



**SUPPLEMENTAL INDEPENDENT EXPERT REPORT
OF PHILIP TIPPIN FIA
In the matters of**

TOKIO MARINE KILN INSURANCE LIMITED (TMKI)
AND
HCC INTERNATIONAL INSURANCE COMPANY PLC (HCCI)
AND
TOKIO MARINE EUROPE SA (TME)

AND IN THE MATTER OF PART VII OF THE FINANCIAL
SERVICES AND MARKETS
ACT 2000

IN THE HIGH COURT OF JUSTICE

DATED 8 NOVEMBER 2018

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1. Introduction

Purpose of the Report

1.1 I have prepared an Independent Expert Report addressed to the High Court of Justice, England and Wales ('the Court') dated 11 July 2018 ('the IE Report'). In that report I describe the proposed transfer of the insurance and reinsurance policies of TMKI and HCCI (together with their associated reinsurance protections) to TME as a reorganisation of the Tokio Marine Group in order to protect against the uncertainty of Brexit. I refer in this report to the transfer of insurance business from TMKI and HCCI to TME as the 'Transfer'. I refer to TMKI, HCCI and TME as the 'Transfer Companies'.

1.2 TMKI is a non-life insurance company regulated in the UK. The policies underwritten by the following European branches: France, Germany, Spain, Italy, The Netherlands and Belgium, will be transferred to TME along with any reinsurance obligations and certain other assets and liabilities. This represents approximately 46% of the total TMKI current gross written premium. The transferring business will include a number of lines of business, including Property, Casualty, Marine, and Accident and Health. Japanese Designated Account Management Program ('DAMP') business will be reinsured back from TME directly to Tokio Marine Nichido Fire ('TMNF') and TME's other (TMKI originated) business will be reinsured back to TMKI so that there is no material economic impact of the Transfer on the TMKI balance sheet. Economically TMKI will retain the same risks it had before the Transfer.

HCCI is a speciality non-life insurance company regulated in the UK. TME is a subsidiary of HCCI and policies underwritten by the following branches: France, Germany, Spain, Italy, Ireland and Norway, will transfer to TME. This represents approximately 30% of the current total gross written premium from HCCI. HCCI's transferring business will include a number of lines of business including Financial Lines, Credit and Political Risk, Surety and Contingency/Disability. TME will then reinsure the Financial Lines business back to HCCI.

TME is a new company that was incorporated in Luxembourg on 8 February 2018. At the time of the Transfer, TME will have eight new European branches to replicate the current European operations of TMKI and HCCI. At the date of this report TME has not underwritten any policies. It is intended that TME will begin underwriting EU renewals from the TMKI and HCCI portfolios after authorisation is received. TME will underwrite the same classes of business that are transferring in, and will also underwrite some additional classes currently written by HCCI, where there are European risks, such as Property Treaty.

1.3 This Supplemental Report ('Supplemental Report' or 'Report') provides an update to the conclusions I set out in the IE Report in the light of the further information available to me, including the potential implications for the Transfer Companies of 'Brexit', consideration of the trading performance of the Transfer Companies since 30 September 2017 and changes in the market environment in which they operate. Additionally, this report also provides my opinion on the questions and other communication received from any of the Transfer Companies' policyholders.

Use and limitations

1.4 I understand that copies of my Supplemental Report will be made available to the relevant UK financial regulators: the PRA and the FCA. This report will be used in evidence in the applications submitted to the Court. It will also be made available to policyholders and other members of the public as required by the relevant legislation and will be made available on a dedicated website.

1.5 This Supplemental Report should be read in conjunction with the IE Report, as reading this report in isolation may be misleading. All abbreviations and technical terms used in this report have the same meaning as in the IE Report. For the avoidance of doubt, all limitations described in the IE Report including but not limited to those set out in sections 1.17 to 1.19, apply equally to this Supplemental Report. The glossary of terms and definitions used for this Supplemental Report can be found in Appendix 5 of the IE Report.

Professional Guidance

- 1.6 This report has been prepared in accordance with the guidance set out in Part 35 of the Civil Procedure Rules and the accompanying practice direction, including the protocol/guidance for the instruction of experts to give evidence in civil claims (2014) issued by the Civil Justice Council.

This report also complies with the guidance for Transfer Reports set out in the Statement of Policy issued by the PRA in April 2015 entitled 'The Prudential Regulation Authority's Approach to Insurance Business Transfers' and in Chapter 18 of the Supervision Manual of the FCA Handbook, in particular, sections 18.2.31 to 18.2.41 inclusive, regarding the content and considerations of the Report. This report also complies with the new FCA guidance issued in May 2018 entitled 'FG18/4: The FCA's approach to the review of Part VII insurance business Transfers'.

In preparing this report I have taken into account the requirements of the Technical Actuarial Standards ('TASs') issued by the Financial Reporting Council. The TASs which apply to the work performed in preparing this report are Principles for Technical Actuarial Work ('TAS 100') and Insurance ('TAS 200'). In my opinion, there are no material departures from any of these TASs in my performance of this work and this report. I have also followed the guidance set out in 'APS X2: Review of Actuarial Work' and this report has been peer reviewed by the reviewer approved by the PRA and FCA in accordance with this guidance.

I understand that my duty in preparing my report is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and/or paying my fee. I confirm that I have complied with this.

Reliances

- 1.7 Whilst I have been assisted by my team, the report is written in the first person singular and the opinions expressed are my own.
- 1.8 I have not sought independent verification of data and information provided to me by the Transfer Companies, nor does my work constitute an audit of the financial and other information provided to me. Where indicated, I have reviewed the information provided for reasonableness and consistency and with the benefit of my experience this has not raised any concerns. I note that the information has been provided to me by members of the senior management of the Transfer Companies or by responsible senior professionals from the Transfer Companies' advisors.
- 1.9 I have met in person or conducted conference calls with representatives of the Transfer Companies to discuss the information provided to me and specific matters arising out of the considerations and analysis conducted. This includes the legal advisers and the tax advisers to the Transfer Companies, where appropriate. Where significant pieces of information have been provided orally I have requested and received written confirmation.

A schedule of the additional information I have considered is listed in the Appendix.

2. Summary and overall conclusions

Approach

2.1 I have sought and received from the Transfer Companies additional information in order to consider whether any event or change in circumstances has occurred which would cause me to alter the conclusions expressed in the IE Report. The information I have requested has been selected based on my knowledge of developments in the general insurance industry and also from the wider economic environment which I consider likely to have a direct or indirect impact on the Transfer Companies. The areas I have considered include:

- Whether the analysis I performed in preparing the IE Report still points to the same conclusion given the most recent financial and economic information available.
- Any changes in the Transfer Companies' business.
- Potential operational and structural changes to the Transfer Companies.
- Current issues in the insurance industry, including any changes in regulation, legal environment and litigation that could affect the Transfer Companies.
- Relevant communications received from policyholders relating to the proposed Transfer.
- Whether the key assumptions made in forming my conclusions (described in section 2.7 of the IE Report) still apply in practice.
- The latest general developments in relation to Brexit.

Having received additional information I have then considered what impact, if any, this would have on the findings of the analysis I performed in order to form my opinion expressed in the IE Report.

Additional information considered

2.2 I have received information including but not limited to:

- Updated financial information including the trading performance of each Transfer Company as at 31 December 2017 (as audited) and 30 June 2018 (unaudited).
- Updated capital requirements and available capital metrics under the Solvency II regime for the Transfer Companies.

I note that due to the time period in which this report needed to be produced, the most recently produced information is unaudited. I have discussed this information with senior management within the Transfer Companies, and where appropriate, requested additional information or written confirmation. A list of additional information received is contained in the Appendix to this report.

Findings

2.3 The findings of my report are summarised below:

Having considered the additional information requested from the Transfer Companies and developments occurring in the wider economic and insurance industry environment I find that:

- Both the economic and financial condition of the Transfer Companies as at 30 June 2018, being the most recent reviewed (although not audited) information available, is, for the purposes of analysing the impact of the Transfer on each affected policyholder group, broadly the same as that considered in the IE Report. I can thus identify no impact on the overall conclusion within the IE Report arising from such changes as have occurred.

- I have confirmed with management of the Transfer Companies that the severe adverse stresses used in section 6 of the IE Report are still appropriate as stresses for the Transfer Companies.
- Since issuing my IE Report, there are no matters relevant to the Transfer arising from the nature of business underwritten by the Transfer Companies.
- The managements of the Transfer Companies have confirmed to me that the only change in structure is the purchase of QDOS, one of HCCI's Coverholders, by HCCI. I consider the purchase further in section 3.4. Other than this, there has been no change in the intentions with regard to any of the operations, levels of capital or mix of business written by the Transfer Companies after the Transfer has completed. There has also been no change in the post-transfer structure. As such I have not identified any intentions that would cause me to revise the conclusions of my analysis of the effects of the Transfer.
- Since issuing my Report, there have been general comments and speculation as to the terms of Brexit, but there are as yet no definitive or agreed solutions from the UK Government's response to the 'Brexit' referendum that would cause me to revise my opinion in regard to the Transfer.
- I have reviewed summaries of the correspondence received from policyholders. No matters have been drawn to my attention as a result of communications received from policyholders or other relevant parties that would cause me to revise my analysis of the effects of the Transfer.

I will communicate to the Court in the event that material changes occur that require adjustments to my findings between the date of this report and the final hearing.

Further detail on the reasoning supporting my findings above is contained in section 3 of this report.

Conclusion

- 2.4 I have considered the Transfer and its likely effect on each of the affected policyholder groups. I have concluded that the risk of any policyholder being adversely affected by the proposed Transfer is sufficiently remote for it to be appropriate to proceed with the proposed Transfer as described in the IE Report.



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3. Further information considered

Quantum and type of business Transferring

3.1 In sections 3.11 to 3.12 of the IE Report I consider the business that is proposed to transfer to TME.

I have updated the table in section 3.11 of the IE Report to show the figures as at 30 June 2018 regarding the open claim numbers transferring to TME and associated technical provisions for all Transfer Companies in order to give perspective on the size of the entities involved.

Transferring Classes of Business	TMKI				Transferring to TME			
	Open Claim Numbers	Gross Outstanding Claims (£)	Gross Technical Provisions (£)	Net Technical Provisions (£)	Open Claim Numbers	Gross Outstanding Claims (£)	Gross Technical Provisions (£)	Net Technical Provisions (£)
Accident & Health	346	5,800,532	11,241,470	8,218,184	312	5,614,927	10,990,141	8,029,149
Marine	3,780	39,407,927	60,674,788	18,474,260	3,334	13,300,449	21,817,628	11,433,918
Property	4,075	83,670,362	140,118,848	86,817,703	3,136	50,297,611	62,881,456	37,554,642
Liability and Assistance	3,234	55,338,139	114,352,367	93,202,239	1,239	21,897,384	40,141,459	27,336,988
Financial & Professional Lines	90	385,056	1,652,901	1,215,884	86	385,040	1,679,035	1,428,202
Total	11,525	184,602,016	328,040,374	207,928,270	8,107	91,495,412	137,509,719	85,782,898

Transferring Classes of Business	HCCI				Transferring to TME			
	Open Claim Numbers	Gross Outstanding Claims (\$)	Gross Technical Provisions (\$)	Net Technical Provisions (\$)	Open Claim Numbers	Gross Outstanding Claims (\$)	Gross Technical Provisions (\$)	Net Technical Provisions (\$)
Worker's Compensation	452	23,964,729	37,637,979	24,518,671	-	-	160	93
Marine, Aviation, Transport	1,064	10,311,797	19,151,652	15,492,543	-	-	274,857	198,473
Property	128	5,286,752	9,212,083	6,042,706	-	-	3,063,671	719,325
Liability	8,356	221,462,327	472,787,704	326,791,344	1,721	116,532,796	325,221,271	15,422,413
Credit & Surety	3,748	54,548,910	133,920,342	91,034,129	1,552	25,217,964	65,134,184	23,978,309
Other	1,501	27,237,710	6,211,816	3,172,954	922	20,661,810	2,038,034	341,908
Non Transferring LOBs	1,608	41,151,874	137,647,797	78,141,348	-	-	-	-
Total	16,857	383,964,100	816,569,373	545,193,695	4,195	162,412,570	395,732,177	40,660,522

The outstanding claims transferring to TME as a proportion of the existing outstanding claims are not materially different from the proportions at the time of the IE Report, and the number of claims transferring remain similar to those shown in the IE Report, other than movements highlighted below.

There have been a small number of changes that I have discussed with TMKI and HCCI to understand the drivers:

- TMKI has seen a reduction in transferring open claims numbers since the IE Report. This is driven by TMKI's decision to reduce the amount of high volume and high frequency business that it writes and is also impacted by TMKI actively trying to close down old claims leading up to the Transfer.
- Outstanding claims amounts have increased for TMKI since the IE Report. This is due to general growth in the premium on the UK business which is further reflected by the increase in Technical Provisions.
- On Financial and Professional Lines for TMKI, TMKI pre-Transfer shows Technical Provisions less than the Technical Provisions which are transferring to TME. This is due to TMKI non transferring business showing reinsurance cash flows larger than gross causing a net negative cash flow on the UK side. We have discussed this with TMKI and this is driven by the allocation methodology which allocates claims and premium provisions to the required lines of business for SII reporting, as shown in the table above. TMKI allocate claims provision aligned with claims outstanding and premium provision aligned to planned premium volumes.
- HCCI shows a decrease in 'Other' gross and net technical provisions due to a discontinuance of a line of business called MIS Lifestyle due to poor experience. The reserves for these have reduced over 2017 and the first half of 2018.
- HCCI has also reclassified certain classes of business to ensure this table is aligned with the classes transferring for TME.

As such I see no need to reconsider any of my assumptions based on this updated information.

Trading performance of Transfer Companies to 30 June 2018

3.2 I have been provided with the financial results and updated GAAP and SII balance sheet information for each of the Transfer Companies to 30 June 2018. I have reviewed this information in order to identify if there has been a material change in the financial position of any of the Transfer Companies, and to satisfy myself that the financial information I have used in my consideration of the impact of the Transfer continues to be an appropriate basis on which to form an opinion. I note that:

- The financial performance of the Transfer Companies as at 31 December 2017 (as audited) to 30 June 2018 (unaudited) is consistent with my understanding of the claims experience of the respective businesses over that period, and no Transfer Company has reported a financial performance that would significantly affect the financial analysis I performed in preparing the IE Report.
- I have confirmed with management of the Transfer Companies that there has been no change in general reserving strength between the balance sheets prepared as at 30 September 2017 and 30 June 2018, other than that detailed below:

Since the IE Report TMKI have reviewed the calculation approach of their claims handling costs under Solvency II. The methodology of applying a percentage loading based on actual historical claims handling costs as a percentage of paid claims remains consistent with the approach at Q4 2017, however the historical costs are now solely based on the claims department's expenses, with indirect costs from other departments now being moved into management expenses. This change has reduced the claims handling load to 1.6% of gross claims, a material decrease from the 4.4% at Q4 2017. As a result, Management expenses have increased to 12.3% of Solvency II Technical Provisions from 9.6% at Q4 2017. Overall, including an update to the budget expenses for 2018, total expenses including claims handling costs have reduced by £5.6m. This change happened in advance of Q4 2017 and is therefore not impacted by the transfer.

- There is an updated reinsurance treaty structure for TME since the IE Report. In addition to the reinsurance contract for the new and renewal business between TME and TMKI for local non-Japanese business that would otherwise have been written by TMKI, there will also be a new reinsurance contract for new and renewal business between TME and TMNF for Japanese business that would have been written by TMKI. I have discussed details of the reinsurance arrangements with management and I am comfortable that this development does not change my opinions set out in the IE Report.

I have considered the impact of the recent trading performance of the Transfer Companies and have identified no matters arising which would materially change the findings of the analysis that support the conclusions contained in the IE Report.

Post-Transfer balance sheets

3.3 In section 4.5 and 4.6 of the IE Report I considered the potential post-transfer UK GAAP and Solvency II balance sheets for the Transfer Companies. These tables are shown below, updated for the audited 31 December 2017 (Q4 2017) position, and the unaudited position at 30 June 2018 (Q2 2018) assuming that all assets and liabilities of the transferring business at each date were to transfer to TME.

UK GAAP:

UK GAAP Balance Sheet (000's)	As At Q4 2017 \$1=£0.74			As At Q2 2018 \$1=£0.76			As At Q2 2018 \$1=£0.76			TME (\$)
	TMKI (£)	TMKI (\$)	HCCI (\$)	TMKI Pre Transfer (£)	TMKI Pre Transfer (\$)	HCCI Pre Transfer (\$)	TMKI Post Transfer (£)	TMKI Post Transfer (\$)	HCCI Post Transfer (\$)	
Assets										
Financial Investments	283,832	383,173	1,232,819	280,093	368,434	1,136,926	280,093	368,434	1,095,665	141,261
Cash and Cash Equivalents	58,213	78,588	108,958	63,852	83,991	124,825	61,758	81,236	106,367	21,212
Reinsurance Assets	130,516	176,197	344,115	161,071	211,873	348,176	88,823	116,838	175,267	606,379
Other Assets	114,460	154,521	279,634	165,624	217,862	330,860	135,231	177,883	278,995	151,499
Total Assets	587,021	792,478	1,965,526	670,640	882,160	1,940,786	565,905	744,391	1,656,295	920,351
Shareholders' Equity										
Total Shareholder's Equity	107,957	145,742	683,126	108,320	142,484	713,330	108,319	142,483	713,403	99,926
Liabilities										
Technical Provision	384,306	518,813	1,091,088	443,204	582,991	1,131,843	371,927	489,233	903,430	660,607
Reinsurance Liabilities	72,252	97,540	52,773	83,556	109,910	67,625	59,659	78,475	32,868	100,807
Other Liabilities	22,506	30,383	138,539	35,560	46,776	132,060	26,000	34,200	110,666	59,010
Total Liabilities	479,064	646,736	1,282,399	562,320	739,676	1,331,528	457,586	601,909	1,046,963	820,424
Net Assets	107,957	145,742	683,126	108,320	142,484	609,258	108,319	142,483	609,331	99,926
Deductions for participation in investment	-	-	-	-	-	-	-	-	-	-
Own Funds net of deductions for participation in investment	107,957	145,742	683,126	108,320	142,484	609,258	108,319	142,483	609,331	99,926

Solvency II:

Solvency II Balance Sheet (000's)	As At Q4 2017 \$1=£0.74			As At Q2 2018 \$1=£0.76			As At Q2 2018 \$1=£0.76			TME (\$)
	TMKI (£)	TMKI (\$)	HCCI (\$)	TMKI Pre Transfer (£)	TMKI Pre Transfer (\$)	HCCI Pre Transfer (\$)	TMKI Post Transfer (£)	TMKI Post Transfer (\$)	HCCI Post Transfer (\$)	
Assets										
Financial Investments	283,832	383,173	1,299,443	280,081	368,419	1,144,766	280,081	368,419	1,103,505	141,261
Reinsurance Assets	105,153	141,957	288,675	129,964	170,955	310,278	74,945	98,583	261,817	542,629
Cash and cash equivalents	58,211	78,585	47,859	63,851	83,990	124,825	61,758	81,236	106,367	21,212
Any other assets, not elsewhere shown	20,318	27,429	55,820	26,335	34,641	170,648	20,140	26,492	159,556	51,833
Total Assets	467,514	631,144	1,691,797	500,231	658,004	1,750,517	436,924	574,730	1,631,246	756,935
Liabilities										
SII Technical Provisions- Non Life & Health	313,522	423,255	823,752	343,767	452,191	870,227	287,336	377,962	778,246	589,149
Deferred Tax Liability	-	-	16,934	-	-	13,261	-	-	13,261	-
Reinsurance Liabilities	54,192	73,159	29,640	45,811	60,260	23,977	39,162	51,514	(323)	43,504
Any other liabilities, not elsewhere shown	9,115	12,305	117,926	13,820	18,179	111,619	13,593	17,880	99,747	15,473
Total Liabilities	376,829	508,719	988,253	403,398	530,630	1,019,084	340,091	447,356	890,931	648,126
Excess of assets over liabilities	90,685	122,425	703,544	96,833	127,374	731,433	96,833	127,374	740,315	108,809
Other Own Funds	61,947	83,628	-	61,947	81,485	-	61,947	81,485	-	-
Own Funds	152,632	206,053	703,544	158,780	208,859	731,433	158,780	208,859	740,315	108,809
Deductions for participation in investment	-	-	-	-	-	99,926	-	-	108,809	-
Own Funds net of deductions for participation in investment	152,632	206,053	703,544	158,780	208,859	631,506	158,780	208,859	631,506	108,809

The updated positions as at Q4 2017 and as at Q2 2018 are consistent with my understanding of any changes to the financial and economic circumstances of the Transfer Companies over the period. Both of these tables show consistent implications for the policyholders affected by the Transfer to those discussed in the IE Report and the movements between them are directionally largely the same.

HCCI's Solvency II Balance sheet shows a change in the asset mix. There is an increase in 'any other assets, not elsewhere shown' which is due to the \$99,926,000 investment in TME. The offsetting side of this reduction is shown in 'financial investments'. The movement is not shown on the UK GAAP balance sheet as the balance is already included.

As such I see no need to revise any of my conclusions based on this additional information.

Consideration of Capital Cover ratio

3.4 In addition to the Solvency II balance sheets I have also considered the impact of the Transfer in terms of the consequent Solvency II Capital Cover ratio.

I have received an update of the SCR applicable as at the audited 31 December 2017 position and the unaudited 30 June 2018 position and compared this new information with that used in my original analysis in order to identify if my conclusions in the IE Report would change. I note

that the TMKI SCR figures are updated annually and as such have not been updated at 30 June 2018.

Solvency II Balance Sheet (000's)	As At Q4 2017 \$1=£0.74			As At Q2 2018 \$1=£0.76						
	TMKI Pre Transfer (£)	TMKI Pre Transfer (\$)	HCCI Pre Transfer (\$)	TMKI Pre Transfer (£)	TMKI Pre Transfer (\$)	HCCI Pre Transfer (\$)	TMKI Post Transfer (£)	TMKI Post Transfer (\$)	HCCI Post Transfer (\$)	TME (\$)
Own Funds net of deductions due to participation in investment	152,632	206,053	703,544	158,780	208,859	631,506	158,780	208,859	631,506	108,809
Total Assets	467,514	631,144	1,691,797	500,231	658,004	1,750,517	436,924	574,730	1,631,246	756,935
Insurance Liabilities	313,522	423,255	823,752	343,767	452,191	870,227	287,336	377,962	778,246	589,149
Other liabilities	63,307	85,464	164,501	59,631	78,439	148,857	52,755	69,394	112,685	58,977
Total liabilities	376,829	508,719	988,253	403,398	530,630	1,019,084	340,091	447,356	890,931	648,126
SCR	112,919	152,441	340,994	112,919	148,534	344,183	112,919	148,534	319,463	70,843
Capital Cover Ratio	135%	135%	206%	141%	141%	183%	141%	141%	198%	154%

The Capital Cover ratios both pre- and post- transfer (which act as a proxy for implied probability of policyholder deficiency) are broadly similar to those I considered when preparing the IE Report with the exception of HCCI pre-transfer. I highlight changes below:

- HCCI pre-transfer: The Capital Cover Ratio has decreased from 228% as at Q3 2017 to 183% at Q2 2018. The movement in the pre- and post-transfer Capital Cover Ratio is due to the investment HCCI has made in TME. I have confirmed with management that the SCR will reduce when the Transfer takes place, due to the transfer of insurance risk, which will improve HCCI's Capital Cover Ratio. There has also been an increase in SCR which further drives the decrease in Capital Cover Ratio.
- The movement from HCCI pre-transfer to HCCI post-transfer now shows an increase in capital cover ratio following the Transfer which is in contrast to the information presented in the IE Report. Transferring HCCI policyholders see a reduction in their Capital Cover ratio, however, this still remains very well capitalised indicating that the probability that policyholder benefits may not be paid in full is remote. Non-transferring TMKI policyholders see no change in their Capital Cover ratio. Transferring TMKI policyholders see an increase in their Capital Cover ratio.
- TME: The Capital Cover Ratio has reduced from 201% stated in the IE Report to 154%. This is driven by an increase in the SCR due to the combination of finalisation of the TME budget and refinements to the treatment of ceded balances, which impacted counterparty default and operational risk charges. The Capital Cover ratio is still comfortably over 100% therefore I do not consider this to have a material adverse effect.
- All transfer companies continue to have strong capital coverage positions both pre- and post- transfer.

As such I see no reason to revise my previous conclusions based on any of this updated information.

Market developments

- 3.5 I have considered market developments in the insurance sector since the issue of the IE Report. In addition I have reviewed the actuarial reports available for the Transfer Companies as at 30 June 2018, which are the latest currently available, and these do not raise any new uncertainties that I had not considered in the IE Report.
- 3.6 No material market developments have occurred since the date of the IE Report. As a result I do not consider that market developments change my conclusion on the impact of the Transfer on the levels of security of each affected policyholder group from that expressed in the IE Report.

Exposure of the Transfer Companies to potential severe adverse stresses

- 3.7 I have confirmed with management of the Transfer Companies that the severe adverse stresses used in section 6 of the IE Report are still appropriate as stresses for the Transfer Companies, however I have considered them against the updated solvency capital positions (as at 30 June 2018) for each of the Transfer Companies pre- and post-transfer.

Future intentions of TMKI, HCCI and TME with respect to levels of capital, operations, structure and business mix

- 3.8 Based on my discussions with the managements of the Transfer Companies, and as supported in subsequent written communications, I understand that the future intentions of TMKI, HCCI and TME remain consistent with those documented in section 4.14 of the IE Report. As mentioned in section 3.4, HCCI will purchase QDOS, one of its coverholders. I can confirm this purchase will not materially affect policyholders due to HCCI remaining well capitalised post-transfer and as such, I do not believe that this acquisition affects any of my previous conclusions.
- 3.9 Since the IE Report there has been a change in governance of TME. The Chief Underwriting Officer (CUO) for Japanese business will now be seconded from TMNF. He will be based in Luxembourg from October 2018. The CUO will not be on the TMKI board but the Board of Directors for TME will still be comprised of a member of the TMKI board. Furthermore, since the IE Report TMKI have reviewed their governance structure. I have received and reviewed information about these changes that was sent by management. Following my review of the changes I have not revised my conclusions on governance from the IE Report.

I have identified no adverse impacts to policyholders arising from intentions or motives of the Transfer Companies in proposing the Transfer which would materially change the findings of the analysis which support the conclusions contained in the IE Report.

Implications of 'Brexit' Referendum

- 3.10 In section 5.14 of the IE Report, I discussed the implications of the 'Brexit' referendum, as far as was known at the time of the IE Report. Since that time, the potential consequences remain uncertain, although the timetable of the process of the UK leaving the European Union is clearer. The regulators are currently reviewing eligibility of the UK's Financial Service Compensation Scheme ('FSCS') post-Brexit and the PRA is consulting on this in the context of proposals to modify the PRA rulebook as a result of the UK's withdrawal from the EU. Within the IE Report I concluded that policyholders who had FSCS protection prior to the Transfer will continue to have the same protection post-transfer, and those who were not protected by the FSCS will not gain protection as a result of the Transfer. I also concluded that were FSCS protection to not continue for any reason, the loss of this protection would not be material to policyholders in any case given the high levels of capital protection maintained by the Transfer Companies. I can therefore confirm the conclusions I formed on the FSCS remain unchanged.

There has been much speculation and comment around the terms of Brexit but no concrete solutions or agreements. I note that since my IE Report, the UK Government has also released information regarding the actions that should be taken by insurance companies if there is 'no deal'. A 'no-deal' Brexit refers to a situation where the UK exits the EU without an agreement in place.

Although the possibility of an imminent deal has received recent media attention, there is little expectation that such a deal would preserve passporting. Therefore, even if such a deal is reached, it would not guarantee the right of TMKI and HCCI to underwrite EU business after Brexit. I further note that based on my analysis there would still be no material adverse effect on the Transferring policyholders from the occurrence of the Transfer.

My comments in the IE Report on the subject remain valid at the date of this Supplemental Report.

Policyholder and other communications

- 3.11 I understand from TMKI, HCCI and TME that the proposed policyholder communication as set out in my IE Report has gone ahead as expected. In more detail, the planned newspaper advertising took place as planned and, in relation to the mailing between 31 July 2018 and 21 September 2018:

- 36,044 letters were sent by TMKI and HCCI to Transferring policyholders.
- 2,857 letters were sent by TMKI and HCCI to brokers of transferring policies.
- 6 letters were sent by TMKI and HCCI to coverholders of transferring policies (and I am informed by the Transfer Companies that they sent an additional 32 such letters to addressees whom TMKI and HCCI originally identified as coverholders but subsequently identified as reinsureds).
- 488 letters were sent by TMKI and HCCI to outwards reinsurers of TMKI and HCCI in relation to the business proposed to be transferred.

3.12 I have received the latest available listing of notices and objections and note the following additional points:

- Some EEA Regulators have requested, via the PRA, for TMKI and HCCI to publicise further in certain countries, which occurred between 10 August 2018 and 19 October 2018.
- There have been 39 mailings returns due to incorrect address. Management have internally checked these addresses and have re-sent where an updated address is available.
- A broker (in Brazil), has queried whether TME would need an additional licence to insure certain risks written by HCCI's Spanish branch. Taking a prudent approach, HCCI have decided to put the question beyond doubt by seeking consent of the affected policyholders to endorse their policy before the Effective Date of the Scheme so that it is administered by and treated as a policy of HCCI's UK head office so that the policy is outside the scope of the Scheme. HCCI have confirmed that most of the affected policies are in respect of the Financial Lines class of business which is fully reinsured back to HCCI following the Part VII. However there are also some Kidnap and Ransom policies affected. To ensure no affected policies transfer to TME, HCCI and TME have agreed to exclude these policies from the transfer (as 'Excluded Policies' as defined in the Scheme). If any affected policies are not endorsed prior to the Effective Date, so that they become Excluded Policies under the Scheme, HCCI will relocate the administration of such policies to the UK head office on the Effective Date so that HCCI does not carry on any business through its Spanish branch. HCCI have confirmed that there are 764 policies affected by this in 6 locations, namely Brazil, Columbia, Dominican Republic, India, Mexico and Ukraine. There are 10 open claims with a claims outstanding of \$1.1m. The net impact of this proposed change is immaterial to the Transfer Company's balance sheets.
- The mailing through brokers and coverholders was a significant component of the overall communication plan, and so, in order to check the process of requesting relevant brokers and coverholders to notify their clients of the Scheme has operated as planned, TMKI and HCCI have followed up with a representative sample of 100 brokers and all 6 coverholders. As of 31 October 2018, responses had been received from 82 out of the 100 brokers and 4 coverholders. 71 confirmed the notification had gone ahead as planned, without any responses, objections or returns. I consider that this feedback has been positive, and having considered the way that the sample was selected I have no reason to believe that for brokers and coverholders as a whole would not be representative.
- There have been a few cases, where brokers discussed the costs of mailing with TMKI and HCCI. There were also 4 cases where the broker did not notify its clients. In these cases TMKI or HCCI notified policyholders directly.

I have considered these developments and they do not change the conclusions I reached in my IE Report in respect of policyholder mailing, as the Transfer Companies have taken all the steps I considered in reaching my conclusions in Appendix 7 of my IE Report.

TMKI and HCCI have provided me with the monthly logs detailing the number of policyholders responding with queries and the actions taken to rectify the queries.

As of 2 November 2018, there have been no policyholder objections or complaints.

I have considered the questions raised by policyholders and I am satisfied with the Transfer Companies' responses. I have not identified any matter that would cause me to perform additional analysis or lead me to revise the conclusion set out in my IE Report and this Supplemental Report.

4. Overall conclusions

- 4.1 Having updated my financial analyses, and having considered the other matters set out above, I can confirm that all of the overall conclusions that I reached in Section 7 of the IE Report remain unchanged. Hence, in my opinion I do not identify any material adverse effect on any of the groups of policyholders of any of the Transfer Companies as a result of the proposed Transfer.

Appendix – List of additional information provided for Supplemental Report

Financial Information

TMKI and HCCI audited accounts and Solvency II balance sheets as at 31 December 2017

Proforma balance sheet and other financial information based on 31 December 2017 data

Similar information to the above, but unaudited, as at 30 June 2018 for TMKI and HCCI

Updates on any changes in methodology since the IE Report

Structure and Company Information

Confirmation of company structure

Details of changes to details of current and post transfer Board(s) and governance arrangements

Confirmation of no changes to description of current and post-transfer administration systems and arrangements since the IE Report

Information on the purchase of QDOS by HCCI

Scheme Information

Final Scheme Documents

Latest estimate of cost of scheme, identifying forecast costs of scheme (identifying irrecoverable costs should the scheme not proceed) and entity bearing these costs

Confirmation of no changes in the effect of the Transfer on existing administration and asset management contracts since the IE Report

Confirmation of no material shift to tax impact arising as a result of the Transfer since the IE Report

Final communications plan

Confirmation of no changes in policy and claim overviews

Logs of policyholder communications

Details of new reinsurance contracts planned to be set up since the IE Report

Capital and Risk Management

Updated capital requirements and available capital figures under Solvency II for the Transfer Companies pre- and post- transfer

Updates to the impact of the stresses on the business as set out in section 6 of the IE Report

Q4 2017 Reserving Report from HCCI and TMKI

Other information considered

Further discussions with key staff in the executive team, together with emails confirming statements and information provided verbally in these meetings that I have relied upon.