

# Supplemental Report of the Independent Expert on the proposed transfer of the EEA businesses of Sompo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sompo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited.

## 1 Introduction

- 1.1 I, Gary G Wells, prepared a report to the Court, dated 16 August 2018, entitled, “Report of the Independent Expert on the proposed transfer of the EEA businesses of Sompo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sompo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited” (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 which 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 SJNKE, EWIL and/or SIIE (collectively the “Companies”) have altered (relative to the position at the date of the Report) and the actual changes in assets and liabilities (relative to the position as at 31 December 2017) and hence 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**), SJNKE, EWIL and SIIE 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 in the Report. Further, unless stated otherwise, the rates of exchange<sup>1</sup> used in the Supplemental Report are £1.00 = \$1.32 = €1.13 = ¥146.22 (as at 30 June 2018).
- 1.6 Reliance has been placed upon, but is not limited to, the data and other information provided to me by SJNKE, EWIL and SIIE (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. SJNKE, EWIL and SIIE 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 data 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 for SJNKE and EWIL, and unaudited data provided by SJNKE, EWIL and SIIE as at 30 June 2018. I have also referred to audited financial data from SJNKE as at 31 March 2018 as well as unaudited accounts as at 30 June 2018, and from ESIL’s audited accounts as at 31 December 2017 as well as unaudited accounts as at 30 June 2018. 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.

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<sup>1</sup> Source: Lloyd’s Market Bulletin Y5192, dated 2 July 2018.

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## 2 Changes in Assets, Liabilities and Solvency up to the Effective Date

### *SJNKE*

- 2.1 I have been provided with the Chief Financial Officer Report 2<sup>nd</sup> Quarter Financial Results (unaudited) for SJNKE, i.e. balance sheet and income statement information for the six month period to 30 June 2018 (all stated in GBP).
- 2.2 The report shows that SJNKE had assets of £410.4 million and liabilities of £267.3 million resulting in net assets (on a GAAP basis) of £143.1 million as at 30 June 2018. The net assets (on a GAAP basis) have therefore increased by £0.6 million relative to the position as at 31 December 2017 of £142.5 million, i.e. in line with a post-tax profit for SJNKE of £0.6 million in the six month period to 30 June 2018.
- 2.3 Gross written premiums in the six months to 30 June 2018 totalled £70.2 million, compared to £75.7 million in the six months to 30 June 2017, i.e. a reduction of £5.5 million (due largely to the non-renewal of some Japanese relationship business where rates/terms were deemed to be outside of the company's risk appetite). In 2018, SJNKE continued to write a similar range of business, in the UK and Western Europe, as it did in 2017.
- 2.4 SJNKE has provided me with its 30 June 2018 QRTs which provide details of its Solvency II balance sheet and capital requirements (as submitted to the PRA). Eligible Own Funds ("EOFs") have decreased by £4.7 million to £138.9 million relative to their position as at 31 December 2017. Nonetheless, based on a reported SCR of £28.9 million, SJNKE had a Capital Cover Ratio ("CCR") of 481% and therefore continues to be a very well-capitalised company according to the classifications<sup>2</sup> I used in the Report.
- 2.5 SJNKE has also provided me with the Chief Actuary reserving report 2<sup>nd</sup> Quarter 2018 Results detailing the results of the actuarial analysis undertaken by the SJNKE as at 30 June 2018.
- 2.6 The report shows the actual versus expected movement in net claims (for accident years 2017 & prior) as at 30 June 2018, compared to the expected movements based on the analysis undertaken as at 31 December 2017. For each major class (Liability, Property and Marine) the actual movements were favourable, i.e. less than that expected, indicating no remedial action was necessary to the net ultimate losses projected as at 31 December 2017.
- 2.7 For the current accident year (2018), the net loss ratio for business exposed up to 30 June 2018 is forecast (on a best estimate basis) to be 5 points higher than that used in the company's business plan (for 2018). The main driver for this adverse outcome has been higher than planned claims arising on facultative (inwards reinsurance) business. Nevertheless, I note that the outcome for the 2018 accident year is very uncertain at this early stage of development (i.e. founded on the six-month incurred position as at 30 June 2018).

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<sup>2</sup> 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%

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- 2.8 I have also considered recent claim activity (post 30 June 2018) arising from a number of catastrophe-type events, namely:
- Floods (Japan – July 2018)
  - Hurricane Florence (USA – September 2018)
  - Typhoon Jebi (Japan – September 2018)
  - Typhoon Mangkut (Philippines – September 2018)
  - Typhoon Trami (Japan – September 2018)
  - Earthquake and Tsunami (Indonesia – September 2018)
  - Hurricane Michael (USA – October 2018)
  - Californian Wildfires (USA – largest in November 2018)
- 2.9 I am informed by SIH that the Japanese floods, typhoons Jebi, Mangkut, and Trami, and the Indonesian earthquake and tsunami are not being monitored as part of SIH's internal post-loss estimation process, because SIH does not expect material losses to SJNKE (or EWIL) from these events given the limited claims emergence observed-to-date (i.e. 23 November 2018). I note that at the date of this Supplemental Report, the other events are being monitored, but SIH does not expect any of these to have a material impact on the solvency position of SJNKE (or EWIL).
- 2.10 I have considered the impact of SJNKE incurring a maximum per event retention (of £1.5 million across both property and marine lines combined) for each monitored event and concluded that it is quite unlikely that in aggregate these losses would result in more than a 5% erosion in SJNKE's capital available as at 30 June 2018. Thus, while these catastrophe events are expected to give rise to incurred claims for SJNKE I do not believe that they materially change the findings of the analysis that support the conclusions contained in the Report in relation to SJNKE. Nevertheless, I note that information on these losses is still emerging and hence there is considerable uncertainty in the estimation of gross losses at this early stage. However, comprehensive reinsurance protection is expected to limit materially the net impact of these losses to SJNKE.
- 2.11 I am informed by SIH that it is possible that SJNKE will make an intra-group capital distribution by end-2018 (prior to the Effective Date). I am further informed by SIH that any pre-Scheme intra-group capital distribution made by SJNKE is to be limited such that the capital of SJNKE is at least £45 million (net of the pension buy-out costs – see paragraph 4.9 below; and the costs of the catastrophe events as described in paragraph 2.10 above). On this basis the surplus assets of SJNKE moving to SIIE under the Scheme are anticipated to be at least as great as those assumed in the Report. Accordingly, the projected post-Scheme capital position of SJNKE would be unchanged, while that of SIIE would either be maintained or enhanced. As such, I see no need to change the findings of my analysis (that support the conclusions contained in the Report) in relation to this matter.
- 2.12 Furthermore, at the date of this Supplemental Report, I am informed by the management of SJNKE that there have been no significant developments in the assets and liabilities of SJNKE since 30 June 2018 (the most recent date at which financial information is available) other than as described above in relation to the recent (post 30 June 2018) catastrophe events and the possible intra-group capital distribution.

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2.13 *I have considered the updated financial information (including the impact of the recent trading performance) of SJNKE and have identified no matters arising that would materially change the findings of the analysis that support the conclusions in the Report.*

### EWIL

- 2.14 I have been provided with the Chief Financial Officer Report 2<sup>nd</sup> Quarter Financial Results (unaudited) for EWIL, i.e. balance sheet and income statement information for the six month period to 30 June 2018 (all stated in USD).
- 2.15 The report shows that EWIL had assets of \$1,519.8 million and liabilities of \$1,018.5 million resulting in net assets (on a GAAP basis) of \$501.3 million as at 30 June 2018. The net assets (on a GAAP basis) have therefore reduced by \$6.0 million relative to the position as at 31 December 2017 of \$507.3 million, i.e. in line with a loss for EWIL in the six month period to 30 June 2018 of \$6.0 million (made up of retained earnings of \$5.6 million offset by losses on other comprehensive income, including currency translations, of \$11.6 million).
- 2.16 Gross written premiums in the six months to 30 June 2018 totalled \$221.8 million, compared to \$187.7 million in the six months to 30 June 2017, i.e. an increase of \$34.1 million (due largely to increases in the reinsurance segment driven by new Motor business within the Casualty class). In 2018, EWIL continued to write a similar range of business, while noting the new Motor reinsurance business.
- 2.17 EWIL has provided me with its 30 June 2018 QRTs which provide details of its Solvency II balance sheet and capital requirements (as submitted to the PRA, and stated in GBP). EOFs have decreased by £13.2 million to £346.1 million relative to their position as at 31 December 2017. Nonetheless, based on a reported SCR of £132.7 million, EWIL has a CCR of 261% and therefore continues to be a very well-capitalised company according to the classifications referenced in paragraph 2.4 above).
- 2.18 EWIL has also provided me with the 1<sup>st</sup> and 2<sup>nd</sup> quarter 2018 Audit Committee Reserve Discussion documents detailing the results of the actuarial analysis undertaken by the EWIL as at 31 March 2018 and 30 June 2018 (both stated in USD).
- 2.19 The documents together show the actual versus expected movement in net claims (for accident years 2017 & prior) as at 30 June 2018, compared to the expected movements based on the analysis undertaken as at 31 December 2017. For each major class (Liability, Property and Marine) the actual movements were favourable, i.e. less than that expected, indicating no remedial action was necessary to the net ultimate losses projected as at 31 December 2017.
- 2.20 For the current accident year (2018), the overall booked net loss ratio for business exposed up to 30 June 2018 is broadly in line with company's business plan (for 2018), although, at a class of business level, there exists differences between those planned and booked. For the Insurance segment the booked loss ratios are generally in line with those planned, other than for Aviation and Property, where the differences are mainly experience-driven. For the reinsurance segment the loss ratios are generally booked at the plan level for all classes except Property Catastrophe, where the booked loss ratio reflects the absence of catastrophe losses (as at 30 June 2018). I note again that the outcome for the 2018 accident year is very uncertain at this stage as it is founded on only the six-month incurred position as at 30 June 2018.
- 2.21 I have also considered recent claim activity (post 30 June 2018) arising from a number of catastrophe-type events as listed in paragraph 2.8 above.

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- 2.22 As described in paragraph 2.9 above, it is the view of SIH that it does not expect material losses for EWIL from the Japanese floods, typhoons Jebi, Mangkut, and Trami and/or the Indonesian earthquake and tsunami, while it is monitoring the other events. Further, I am informed by SIH that it does not expect any of these events to have a material impact on the solvency position of EWIL (or SJNKE).
- 2.23 I have considered the impact of EWIL incurring a per event loss at the upper estimate (as forecast by EWIL) for each monitored event and concluded that it is quite unlikely that, in aggregate, these losses would result in more than a 5% erosion in EWIL's capital available as at 30 June 2018. Thus, while these catastrophe events are expected to give rise to incurred claims for EWIL, I do not believe that they materially change the findings of the analysis that support the conclusions contained in the Report in relation to EWIL. Nevertheless, I note that information on these losses is still emerging and hence there is considerable uncertainty in the estimation of gross losses at this early stage. However, comprehensive reinsurance protection is expected to limit materially the net impact of these losses to EWIL.
- 2.24 Furthermore, at the date of this Supplemental Report, I am informed by the management of EWIL that there have been no significant developments in the assets and liabilities of EWIL since 30 June 2018 (the most recent date at which financial information is available) other than as described above, in relation to the recent (post 30 June 2018) catastrophe events.
- 2.25 ***I have considered the updated financial information (including the impact of the recent trading performance) of EWIL and have identified no matters arising which would materially change the findings of the analysis that support the conclusions in the Report.***
- SIIE*
- 2.26 I have been provided with the Chief Financial Officer Report 2<sup>nd</sup> Quarter Financial Results (unaudited) for SIIE, i.e. balance sheet and income statement information for the six month period to 30 June 2018 (all stated in EUR). I note (as indicated in the Report) that SIIE only commenced underwriting on 1 September 2018 (see paragraph 2.28 below) and thus had no insurance liabilities as at 30 June 2018.
- 2.27 The report shows that SIIE had assets of €91.7 million and liabilities of €0.9 million resulting in net assets (on a GAAP basis) of €90.8 million as at 30 June 2018, which are essentially equivalent to EOFs, as calculated under Solvency II. The SCR and MCR calculated for SIIE were €22.4 million and €2.5 million (the latter being the EIOPA statutory minimum mandated for regulated insurance companies) respectively, giving a CCR of 406% (i.e. the ratio of EOF to SCR).
- 2.28 SIIE began renewing the business from SJNKE on and from 01 September 2018; however, the business scheduled for renewal from EWIL into SIIE on and from 01 September 2018 has been delayed to 1 January 2019. As such gross written premiums to 31 December 2018 are now forecast to be circa €9 million rather than circa €33 million (as per the financial forecasts, dated 18 February 2018, as prepared by SIH for each of SIIE, SJNKE and EWIL over the 5 year period 2018 - 2022).
- 2.29 Furthermore, at the date of this Supplemental Report, I am informed by the management of SIIE that, other than the commencement of underwriting on and from 1 September 2018, there have been no significant developments in the assets and liabilities of SIIE since 30 June 2018 (the most recent date at which financial information is available).

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2.30 *I have considered the updated financial information (including the impact of the recent trading performance) of SIIE and have identified no matters arising which would materially change the findings of the analysis that support the conclusions in the Report.*

*SJNKI*

2.31 I have been provided with the unaudited balance sheet and revenue accounts for SJNKI as at 30 June 2018. Table 2.1 below summarises the assets, underwriting funds (i.e. net loss reserves and unearned premiums) and financial ratios for SJNKI as at 31 December 2017 (the financial position as per the Report) and 30 June 2018.

**Table 2.1**

**Changes in Financial Accounting Ratios for SJNKI**

	As at 31 December 2017	As at 30 June 2018
<b>¥bn</b>		
Net Assets	1,834	1,615
Total Assets	7,915	7,592
Underwriting Funds	5,683	4,791
<b>Ratios</b>		
Net Assets : Total Assets	23%	21%
Net Assets : Underwriting Funds	32%	34%

2.32 Table 2.1 above shows financial ratios as at 30 June 2018 that are broadly consistent to those generated as at 31 December 2017 (the financial position as per the Report). ***As such, I see no need to revise any of the conclusions I set out in the Report in relation to SJNKI based on this additional information.***

*ESIL*

2.33 I have been provided with the unaudited balance sheet and revenue accounts for ESIL as at 30 June 2018. Table 2.2 below summarises the assets, underwriting funds and financial ratios for ESIL as at 31 December 2017 (the financial position as per the Report) and 30 June 2018.

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**Table 2.2**

**Changes in Financial Accounting Ratios for ESIL**

	As at 31 December 2017	As at 30 June 2018
<b>\$m</b>		
Net Assets	7,270	7,193
Total Assets	18,756	21,252
Underwriting Funds	9,327	11,004
<b>Ratios</b>		
Net Assets : Total Assets	39%	34%
Net Assets : Underwriting Funds	78%	65%

- 2.34 Table 2.2 above shows net assets of circa \$7 billion as at both 30 June 2018 and 31 December 2017 (the financial position as per the Report), while the financial ratios as at 30 June 2018 appear inconsistent to those generated as at 31 December 2017. This difference in the ratios is largely related to the timing of the premium flow within ESIL as described in paragraph 2.35 below.
- 2.35 ESIL underwrites a significant portion of its business as of 1 January each year (and these premiums earn out over the course of the calendar year). Therefore, the calculated ratios in Table 2.2 above reflect a very low unearned premium reserve at 31 December 2017 and a much higher unearned premium reserve at 30 June 2018, as there are 6 months remaining in 2018 over which ESIL’s premiums will be earning out. Consequently, the difference in the ratios is essentially one of seasonality within ESIL’s premium earning pattern, rather than an indication of adverse development of the business underwritten by ESIL. ***As such, I see no need to revise any of the conclusions I set out in the Report in relation to ESIL based on this additional information.***

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## 3 Further Consideration of the Businesses Transferring

### *Quantum of Businesses Transferring*

- 3.1 In the Report, I consider the businesses that are proposed to transfer to SIIE, and the business that is to transfer to EWIL. In particular, I consider the amount of the technical provisions transferring, along with the premiums forecast to be written in 2018 (and through to 2022)
- 3.2 As mentioned in paragraph 2.28 above, there has been a delayed start in underwriting by SIIE. I am informed by SIH that the original financial projections (prepared by SIH, dated 18 February 2018) have been updated to allow for the delayed start in underwriting by SIIE and:
- the Barcelona sourced business hub assumed to be written by EWIL over the forecast time horizon (2018 – 2022) being directed to SIIE (rather than EWIL) from 1 January 2019; and
  - the introduction to SIIE of an Italian crop business sourced through a recently acquired broker (named A&A) with effect from 1 January 2019.
- 3.3 The effect of these changes does not alter the overall combined entities (SIIE, EWIL and SJNKE) forecast premiums in 2018 (of circa \$670 million) but reduces the amount in SIIE, and at the same time increases the amounts in EWIL and SJNKE. The updated forecast gross written premiums (“GWP”) for 2018 in SIIE, EWIL and SJNKE represent 1%, 83% and 16% respectively of the combined total GWP (compared to 5%, 80% and 15% in the original forecast). Thus, while there has been a relatively large decline in the proportion of forecast GWP for SIIE, the impact in nominal terms is minimal, as is also the case for EWIL and SJNKE.
- 3.4 The amount of gross liabilities (case reserves and IBNR) to be assumed by SIIE in relation to the Transferring EWIL EEA (excluding UK) Business and the Transferring SJNKE EEA (excluding UK) Business<sup>3</sup> on the Effective Date (assumed to be 31 December 2018 for illustrative purposes) has been updated to reflect the business changes identified in paragraph 3.2 above. The impact of these changes is for the gross liabilities transferring to SIIE (as used in the Report) to move by less than 3% relative to the corresponding reforecast amount.
- 3.5 Likewise, the amount of gross liabilities (case reserves and IBNR) to be assumed by EWIL in relation to the Transferring SJNKE UK and non-EEA Business on the Effective Date (assumed to be 31 December 2018 for illustrative purposes) has been updated to reflect the business changes identified in 3.2 paragraph above. The impact of these changes is for the gross liabilities transferring to EWIL (as used in the Report) to move by less than 2% relative to the corresponding reforecast amount.
- 3.6 As such, I see no matters arising from the updated quantum of business transferring under the Scheme to SIIE or EWIL (as the case may be) that would cause me to change any of my assumptions based on the updated information.

### *Financial Resources of the Companies (post-Scheme)*

- 3.7 As mentioned in paragraph 3.2 above, SIH has updated the original financial projections for the Companies (dated 18 February 2018) to reflect the changes in the business plan over 2018 – 2022, and has produced a Briefing Note that includes, among other items, projected Own Funds and SF SCR for each of the Companies on pre- and post-Scheme bases.

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<sup>3</sup> Includes the facultative reinsurance business of SJNKE administered through its branches or by its agent, Canopi BV in the Netherlands.



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3.8 I have compared the updated projections contained in the Briefing Note, with those used in my original analysis (and discussed the updated projections with the Chief Risk Officer for SIH) in order to identify if the conclusions in the Report would change. I note that:

- The updated financial forecasts are consistent with my understanding of the changes to the business plan for the Companies over the projection period (2018 – 2022); and
- The updated Own Funds and SF SCR and consequent CCRs (which act as a proxy for implied capital adequacy) are similar to those I considered when preparing the Report, and the movement between them is directionally the same.

3.9 ***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 set out in paragraphs 2.10 and 2.11 of the Report).***

### *Exposure of the Transferring Policyholders to Potential Adverse Stresses*

3.10 Following the changes to business plan over 2018 – 2022, which largely effect SIIE, I have considered the impact on SIIE of potential adverse stresses in the near to medium term (to supplement the sensitivity analysis performed in the Report). In particular:

- Higher written income in SIIE, i.e. SIIE being successful in achieving a higher growth rate than that set out in the reforecast plan in addition to a reduced utilisation of intra-group reinsurance coverages. Specifically, this scenario leads to GWP exceeding the reforecast plan by up to 22% by 2022, and net earned premiums (“NEP”) increasing by circa 130% by 2022 (as a result of the additional growth in GWP and a reduction to the level of intra-group reinsurance purchased on a whole-account basis by SIIE). In this scenario, the projected CCR for SIIE declines relative to the corresponding position pre-stress, but remains above 200% over 2018 – 2021 falling below 200% in 2022. Therefore, under this stress scenario, SIIE continues to be characterised as a very well-capitalised company over the period 2018 – 2021, and a well-capitalised company (on the boundary of very well-capitalised) in 2022;
- Higher than forecast Transferring SJNKE EEA (excluding UK) Business and Transferring EWIL EEA (excluding UK) Business, i.e. a higher proportion of business moving to SIIE under the Scheme. Specifically, this scenario assumes that the quantum of transferring gross claim reserves on the Effective Date are circa 23% higher than currently anticipated. In this stress scenario, while, as expected, the CCR for SIIE declines the impact diminishes as the EEA (excluding UK) Business within EWIL and SJNKE transferred to SIIE runs-off. Nonetheless, in this scenario the CCR remains above 200% throughout the projection period (2018 – 2022) and, therefore, SIIE continues to be characterised as a very well-capitalised company throughout the projection period (2018 – 2022); and

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- Reduced reinsurance protection on Transferring SJKNE EEA (excluding UK) Business and Transferring EWIL EEA (excluding UK) Business, i.e. it is not possible to endorse the historic third-party reinsurance contracts currently providing protection to the business bound within EWIL so as to add SIIE as a reinsured. Specifically, the value of reinsurance recoverables on the Transferring EWIL EEA (excluding UK) Business is reduced by 50% following the Scheme (together with a subjective load applied to the reserve risk charge in the SCR forecasting approach to reflect the increased risk retention). In this stress scenario, while as expected, the CCR for SIIE falls it remains above 200% throughout the projection period (2018 – 2022) and therefore SIIE continues to be characterised as a very well-capitalised company throughout the projection period (2018 – 2022).
- 3.11 In none of the above stress scenarios is the solvency (i.e. own funds being greater than zero) of SIIE (post-Scheme) threatened, and SIIE would therefore have sufficient financial resources to be able to pay claim obligations to its policyholders under the stresses considered. Indeed, for each of the stress scenarios SIIE remains a very well-capitalised company throughout the projection period (2018 – 2022) other than under the first scenario in 2022 where it would be characterised as a well-capitalised company (on the boundary of very well-capitalised).

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## 4 Other Matters

### *Regulatory Approvals*

- 4.1 SIH has confirmed to me that SIIE filed with the CAA its notifications to pursue insurance business by way of branch establishments in Belgium, France, Germany, Italy, Spain and the United Kingdom. The CAA filed the notifications with the host Member State regulators on 1 June 2018 or thereabouts. Accordingly, SIIE is now permitted to operate its branches in the EEA on a freedom of establishment and freedom of services basis in specified classes of business.

### *Endorsement of Reinsurance Contracts*

- 4.2 SIH intends to modify the outwards reinsurance contracts that currently provide reinsurance protection to the business written by SJNKE and/or EWIL. This means that SIH plans to reach agreement with each reinsurer that the reinsurance that they provide will continue to apply to all of the Transferring SJNKE EEA (excluding UK) Business that transfers to SIIE, all of the Transferring EWIL EEA (excluding UK) Business that transfers to SIIE, and to all of the Transferring SJNKE UK and non-EEA Business that transfers to EWIL. Therefore, after the modification of reinsurance is completed there would be no material change to the reinsurance protecting the business written by SJNKE or EWIL.

- 4.3 I noted in the Report that SIH reached an internal agreement in principle to proceed with modifications with those reinsurers of SJNKE and EWIL that are part of the Sompo Group. These agreements have now been formally recorded in legally binding documents. There are, however, a number of reinsurers of SJNKE and/or EWIL that are external to the Sompo Group.

- 4.4 In relation to this external reinsurance I note that:

- to the extent that outwards reinsurance is governed by English law, SIIE and EWIL can rely on the Court recognising that the Scheme provides that the reinsurance will cover:
  - SIIE, to the extent that the underlying business will be (re)insured by SIIE following the Scheme; and
  - EWIL, to the extent that the underlying business will be (re)insured by EWIL following the Scheme

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

- to the extent that outwards reinsurance is governed by non-English law, EWIL and SJNKE, either as a result of the existing terms of the contracts or as a result of endorsements obtained in connection with the proposed Scheme, have ensured that under a number of contracts the reinsurance will cover:
  - SIIE, to the extent that the underlying business will be (re)insured by SIIE following the Scheme; and
  - EWIL, to the extent that the underlying business will be (re)insured by EWIL following the Scheme

## Supplemental Report of the Independent Expert on the proposed transfer of the EEA businesses of Sampo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sampo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited.

- the result of the points made above is that there are only approximately 12 outwards reinsurance contracts out of a total of approximately 106 outwards reinsurance contracts that are non-group, non-English law contracts where the desired treatment could not be guaranteed. Agreement has been reached with the brokers involved to endorse all 12 contracts so that they continue to cover (post-Scheme) the relevant parts of the Transferring Business. As at 28 November 2018, endorsements for all but two of the contracts have been received.
- 4.5 Even though the risk of loss of outwards reinsurance is now almost entirely fully mitigated for SIIE and EWIL for the reasons set out in paragraph 4.4 above, given the risk that SIH would fail to reach agreement to endorse SIIE/EWIL (as appropriate) onto all of the historic reinsurance contracts currently providing protection to the business bound with SJNKE or EWIL that transfers to SIIE or EWIL (as appropriate), I undertook a stress test (see paragraph 3.10 above) to assess the impact of this scenario on, in particular, SIIE. The results indicate that SIIE remains a very well-capitalised company under this stress scenario throughout the projection period (2018 – 2022).
- 4.6 In light of the above, I identify no significant matters which would cause me to change my conclusion on the effect of the Scheme on the levels of security afforded to those transferring policyholders relating to the possible failure of SIH to reach agreement to endorse SIIE/EWIL (as appropriate) onto all of the historic reinsurance contracts currently providing protection to the business bound within SJNKE or EWIL that transfers to SIIE or EWIL (as appropriate).

### *Functional Currency Change*

- 4.7 I am informed by SIH that, as described in the Report, it remains the intention of the Sampo Group for EWIL to change its functional currency from GBP (as operated currently) to USD with effect from 1 January 2019. As this planned action is consistent with the assumption used in the Report I see no need to change the findings of my analysis (that support the conclusions contained in the Report) based on this matter.

### *Net Worth Agreements*

- 4.8 I have received a copy of a letter signed by EWIL and ESIL that gives 90 days' notice from 30 August 2018 of the termination of the Surety Bond. Furthermore, I have received a copy of the executed EWIL NWA (i.e. the replacing instrument) dated 14 September 2018. In light of this, I identify 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 policyholders of EWIL (be they Non-Transferring EWIL Policyholders who presently enjoy the additional security afforded by the Surety Bond, or Transferring SJNKE UK and non-EEA Policyholders who presently enjoy the additional security afforded by the SJNKE NWA) that is in each case to be replaced by the EWIL NWA.

### *Defined Benefit Pension Liability of SJNKE*

- 4.9 I am informed by SIH that agreement with a third party insurer to take on (buy-out) all the liabilities of the SJNKE defined benefit pension plan (with the estimated cost of circa £11 million) has been completed and the liabilities transferred on 27 November 2018.
- 4.10 The cost of the buy-out is ultimately to be borne by Sampo Holdings via Sampo International Holdings. Initially, however, SJNKE will pay the cost of the buy-out from its own funds, but Sampo Holdings will subsequently absorb the cost from the surplus capital of SJNKE, in which case the potential intra-group capital distribution will be reduced to reflect this cost.

## Supplemental Report of the Independent Expert on the proposed transfer of the EEA businesses of Sompo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sompo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited.

### *Excluded Policies*

- 4.11 If any Transferring SJNKE EEA (excluding UK) Policies and/or any Transferring EWIL EEA (excluding UK) Policies are excluded from the Scheme for any reason, then those policies will not be transferred to SIIE. Likewise, if any Transferring SJNKE UK and non-EEA Policies are excluded from the Scheme for any reason, then those policies will not be transferred to EWIL. However, I am informed that the Companies have no reason to believe that any such policy will not be transferred under the Scheme.

### *Policyholder Notification*

- 4.12 I am informed by SIH that the notification policy has been carried out in accordance with the proposals put forward at the directions hearing for the Scheme, in particular that EWIL, SJNKE and SIIE undertook the notification process between 7 and 21 September 2018.
- 4.13 SIH has provided me with a document summarising the results of the policyholder notification process as at 28 November 2018. The enquiries as at 28 November 2018 consist of a relatively small number of comments and queries from recipients (relative to the number of letters sent). The overwhelming majority of the comments and queries 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 SJNKE or EWIL. I note that there have been no objections relating to the Scheme made by policyholders and other relevant parties.
- 4.14 Based on there being no objections to the Scheme (at the date of this Supplemental Report) and my review of the enquiries and related responses from SIH, 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 Sompo International*

- 4.15 Based on my discussions with the management team of SIH, and as supported in subsequent written communications, I understand that SIH currently has no planned significant future transactions and/or other changes (e.g. corporate restructuring, or substantial variations in new business strategy or operational plans) that would materially affect policyholders post-Scheme, i.e. the future intentions of SIH are consistent with those documented in the Supplemental Report.
- 4.16 ***Therefore, I believe it unlikely that any transactions and/or other changes relating to SIH 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*

- 4.17 I have asked the management of SIH to provide me with details of any changes to the operational plans of the Companies that I was not aware of at the time of writing the Report.
- 4.18 The management of SIH has informed me that, other than the changes to the business plan for the Companies (as outlined in paragraph 3.2 above) and the change in the functional currency for EWIL (see paragraph 4.7 above) 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 SIH 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.

**Supplemental Report of the Independent Expert on the proposed transfer of the EEA businesses of Sompo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sompo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited.**

*Brexit*

- 4.19 The EU endorsed the Withdrawal Agreement (and Political Declaration) on 25 November 2018, and the UK parliament is expected to vote on the Withdrawal Agreement (and Political Declaration) on 12 December 2018. However, 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. Further, I am not aware of anything in the Withdrawal Agreement (and Political Declaration) on the 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, including those made in relation to FSCS protection.

# Supplemental Report of the Independent Expert on the proposed transfer of the EEA businesses of Sompo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sompo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited.

## 5 Expert Opinion

### *Confirmation of Opinion*

- 5.1 I have further considered the effect of the proposed Scheme on the transferring policyholders of EWIL and SJNKE, on the existing policyholders of SIIE, and on the existing non-transferring policyholders of EWIL. I confirm that my overall opinion and conclusions as set out in Section 10 of the Report are unchanged.
- 5.2 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*

- 5.3 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court and have complied with that duty.

### *Statement of Truth*

- 5.4 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

30 November 2018

# Supplemental Report of the Independent Expert on the proposed transfer of the EEA businesses of Sampo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sampo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited.

## APPENDIX A KEY SOURCES OF DATA

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

- Chief Financial Officer Report 2<sup>nd</sup> Quarter Financial Results for SJNKE, dated 13 September 2018
- Chief Actuary Reserving Report 2<sup>nd</sup> Quarter 2018 Results for SJNKE, dated 12 September 2018
- Solvency II QRTs for SJNKE as at 30 June 2018
- Chief Financial Officer Report 2<sup>nd</sup> Quarter Financial Results for EWIL, dated 13 September 2018
- 2Q 2018 Audit Committee Reserve Discussion for EWIL, dated 12 September 2018
- EWIL Solvency II QRTs as at 30 June 2018
- EWIL Actuarial Function report as at 31 December 2017
- Chief Financial Officer Report 2<sup>nd</sup> Quarter Financial Results for SIIE, dated 14 September 2018
- A copy of the Deed of Variation between SJNKE and the ILU in relation to policies transferred from SJNKE to SIIE or EWIL, dated 25 June 2018
- Copies of the executed Net Worth Agreements between ESIL and EWIL and ESIL and SIIE; and a copy of the letter between ESIL and EWIL (dated 30 August 2018) giving 90 days' notice of the termination of the Surety Bond
- Part VII Briefing Note prepared by SIH (dated 1 October 2018) summarising changes to the projected 2018 – 2022 business plans and associated capital projections of SIIE, SJNKE and EWIL relative to the original projections dated 18 February 2018
- Audited accounts for SJNKE as at 31/03/2018 and extracts from interim financial statements as at 30/06/2018
- Audited accounts for ESIL as at 31/12/2017 and extracts from management accounts as at 30/06/2018
- An update note on SIIE's application to the CAA for the creation of branches (in Belgium, France, Germany, Italy, Spain and the UK).
- Update notes on catastrophe losses dated 25 October 2018 and 28 November 2018
- A copy of a document (spreadsheet) maintained by SIH (dated 28 November 2018) detailing enquiries from policyholders and others about the Scheme.

A.2 Information was also gathered in telephone conversations and e-mail correspondence with staff of SJNKE, EWIL and SIIE.



# Supplemental Report of the Independent Expert on the proposed transfer of the EEA businesses of Sompo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sompo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited.

## APPENDIX B LETTERS OF REPRESENTATION



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

30 November 2018

Dear Mr Wells

**Letter of Representation – Part VII transfer of the of the EEA businesses of Sompo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sompo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited**

### 1. Introduction

I refer to the proposed insurance business transfers (the "Scheme") by which EEA businesses of Sompo Japan Nipponkoa Insurance Company of Europe Limited ("SJNKE") and Endurance Worldwide Insurance Limited ("EWIL") will transfer to SI Insurance (Europe), SA ("SIIE"), and the non-EEA business of Sompo Japan Nipponkoa Insurance Company of Europe Limited will transfer to Endurance Worldwide Insurance Limited, pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA"). SJNKE, EWIL and SIIE are collectively referred to as the "Companies".

### 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 CAA (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 16 August 2018 and the Independent Expert's Supplemental Report dated 30 November 2018 (together the "Aggregate Report") accurately and fairly reflect my understanding of the details of the proposed Scheme, and that 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 Sompo 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.

Page 1 of 3

# Supplemental Report of the Independent Expert on the proposed transfer of the EEA businesses of Sompo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sompo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited.



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.
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 and 30 June 2018 both 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 and 30 June 2018 are both 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 1<sup>st</sup> October 2018) 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;
  - There will be no policyholders left in SJNKE after the Scheme, and all existing policies will be transferred to SIIE or EWIL (as appropriate);
  - It is not planned that there will be a distribution of capital (other than that identified in sub-item 6. below) 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 EWIL and SIIE 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, 30 June 2018, and those projected at each year-end over the period 2018 – 2022, using the Standard Formula as per the Solvency II Directive 2009/138/EC continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.
6. I confirm that it is possible that SJNKE will make an intra-group capital distribution by end-2018 (and prior to the Effective Date of the Scheme), subject to the net assets of SJNKE immediately prior to the implementation of the Scheme being at least £45 million.
7. I confirm that the proposed Scheme is to be carried out in conjunction with a cross border merger of SJNKE into SIIE, and that as a consequence of the cross border merger no assets or liabilities will remain within SJNKE (with all surplus assets of SJNKE being transferred to SIIE) and SJNKE will be dissolved without going into liquidation.
8. I confirm that there are currently no plans pursuant to the Scheme to materially change:

# Supplemental Report of the Independent Expert on the proposed transfer of the EEA businesses of Sompo Japan Nipponkoa Insurance Company of Europe Limited and Endurance Worldwide Insurance Limited to SI Insurance (Europe), SA and the non-EEA business of Sompo Japan Nipponkoa Insurance Company of Europe Limited to Endurance Worldwide Insurance Limited.



- 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.
9. 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:
- there were no unusual backlogs of unprocessed claims correspondence at 31 December 2017 and 30 June 2018; and
  - appropriate case estimates were applied to all reported claims which remained open at 31 December 2017 and 30 June 2018.
10. Following the Scheme, SIIE 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.
11. 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 transfers under the Scheme.
12. To the best of my knowledge and belief (other than the updated business plan for the Companies and the planned change to the functional currency employed by EWIL) 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.

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,

A handwritten signature in black ink, appearing to read "Takashi Kurumisawa".

**Takashi KURUMISAWA**  
Director

*For and on behalf of*  
*Endurance Worldwide Insurance Limited*  
*Sompo Japan Nipponkoa Insurance Company of Europe Limited*  
*SI Insurance (Europe), SA*