of TRV (supported in subsequent written communications) on the future intentions of TIDAC. I understand (as noted in paragraph 8.23 of the Report) that following the Scheme, TIDAC intends to transfer the business (formerly written by TICL's French, German and Dutch branches) received as part of the Scheme, to a third party Irish domiciled insurer (the "Irish Transfer"). The Irish Transfer will: (1) be carried out pursuant to provisions in Irish law, in particular in Section 13 of the Assurance Companies Act 1909 (as amended); (2) require CBI consent before it can proceed; and (3) require TIDAC and the third party Irish domiciled insurer to petition the High Court of Ireland to approve the Irish Transfer. I am also informed that an Independent Actuary will be appointed to write a report on the terms of the Irish Transfer (which I would expect to cover the impact, if any, arising from any change in FSCS coverage) and that that report will be provided to the CBI (to assist in its deliberations) and will accompany the aforementioned petition. Therefore, the Irish Transfer will require regulatory approval and the sanction of the High Court of Ireland, and as such would not be undertaken to the detriment of the policyholders of TIDAC, including the Transferring Policyholders (who by then would be policyholders of TIDAC if the Scheme were sanctioned). Accordingly, I believe there are sufficient protections in the Irish Transfer process to protect the interests of the TIDAC policyholders transferring under the proposed Irish Transfer.

5.38 Thus, other than the proposed Irish Transfer (outlined in paragraph 5.37 above) and changes in operational plans as outlined in paragraphs 5.40 and 5.41 below, the future intentions of TIDAC are consistent with my understanding at the date of the Report

5.39 ***Therefore, I believe it unlikely that any transactions and/or other changes relating to TICL and/or TIDAC will occur between finalising this Supplemental Report and the Effective Date that would affect any conclusion that I reached in the Report***.

Changes in Operational Plans

5.40 I have asked the management of TRV to provide me with details of any changes to the operational plans of the Companies of which I was not aware as at the time of writing the Report.

[16] I am informed by TRV that the minor anomaly for the return figures (672 noted by MJG and "approximately 750" as per the printers witness statement) is explained as the printers also included in their "higher" 750 figure what they regard as "pulled mail" in their number/calculation, and that "pulled mail" refers to mailings removed *before* sending due to incomplete addresses being discovered on the way to dispatching the parcels. The 672 figure refers purely to envelopes returned/received back from Royal Mail *after* being posted out, which I understand is what is more commonly regarded as "returns", and hence this figure was used in the second (lead) witness statement of MJG.

5.41 The management of TRV has informed me that, other than the changes to the business plan for the Companies (as outlined in paragraphs 3.14 to 3.16 above), and the recruitment of an Ireland based Chief Financial Officer (who has been approved by the CBI) as well as an Ireland based risk manager (both of whom, at the date of finalising this supplemental Report, have started in their respective roles) there have been no other changes and/or management actions that have not already been communicated to me. This has been confirmed to me by TRV in its letter of representation addressed to me as shown in Appendix B. As such, I see no need to amend the conclusions I set out in this Supplemental Report.

Brexit and other Market Developments

5.42 The EU endorsed the Withdrawal Agreement (and Political Declaration) on 25 November 2018, while, on three separate votes (the first on 15 January 2019), the UK parliament voted down the Withdrawal Agreement (and Political Declaration). Therefore, at, the time of finalising this Supplemental Report, no definitive position has been agreed by the UK and the EU on the terms of Brexit, other than to postpone the earliest date of the UK leaving the EU to 31 October 2019. Further, I am not aware of anything on the proposed future relationship between the UK and the EU that fundamentally alters my view of the likely impact of Brexit on the Companies. Accordingly, I have no reason to alter the conclusions I reached on the impact of Brexit on the Scheme as per the Report (see paragraph 6.121 therein).

5.43 On 20 December 2018, the Civil Liability Act 2018 received Royal Assent, and deals with two issues, namely the "Ogden" discount rate and Whiplash damages. While the outcome of these changes remains uncertain, I believe that they will not materially increase the expected level of personal injury claims costs (for TICL and/or TIDAC) for the following reasons:

(1) For the Ogden discount rate, the Act has established a mechanism for the Government's review of the discount rate, and the (first such) review started on 19 March 2019, with the outcome announced on 15 July 2019. The review resulted in a change in the Ogden discount rate from negative 0.75% per annum to negative 0.25% per annum. I am informed by MJG that TRV is estimating a £10 million benefit to TICL in terms of favourable prior year reserve releases (to be booked as at 30 September 2019). Further, as at the date of this Supplemental Report, TICL has experienced only minimal PPO claims activity. Thus, I am satisfied that TICL continues to be reasonably reserved in respect of PPO claims, and, as such, there is no need for me to revise the conclusions set out in the Report.

(2) On whiplash damages, the Act has changed the way that whiplash injuries are defined, and has set tariffs for whiplash damages. I am informed by TRV that these changes are not believed to be adverse to TICL (with its small fleet motor book) and that the changes do not apply in Ireland. As such, I identify no matter that would cause me to perform additional analysis or lead me to revise the conclusions set out in the Report.

5.44 On 20 February 2019, the FCA published the report for their Wholesale Insurance Broker Market Study. Its main conclusion was that *while there is room for improvement, we* [the FCA] *have not found evidence of significant levels of harm that merit the introduction of intrusive remedies*. As such, the FCA's findings do not have a material effect on either TICL or TIDAC, and therefore no material impact on the Transferring Policyholders.

5.45 The Civil Liability Act in Ireland introduces Periodic Payments similar to the UK Courts Act, which if enacted in 2019 could impact the reserves needed to be established in respect of the Transferring Business. I am informed by TRV that TIDAC does not have many claims in Ireland that would be affected by this proposed legislative change (and that while the medical malpractice portfolios forming part of the Transferring Business from the French, German and Dutch branches might be impacted, there are only a handful of claims left in these portfolios). Therefore, while the outcome of this proposed legislation (if enacted) remains uncertain, I believe that it is unlikely to increase materially the expected level of personal injury claims costs for TIDAC, and hence it has not caused me to revise the conclusions set out in the Report.

What would happen if the Scheme does not proceed?

5.46 In the Report (see paragraph 8.55 therein), I outlined what would happen if the Scheme were not to proceed. In the case of both TICL and TIDAC my views remain unchanged, other than to note that:

(1) On 19 February 2019, EIOPA published a recommendation that supervisory authorities should facilitate the run-off of any cross-border business from the UK that had become unauthorised following Brexit. This change in approach by EIOPA and a number of EEA regulators, including the CBI, to the matter of contract continuity means that EEA states are encouraged to apply a mechanism for the run-off of EEA business by UK insurers who lose their authorisation due to Brexit (or to require those insurers to take immediate steps to become authorised);

Indeed, at the time of finalising the Supplemental Report, some EEA states (including Ireland, Germany and France) have legislated (temporary) run-off regimes to provide for contract continuity, but typically over a relatively short timeframe (e.g. three years). Specifically the Irish government has enacted the Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Act 2019 (Act No. 8 of 2019) signed-off by the President of the Republic of Ireland on 17 March 2019, which will allow UK and Gibraltar based insurers and brokers to continue to service existing insurance contracts with Irish policyholders (subject to a 3-year duration) from the date of the UK's withdrawal from the EU without an agreed withdrawal deal in place.

I have reviewed, at a high level, the legal analysis undertaken by TRV of the aforementioned EIOPA recommendation, and the subsequent legislation for temporary run-off regimes enacted by a number of EEA states, including Ireland, Germany and France. Based on my review I am satisfied that the analysis with which I have been presented made sense to me and has not raised any questions or concerns. In the light of this, and taking into account the professionalism and integrity of the internal lawyers (undertaking the analysis for TRV) I have not felt an independent legal analysis is warranted.

(2) The temporary legislated schemes will typically assist the run-off of short-tail business[17], because such business will usually be finalised (i.e. all claims settled) within a short period (such as 3 years) after all such business has expired. However:

(a) All of the portfolios making up the Transferring Business (i.e. the Irish, French, German and Dutch branches) include a significant amount of long-tail business. Therefore, reliance by TICL on these (temporary) run-off regimes will subject TICL to the potential of having liability exposures that may not have been incurred and/or unsettled claims as at the end of the limited time periods under the relevant legislation, and hence the risk of not being able to provide contract continuity; and

(b) If the Scheme does not proceed, as a result of TRV adopting the Irish temporary run-off regime, TICL will face increased and more complex operational risk. Having established TIDAC as an authorised insurance undertaking in Ireland, TICL would then also need to maintain its branch in Ireland to run-off the Irish business. TIDAC will operate as TRV intends, i.e. to write new and renewal business post-Brexit. However, TICL, through its branch in Ireland, will need to settle claims under the Irish temporary run-off regime. This, I understand, will result in TRV maintaining two systems to administer business in Ireland, and thereby produce operational complexities, including running two policy administration and claims systems, additional financial reporting, and increased risk management, governance and capital implications over both entities

I have considered the points that I note above, and am satisfied with the conclusion reached by TRV that the Scheme provides a satisfactory mechanism for delivering an orderly run-off of all the Transferring Polices. It also avoids: (i) potential legal uncertainty introduced by adopting new (temporary) run-off regimes in EEA states; and (ii) the operational complexities (and potential risks) associated with TRV maintaining two systems to administer business in Ireland should it adopt the Irish temporary run-off regime; and

[17] Short-tail business usually gives rise to claims made during the term of the policy or shortly after the policy has expired (e.g. property insurance). The opposite of short-tail business is long-tail business, where claims may be made many years after the period of the insurance has expired (e.g. liability insurance).

(3) TRV has informed me that TICL would seek to transfer its French, German and Dutch branch businesses to a third party Irish domiciled insurer via a Part VII transfer process (utilising the Savings Provision[18]) as soon as practical (having regard to the EIOPA recommendation on the run-off of cross-border business from the UK that has become unauthorised).

[18]As TRV has already initiated a Part VII transfer under the pre-Brexit process it qualifies under The Financial Services Contracts (Transitional and Saving Provision) (EU Exit) Regulations 2019 for the Savings Provision whereby it has up to two years from the day when the UK exits the EU (i.e. Brexit) to obtain a Court order sanctioning the transfer between TICL (UK entity) and the third party Irish domiciled insurer (EEA entity).

6. EXPERT OPINION

Confirmation of Opinion

6.1 I have further considered the effect of the proposed Scheme (implemented in conjunction with the Capital Contribution) on the Transferring Policyholders, and on the Non-Transferring Policyholders, and continue to be of the view that the Scheme will not have a materially adverse effect on the security or service levels of the Transferring Policyholders or the Non-Transferring Policyholders.

6.2 I have also considered the effect of the proposed Scheme (implemented in conjunction with the Capital Contribution) on the existing policyholders of TIDAC, and am satisfied that the Scheme will not have a materially adverse effect on the security or service levels of the existing TIDAC policyholders.

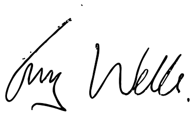
6.3 In reaching this opinion, I have complied with TAS 100 and with TAS 200, subject to the principles of proportionality and materiality.

Duty to the Court

6.4 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.

Statement of Truth

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



Gary G Wells
Fellow of the Institute and Faculty of Actuaries
Independent Expert

Milliman LLP
11 Old Jewry
London
EC2R 8DU

16 September 2019

APPENDIX A KEY SOURCES OF DATA

A.1. I have used the following additional documents, reports, data and other information provided by TICL and/or TIDAC:

- TICL Report and Accounts as at 31 December 2018
- TICL Management Accounts as at 30 June 2019
- TICL Solvency II QRTs as at 31 December 2018 and 30 June 2019
- TIDAC Management Accounts as at 30 June 2019
- TIDAC Solvency II QRT as at 30 June 2019
- TICL 2018 Q4 Actuarial Function Review, and Actuarial Reserve Previews for 2019 Q1 and 2019 Q2
- A copy of the Reserve Review Analysis Report for TICL as at 30 September 2018 (based on data as at end-June 2018), including the France, Germany, Netherlands Run-off (that forms an appendix to the TICL 2018 Q3 Reserve Report)
- A copy of the TICL ORSA, dated December 2018
- A copy of the TIDAC ORSA – Proposed Business Plan Change, dated August 2019
- A copy of the Whole Account Quota Share Reinsurance Treaty between TIDAC and TICL; a copy of Endorsement No. 1 to the Whole Account Quota Share Reinsurance Treaty between TIDAC and TICL; and a copy of the Collateral Agreement between TIDAC and TICL
- Updated financial plans (dated 14 May 2019) for TICL and TIDAC (and the UK Branch) showing projected 2019 – 2021 GAAP revenue accounts and balance sheets, and Solvency II balance sheets (containing Own Funds and SCRs)
- Audited accounts (Form 10-K) for Travelers as at 31/12/2018 and unaudited financial results for Travelers as at 30/06/2019
- Audited accounts (Annual Statement) for SPF&M as at 31/12/2018 and unaudited accounts (Quarterly Statement) for SPF&M as at 30/06/2019
- A copy of the FCA – Objections Template dated 6 September 2019
- A copy of the certificate of authorisation of TIDAC (dated 28 January 2019)
- A copy of the letter from the PRA permitting the operation of the pass-ported UK branch of TIDAC (dated 28 February 2019)
- A copy of the second witness statement for TICL dated 10 September 2019, a copy of the witness statement for the printers engaged by TRV (to bulk print and arrange for the distribution of the Circular and covering letter) dated 5 September 2019, and a draft copy of the third witness statement[19] for TICL.
- A copy of the note prepared by TRV, at the request of the PRA, dated 21 March 2019, setting out its legal analysis of the post-Scheme impact on policyholders based on the EIOPA recommendation (published on 19 February 2019) that supervisory authorities should facilitate the run-off of cross-border business from the UK that had become unauthorised following Brexit.

[19] The third witness statement of MJG will be submitted as evidence for the Sanction hearing. TRV has supplied me with a draft of this document and told me that it does not expect any material changes to the version I have received at the time of finalising this Supplemental Report.

- A copy of the note prepared by TRV, dated 19 March 2019, setting out its analysis of the Reinsurance Contracts, in particular, the Whole Account Quota Share Reinsurance Treaty between TIDAC and TICL (including the associated Collateral Agreement between TIDAC and TICL).
- A copy of the letter from the CBI (dated 04 June 2019) approving the application by TIDAC for the (initial) €15 million capital contribution to act as a Tier 1 Basic Own Funds item, and a copy of the letter from the CBI (dated 30 August 2019) approving the application by TIDAC for the (second) €15 million capital contribution to act as a Tier 1 Basic Own Funds item.

A.2. Information was also gathered in telephone conversations and e-mail correspondence with staff of TICL and TIDAC.

APPENDIX B LETTER OF REPRESENTATION

TRAVELERS

Travelers Insurance Company Limited
One Creechurch Place
London EC3A 5AF
020 3207 6000 TEL
travelers.co.uk

Gary Wells Esq
Milliman LLP
11 Old Jewry
London
EC2R 8DU

16 September 2019

Dear Mr Wells,

Letter of Representation – Part VII transfer of the of the Irish, French, German and Dutch branches of Travelers Insurance Company Limited to Travelers Insurance DAC

1. Introduction

I refer to the proposed insurance business transfer (the "Scheme") by which the Irish, French, German and Dutch branches of Travelers Insurance Company Limited ("TICL") will transfer to Travelers Insurance DAC ("TIDAC"), pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA"). TICL and TIDAC are collectively referred to as the "Companies".

Terms used in this Letter of Representation have the same meanings as used in the Aggregate Report (as defined in paragraph 3.1 below).

2. Data Accuracy Statement

I hereby affirm that the data and information provided to Gary Wells of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by PRA or CBI (as appropriate) approved persons or other members of the senior management of the Companies (or responsible senior professionals from the Companies' advisors) and, to the best of my knowledge and belief, are accurate and complete in all material respects.

3. Other Statements

1. To the best of my knowledge and belief, the Independent Expert's Report, dated 10 December 2018 and the Independent Expert's Supplemental Report, dated 16 September 2019, (together the "Aggregate Report") accurately and fairly reflect my understanding of the details of the proposed Scheme, and there are no material inaccuracies or omissions in the description of any of the Companies' business and practices (including details of specific contracts and claims) or in any statements attributed directly or indirectly to any of the Companies (and/or the wider Travelers Group).
2. I have disclosed all the information that, in my 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. I will keep the Independent Expert apprised of all matters and issues, up to the date of the final Court hearing to sanction the Scheme, which, in my opinion, may be relevant to the Independent Expert in opining on the proposed Scheme. These matters include, but are not limited to, Court documents and supporting materials, full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of these documents and full details of any differences between the data and information underlying such draft and final documents.

Page No. 1 16 September 2019

4. In particular, the facts stated below are true and accurate to the best of my knowledge and belief:
   - The financial positions as stated in the balance sheets of the Companies as at 31 December 2017, 31 December 2018 and 30 June 2019 each give a true and fair view of each of the Companies' affairs at those dates;
   - The Technical Provisions of the Companies' business as stated as at 31 December 2017, 31 December 2018 and 30 June 2019 are each a true and fair view of the liabilities at those dates;
   - Other financial projections relating to the Companies (including those based on the updated business plan for the Companies, dated 14 May 2019) and provided by us that the Independent Expert has used to prepare the Aggregate Report have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions;
   - It is not planned that there will be a distribution of capital or increase in liability or risk exposure as a consequence of the Scheme that would not have occurred were the Scheme not to proceed;
   - Substantially the same assets and liabilities will exist in the Companies in aggregate after the Scheme as immediately before the Scheme (when valued on the same accounting basis before and after);
   - Both TICL and TIDAC have no current intentions to cease underwriting or carry out a further restructuring of their businesses as a consequence of the Scheme.
5. I confirm that the Capital Assessments for each of the Companies as at 31 December 2017, 31 December 2018, 30 June 2019 and those projected at each year-end over the period 2019 – 2021, using the Standard Formula as per the Solvency II Directive 2009/138/EC continue to be reasonable estimates of the corresponding capital assessments for the respective period ends as at the date of this letter.
6. I confirm that the proposed Scheme is to be carried out in conjunction with: the 80% Whole Account Quota Share Reinsurance Contract (the terms of which have been agreed with the Central Bank of Ireland) that incepted on 30 March 2019; and the collateral agreement (the terms of which have been agreed with the Central Bank of Ireland) and was to be executed by TICL and TIDAC on 12 September 2019.
7. I confirm that TICL received a capital contribution from Travelers on 15 May 2019 of $44 million, of which €15 million was contributed as bonds to TIDAC on 9 September 2019, and the remainder has been pledged at Lloyd's to support the underwriting activity of Syndicate 5000.
8. I confirm, as per my second and third witness statements to the Court, dated 10 September 2019 and 16 September 2019 respectively, that TIDAC received a total capital contribution from TICL of €30 million on 9 September 2019 in the form of bonds, which included the capital contribution of €15 million referred to in paragraph 7 above.
9. I 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 each of the Companies; and/or
   - the capital basis/approach and capital strength adopted by the Companies.
10. In respect of the Companies, I confirm that there is currently no other relevant information concerning the business written, claims procedures and processing situation which could have a material impact on the Independent Expert's assessment of the proposed Scheme. In particular, I confirm that:
    - TICL wrote a similar range of business during 2018 and 2019 (as to the date of this letter) with that written during 2017;
    - there were no unusual backlogs of unprocessed claims correspondence at 31 December 2017, 31 December 2018 and 30 June 2019; and
    - appropriate case estimates were applied to all reported claims which remained open at 31 December 2017, 31 December 2018 and 30 June 2019.

Page No. 2 16 September 2019

11. Following the Scheme, TIDAC will put in place a third country branch in the UK, subject to approval from the PRA, to replace its existing UK branch (formed on a Freedom of Establishment basis) as and when its EEA passport rights to the UK are withdrawn.
12. I confirm that, in relation to each of the Companies' existing policyholders, the proposed Scheme is not expected to have tax implications that would affect any such policyholders impacted by the transfer under the Scheme.
13. To the best of my knowledge and belief (other than the updated business plan for the Companies, including that part related to the UK branch of TIDAC; and the recruitment of an Ireland based Chief Financial Officer, who has been approved by the CBI, as well as an Ireland based risk manager, both of whom have started in their respective roles) there have been no material changes since 31 December 2017 to any of the Companies' operational plans that in my opinion would have a material impact on the Scheme and have not been communicated to the Independent Expert.
14. I confirm that I have been authorised by the board of directors of the Companies to give the representations in this letter on behalf of each such company, which are given to the extent that each such company exercises control over the (re)insurance business that is the subject of the Scheme both before and after the Scheme comes into effect.

Yours sincerely,

Mike Gent

Michael Gent
Chief Financial Officer, Europe and Director, Travelers Insurance Company Limited
For and on behalf of Travelers Insurance Company Limited and Travelers Insurance DAC

Page No. 3 16 September 2019