Supplementary Report by Simon Sheaf FIA FSAI, Independent Actuary, on the Proposed Transfer of a Portfolio of Policies from Zurich Insurance plc to East West Insurance Company Limited

12 February 2018

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1 Introduction

1.1 Zurich Insurance plc ("ZIP") and East West Insurance Company Limited ("EWICL") have jointly nominated Simon Sheaf ("I", "me") of Grant Thornton UK LLP ("Grant Thornton", "we", "us") to act as the Independent Actuary for the proposed insurance business transfer scheme ("the Scheme") of elements of the insurance business of ZIP to EWICL. The Scheme is intended to be effected on 31 March 2018 ("the Effective Date").

Scope of this report

1.2 I prepared a report addressed to the Irish High Court ("the Court") dated 3 July 2017 and entitled "Report by Simon Sheaf FIA FSAI, Independent Actuary, on the Proposed Transfer of a Portfolio of Policies from Zurich Insurance plc to East West Insurance Company Limited" ("the Report"). The Report set out my considerations as to the likely effects of the proposed Scheme on the policyholders of ZIP and EWICL. This included my assessment as to whether the Scheme will result in material detriment to any policyholders affected by the Scheme relative to their current situation.

1.3 The conclusions within the Report were based on financial information as at various dates between 31 December 2015 and 30 September 2016 and other information available to me when I prepared the Report. Since submitting the Report to the Court, I have been provided with more recent information. A list of the additional information that I have been provided with is contained within Appendix A.

1.4 This report ("the Supplementary Report") provides an update to the conclusions I set out in the Report in light of this additional information. It also considers any other changes that have occurred since the Report was submitted and provides an update to the conclusions set out in the Report in the light of those changes. In addition, this report also provides my opinion on the communications received from policyholders and other interested parties of ZIP and EWICL.

1.5 One of the changes since the Report is that the Effective Date has been moved from 1 November 2017 to 31 March 2018 as a result of discussions between ZIP, EWICL, the CBI and the PRA. This is discussed further in Section 7.

1.6 I am not aware of any further matters not discussed in this report that have the potential to change the conclusions in the Report.

Layout of this report

1.7 My report is structured as follows:

- This section sets out an introduction to the Scheme and to this report.
- The second section is an executive summary, which summarises the Scheme and the various analyses conducted and describes my conclusion.
- Section 3 sets out significant changes to each of ZIP and EWICL since the Report, along with any developments external to ZIP and EWICL.
- Section 4 describes the work that I have carried out to review my conclusions in respect of the claims reserves of ZIP and EWICL.
- Section 5 describes the work that I have carried out to review my conclusions in respect of the capital requirements of ZIP and EWICL.
- Section 6 describes the work that I have carried out to review my conclusions in respect of policyholder security.
- Section 7 describes the work that I have carried out to review my conclusions in respect of my assessment of other policyholder considerations.
- Section 8 describes the work I have done to consider the communications process.
- Section 9 sets out my conclusions on the Scheme.

Independence

1.8 I have no financial interest in ZIP or the group of companies to which ZIP belongs.

1.9 I have recently been involved in a project advising ZIP in a professional capacity. I have also recently been engaged to act as the Independent Actuary for the proposed Section 13 transfer of another insurance portfolio from ZIP, which is due to become effective in November 2018. I do not believe that these assignments impair my independence to act as the Independent Actuary on the Scheme.

1.10 I have no financial interest in, nor have I previously advised in a professional capacity, EWICL or the group to which it belongs.

1.11 I have reviewed all current and past business relationships between Grant Thornton UK LLP or other member firms of Grant Thornton International Ltd and ZIP or EWICL, or the groups of companies to which they belong, and I do not believe that any of these business relationships create a conflict with my acting as the Independent Actuary on the proposed Scheme.

Use of this report

1.12 This Supplementary Report should be read in conjunction with the Report as reading this report in isolation may be misleading. In particular, this report has an analogous scope and is subject to the same reliances and limitations and restrictions on distribution and use as the Report. All abbreviations and technical terms used in this Supplementary Report have the same meaning as in the Report.

1.13 This report is provided for the use of the Court, the ZIP Board, the EWICL Board, ZIP's policyholders, EWICL's policyholders, the CBI, the PRA, the FCA and any other relevant regulator for the sole purpose of considering the impact of the Scheme on the affected policyholders.

1.14 Copies of the final version of this report may be made available for inspection by policyholders and copies may be provided to any person requesting the same in accordance with legal requirements. The final version of this report may also be made available on the websites hosted by ZIP and ARML in connection with the Scheme.

1.15 Grant Thornton does not assume any responsibility nor accept any liability to any party other than ZIP, EWICL, or the Court who chooses to act on the basis of any of the reports we have issued in connection with the Scheme.

1.16 Judgements about the conclusions drawn in this report should only be made after considering this report in its entirety as any part or parts read in isolation may be misleading.

1.17 The underlying figures contained in this report are calculated to many decimal places. In the presentation of the figures in the various tables, there may be reconciliation differences due to the effect of rounding.

1.18 Unless otherwise stated, the figures used throughout this report are shown in sterling and, where necessary, have been converted at the following exchange rates:

Table 1: Exchange rates (£1 =)

	€
30 September 2016	1.1558
30 September 2017	1.1349

These were the Bank of England rates as at the appropriate dates.

Professional guidance

1.19 In producing this report, I have taken into consideration the provisions contained in Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015 in relation to the transfer of long term (or life insurance) business. Even though parts of this legislation and regulations relate to life business, I consider it appropriate to consider it all in my work.

1.20 In my opinion, this report has been produced in line with the requirements of the Technical Actuarial Standards ("TASs") issued by the Financial Reporting Council ("FRC"). In particular, this report has been prepared in accordance with TAS 100: Principles of Technical Actuarial Work and TAS 200: Insurance.

1.21 This report has also been produced in line with the requirements of APS X3: The Actuary as an Expert in Legal Proceedings produced by the Institute and Faculty of Actuaries.

1.22 In producing this report, I have taken into consideration the Actuarial Standard of Practice issued by the Society of Actuaries in Ireland, ASP-L6, "Transfer of long-term business of an authorised insurance company – role of the Independent Actuary." Even though this standard is related to life business, I consider it appropriate to consider it in my work.

Statement of truth

1.23 I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge, I confirm to be true. The opinions I have expressed represent my true and complete professional view on the matters to which they refer.

2 Executive Summary

My approach

2.1 In preparing this report, I have considered relevant events and experience since completing the Report and their effect on the conclusions set out in the Report. In particular, I have sought to:

- Understand changes to ZIP and EWICL since the Report, both financial and non-financial
- Understand the impact of changes in the external environment on ZIP and EWICL
- Consider the implications of these changes on the level of security provided to the affected policyholders
- Consider the potential impact of changes since the Report on levels of customer service
- Consider the changes in other factors that might affect policyholders since the Report
- Consider the implication of changes since the Report on reinsurers.

2.2 Since the Report was issued, I have been provided with additional comparative information for each legal entity, including:

- Balance sheet information based on figures as at 30 September 2017
- Internal actuarial review of reserves for the Transferring Portfolio that was undertaken by ARML as at 30 September 2017
- Internal actuarial review of reserves for ZIP as at 31 December 2016
- Estimates of the regulatory capital required for ZIP and EWICL as at 30 September 2017
- Solvency and Financial Condition Report for ZIP as at 31 December 2016
- Solvency and Financial Condition Report for EWICL as at 30 June 2017
- 2017 ORSA reports for ZIP and EWICL
- internal management information for both ZIP and EWICL.

2.3 I have also considered the correspondence with policyholders of ZIP and EWICL that has taken place in connection with the Scheme and the responses received up to 23 January 2018.

Findings

2.4 The findings set out in this report are summarised in this section. The detailed explanation behind these conclusions follows in the body of this report and within the Report.

2.5 With respect to the transferring policyholders, I do not expect any material adverse impact on policyholder security as a result of the Scheme. These policyholders would be moving to a company that I believe has a sufficient level of capital in order to meet policyholder obligations.

2.6 With respect to the policyholders remaining in ZIP, I do not expect any material adverse impact on policyholder security as a result of the Scheme as the Transferring Portfolio is immaterial in the context of ZIP's overall business.

2.7 With respect to the existing policyholders of EWICL, I do not expect any material adverse impact on policyholder security as a result of the Scheme as the coverage ratio of EWICL is expected to improve as a result of the Scheme.

2.8 There will be no substantial change in the standards of service experienced by any of the groups of policyholders following the Scheme.

2.9 There will be no change in the pension arrangements for either company as a result of the Scheme.

2.10 I do not expect any material adverse impact to the Transferring Policyholders as a result of a different investment strategy following the Scheme.

2.11 I do not expect any material adverse impact to either group of policyholders resulting from changes from ongoing expense levels as a result of the Scheme.

2.12 I do not expect any material adverse impact to the Transferring Policyholders as a result of changes in management and governance following the Scheme.

2.13 I expect that those policyholders that had access to the Financial Services Compensation Scheme prior to the Scheme will continue to do so following the Scheme.

2.14 I expect that those policyholders that had access to the Financial Ombudsman Service in the UK prior to the Scheme will continue to do so following the Scheme. Despite the transferring policyholders no longer also having access to the Financial Services Ombudsman in Ireland following the Scheme, I do not consider this to give rise to a material adverse impact. This is because those policyholders will still have access to the Financial Ombudsman Service in the UK, which gives them access to a robust complaints handling service.

2.15 I expect no material adverse impact on the current and historic reinsurers of ZIP or the existing reinsurers of EWICL.

Conclusion

2.16 I conclude that I do not expect any group of policyholders or reinsurers to be materially adversely affected by the Scheme and therefore I see no reason why the Scheme should not proceed.

3 Business Developments

ZIP

3.1 Since the Report, ZIP has announced the sale of a portfolio of German medical malpractice policies that it wrote until 2012 through its German branch. It has entered into a 100% reinsurance agreement with Catalina Insurance Ireland DAC ("Catalina") in respect of this business. It is expected that this business will transfer to Catalina in November 2018. The gross reserves on this business as at 30 September 2017 were approximately €345m, compared to ZIP's total gross reserves of approximately €19bn. This transaction is not expected to have a material impact on the balance sheet of ZIP. As a result, I do not consider that it will have a material impact on the Scheme.

3.2 Apart from the above, I understand from ZIP that there have been no material changes in its business since the Report was issued.

EWICL

3.3 I understand from EWICL that there have been no material changes in its business since the Report was issued.

Regulatory developments

Brexit

3.4 As at the time of writing this report, nothing has been decided on the future relationship of the UK with the EU following Brexit.

3.5 It follows that there have not been any changes in relation to Brexit that give me reason to change the conclusions in the Report.

4 Claims Reserves

Reserve strength of the Transferring Portfolio

4.1 I have been provided with an actuarial reserve review as at 30 September 2017, undertaken by a senior actuary at ARML on behalf of both EWICL and Cell J for ILS. This analysis was conducted by the same actuary that conducted the analysis as at 30 September 2016.

4.2 I am satisfied that the actuary at ARML has the necessary experience and expertise to undertake a review of this nature and for me to rely on this review.

4.3 I have undertaken a review of this analysis, supported by discussions with the actuary who prepared the analysis, to assess the reasonableness of the claims reserves as at 30 September 2017. I discuss the key elements of my review in the remaining paragraphs of this section.

4.4 The table below sets out the ARML estimate of the claims reserves of the Transferring Portfolio as at 30 September 2017 with a comparison against its booked reserves as at 30 September 2016.

Table 2: Claims reserves of the Transferring Portfolio as at 30 September 2016 and 30 September 2017

£m	30-Sep-16	30-Sep-17	Difference
Reserves	71.70	40.03	(31.67)

4.5 As can be seen from the above table, the claims reserves of the Transferring Portfolio have reduced substantially since the Report.

4.6 The reduction in the reserves is predominantly driven as a result of claims settling and therefore payments being made. In addition, ARML has reduced its expected ultimate cost of SIP claims. The table below sets out an analysis of the movements in booked reserves between 30 September 2016 and 30 September 2017.

Table 3: Analysis of movement in booked reserve between 30 September 2016 and 30 September 2017

£m	Total
Booked reserves as at 30 September 2016	**71.70**
plus Claims paid on LOD claims between 30 September 2016 and 30 September 2017	(0.30)
plus Claims paid on DGP claims between 30 September 2016 and 30 September 2017	(3.40)
plus Claims paid on SIP claims between 30 September 2016 and 30 September 2017	(23.73)
plus Change in estimated ultimate cost of LOD claims between 30 September 2016 and 30 September 2017	0.24
plus Change in estimated ultimate cost of DGP claims between 30 September 2016 and 30 September 2017	0.27
plus Change in estimated ultimate cost of SIP claims between 30 September 2016 and 30 September 2017	(4.75)
Booked reserves as at 30 September 2017	**40.03**

4.7 As can be seen from the table above, the substantial majority of the reduction in the reserves between 30 September 2016 and 30 September 2017 is due to the settlement and payment of claims. I discuss the changes to the analysis that result in the reduction of the estimate of ultimate SIP claims (both large and small) in paragraphs 4.8 to 4.17 below.

Large SIP claims

4.8 The estimated ultimate claims for large SIP claims reduced by £3.48m between 30 September 2016 and 30 September 2017.

4.9 The table below shows a breakdown of the change in estimated ultimate claims for large SIP claims between 30 September 2016 and 30 September 2017.

Table 4: Change in estimated ultimate claims for large SIP claims

£m	Ultimate as at 30 September 2016	Ultimate as at 30 September 2017	Change
Claims notified prior to the 30 September 2016	55.56	50.05	(5.51)
Claims notified following 30 September 2016, including those yet to be reported	6.44	8.47	2.03
Total	**62.00**	**58.52**	**(3.48)**

Large SIP claims that were notified prior to 30 September 2016

4.10 Since the commencement of the PMAA in January 2017, ARML has further analysed the large losses and has reviewed the estimates, taking into account new information where it has become available. The reduction in the estimated ultimate for large SIP claims comes predominantly from two claims where the developers have agreed to cover the costs, partially offset by a third claim, where the initial works undertaken were not sufficient to rectify the issue. There have been some positive and negative movements in the other claims which have largely offset each other. The claims team at ARML has provided me with rationale for these claim movements and I am satisfied that these movements are reasonable.

Large claims notified following 30 September 2016

4.11 In addition to the claims that were reported prior to 30 September 2016, there have been four large claims that have been reported since that date. The incurred cost for these claims as at 30 September 2017 was £1.31m. The paid amount on these claims as at 30 September 2017 was £0.02m.

4.12 Further to this, ARML has estimated £7.15m for large claims that could arise through the remaining exposure period but have yet to be notified as at 30 September 2017. This estimate has been derived using a broadly similar approach to that used as at 30 September 2016. However, ARML has used an increased estimate of the large loss frequency for this review compared to its previous review to reflect the current experience. I am satisfied that this is a reasonable estimate for future large SIP claims.

4.13 When the combination of these two components is taken together it represents an increase of £2.03m compared to the pure IBNR projected as at 30 September 2016.

Small SIP claims

4.14 The estimated ultimate claims for small SIP claims reduced by £1.27m between 30 September 2016 and 30 September 2017.

4.15 The table below shows a breakdown of the change in estimated ultimate claims for small SIP claims between 30 September 2016 and 30 September 2017.

Table 5: Change in estimated ultimate claims for small SIP claims

£m	Ultimate as at 30 September 2016	Ultimate as at 30 September 2017	Change
Claims notified in 2015 and prior	140.78	141.41	0.63
Claims notified in 2016	4.43	2.85	(1.58)
Claims notified in 2017	3.71	2.42	(1.29)
Claims expected to be notified in 2018 and post	4.04	5.01	0.97
Total	**152.96**	**151.70**	**(1.27)**

4.16 ARML has used a broadly similar approach during its current analysis to that which it used during its analysis as at 30 September 2016.

4.17 The rationale for the improvements in ultimate claims is because of better than expected claims experience between 30 September 2016 and 30 September 2017. This has been partially offset by the use of stronger assumptions within the actuarial analysis. I am satisfied that this is a reasonable estimate for future small SIP claims based on the information now available.

Claims movements between 30 September 2017 and 31 December 2017

4.18 I understand from ARML that claim movements between 30 September 2017 and 31 December 2017 would imply a reduction in the reserves of approximately £7.7m. This reduction is broken down into £3.5m for claims paid in the period, £1.6m as a result of reductions in the estimated ultimate cost for specific claims and £2.6m reduction in IBNR as a result of fewer claims reported than expected. I have reviewed these claim movements and am satisfied that ARML's 31 December 2017 reserve estimate is within a reasonable range.

My opinion of the reserve strength of the Transferring Portfolio

4.19 Based on my experience and knowledge of the market, I consider the approach used by ARML to estimate the reserves for the Transferring Portfolio to be reasonable. It follows that the conclusion of my review of the estimate provided by ARML is that it lies within a reasonable range of possible outcomes.

4.20 In the Report, I performed an analysis to determine what I believed to be an appropriate reserve for the Transferring Portfolio as at 30 September 2016. At that time, I believed that the best estimate for the reserves for the Transferring Portfolio was higher than estimated by ARML. However, I have not updated my analysis using 30 September 2017 data. My reason for this is that, in light of the Report, ARML has refined its approach to setting claims reserves and I conclude from its latest review that the approach is reasonable and the estimate lies within a reasonable range of possible outcomes.

4.21 ARML has used the same approach to it Solvency II Technical Provisions as described in the Report, and as a result I consider the Solvency II Technical Provisions for the Transferring Portfolio as at 30 September 2017 to be reasonable.

Reserve strength of ZIP

4.22 Since the Report, ZIP has moved to focus its reporting on Solvency II Technical Provisions rather than IFRS reserves, although it continues to consider the IFRS reserves to a similar level of detail as before. As a result, I have been provided with a consolidated report on the Solvency II Technical Provisions of ZIP covering its entire portfolio as at 31 December 2016, although that report continues to cover the reserves on an IFRS basis. As with the 2015 report I was provided with for the Report, I am comfortable that this consolidated report is sufficient to form an opinion given the scale of ZIP's wider portfolio in comparison to the Transferring Portfolio.

4.23 The table below shows the reserves for ZIP on an IFRS basis at each of 31 December 2015, 31 December 2016 and 30 September 2017, both gross and net of reinsurance. I have used the exchange rate as at 30 September 2017 for all three columns for ease of comparison.

Table 6: Reserves of ZIP on an IFRS basis as at 31 December 2015, 31 December 2016 and 30 September 2017

£m	31 December 2015	31 December 2016	30 September 2017
Gross	18,604	17,075	17,071
Net	8,539	7,471	7,274

4.24 The table below shows the Solvency II Technical Provisions for ZIP at each of 31 December 2015 and 31 December 2016, both gross and net of reinsurance. I have used the exchange rate as at 31 December 2016 for all three columns for ease of comparison.

Table 7: Solvency II Technical Provisions of ZIP as at 31 December 2015, 31 December 2016 and 30 September 2017

£m	31 December 2015	31 December 2016	30 September 2017
Gross	15,712	14,929	14,830
Net	7,474	6,496	6,435

4.25 As can be seen from the tables above, the net IFRS reserves and the Solvency II Technical Provisions have both reduced since the Report. The key reasons for the reductions since the Report are as follows:

- The movement in the Sterling/Euro exchange rate which is key as ZIP reports in Euro but has a significant portion of its business in the UK
- An increase in discount rates as a result of the changing economic environment
- A reduction in the reserves for unexpired risk as a result of scaling down certain elements of the business
- Refinements to the methodology for calculating the reserve for expenses within the Technical Provisions to improve the accuracy of the projected commission ratio
- Amendments to the approach to recognising policies to be included in the Technical Provisions for certain branches, leading to additional profit recognition. These amendments arose as a result of a deeper dive into contract terms which demonstrated that additional exposure from these policies needed to be included in the calculations.

4.26 Aside from the changes discussed in paragraphs 4.22 and 4.25, I have received confirmation from ZIP that the process for setting reserves within ZIP has not changed materially since the Report.

4.27 I have performed an analysis to satisfy myself that the valuation of insurance liabilities are consistent with my expectations for insurance business of this nature. This analysis involved:

- a review of the Technical Provisions report as at 31 December 2016 provided by ZIP's actuaries
- a review of the methods used to estimate the IFRS reserves and Solvency II Technical Provisions compared with industry best practice
- a review of the movements in IFRS reserves and Solvency II Technical Provisions between 31 December 2015 and 30 September 2017
- discussions with individuals at ZIP to understand the approach to setting reserves.

4.28 As a result of my review, I have no reason to change the conclusions contained within the Report with respect to the reserve strength of ZIP.

Reserve strength of EWICL

4.29 I have been provided with the latest reserves for EWICL as at 30 September 2017. The held reserves have moved from £107k at 30 June 2016 to £106k in light of new information.

4.30 I have received confirmation that the process for setting reserves within EWICL has not changed materially since the Report.

4.31 As a result, I have no reason to change the conclusions contained within the Report with respect to the reserve strength of EWICL.

5 Capital Requirements

ZIP

Capital strategy

5.1 I understand from ZIP that there has been no change in its capital strategy as set out in paragraph 8.2 of the Report. It continues to monitor its long term target coverage of its SCR and reviews the appropriateness of this annually.

Regulatory capital requirements

5.2 The table below shows the solvency position as at 30 September 2017 and the comparison to 31 December 2016.

Table 8: Coverage ratio for ZIP

£m	31 December 2016	30 September 2017
SCR	1,750	1,710
Eligible Own Funds	2,304	2,553
Coverage	131.67%	149.26%

5.3 As can be seen from the table above, ZIP's solvency position has improved between 31 December 2016 and 30 September 2017.

5.4 It can also be seen that ZIP continues to have substantial Eligible Own Funds in comparison to its SCR.

5.5 I understand from Zip that the key reasons for the increase in Eligible Own Funds were as follows:

- A favourable financial market environment in the period, resulting in an increase in asset values relative to liability values
- Underwriting profits in the period

5.6 I continue to be satisfied that the actuaries at ZIP have the necessary experience and expertise to undertake capital analyses and for me to rely on these analyses.

5.7 As described in paragraphs 9.8 and 9.9 of the Report, the solvency position for ZIP following the Scheme will be unchanged.

Solvency II balance sheet

5.8 I have repeated below Table 13 of the Report, which showed the simplified Solvency II balance sheet of ZIP as at 30 September 2016 on the following bases:

1. prior to the execution of the LPTA
2. hypothetical on the basis that the LPTA had become effective at that date, but the Scheme had not
3. hypothetical on the basis that the Scheme had become effective at that date.

Table 9: Solvency II balance sheet for ZIP as at 30 September 2016 (£m)

	1	2	3
Assets:			
Cash	283.2	283.2	283.2
Investments	9,957.2	9,887.6	9,887.6
Reinsurance assets	8,124.7	8,228.0	8,124.7
Other assets	1,952.3	1,949.3	1,949.3
Total assets	**20,317.5**	**20,348.1**	**20,244.9**
Liabilities:			
Technical Provisions (excl. risk margin)	14,939.6	14,939.6	14,836.4
Risk margin	267.5	266.0	266.0
Other liabilities	2,821.9	2,821.9	2,821.9
Total liabilities	**18,029.0**	**18,027.5**	**17,924.2**
Own Funds	**2,288.5**	**2,320.6**	**2,320.6**

5.9 The table below shows the equivalent of columns 2 and 3 above as at 30 September 2017. However, I have not shown the equivalent of Column 1 from the table above as the LPTA was in place at 30 September 2017. The table therefore shows the simplified Solvency II balance sheet for ZIP as at 30 September 2017 on the following bases:

4. actual Solvency II balance sheet as at that date, where the Scheme had not become effective
5. hypothetical on the basis that the Scheme had become effective at that date.

Table 10: Solvency II balance sheet for ZIP as at 30 September 2017 (£m)

	4	5
Assets:		
Cash	408.4	408.4
Investments	8,693.8	8,693.8
Reinsurance assets	8,394.6	8,319.2
Other assets	2,138.8	2,138.8
Total assets	**19,635.6**	**19,560.2**
Liabilities:		
Technical Provisions (excl. risk margin)	14,829.9	14,754.6
Risk margin	233.6	233.6
Other liabilities	2,019.2	2,019.2
Total liabilities	**17,082.8**	**17,007.4**
Own Funds	**2,552.8**	**2,552.8**

5.10 As can be seen from the tables above, the Scheme only has a minor impact on the Solvency II balance sheet for ZIP and does not impact Own Funds.

5.11 Between 30 September 2016 and 30 September 2017, the Own Funds for ZIP have increased, as described in paragraph 5.5.

ORSA

5.12 I have been provided with an updated ORSA for ZIP, dated November 2017. This document has been approved by ZIP's Board. This represents a forward looking assessment of ZIP's risk profile and capital requirements.

5.13 ZIP's latest ORSA projected that the coverage of its SCR will be maintained above its long term target for the three years considered in the ORSA.

5.14 ZIP has conducted various stress and scenario tests within its ORSA to test the robustness of its capital base. The stress and scenario testing covers a wide range of risks that ZIP is exposed to. The stress and scenario testing that ZIP has undertaken demonstrates that only in extreme scenarios does it fail to have sufficient capital to meet its SCR. There were no stresses identified that reduce the level of assets below the level of liabilities. I consider the range of stresses and scenarios that ZIP has considered to be reasonable.

5.15 Based on the above, I have no reason to change the conclusions contained within the Report with respect to the ORSA.

EWICL

Solvency II balance sheet

5.16 The table below shows the Solvency II balance sheet of EWICL as at 30 September 2017 on the following two bases:

- prior to the Scheme
- the hypothetical position following the Scheme, on the basis the Scheme had become effective at that point. This shows the amount that would have transferred to EWICL from Cell J

Table 11: Solvency II balance sheet for EWICL as at 30 September 2017(£m)

	Prior to the Scheme	Post Scheme
Assets:		
Cash	3.4	41.9
Investments	0.0	42.2
Reinsurance assets	0.0	0.0
Other assets	0.0	0.0
Total assets	**3.4**	**84.0**
Liabilities:		
Technical Provisions (excl risk margin)	0.2	42.7
Risk margin	0.0	6.1
Other liabilities	0.1	0.3
Total liabilities	**0.3**	**49.2**
Available Own Funds	**3.1**	**34.9**

5.17 As can be seen from the above table, it is proposed that £80.7m of assets would have transferred as at 30 September 2017, had the Scheme become effective on that date.

5.18 It is proposed that, prior to the Scheme, the transferring assets shown in the table above will be reduced according to the following approach:

1 Calculate the reduction in technical provisions (excluding risk margin) between 30 September 2017 and 31 December 2017 based on the movements in claims to 31 December 2017 described in paragraph 4.18
2 Calculate the claims paid between 31 December 2017 and 14 March 2018
3 Multiply the sum of 1 and 2 by a factor of 1.5

5.19 I will discuss my opinion of this approach and its impact in paragraphs 5.26 to 5.41 below.

5.20 At 30 September 2017, there was £86.6m in the Reinsurer Custody Accounts and the Working Account. It is expected that, once the Scheme becomes effective, an amount equal to £80.7m less the amount described in paragraph 5.18 will be transferred to EWICL.

5.21 Based on the SCR calculations as at 30 September 2017 and the calculation described in paragraph 5.18, no additional capital injection will be required from ILS. However, should the position deteriorate before the Scheme becomes effective, I have reviewed the management accounts of ILS at 30 September 2017 and am satisfied that it has sufficient funds to ensure that it can meet the commitment referred to in paragraph 8.38 of the Report.

Regulatory capital requirement

5.22 The table below sets out the coverage of the regulatory capital requirement for EWICL as at 30 September 2017.

Table 12: EWICL's coverage of its regulatory capital requirements prior to the Scheme

£m	Prior to Scheme
Own Funds	3.1
Regulatory capital requirement	3.0
Coverage ratio	**102.1%**

5.23 As can be seen from the table above, at 30 September 2017, EWICL had sufficient funds in order to meet its regulatory capital requirements. I understand from EWICL that capital has been injected in Q4 2017 to ensure that the Own Funds do not drop below EWICL's regulatory capital requirements.

5.24 In the Report, I set out various estimates of EWICL's projected coverage ratio in relation to its regulatory capital requirements as at 30 September 2017. Since the Report, the following events have taken place in relation to regulatory capital requirements:

- ARML is assuming that there will not be a USP in place for EWICL in relation to the Transferring Portfolio at the point at which the Scheme becomes effective. It is therefore using the unadjusted Standard Formula.
- ARML is allocating the SIP elements of the Transferring Portfolio to the Miscellaneous Financial Loss class of business. As set out in paragraph 8.35 of the Report, this allocation is in line with my view.
- ARML has reviewed the reserves for the Transferring Portfolio and updated its regulatory capital calculations for EWICL following the Scheme. I have reviewed the reserves for the Transferring Portfolio as at 30 September 2017 and, as described in Section 4 of this report, am satisfied that they lie within a reasonable range of possible outcomes.

5.25 I have therefore relied on the capital calculations undertaken by ARML following the Scheme. I am satisfied that the actuaries at ARML have the necessary experience and expertise to undertake this analysis and for me to rely on this analysis.

5.26 The table below shows EWICL's coverage of its SCR on the following bases:

1 as at 30 September 2017, hypothetical on the basis that the Scheme had become effective at that date
2 As at 31 December 2017, hypothetical on the basis that the Scheme had become effective at that date, taking into account the reduction in reserves up to 31 December 2017 discussed in paragraph 4.18
3 As at 31 March 2018, projected allowing for claims paid between 1 January 2018 and 31 March 2018, taking into account the reduction in the transferring assets discussed in paragraph 5.18

Table 13: EWICL's coverage of its SCR post the Scheme

£m	30 September 2017	31 December 2017	31 March 2018
Own Funds	34.9	32.9	32.6
SCR	27.9	22.1	21.0
Coverage ratio	**125.1%**	**148.7%**	**155.1%**

5.27 As described in paragraph 8.38 of the Report, ILS provided me with a commitment that it would ensure that EWICL had Own Funds such that the coverage ratio of its SCR at the Effective Date is at least as high as ZIP's long term target. Based on ARML's calculations as at 30 September 2017, there are sufficient funds within the Reinsurer Custody Accounts and the Working Account to meet this commitment without an additional capital injection from ILS.

5.28 In its calculation as at 31 March 2018, ARML has assumed that £1.8m of claims will be paid between 31 December 2017 and 31 March 2018. During 2017, £22.9m of claims were paid (£5.6m in the first quarter, £5.1m in the second quarter, £8.6m in the third quarter and £3.5m in the fourth quarter), which is an average of £5.7m per quarter. Whilst, based on my experience, I would expect that, as the number of claims reduces, the claims paid per quarter would also reduce, in my opinion it would be reasonable to assume that more claims would be paid between 31 December 2017 and 31 March 2018 than ARML has assumed. My analysis set out in paragraph 5.32 shows that if more claims are paid than expected, then the coverage ratio of EWICL's SCR will be higher than shown in the table above.

5.29 As can be seen from the table above, EWICL's projected coverage ratio is expected to increase between the hypothetical position as at 30 September 2017 and the projected position on the Effective Date of 31 March 2018.

Stress testing

5.30 ARML has conducted stress and scenario testing to test the robustness of its capital base. The stress and scenario testing indicates that EWICL would require a 16% deterioration in its technical provisions in order for its Own Funds to fall beneath its SCR. Further to this, EWICL's technical provisions as at 30 September 2017 would need to deteriorate by more than 80% in order for EWICL not to have sufficient assets to meet its liabilities.

5.31 In addition to the testing described above, I have undertaken my own testing to assure myself that the approach described in paragraph 5.18 is not likely to result in EWICL having a coverage ratio less than ZIP's long term target coverage ratio as of the Effective Date.

5.32 The table below shows my estimates of the projected coverage ratio as at 31 March 2018 on the following bases:

1. Assuming there are no claims paid between 1 January 2018 and 31 March 2018 and there is no change in the estimated ultimate cost of claims
2. Assuming there are no claims paid between 1 January 2018 and 31 March 2018 and the estimated ultimate cost of claims increases by the amount expected to be paid
3. Assuming there are no claims paid between 1 January 2018 and 31 March 2018 and the estimated ultimate cost of claims increases by twice the amount expected to be paid
4. Assuming the claims paid between 1 January 2018 and 31 March 2018 are in line with expectations but the estimated ultimate cost of claims increases by the same amount
5. Assuming the claims paid between 1 January 2018 and 31 March 2018 are in line with expectations but the estimated ultimate cost of claims increases by twice the amount of paid claims
6. Assuming that claims paid between 1 January 2018 and 31 March 2018 are double the amount expected and the ultimate cost of claims is in line with expectations

Table 14: My testing of EWICL's coverage of its SCR at the Effective Date

£m	1	2	3	4	5	6
Own Funds	33.6	28.6	29.3	30.7	31.3	32.0
SCR	22.3	23.2	24.3	22.1	23.2	19.9
Coverage ratio	**150.9%**	**123.6%**	**120.6%**	**138.8%**	**134.8%**	**160.5%**

5.33 I have considered the scenarios above because I believe them to be possible but reasonably extreme scenarios. As can be seen from the above table, the coverage ratio remains above 100% in all of the scenarios considered and for scenarios 1, 4, 5 and 6 it remains above ZIP's long term target coverage ratio.

5.34 I believe that the likelihood that that no claims will be paid during the first quarter of 2018 is remote. My rationale for this is discussed in paragraph 5.28.

5.35 As discussed in Section 4, I am satisfied that ARML has determined reserves which are within a reasonable range. As a result, something unexpected would need to happen in order for the estimated ultimate cost of claims to increase materially as at 31 March 2018. This could arise from a particularly new large claim, unexpected costs arising from already reported claims or a substantial increase in the frequency of claims reported. I have considered the possibility of each of these as follows:

- Within the reserves as at 30 September 2017, there is allowance for new large claims to be reported. As discussed in paragraph 4.12, I am satisfied that ARML has produced a reasonable estimate for future reported large claims. In order for the ultimate cost of claims to increase, the new large claim or claims would need to be significant in comparison to the estimated IBNR.
- I understand from ARML that all known costs are included within the ultimate cost of each claim. It is possible that works can take longer to rectify and therefore cost more than currently expected. However, it is equally possible that works are performed quicker than expected or recoveries can be made from third parties
- Within the reserves as at 30 September 2017, there is allowance for new claims to be reported. Based on the evidence I have been provided with, over the past few quarters, fewer claims are being reported than expected and the estimated cost of future new claims is turning out to be lower than expected.

5.36 Between 30 September 2016 and 30 September 2017, the estimated ultimate cost of all claims reduced by £4.2m from £297.1m to £292.9m. Between 30 September 2017 and 31 December 2017, this has reduced by a further £4.2m. As a result, it would be reasonable to expect the estimated ultimate cost of claims to actually decrease between 31 December 2017 and 31 March 2018. Therefore, I do not expect the ultimate cost of claims to increase between 31 December 2017 and 31 March 2018. Further, I consider it to be unlikely that the ultimate cost of claims will increase by £1.8m between these dates.

5.37 As a result of my analysis discussed in paragraphs 5.34 to 5.36, I consider scenarios 2 and 3 above to be unlikely.

5.38 In order for the coverage ratio to fall below 100%, it would require no claims to be paid during the first quarter of 2018 and the estimated ultimate of cost of claims to be increased by four times the amount expected to be paid (i.e. £7.2m). This would represent approximately a 25% increase in the reserves as at 31 December 2018. This would be a situation that is worse than scenarios 2 and 3 considered above and I consider the likelihood of this situation arising to be remote.

5.39 Therefore, I consider it unlikely that EWICL's coverage ratio of its SCR will be lower than ZIP's long term target coverage ratio at the point at which the Scheme becomes effective.

5.40 In any case, as described in paragraph 8.38 of the Report, ILS has made a commitment to ensure that EWICL's coverage ratio of its SCR is at least as high as ZIP's long term target coverage ratio at the point at which the Scheme becomes effective. ILS has provided me with documentation evidencing that it has access to sufficient further funds to meet this commitment should such funds be required.

5.41 The above leads me to conclude that the buffer that EWICL will have in excess of its SCR will be sufficient and as a result, I am satisfied that the approach described in paragraph 5.18 is appropriate.

Regulatory capital requirements over the run-off of the liabilities

5.42 ARML has provided me with its projected coverage of EWICL's SCR for the next five years, which is shown in the table below.

Table 15: EWICL's projected coverage of its SCR over the next five years.

£m	31 December 2017	31 December 2018	31 December 2019	31 December 2020	31 December 2021
Own Funds	32.9	33.2	34.2	34.8	35.3
SCR	22.1	17.8	14.1	10.4	7.3
Coverage ratio	**148.7%**	**187.2%**	**242.3%**	**333.7%**	**481.3%**

5.43 As can be seen from the table above, the SCR is expected to reduce quite rapidly over the course of the next few years as the remaining claims are paid. As a result, the coverage ratio increases rapidly following the Scheme.

5.44 As discussed in paragraph 8.83 of the Report, the Own Funds in the tables above assume that ILS does not seek to extract any excess capital from EWICL during that period. I do expect that ILS will seek to extract some capital. However, as discussed in paragraph 6.27 of the Report, the PRA is required to be consulted on any future capital extractions. As a result, I would not expect the coverage ratio to be reduced below a level that the PRA is comfortable with.

Economic capital requirements

5.45 ARML has considered the economic capital requirements for EWICL as at 30 September 2017. Its economic view results in a capital position that is lower but similar to its SCR. It therefore considers the Standard Formula to be an appropriate measure for its economic capital requirements as at 30 September 2017. Given the proximity of the economic capital calculations to the SCR, I am satisfied that the SCR is an appropriate measure for the economic capital requirements as at 30 September 2017.

Conclusions

5.46 I expect EWICL to have sufficient capital to meet policyholder obligations for the following reasons:

- At the Effective Date, EWICL's coverage of its SCR is expected to be at least as high as ZIP's long term target coverage ratio of the SCR following the Scheme. My testing demonstrates that it is unlikely that EWICL's coverage of its SCR will be below ZIP's long term target coverage ratio at the Effective Date.
- However, even if EWICL's coverage of its SCR is below ZIP's long term target coverage ratio, ILS has committed to injecting capital into EWICL in order to ensure that the coverage ratio of its SCR is at least as high as ZIP's long term target coverage ratio of the SCR at the Effective Date.
- ILS has provided me with documentation evidencing that it has access to sufficient further funds to meet this commitment should such funds be required.
- As discussed in the Report and shown in table 12 above, the SCR for EWICL is expected to reduce rapidly as claims are paid. As a result, the coverage ratio will increase quickly following the Scheme becoming effective.
- The economic capital calculations are reasonably similar to those of the regulatory capital calculations and therefore EWICL has substantial Own Funds against its own view of capital required.
- The PRA is required to be consulted on any future capital extractions so EWICL would never be permitted to extract capital unless the PRA was of the view that what remained was sufficient to protect policyholder's interests.
- The stress and scenario testing undertaken by ARML indicates that only in extreme scenarios does EWICL not have sufficient assets to meet its liabilities, as discussed in paragraph 5.30.

5.47 It follows from the above that I consider the likelihood that EWICL will have insufficient assets to meet its liabilities to be remote.

ORSA

5.48 I have been provided with an updated ORSA report for EWICL. This represents a forward looking assessment of EWICL's risk profile and capital requirements as at 30 September 2017.

5.49 EWICL's latest ORSA report demonstrates that it continues to expect to meet its capital strategy over the forthcoming five years.

5.50 Within its updated ORSA, EWICL has conducted a number of stress and scenario tests to test the robustness of its regulatory and economic capital positions. The stress and scenario testing covers a wide range of risks that EWICL is exposed to. The stress and testing that EWICL has conducted demonstrates that it is still able to meet its SCR under the various stresses and scenarios considered. I consider the range of stresses and scenarios that EWICL has considered to be reasonable.

5.51 It follows from the above that there is nothing in the updated ORSA report which gives me reason to change my conclusions contained in the Report.

6 Policyholder Security

Impact of the Scheme on the balance sheets of the affected companies

6.1 I have repeated below Table 23 of the Report, which showed the simplified balance sheets of ZIP and EWICL, both before and after the Scheme.

Table 16: Balance sheets of ZIP and EWICL as at 30 September 2016, both prior to and post the Scheme (£m)

	Prior to Scheme		Post LPTA but prior to Scheme		Post Scheme	
	ZIP	EWICL	ZIP	EWICL	ZIP	EWICL
	1	2	3	4	5	6
Assets:						
Cash	283.2	3.6	283.2	3.6	283.2	44.9
Investments	9,354.0	0.0	9,284.6	0.0	9,284.6	65.0
Reinsurance assets	9,379.4	0.0	9,482.5	0.0	9,379.4	0.0
Other assets	2,595.2	0.0	2,592.2	0.0	2,592.2	0.0
Total assets	**21,611.8**	**3.6**	**21,642.4**	**3.6**	**21,539.4**	**109.9**
Liabilities:						
Insurance liabilities	16,944.6	0.1	16,944.6	0.1	16,841.5	71.9
Other liabilities	2,472.8	0.0	2,472.8	0.0	2,472.8	0.0
Total liabilities	**19,417.4**	**0.2**	**19,417.4**	**0.2**	**19,314.3**	**72.0**
Available capital	**2,194.5**	**3.5**	**2,225.1**	**3.5**	**2,225.1**	**38.0**

6.2 The table below shows the equivalent information as at 30 September 2017. The amounts shown for the position before the Scheme are consistent with the internal accounts of each of ZIP and EWICL as at 30 September 2017. The amounts shown for the positions after the Scheme are hypothetical, based on the Scheme becoming effective on 30 September 2017. The actual Effective Date is scheduled to be in March 2018. All of the columns below are on the basis that the LPTA is in place, as it was already in place by 30 September 2017.

Table 17: Balance sheets of ZIP and EWICL as at 30 September 2017, both prior to and post the Scheme (£m)

	Prior to Scheme		Post Scheme	
	ZIP	**EWICL**	**ZIP**	**EWICL**
	[A]	[B]	[C]	[D]
Assets:				
Cash	408.1	3.5	408.1	41.9
Investments	9,031.8	0.0	9,031.8	42.2
Reinsurance assets	9,796.2	0.0	9,720.8	0.0
Other assets	2,358.0	0.0	2,358.0	0.0
Total assets	**21,594.1**	**3.5**	**21,518.7**	**84.0**
Liabilities:				
Insurance liabilities	17,070.7	0.1	16,995.3	40.1
Other liabilities	2,312.2	0.1	2,312.2	0.1
Total liabilities	**19,382.9**	**0.2**	**19,307.5**	**40.2**
Equity	**2,211.2**	**0.3**	**2,211.2**	**43.8**

6.3 The tables above demonstrate consistent implications for the balance sheets of both ZIP and EWICL to those discussed in the Report. Therefore, my conclusions do not change based on this additional information.

6.4 It should be noted that the actual balance sheets before and after the Scheme will be different to those represented in Table 17 due to the actual experience of the companies between 30 September 2017 and the Effective Date. In particular, the assets of EWICL will be reduced from those shown in the table above as described in paragraph 5.18.

Impact of the Scheme on the solvency positions of the affected companies

6.5 The changes to the capital requirements of ZIP and EWICL since the Report are discussed in Section 5 of this report.

6.6 As discussed in paragraph 5.6, ZIP's coverage ratio of its SCR is unchanged by the Scheme.

6.7 As discussed in paragraphs 5.26 and 5.27, EWICL is expected to have a coverage ratio at least as high as ZIP's long term target coverage ratio. I therefore continue to be satisfied that EWICL will be sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the existing liabilities of EWICL.

Impact of the Scheme on the security of the transferring policyholders

6.8 Based on the information I have seen since the Report, I have no reason to change the conclusions set out in paragraphs 9.13 to 9.16 of the Report in respect of the security of the transferring policyholders.

Impact of the Scheme on policyholders remaining in ZIP

6.9 Based on the information I have seen since the Report, I have no reason to change the conclusion set out in paragraph 9.17 of the Report in respect of the security of the policyholders remaining in ZIP.

Impact of the Scheme on the security of existing policyholders in EWICL

6.10 Based on the information I have seen since the Report, I have no reason to change the conclusions set out in paragraphs 9.18 to 9.20 of the Report in respect of the security of the existing policyholders in EWICL.

7 Other Considerations

Financial

Other financial considerations

7.1 In addition to the points discussed in the sections above, I considered the following additional financial aspects in the Report:

- FSCS arrangements
- Investment strategy implications
- Tax implications
- Implications of the Scheme on ongoing expense levels
- Liquidity position

7.2 Based on my discussions with ZIP and EWICL, there have been no changes with respect to the above financial aspects since the Report that would give me reason to change the conclusions contained in the Report with respect to these aspects.

Non-financial

Management and governance framework

7.3 Since the Report was issued EWICL has appointed two independent non-executive directors to the Board and these individuals have been approved by the PRA.

7.4 Based on my discussions with ZIP and EWICL, there have been no other material changes in the management and governance frameworks of EWICL or ZIP. I therefore have no reason to change the conclusions contained in the Report with respect to the management and governance framework.

Change of Effective Date

7.5 Since the Report, the Effective Date has been moved from 1 November 2017 to 31 March 2018 as a result of discussions between ZIP, EWICL, the CBI and the PRA. These discussions were in relation to EWICL requiring additional regulatory permissions in order to accept and administer the Transferring Portfolio following the Scheme. These permissions have now been granted.

7.6 I do not consider that this will have any implications for policyholders for the following reasons:

- This is purely a change of date. There are no other changes to the Scheme.
- As described in paragraph 5.31 of the Report, the LPTA will continue up until the Effective Date.
- Claims will continue to be paid by ARML under the PMAA up until the Effective Date.
- As described in the Report, claims will be paid by ARML following the Effective Date.

Other non-financial considerations

7.7 In addition to the points discussed in the sections above, I considered the following additional non-financial aspects in the Report:

- Claims handling
- Policy servicing
- Complaints handling
- Impact on reinsurers

7.8 Based on my discussions with ZIP and EWICL, there have been no changes of a material nature with respect to the above non-financial aspects since the Report that would give me reason to change the conclusions contained in the Report with respect to these aspects.

8 Considerations of the communication process and objections and representations received

Policyholder communications

8.1 I understand from ZIP and EWICL that the approach to policyholder notifications set out in the Report proceeded as planned. The advertisements were placed in accordance with the Directions Order and the voluntary policyholder communications were undertaken as planned. As a result, I am satisfied that that the communications exercise was appropriate.

8.2 I understand from ZIP that there were 5,623 (7.9%) of the original 71,348 mailings noted as "return to sender" and that ZIP has endeavoured to find suitable redelivery addresses for these where appropriate. I understand from ZIP that it deemed it appropriate to seek updated address information where there appeared to be a systemic issue with the original mailing. In addition, I have been informed by ZIP that the cost of seeking updated address information for other policyholders would have been disproportionate, particularly given the effort that went into seeking address information in the first place.

8.3 As at 23 January 2018, I am informed by ZIP that over 95% of the 71,348 mailings had been delivered.

8.4 ZIP has provided me with a summary of the written (including email) and telephone correspondence from policyholders relating to the Scheme. In addition, it has provided me with copies of the relevant correspondence in respect of objections and concerns received from transferring policyholders.

8.5 The largest categories of correspondence were not related to the Scheme or were from policyholders who were unaware they had a policy with ZIP. Apart from objections, the remaining correspondence consists of questions or requests for further details about a policy.

8.6 There have been six objections or concerns relating to the Scheme made by policyholders up to 23 January 2018.

Policyholder correspondence and questions received

8.7 At 23 January 2018, I understand from EWICL that it has received no objections to the Scheme from policyholders.

8.8 At 23 January 2018, I understand from ZIP that it had received objections to the Scheme from five policyholders and one group of third parties. These relate to:

- the level of financial security provided by EWICL compared to ZIP
- whether the level of benefits will be reduced as a result of the Scheme
- ZIP having a stronger reputation than EWICL
- whether the process being followed is legal
- whether the service that will be provided by ARML in respect of policy servicing and claims handling will be inferior to that provided by ZIP
- whether the Scheme will have a negative influence at the time of resale of a property covered by a transferring policy

8.9 It should be noted that some policyholders raised objections and concerns in multiple areas.

8.10 The sub-sections below address the principal areas of concern raised by policyholders.

The level of financial security provided by EWICL

8.11 The financial security of the policies is dependent on the insurer's ability to meet its liabilities as they fall due.

8.12 I concluded in paragraphs 9.13 to 9.16 and 12.3 of the Report that I do not expect there to be a material adverse impact on the level of security provided to the transferring policyholders.

8.13 As discussed in paragraph 6.8 of this report, I have no reason to change the conclusions contained in the Report. I am therefore still of the opinion that I do not expect there to be a material adverse impact on the level of security provided to the transferring policyholders.

8.14 Beyond having a sufficient level of capital, the insurer's liquidity is the other key component to financial security. Having reviewed the assets and investment strategy of EWICL I am satisfied that there are sufficiently liquid assets to meet liabilities as they fall due.

8.15 It follows that I am satisfied that the capital strength and liquidity position of EWICL is sufficient that the security of the transferring policies is not materially impacted by the scheme.

Value of benefits for transferring policyholders

8.16 I concluded in paragraphs 9.13 to 9.16 and 12.3 of the Report that I do not expect there to be a material adverse impact on the level of security provided to the transferring policyholders. As a result, I expect all legitimate claims to be paid to their full value following the Scheme.

8.17 As discussed in paragraph 6.8 of this report, I have no reason to change the conclusions contained in the Report. I am therefore still of the opinion that I do not expect there to be a material adverse impact on the level of security provided to the transferring policyholders. As a result, I continue to expect all legitimate claims to be paid to their full value following the Scheme.

The difference in reputation between ZIP and EWICL

8.18 Objections have been raised on the basis that the reputation of ZIP and its quality inspections were key factors in the policy's purchase.

8.19 There is no change to the outcome of the ZIP quality inspection that took place prior to the purchase of the policy as a result of the Scheme. In addition, there will be no further inspection whether the Scheme becomes effective or not.

8.20 The reputational differences of the parties will not have a material impact on policyholder security. As discussed in paragraphs 8.11 to 8.17 above and in the Report I am satisfied that EWICL is sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the existing liabilities of EWICL.

The legality of the Transfer

8.21 It should be noted that the Scheme is line with the provisions of Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015.

8.22 In addition, the Scheme is subject to assessment by the Court and is required to be approved by the Court before it can become effective.

8.23 I believe the Scheme to be entirely legal and I would not expect it to be approved by the Court unless that was the case.

Level of service that will be provided by ARML in respect of policy servicing and claims handling

8.24 The changes in policy servicing and claims handling as a result of the Scheme are discussed in paragraphs 10.12 to 10.22 of the Report. As a result of the PMAA, the operational migration for Transferring Portfolio has passed to ARML with oversight from ZIP.

8.25 Following the Scheme, ARML will continue to handle claims for the Transferring Portfolio, with no oversight from ZIP. However, I have received confirmation from ARML that it will continue to abide by its claims handling philosophy described in paragraph 10.14. In addition, I have received confirmation from ARML that legitimate claims will continue to be paid promptly following the Scheme in the same way that they always have been.

8.26 It follows that, as discussed in paragraphs 7.7 and 7.8 of this report, I have no reason to change the conclusions contained in the Report. I am therefore still of the opinion that I do not expect there to be a material change to the level of service provided to the transferring policyholders.

Adverse influence at the time of resale of a property covered by a transferring policy

8.27 Concerns have been raised that the Scheme might have a negative impact at the time of resale of a property covered by a transferring policy, whether that be a reduction in the value of the property or making it more difficult to sell the property.

8.28 Whilst this point is not directly linked to the benefits of the policy, I have given this further consideration below. However, it should be noted that I am not an expert in the property market and I have relied on my own research and informal advice from industry experts, such as estate agents and mortgage brokers.

8.29 As discussed in paragraphs 8.16 and 8.17 above, I am of the opinion that I do not expect that the value of benefits provided by a particular policy will be reduced as a result of the Scheme. As a result, I expect the guarantee to have the same value following the Scheme, when it is with EWICL, as it does at present, when it is with ZIP.

8.30 The informal advice that I received from estate agents was that the guarantee provider is unlikely to have a material impact on the value of a property. In addition, I am informed that it is unlikely a property will be materially more difficult to sell based solely on what insurer is providing the building guarantee.

8.31 Further to this, the informal advice I received from mortgage brokers was that the guarantee provider is unlikely to have a material impact of the value of the mortgage for a particular purchaser.

8.32 Based on the above, I do not expect the Scheme to have a negative impact at the time of resale of a property covered by a transferring policy.

Conclusion

8.33 I have considered the matters raised by the policyholders and confirm that I see no reason to alter the conclusions set out in the Report and this report.

Reinsurer communication

8.34 As described in paragraphs 10.80 to 10.82 of the Report, there was no notification of the Scheme to any reinsurer. Further to this, there have been no communications received from reinsurers in respect of the Scheme.

9 Conclusions

9.1 I have further considered the effect of the proposed Scheme on the different groups of policyholders. I confirm that my overall opinion and conclusions as set out in Section 12 of the Report are unchanged. For ease of reference, I repeat them in the following paragraphs.

9.2 I have concluded that there will be no material change to the service provided to the transferring policyholders and no material adverse impact on the security provided to them. Therefore, I do not expect that the transferring policyholders would be materially adversely affected by the Scheme.

9.3 In addition, I have concluded that there will be no material change to the service provided to the policyholders remaining in ZIP and no material adverse impact on the security provided to them. Therefore, I do not expect that the policyholders remaining in ZIP would be materially adversely affected by the Scheme.

9.4 In addition, I have concluded that there will be no material change to the service provided to the existing policyholders of EWICL and no material adverse impact on the security provided to them. Therefore, I do not expect that the existing policyholder of EWICL would be materially adversely affected by the Scheme.

9.5 In addition, I identify no reinsurers that will be adversely affected by the Scheme.

9.6 Given the above, I do not expect any group of policyholders or reinsurers to be materially adversely affected by the Scheme and therefore I see no reason why the Scheme should not proceed.

Simon Sheaf FIA, FSAI

Head of General Insurance Actuarial and Risk, Grant Thornton UK LLP

A Additional Information Received

Information provided by ZIP

- Financial statements for ZIP as at 31 December 2016
- Management accounts for ZIP as at 30 September 2017
- Memo to the ZIP Board discussing the management accounts as at 30 September 2017
- Summary of ZIP's Analysis of Claims Reserves as at 31 December 2016 for its whole portfolio
- Solvency II balance sheet for ZIP as at 30 September 2017
- Papers presented to ZIP's Board on the changes in Own Funds between 31 December 2016 and 30 September 2017
- Solvency II SCR and MCR for ZIP as at 30 September 2017
- Solvency and Financial Condition Report for ZIP as at 31 December 2016
- Management Information pack presenting IFRS result to ZIP board as at 30 September 2017
- 2017 ORSA for ZIP, dated November 2017
- Details of policyholder and reinsurer notifications

Information provided by EWICL

- Financial statements for EWICL as at 30 June 2016
- Management accounts for EWICL as at 30 September 2017
- Management accounts for ILS as at 30 September 2017
- Analysis of movement in claims for EWICL between 30 September 2016 and 30 September 2017
- Analysis of movement in claims for EWICL between 30 September 2017 and 31 December 2017
- ARML reserving report and exhibits for the Transferring Portfolio as at 30 September 2017
- Solvency II balance sheet and SCR calculations as at 30 September 2017
- Solvency II projected balance sheet and SCR calculations as at 31 December 2017, 31 March 2018, 30 September 2018, 30 September 2019, 30 September 2020 and 30 September 2021
- Solvency and Financial Condition Report for EWICL as at 30 June 2017
- Documentation on the management and governance framework for EWICL and ARML
- 2017 ORSA for EWICL, dated August 2017

Information provided by ZIP's legal advisers

- Draft Third Affidavit of Patrick Manley, CEO of ZIP
- Draft Affidavit of Ian Smith, Operations manager employed by ZIP
- Draft Second Affidavit of John Williams, Director of EWICL
- Draft Affidavit of Robert Kingston, senior manager employed by ARML

Other

- I also relied on information arising from correspondence and discussions with ZIP, EWICL and their legal advisers.

I have checked that all of the above information has been supplied by persons appropriately qualified to provide such information and I am satisfied that it is reasonable for me to rely on this information.