Scheme Report of the Independent Expert on the proposed transfer of insurance business from AMT Mortgage Insurance Limited to AmTrust International Underwriters DAC in accordance with Part VII of the Financial Services and Markets Act 2000

For the High Court of Justice of England and Wales

3 July 2020

Prepared by:

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LCP

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1. Executive summary

1.1. The Proposed Transfer

AMT Mortgage Insurance Limited (AMIL) currently operates across the European Economic Area (EEA) utilising the EEA's Freedom of Services (FofS) and Freedom of Establishment (FofE) arrangements.

The UK left the European Union (EU) on 31 January 2020. There is a transition period until 31 December 2020 during which the UK and EU will conduct trade negotiations. The outcome of these negotiations, including any decisions about regulatory equivalence between the UK and EU, remains highly uncertain. Until 31 December 2020 the current rules remain in place. The Proposed Transfer described in this report is due to complete on 31 October 2020 ie before 31 December 2020.

In the event of a so called "Hard Brexit" at 31 December 2020 (eg as a consequence of no agreement over trade negotiations) where AMIL no longer has FofS or FofE rights, AMIL would not legally be able to carry on its non-UK EEA business. For example, AMIL would not be able to issue new insurance policies across the EEA and might not legally be able to pay valid claims to existing non-UK EEA policyholders unless AMIL obtains appropriate authorisation in all relevant EEA member states.

As part of a wider AmTrust Group strategy to provide certainty that the Group can continue to carry on EEA business post-Brexit with minimum disruption and to improve efficiencies within the Group, AMIL is proposing to transfer (the Proposed Transfer) all of its business (comprising non-UK EEA business) to AmTrust International Underwriters DAC (AIU).

The policyholders are all regulated financial institutions.

Following the Proposed Transfer, the intention is to dissolve AMIL under section 112(8) FSMA following its de-authorisation.

The Effective Date of the Proposed Transfer is 31 October 2020.

The Proposed Transfer follows the earlier transfer in 2019 of all of AMIL's UK business to AmTrust Europe Limited (AEL).

There will be no change in the ultimate parent company of all entities, Evergreen Parent GP, LLC (Evergreen or the Group).

In addition to the Proposed Transfer, AmTrust are preparing to make further transfers as part of their response to Brexit and other strategic changes and transactions. These transfers are due to complete before the Effective Date of this transfer and are summarised below with more detail in Section 2.2:

- The Part VII transfer of all Italian medical malpractice risks (including a non-material amount of related accident and health and legal expenses business) from AEL to AmTrust Assicurazioni SpA (AA) and other non-UK EEA risks (excluding Italian medical malpractice) from AEL to AIU, with a proposed Effective Date of 31 July 2020. Approximately 25% of AEL's portfolio will transfer to AA and 15% to AIU, based on provisions net of reinsurance.
- The Section 13 transfer of AIU's Italian medical malpractice business to AA, also with a proposed Effective Date of 31 July 2020. Approximately a third of AIU's portfolio will transfer to AA, based on provisions net of reinsurance.

In addition, a Section 13 transfer of surety business from AIU to Liberty Mutual Insurance Europe SE (LMIE), a third-party outside of the AmTrust Group, completed on 31 March 2020.

1.2. My role as Independent Expert

AmTrust have appointed me to act as the Independent Expert (IE) for the Proposed Transfer. The Prudential Regulation Authority (PRA), in consultation with the Financial Conduct Authority (FCA), has approved my appointment.

As IE, my overall role is to assess whether:

- The security provided to policyholders of AMIL moving to AIU will be materially adversely affected by the implementation of the Proposed Transfer.
- The security provided to AIU Policyholders will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards experienced by policyholders.
- Any reinsurer of AMIL providing cover for the transferring business will be materially adversely affected.

This report is my Scheme Report for the Proposed Transfer. I will also prepare a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions in this report, based on any new material or issues that arise.

1.3. Summary of my conclusions

I have set out below my summary conclusions, considering the effect of the Proposed Transfer from three perspectives:

- A: "Transferring Policyholders", who will transfer from AMIL to AIU as a result of the Proposed Transfer.
- B: "AIU Policyholders", ie any policyholders of AIU at the time of the Proposed Transfer who will remain with AIU.
- C: Reinsurers whose contracts with AMIL are transferring to AIU as part of the Proposed Transfer.

A: Transferring Policyholders

I have concluded the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary of rationale:

- The Transferring Policyholders will benefit from the removal of the uncertainty of not having claims paid due to unsuccessful trade negotiations by the end of the Brexit transitional period. They may also prefer to be part of a larger, rated entity in AIU (AMIL is unrated). I consider these to be the key benefits for Transferring Policyholders of the Proposed Transfer.
- The Transferring Policyholders will remain within the AmTrust Group and AIU is subject to the same group-wide policies that AMIL was previously subject to.
- The SCR coverage ratio for Transferring Policyholders is expected to decrease from 183% to 140% as a result of the Proposed Transfer. Whilst this increases the risk of their claims not being paid, I do not consider the security provided to these policyholders to be materially adversely affected by this decrease. The 140% coverage ratio is towards the upper end of the "sufficiently capitalised" band (as described in Section 6.1) and the coverage ratio remains in line with AIU's risk appetite. In addition, they will benefit from being part of a larger entity with an A- financial strength rating and a more diversified balance sheet.
- Even if the other planned transfers do not take place, AmTrust has committed to maintaining a minimum 140% SCR coverage ratio for AIU in all scenarios.
- The level of regulatory capital held by AIU on the 1-year standard formula basis is supported by consideration of suitably severe stress scenarios.
- The risk to Transferring Policyholders of claims not being paid under an extreme recession scenario is higher following the Proposed Transfer given the expected deterioration in AIU's portfolio as a result of the same scenario . However, given the relative size of AIU compared to AMIL, this is offset by the benefit gained from being part of a larger, more diversified entity.
- AmTrust has confirmed that the transferring policies will continue to be reserved for in the same way post-transfer as pre-transfer and by the same team.

- The calculation of the transferring provisions has been performed using an appropriate and consistent methodology for a number of years.
- It is very unlikely that Transferring Policyholders are eligible for access to the FSCS as they are all mortgage lenders, with the exception of one reinsurer, rather than consumers or small businesses. It is also very unlikely that they are eligible to refer complaints to the FOS. Therefore, their position in relation to the FSCS and FOS remains the same pre- and post-transfer.

I have concluded that no material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.

Summary of rationale:

- AMIL and AIU, through the AmTrust Group, are planning to minimise any changes as to how the transferring business is carried out, to avoid disruption to its operating model or its customers.
- The AmTrust Group is not planning any material changes to how Transferring Policyholders are serviced following the Proposed Transfer.

B: AIU Policyholders

I have concluded that the security provided to AIU Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary of rationale:

- The SCR coverage ratio for AIU Policyholders is expected to remain at 140% as a result of the Proposed Transfer. Therefore, I do not consider the security provided to these policyholders to be materially adversely affected as AIU's coverage ratio remains towards the upper end of the sufficiently capitalised range (as described in Section 6.1) and in line with AIU's risk appetite. AIU's coverage ratio is expected to remain at or slightly above this level through to June 2022.
- The level of regulatory capital held by AIU on the 1-year standard formula basis is supported by consideration of suitably severe stress scenarios.
- AmTrust has committed to maintaining a 140% SCR coverage ratio for AIU for all combinations of possible scenarios where other transfers do not place as expected. In the event of an extreme recession scenario, AIU Policyholders would be worse off following the Proposed Transfer. This reflects the increased exposure to economic risks through the Italian economy and housing market in the AMIL portfolio.
- However, in the event of such a scenario, AIU would take management action as outlined in its recovery plan, eg the use of capital injections from within the AmTrust Group or reinsurance, to restore AIU's SCR coverage to the risk appetite

level of 140%. I therefore conclude that AIU Policyholders are not materially disadvantaged in this respect.

- AIU is already exposed to similar risks to those that AMIL faces having written all new EEA policies since AEL's acquisition of AMIL in 2016 and re-signing new AIU policies with AMIL's live policyholders throughout 2019 in preparation for Brexit.
- AIU Policyholders will benefit from the added diversification created by the transferring in of a mortgage indemnity guarantee book.
- The approach and methodology used to calculate insurance provisions and the level of reserves held by AIU are supported by my own independent projections.
- Further support is provided by the results of an independent external reserve review and a further independent external regulatory review.
- AIU has no plans to change the approach for how insurance provisions are set.
- The reserving process, team and governance for AIU will be materially unchanged post-transfer.

I have concluded that no material impact on service standards is expected for AIU Policyholders following the Proposed Transfer.

Summary of rationale:

- AIU is not planning any material changes to how the business is carried out. In particular, there are no plans to change how AIU Policyholders are serviced following the Proposed Transfer.

C: Reinsurers

I have concluded that reinsurers of AMIL who provide cover for the transferring business will not be materially adversely affected by the Proposed Transfer.

The transferring policies primarily benefit from AMIL's quota share arrangement with a panel of highly rated reinsurers. For 2011 to 2018 the cession was 33% and this increased to 50% in 2019. No business was written by AMIL in 2020. No new business has been written by AMIL since its acquisition by AEL in 2016.

The reinsurance panel has remained broadly consistent over time, the 2019 panel consists of 6 reinsurers mainly rated A+, the minimum rating is A-.

The reinsurance protection provided to the Transferring Policyholders from this reinsurance will transfer across to AIU.

Summary of rationale:

- Exposure to claims faced by AMIL's reinsurers will not change following the Proposed Transfer and the reinsurers will continue to be required to pay out the same claim amounts in respect of the same events as before the Proposed Transfer.

Further details on my conclusions, and other supporting information, are set out in this report.

I will be reviewing these conclusions and preparing a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions based on updated financial information and any new material or issues that arise.

Permutations of other AmTrust transfers

The Proposed Transfer is expected to take place after all the other transfers planned by AmTrust. It is AmTrust's intention that, if any of the other AmTrust transfers, or part thereof, are not sanctioned, AmTrust will go ahead with the sanctioned elements of the transfers.

I have considered the various permutations of other transfers not proceeding as planned and set out my conclusions on this below from the perspective of the three groups of affected parties and the three other AmTrust transfers. I will provide an update in my Supplementary Report of the impact on the Proposed Transfer in the event that any of these other transfers, or part thereof, do not take place as planned.

A: Transferring Policyholders

The business transferring from AEL to AIU is similar non-UK European business to that already written by AIU. As such, the risk profile is not expected to change materially for the Transferring Policyholders whether the AEL to AIU transfer goes ahead or not.

There will be exposure to Italian medical malpractice business in AIU if the AIU to AA transfer does not proceed as planned. In addition, the Italian medical malpractice business could be negatively impacted by the COVID-19 pandemic and a second or third wave of infections. This exposure will be a new risk faced by Transferring Policyholders that they would not have previously been exposed to. I will comment on the impact of the AIU to AA transfer not taking place as planned in my Supplementary Report.

AmTrust has considered the exposure of its Italian medical malpractice business to the pandemic which may impact the Proposed Transfer and other AmTrust Group transfers.

Italian medical malpractice policies are issued on a claims-made basis and so only unexpired policies are exposed. There are no specific exclusions in the coverage provided but Article 1912 of the Italian Civil Code excludes so-called "exceptional major risk" from general insurance coverage, including those associated with pandemics. AmTrust's view is that COVID-19 would be included under this law. AmTrust has requested legal opinions to support the view of its internal experts and the collation of these opinions is in progress. The expectation is that it may take years to confirm whether COVID-19 is included in this Article.

AmTrust's view is that, provided the hospitals complied with the Government's specific instructions with regards to COVID-19, it is unlikely that liability could be established except in the event of gross negligence. There is draft law being taken to the Italian Parliament to determine the limitation in the event of gross negligence.

Based on its latest understanding of the situation, AmTrust expect that claims arising from the pandemic will be limited. They anticipate a reduction in claims frequency as non-essential operations will not be taking place though limited credit for this has been made in the updated projections.

I do not believe Transferring Policyholders will be materially worse off if the AIU to AA transfer does not proceed as planned for the reasons above.

B: AIU Policyholders

AIU Policyholders are exposed to the AEL and AMIL portfolios transferring in and the Italian medical malpractice portfolio transferring out to AA. The risk profile of AIU is not expected to change materially in the event of any combination of these transfers as the business transferring is similar to that already written by AIU. I comment further on the transfers affecting AIU Policyholders below.

C: Reinsurers whose contracts are transferring as part of the transfers

Exposure to claims faced by reinsurers will not change following any partial or full completion of the proposed AmTrust transfers and the reinsurers will continue to be required to pay out the same claim amounts in respect of the same events as before the transfers. Hence, the reinsurers are exposed to the same risks under any combination of the transfers.

AEL to AIU transfer

This transfer is expected to complete on 31 July 2020 ie before the Proposed Transfer. The successful completion or otherwise of this transfer affects the AMIL and AIU Policyholders as described above.

AIU to AA transfer

This transfer is expected to complete on 31 July 2020 ie before the Proposed Transfer. The successful completion or otherwise of this transfer affects the AMIL and AIU Policyholders as described above.

AIU to LMIE transfer

This transfer completed on 31 March 2020 and so has no impact of the Proposed Transfer or the other AmTrust transfers.

1.4. Potential impact of COVID-19 on the Proposed Transfer

The uncertainty around the impact of COVID-19 is expected to continue until the Effective Date of the Proposed Transfer and beyond. AmTrust has considered the potential impact on AMIL's portfolio through economic scenarios of varying severity. Further details of these scenarios are provided in Section 5. In addition, AmTrust have updated their capital and balance sheet projections as at Day 0 and Day 1 of the Proposed Transfer to reflect the expected impact of COVID-19. This is discussed in Section 6.10.

Currently, Amtrust's Mortgage/Credit division handles mortgage claims for all entities in the AmTrust group, including AMIL, and this will continue after the Proposed Transfer. As such the Transferring Policyholders will not be affected operationally as a result of the Proposed Transfer, including any impact from the COVID-19 pandemic. AmTrust has confirmed that there are no other operational issues arising from COVID-19 that will impact any policyholders, in particular the current team will be able to service any foreseeable increase in claims activity.

2. Introduction

2.1. Background

Part VII - Section 109 of the Financial Services and Markets Act 2000 (FSMA) requires that a scheme report (the Scheme Report) must accompany an application to the High Court of Justice of England and Wales (the Court) to approve an insurance business transfer scheme (Part VII transfer).

The Scheme Report should be produced by a suitably qualified independent person, the Independent Expert (IE), who has been nominated or approved by the Prudential Regulation Authority (PRA) having consulted with the Financial Conduct Authority (FCA). The Scheme Report should address the question of whether any policyholders or reinsurers impacted by the insurance business transfer are adversely affected to a material extent.

AmTrust nominated Stewart Mitchell (I or me) of Lane Clark & Peacock LLP (LCP, we, or us) to act as the IE for the Proposed Transfer of the mortgage and credit business of AMIL to AIU under Section 105 of the FSMA. The Proposed Transfer is intended to be effected on 31 October 2020 (the Effective Date).

This report is the Scheme Report for the Proposed Transfer. I will also prepare a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions in this report, based on any new material or issues that arise.

2.2. The Proposed Transfer

AMIL underwrites general insurance business across Europe, insuring mortgage lenders (and one reinsurer) in respect of borrower default.

In the event of a so called “Hard Brexit” where AMIL no longer has FofS or FofE rights, AMIL may not legally be able to carry on the non-UK EEA business. For example, AMIL would not be able to issue new insurance policies across the EEA and might not legally be able to pay valid claims to existing non-UK EEA policyholders.

To provide certainty that the AmTrust Group can continue to carry on EEA business post-Brexit with minimum disruption, AMIL is proposing to transfer all of its non-UK EEA business to AIU (the Proposed Transfer), with the intention to then dissolve AMIL under section 112(8) FSMA following its de-authorisation.

The Proposed Transfer is also part of a wider strategy to complete the full integration of this business into other entities within the Group.

The proposed Effective Date of the Proposed Transfer is 31 October 2020.

There will be no change in the ultimate parent company of all entities, Evergreen Parent GP, LLC (Evergreen or the Group).

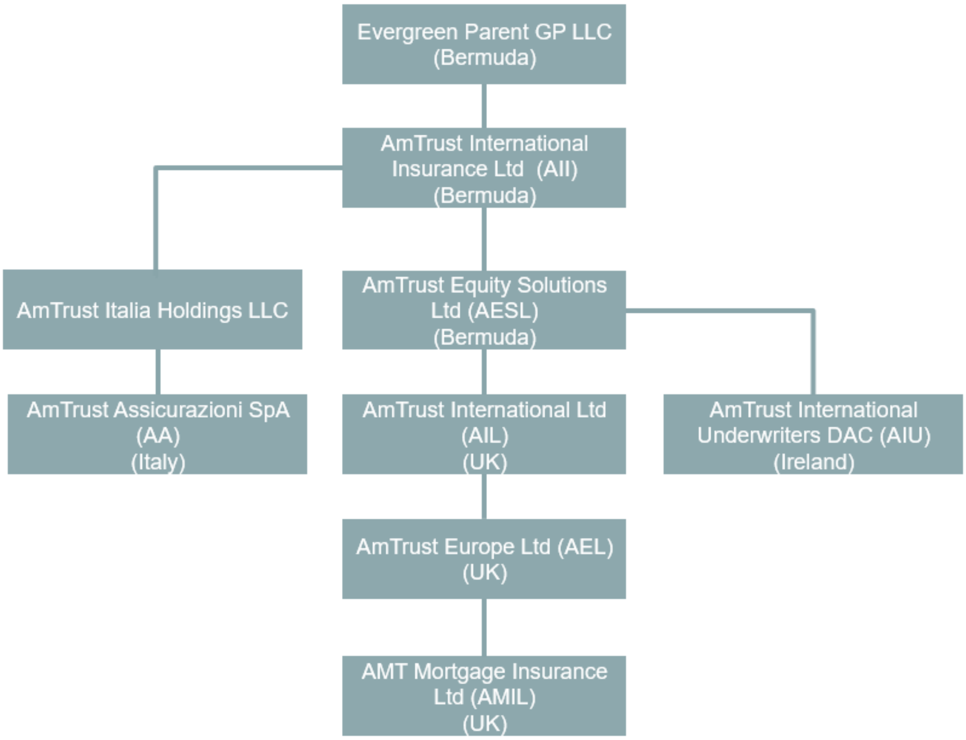
In this report I have referred to the term 'Group' to refer to Evergreen and all subsidiary companies and 'AmTrust Group' to all AmTrust entities.

AMIL is a wholly own subsidiary of AmTrust International Limited (AIL) which is a UK Limited Company.

AIL, AA and AIU are wholly own subsidiaries of AmTrust International Insurance Ltd (AII), a company incorporated in Bermuda.

The following diagrams show a simplified structure chart of the Group before the Proposed Transfer and details of the Proposed Transfer. I have also included details of the other proposed AmTrust Group transfers that impact the Proposed Transfer.

Group structure



AmTrust Group transfers

Transfer 1 (the Proposed Transfer covered by this report)

The Part VII transfer of all business from AMIL to AIU with a proposed Effective Date of 31 October 2020. As set out in this report, I am acting as the IE for this transfer.

Transfer 2

The Proposed Transfer of Italian medical malpractice risks from AEL to AA and other non-UK EEA risks (excluding Italian medical malpractice) from AEL to AIU, with a proposed Effective Date of 31 July 2020 ie before the Effective Date of the Proposed Transfer. I am acting as the Independent Expert for this transfer.

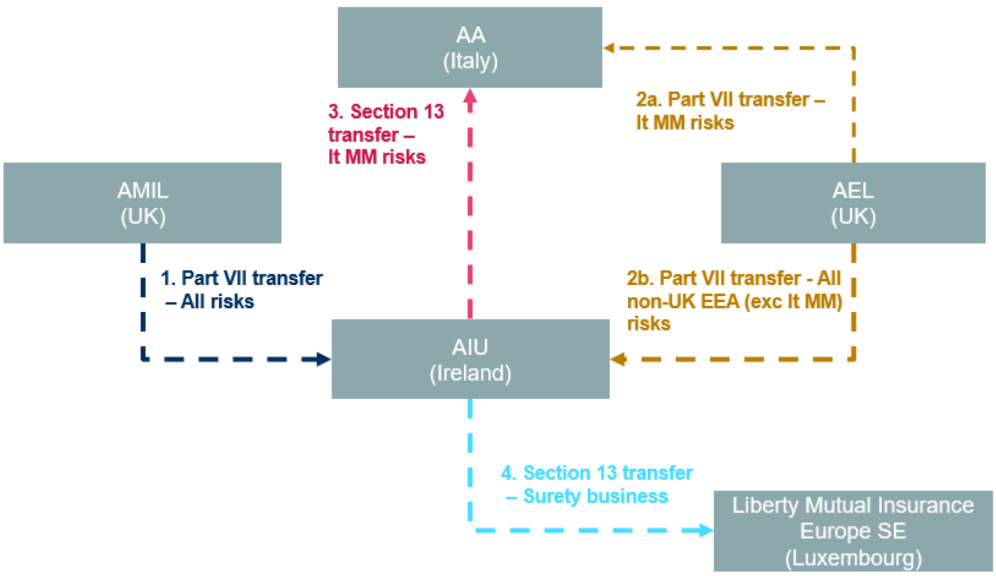
Transfer 3

The Section 13 transfer of AIU's Italian medical malpractice business to AA, with a proposed Effective Date of 31 July 2020 ie before the Effective Date of the Proposed Transfer. I am acting as the Independent Actuary (IA) for this transfer.

Transfer 4

The Section 13 transfer of surety business from AIU to Liberty Mutual Insurance Europe SE (LMIE), a third-party outside of the AmTrust Group. This transfer was completed on 31 March 2020. I acted as the peer reviewer for this transfer.

There are different peer reviewers for each of Transfers 1 to 4.



* It MM = Italian Medical Malpractice

AmTrust has committed to maintaining SCR coverage ratios at least as high as the risk appetite for each company ie 140% for AIU and AEL and 145% for AA after each transfer.

This will be achieved through a combination of capital injections from the parent company AII, contributions of excess capital from subsidiaries within the International Group (other than the European insurance entities) and movement of capital between the European insurance entities. Further detail on this is set out in Section 6.10.

2.3. Independent Expert appointment

My appointment

AmTrust has appointed me to act as the IE for the Proposed Transfer. The PRA, in consultation with the FCA, has approved my appointment. AmTrust will bear the costs associated with the production of my report. I note that no costs or expenses of the Proposed Transfer will be borne by policyholders.

My experience

I am a Fellow of the Institute and Faculty of Actuaries (IFoA) and am certified to act as a Signing Actuary for Statements of Actuarial Opinions for Lloyd's.

I am a Partner in the Insurance Consulting practice at LCP and have over 30 years' experience in general insurance.

I have skills in all areas of general insurance actuarial work (including reserving, capital, pricing and transactions), and have been the IE or provided peer review to the IE for seven other insurance business transfer schemes. I have also led the work on Section 166 regulatory reports for the PRA.

Appendix 3 contains my CV with further details of my experience.

Independence statement

I confirm that I have no direct or indirect interests in AMIL, either personally or via LCP. In particular, I am not, directly or indirectly, a shareholder in AMIL or any other company within the Group and I am not a member of any pension scheme under the management of AMIL.

I have been appointed to act as the IE or the IA for Transfers 1, 2 and 3 and a partner of LCP Ireland acted as the IA for Transfer 4. The IA is the equivalent of the IE for a Section 13 transfer, the Irish equivalent of a Part VII transfer. I do not consider my and LCP's involvement in these transfers to impact my independence in relation to the Proposed Transfer.

I also confirm that LCP does not hold any direct or indirect shareholding in AMIL or any other company within the Group.

Based on the above I consider that I am in a position to act independently in my assessment of the Proposed Transfer.

2.4. Scope of this Scheme Report

Appendix 2 contains an extract from my terms of reference, which defines the scope of my work in relation to the Proposed Transfer. The actual work performed is in line with this agreed scope.

This Scheme Report considers the effect of the Proposed Transfer upon the policyholders of AMIL and AIU and those reinsurers whose contracts cover (in whole or in part) the business transferring from AMIL to AIU. It contains a description of the Proposed Transfer, the methodology I have used to analyse the Proposed Transfer, the opinions I have formed, and reasons why I have formed those opinions.

The use of “I”, “me” and “my” in this report generally refers to work carried out by me or by the team operating under my direct supervision. However, when it is used in reference to an opinion, it is mine and mine alone.

AmTrust plan to complete the Proposed Transfer irrespective of how the UK Government’s transitional period negotiations and other arrangements develop over the coming months. I have considered alternative options in Section 3.4 and key dependencies in Section 3.5.

2.5. Use of this Scheme Report

This Scheme Report has been produced by Stewart Mitchell FIA of LCP under the terms of LCP’s written agreement with AmTrust Management Services Limited. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Scheme Report has been prepared for the purpose of accompanying the application to the Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Scheme Report is not suitable for any other purpose.

A copy of the Scheme Report will be sent to the PRA and the FCA and will accompany the Scheme application to the Court. It will also be made available on the AmTrust Financial website for policyholders and other interested parties at amtrustfinancial.com/amtrustinternational/legal/portfolio-transfers.

This report is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Scheme Report for any other purpose other than that set out above.

2.6. Reliances

I have based my work on the data and other information made available to me by AmTrust, AMIL and AIU. Appendix 4 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of AMIL and AIU and their advisors.

I have used a combination of data as at 31 December 2018, 30 June 2019 and 31 December 2019 for my analysis. Prior to the Sanctions Hearing for the Proposed Transfer, I will prepare a Supplementary Report to confirm and/or update my conclusions in this report, based on updated financial information and any new material or issues that arise.

I have received all the information that I have requested for the purposes of the production of my report. In this respect:

- AMIL and AIU will submit witness statements to the Court stating that all information provided to me is correct and complete in all material aspects.
- Each of AMIL and AIU have provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.
- AMIL and AIU have confirmed to me that there have been no material adverse changes to the financial position of AMIL or AIU since that information was provided to me.
- AMIL and AIU have read this IE report, and each has agreed that it is correct in terms of all factual elements of the Proposed Transfer.
- I have conducted basic checks on the data provided to me for internal consistency and reasonableness.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the integrity of the information provided for this report.

The conclusions in my report take no account of any information that I have not received, or of any inaccuracies in the information provided to me.

I have not needed to take any third-party legal advice on any aspects of the Proposed Transfer. AmTrust has confirmed that it has received no specific legal advice relevant to my role as IE for the Proposed Transfer.

Figures in this report may be subject to small rounding differences and so totals within the tables may not equal the sum of the rounded components.

2.7. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for Scheme Reports set out by the PRA in their Statement of Policy, the FCA guidance to their approach to review of Part VII transfers issued in May 2018 and by the PRA Rulebook and the FCA Handbook.

This report complies with the following Technical Actuarial Standards issued by the Financial Reporting Council (FRC) in the UK:

- Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100); and
- Technical Actuarial Standard 200: Insurance (TAS 200).

I have considered The Actuaries' Code as issued by the IFoA when producing this report.

This report has been subject to independent peer review prior to its publication, in line with Actuarial Professional Standard X2: Review of Actuarial Work (APS X2) as issued by the IFoA. This peer review has been undertaken by another Partner at LCP. The peer reviewer was not involved in the production of the report. They have the appropriate experience and expertise to act as peer reviewer of this report and have acted as the IE and peer reviewer for other Part VII transfers.

2.8. Materiality

The FRC considers that matters are material if they could, individually or collectively, influence the decisions to be taken by users of the actuarial information. It accepts that an assessment of the materiality is a matter of reasonable judgement that requires consideration of the users and the context.

I have applied this concept of materiality in planning, performing and reporting the work described in this Scheme Report. I have applied this concept of materiality when using my professional judgement to determine the risks of material misstatement or omission and to determine the nature and extent of my work.

In complying with the reporting requirements of TAS 100, I have made judgements on the level of information to include in this Scheme Report. For example, to make the report easier to read, I have not included all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments.

2.9. Definition of "materially adverse"

To determine whether the Proposed Transfer will have a "materially adverse" impact on any group of policyholders or on any reinsurers covering transferring business, it has been necessary for me to exercise my judgement in the light of the information that I have reviewed.

The Proposed Transfer will affect different policyholders in different ways and, for any one group of policyholders, there may be some effects of the Proposed Transfer that are positive, and others that are adverse. When assessing whether the Proposed Transfer will have a "materially adverse" impact, I have considered the aggregate impact of these different effects on each group of policyholders and on reinsurers.

Throughout the report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether policyholders and reinsurers are materially adversely affected or otherwise.

3. Outline of Proposed Transfer

3.1. The companies involved in the Proposed Transfer

AMT Mortgage Insurance Limited

AMIL is an insurance company founded in 1991 and incorporated in England and Wales. It is authorised by the PRA and regulated by the PRA and FCA. It is a wholly owned subsidiary of AIL which is a UK limited company. Following a merger transaction on 29 November 2018, Evergreen Parent GP, LLC became the ultimate parent company of AMIL owning 100% of the issued share capital.

AMIL underwrites general insurance business across Europe, insuring mortgage lenders and one reinsurer against the risk that a borrower defaults on their mortgage and that the property is sold at a value less than the outstanding value of the mortgage, leading to loss for the lender. AMIL provides two main types of cover:

- Loan-level cover - where individual mortgage loans are insured from loan origination (accounting for c. 90% of AMIL's in force business);
- Structured cover - where insurance is provided on a portfolio of mortgages, often post origination.

For loan-level cover, AMIL takes a first-loss position on the mortgage exposure down to an attachment point defined at the start of the MI contract. For example, if the attachment point is 75% LTV (loan-to-value) and the loan is a 90% LTV mortgage, then for a property purchased for €100,000, Amtrust will insure the first €15,000 of losses incurred by the lender if the mortgage defaults. The €15,000 cover is known as the Maximum Claim Amount ("MCA").

The policies are long-tailed policies given the length of the mortgages, typically of length greater than 10 years.

AMIL was acquired by AEL in 2016. After the acquisition, the decision was taken by the AmTrust Group not to continue engagement with Standard and Poor's (S&P) and AMIL's S&P rating was withdrawn.

Following the acquisition by AEL, mortgage insurance business for UK clients was written in AEL and for non-UK clients in AIU. As such, the Proposed Transfer of all non-UK policyholders to AIU is expected to lead to greater efficiencies within the Group with all non-UK mortgage insurance business within the same entity. Therefore, existing AIU policyholders are already exposed to similar risks relating to mortgage business that Transferring Policyholders face.

AmTrust International Underwriters DAC

AIU is an Irish registered insurance company incorporated in Ireland in January 1991 and is authorised and regulated by the CBI.

AIU's current A.M. Best financial strength rating as of 13 August 2019 is "A-" (Excellent).

The company underwrites multiple lines of business across the EU, EEA and the USA. Its main underwriting activities cover casualty, property, general liability, medical malpractice, surety and specialty business.

Transferring Policyholders will face new risks by transferring to AIU due to the additional classes of business written by AIU. In addition, AIU's business mix is shorter tailed than that of AMIL. Therefore, there is the potential risk that AIU's existing business deteriorates and that settling these claims exhausts AIU's financial resources before claims arising from AMIL policies can be settled. I consider the likelihood of this occurring to be extremely low given AIU's solvency position post-transfer.

In addition, historical deteriorations in AIU's experience have been predominantly driven by the Italian Medical Malpractice portfolio which will have already transferred to AA. AIU is already exposed to mortgage business having written all new EEA policies since AEL's acquisition of AMIL in 2016 and re-signing new AIU policies with AMIL's live policyholders throughout 2019 in preparation for Brexit. Where policyholders elected to transfer over to AIU, no new risks could be declared under the AMIL policies and policies with unincepted cover were put into run-off.

I believe any potential disadvantages to Transferring Policyholders are offset by the benefits including the removal of uncertainty of not having claims paid due to unsuccessful transitional period negotiations. Transferring Policyholders may also prefer to be part of a rated entity (AMIL is unrated) with a larger more diversified balance sheet that may be better able to absorb adverse claims experience.

AmTrust International Insurance Ltd

AmTrust International Insurance Ltd (AII) was incorporated in Bermuda in August 1982. It is a Group reinsurance company providing reinsurance to subsidiaries within the Group, including AEL and AIU and AA.

AII's current A.M. Best Financial Strength Rating as of 13 August 2019 is "A-" (Excellent).

3.2. Description of the Proposed Transfer

Transferring policies

If sanctioned by the Court, the Proposed Transfer will move all business written by AMIL to AIU. This is all non-UK EEA business since UK business was transferred to AEL in 2019.

Over the last year, in preparation for Brexit, contracts with AMIL's existing EEA clients were cancelled and re-written into AIU. Therefore, a portion of the policyholders transferring over will already have their current policy with AIU. The remaining AMIL policies that were not cancelled and re-written into AIU are already in run-off.

As at 31 December 2019, the transferring business comprised 29 policyholders with 64 policies covering 77,149 active loans across 7 countries. In addition, AIU is already exposed to mortgage business having written all new EEA non-UK policies business previously written by AMIL since AEL's acquisition of AMIL in 2016 and re-signing new AIU policies with AMIL's live policyholders throughout 2019 in preparation for Brexit.

Where policyholders elected to transfer over to AIU, no new risks could be declared under the AMIL policies and policies with unexpired cover were put into run-off.

No new mortgage loans can be declared and insured under AMIL's existing policies. However, all loans declared will continue to be insured by AMIL (or AIU post-transfer) until such loans are paid back in full or fall below a loan-to-value threshold.

All rights and obligations of AMIL relating to the transferring policies will also be transferred to AIU.

As at 31 December 2019, the transferring policies were equivalent to 6% of AIU's booked provisions of £816.4m gross of reinsurance, and 20% of AIU's booked provisions of £178.6m net of reinsurance. Further detail is provided in Section 5.5 of this report.

AMIL expect that all policies to be transferred to AIU will be able to transfer at the Effective Date. Should this not be possible for any reason, there are provisions in the Scheme Document to allow for the transfer of such policies as soon as possible following the Effective Date.

Plans in the event the Proposed Transfer is unsuccessful

If the Proposed Transfer is unsuccessful, the AMIL portfolio will be allowed to run-off as the remaining exposure expires. No new business is being written by AMIL. AmTrust would engage with each relevant non-UK regulator to discuss the management and payment of claims after the end of the transition period for each non-UK EU country. To date, non-UK regulators have indicated time limits on transitional arrangements that would not be sufficient to fully run-off the AMIL portfolio.

Reinsurance

Reinsurance is an arrangement with another insurer to share or pass on risks. Reinsurance contracts may be underwritten by an external reinsurer or by a reinsurance entity in the same group.

Quota share is a common type of reinsurance arrangement, where an insurer shares a set proportion of premiums and claims with the reinsurer.

Excess of loss reinsurance is another type, where the portion of claims above a certain defined level is passed onto the reinsurer.

AMIL currently has a quota share programme with a panel of highly rated reinsurers. The programme has been in place since 2011. The proportion ceded was 33% until 2019 when it increased to 50%. No business was written by AMIL in 2020. Before 2011 the business was not reinsured.

The reinsurance protection provided to the Transferring Policyholders from this reinsurance will transfer across to AIU.

Other related transfers planned to take place before the Proposed Transfer

Section 2.2 described three further transfers as part of AmTrust's wider strategic plans. Transfers 2 and 3 are due to complete before the Effective Date of the Proposed Transfer and transfer 4 has already completed. I am the IE for transfer 2 and the IA for transfer 3.

Unless otherwise stated, pre- and post-transfer results for AIU, in the context of the Proposed Transfer, are presented assuming that transfers 2 and 3 have taken place.

My conclusions regarding the transfer from AMIL to AIU are not impacted by whether or not transfers 2 and 3 have taken place by the Effective Date of the Proposed Transfer. I have considered the potential impact on AIU's SCR coverage ratio for all possible permutations of transfers. This is discussed further in Section 6.

I will confirm in my Supplementary Report whether or not the other transfers have taken place together with consideration of any implications for the Proposed Transfer.

3.3. Purpose of the Proposed Transfer

The purpose of the Proposed Transfer is to simplify the business currently written across the AmTrust Group in Europe in response to Brexit and provide certainty that the AmTrust Group can continue to carry on non-UK EEA business post-Brexit with minimum disruption to its operating model and its customers.

3.4. Alternative options considered

The Proposed Transfer originally assumed a Hard Brexit where AMIL no longer has FofS or FofE rights for existing or new policyholders. It also assumed that any transitional arrangements agreed following Brexit would only be for a limited period and would not be for a long enough period to cover the run-off of the mortgage insurance business given the long-tailed nature of the liabilities.

The UK has now left the EU but there remains uncertainty regarding the outcome of trade negotiations between the UK and the EU during the transition period up to 31 December 2020. For example, if trade negotiations were unsuccessful, AMIL may not legally be able to pay valid claims to existing non-UK EEA policyholders.

It is AmTrust's intention to proceed with the Proposed Transfer regardless of any trading arrangements which may be agreed between the UK and the EU. This is because the Proposed Transfer is part of a wider strategic change regarding the business to be written by each entity going forward.

It is Amtrust's intention to proceed with the Proposed Transfer in the event of any other transfer, or part thereof, not being sanctioned.

I believe the impact of the Proposed Transfer not going ahead will have limited impact on the Transferring Policyholders and existing AIU Policyholders. The SCR coverage ratio would be higher for AMIL and similar for AIU if this were the case.

If the Proposed Transfer does not proceed the AMIL coverage ratio of 183% will increase gradually each quarter as the risks run off.

AmTrust has confirmed to me that capital will be allocated to other group entities to ensure that the SCR coverage ratios for the receiving and transferring entities are maintained at a minimum of risk appetite level in the event that not all of the transfers proceed (ie 140% for AIU and AEL and 145% for AA).

This will be achieved through a combination of capital injections from the parent company AII, contributions of excess capital from subsidiaries within the International Group (other than the European insurance entities) and movement of capital between the European insurance entities. Further detail on this is set out in Section 6.10.

3.5. Key dependencies

The key dependencies of the Proposed Transfer are as follows:

- Court approval is required for the Proposed Transfer – the Directions Hearing is scheduled for 8 July 2020 and the Sanctions Hearing is scheduled for 26 October 2020. The Court will take into account whether the PRA and FCA have any objections to the Proposed Transfer.
- Any objections raised by policyholders or reinsurers after the Directions Hearing – I will comment on these (if there are any) in my Supplementary Report.
- The PRA must provide the Court with the required certificates under Schedule 12 of FSMA in relation to its consultation with EEA regulators and the necessary solvency certificates from the CBI in respect of AIU.
- The Effective Date of the Proposed Transfer is 31 October 2020 and current EU rules will apply during the transition or implementation period up that date and beyond until 31 December 2020. As such, the Proposed Transfer is not dependent on the outcome of the trade negotiations between the UK and the EU during the transition period.

3.6. Prudential to Rothesay Part VII transfer

On 16 August 2019, Mr Justice Snowden declined to exercise his discretion to sanction the proposed Part VII insurance business transfer of a £12.9 billion book of in-payment annuities from The Prudential Assurance Company Limited (Prudential) to Rothesay Life Limited (Rothesay). This is believed to be the first time ever that the court has refused to sanction a Part VII scheme that has been passed by both the Independent Expert and the PRA and FCA.

I have concluded that this has no impact on the Proposed Transfer having considered the following elements of the judgement on the Prudential to Rothesay transfer:

- The relative reputation of the transferee and transferor is not a relevant factor for the Proposed Transfer
- The relative likelihood of the transferee's and transferor's willingness to provide support in the event of future financial distress is not a relevant factor for the Proposed Transfer.
- The nature of the business considered ie lifetime nature of the annuity policies where policyholders had selected their provider for life is not relevant for the Proposed Transfer. In contrast, much of the transferring AmTrust business consists of policies which have expired or are expiring, and in some cases the active portion of cover having already renewed into the receiving entity as part of AmTrust's Brexit preparations.

- The commercial considerations of Prudential were largely met by a reinsurance arrangement which was already in place. This is not the case for the Proposed Transfer. In addition, one of the objectives of the Proposed Transfer is to achieve certainty for policyholders post-Brexit, which was not a consideration in the Prudential transfer.
- There were a large number of objections raised by policyholders (c. 1,000) in the Prudential transfer. Although the Proposed Transfer has yet to go to the Directions Hearing, I would not expect this level of objections.

4. My approach as IE

As IE, my overall role is to assess whether:

- The security provided to Transferring Policyholders and AIU Policyholders will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards experienced by policyholders.
- Any reinsurer of AMIL covering the transferring business will be materially adversely affected.

To make these assessments, I have considered the effect of the Proposed Transfer from the perspectives of each of:

- Transferring Policyholders, who will transfer from AMIL to AIU as a result of the Proposed Transfer.
- AIU Policyholders, ie any policyholders at AIU at the time of the Proposed Transfer who will remain with AIU.
- Reinsurers whose contracts with AMIL are transferring to AIU.

My approach to assessing the Proposed Transfer has been to perform the following five steps analysing evidence provided by AmTrust to support the Proposed Transfer:

Step 1: Assessing the provisions of AMIL and AIU

The first important form of security that an insurer provides to policyholders is the level of provisions. Provisions are based on an estimate of the amount of money the insurer will need to pay policyholders' claims and to cover the other costs associated with running the insurer.

Therefore, I have assessed the appropriateness of the provisions included on AMIL's and AIU's balance sheet and the approach to be used for the calculation of provisions for AMIL and AIU pre- and post-transfer. Details of this step are set out in Section 5.

Step 2: Assessing the capital positions of AMIL and AIU

In addition to the level of provisions, insurers hold capital designed to withstand more extreme levels of claims. The level of capital held is the second important form of security provided to policyholders.

For AMIL and AIU, the level of capital required is set under the European Solvency II standard. A key metric under Solvency II is the Solvency Capital Requirement (SCR). This is an estimate of capital required to ensure that an insurer can meet its obligations over the next 12 months with a probability of at least 99.5%.

I have assessed the appropriateness of the projected capital requirements of AMIL and AIU by considering the use of stress scenarios ie considering the impact on capital of several scenarios including severe or extreme events.

To a lesser extent, I have also considered the results of AmTrust's economic capital model which is used internally to investigate capital requirements on a 1-year basis and an ultimate basis.

Details of this step are set out in Section 6.

Step 3: Assessing overall policyholder security

Under this step, I have considered the level of provisions and capital (from steps 1 and 2) in the context of the assets held by each of AMIL and AIU and other forms of security such as reinsurance.

For this analysis, I have considered the current balance sheet of AMIL and the post-transfer pro-forma balance sheets for each of AMIL and AIU. Details of this step are set out in Section 7.

Step 4: Assessing policyholder communications

I have assessed the appropriateness of AMIL's communication strategy to inform policyholders and other stakeholders of the Proposed Transfer.

The key focus of my assessment was whether the policyholders and other stakeholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them. Details of this step are set out in Section 8.

Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders

I have considered how the level of customer service provided to policyholders could change following the Proposed Transfer. I have also considered a range of other factors that might affect policyholders, such as ongoing expense levels and tax implications. Details of this step are set out Section 9.

5. Reserving considerations

5.1. Introduction to insurance reserving

For an insurance company, the primary purpose of reserving is to assess the provisions that need to be set in order to pay policyholders' claims and to cover the other costs associated with running an insurer.

Depending on how they are set, the provisions may be on a "best estimate" basis (ie with no deliberate optimism or pessimism) or include a "margin for prudence" (ie additional provisions to cover higher than expected claims). Where the provisions include a margin for prudence, this is typically designed to cover claims that are moderately higher than expected rather than more extreme levels of claims. A best estimate basis may indicate a single point estimate of the provisions, but practically there often exists a range of estimates that could be justified as a best estimate. This would be based on alternative, yet plausible, assumptions.

In addition to any margin for prudence, the insurer would nearly always hold additional capital designed to withstand more extreme levels of claims. My considerations related to capital for the Proposed Transfer are set out in Section 6.

5.2. Introduction to reserving bases

Insurers use a range of different reserving bases ie different measures of the provisions, for different purposes.

For example, financial accounting standards require the provisions to be calculated in particular ways, and an insurer may also use a different basis for internal management accounts. Solvency II calculates the provisions in yet another way.

For the Proposed Transfer, I have considered the provisions under two reserving bases, which are each relevant for different purposes, namely:

- UK Generally Accepted Accounting Principles (GAAP) – these are the accounting standards used to set the provisions underlying the published financial accounts of AMIL. GAAP provisions are relevant for policyholders as they are used as a reference point when setting provisions to cover future claims and other costs.
- Solvency II technical provisions – these are calculated in line with the European Solvency II regulations that came into effect in both UK and Ireland with effect from 1 January 2016. These provisions are relevant for policyholders as they are the basis for calculating the capital required and assessing solvency for AMIL and AIU.

5.3. My considerations relating to reserving

As IE, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for both transferring and non-transferring policyholders;
- whether an appropriate level of provisions is maintained for the receiving entities post transfer; and
- whether any aspects of the reserving may lead to policyholders being materially adversely affected by the Proposed Transfer.

To make these assessments, I have considered the following areas:

- Appropriateness of provisions (Section 5.5);
- Key uncertainties when setting the provisions (Section 5.6);
- Current AMIL and AIU reserving process and governance (Section 5.7);
- Future reserving process and governance for AIU (Section 5.8); and
- Setting of case estimates (Section 5.9).

Within these areas, I have also considered any expected differences in the reserving approach between AMIL and AIU to understand how this may affect the Transferring Policyholders and the AIU Policyholders.

Further details on each of these considerations are set out below, and I have stated my overall conclusion related to reserving in Section 5.10.

5.4. Approach to my review

I have reviewed several documents provided by AMIL and AIU relating to the setting of provisions, including the reserving process and governance. In addition, I have had discussions with AmTrust staff on the information provided and any questions I have had on the approach. A list of the key data and documentation reviewed is provided in Appendix 4.

5.5. Appropriateness of provisions

The following table shows the level of booked provisions as at 31 December 2019 (the latest available figures at the time of my writing of my report) for AMIL. The transferring provisions represent 6% of AIU's total provisions gross of reinsurance, and 20% net of reinsurance.

AIU's provisions in the table below includes the surety portfolio which transferred from AIU to LMIE (see Transfer 4 in Section 2.2). The transferring surety business is €59m gross of reinsurance and €0m net of reinsurance (AIU reinsured 100% of the transferring surety business with LMIE).

Summary of GAAP booked provisions for AMIL and AIU at 31 December 2019

£m	Gross of reinsurance	Net of reinsurance
Transferring to AIU	46.7	35.8
AIU	816.4	178.6
Transferring provisions as % of AIU	**6%**	**20%**

Source: AMIL and AIU, figures include OS, IBNR, ULAE and UPR
Converted at £1 = €1.18

My assessment of the appropriateness of provisions

In my assessment of the appropriateness of the provisions, I have considered the following:

- Booked provisions for AMIL;
- Booked provisions for AIU; and
- Solvency II technical provisions for AMIL and AIU.

The reserving process is performed by actuarial teams at the entity level for AMIL and AIU. However, overall oversight of the analysis and a review of the provisions is performed by AmTrust's Chief Actuary and this will not change post-transfer.

5.5.1. Booked provisions for AMIL

My review of AMIL's booked provisions

I have reviewed the 'Reserving and Earnings Methodology' document provided to me by AMIL. The documentation includes details on the methodology and key assumptions applied. My review of this documentation, alongside the quarterly reserve reports provided, leads me to believe the methodology used by AMIL is reasonable.

The methodology has been in place for a number of years and follows an approach first introduced by an external actuarial firm who provided independent reserve reviews, and then taken in-house by AMIL's predecessor company in Q3 2009. The assumptions have also remained stable over several years. No external review is now provided other than by AMIL's auditors as part of their audit of AMIL.

AMIL's case reserves are estimated for a delinquent loan (loans with arrears) as the claim frequency multiplied by an assumed severity of loss given a claim. The case reserve considers the claim frequencies, severities and the maximum claim under the terms of the policy. Allowances are also made for differences that might arise between mortgage markets in different countries and the underlying economic conditions. There are a number of assumptions underlying the parameters set and these are reviewed each quarter for appropriateness by the actuarial team.

IBNR is only allowed for the latest two accident quarters owing to the relatively short reporting delay expected for claims of this nature.

The AMIL reserving team reviews the assumptions used to calculate the reserves on a quarterly basis. The team have reserved this business for a number of years demonstrating experience and expertise in this class of business.

AMIL's sensitivity assumptions

The AMIL reserving team regularly perform sensitivity analyses for its key exposures (Ireland and Italy) to assess the impact of changing reserving parameters on the level of reserves. The sensitivities performed in the 31 December 2019 reserving report included:

- Sensitivity A – Severity of losses increases by 1%
- Sensitivity B – The probability of a delinquency moving to a claim after a given number of months of delinquent (initial delinquency-to-claim roll rate (DCRR)) increases by 10%
- Sensitivity C – Maximum DCRR increases by 1%
- Sensitivity D – Time in delinquency increases by one month.

The impact of these sensitivities on Ireland and Italy combined as at 31 December 2019 is shown below:

Sensitivity	Total Gross/Net reserves (€m)	Total Net/Net reserves (€m)	Impact of sensitivity (€m)	% impact
A – 1% increase in severity	53.5	53.3	0.3	<1%
B – initial DCRR increases by 10%	53.5	53.3	0.3	<1%
C – Maximum DCRR increase by 1%	53.5	53.3	0.2	<1%
D – Time in delinquency increases by one month	53.5	53.3	0.4	<1%

The sensitivities considered here are not particularly extreme, as demonstrated by the impact on the level of reserves. Therefore, I asked AMIL to perform further analysis to assess the impact of more pessimistic assumptions on the reserves.

Additional sensitivity analysis for AMIL

I asked AMIL to consider the sensitivity of the reserves to two sets of more pessimistic reserving assumptions. The first set of assumptions were based on a 'realistic downside' basis and the second set on a more 'extreme' basis, taking into account the experience of previous economic downturns.

AMIL assessed the impact of these more pessimistic reserving assumptions for the Italian portfolio (which represents c. 80% of the total exposure) as at 31 December 2019. To assess the impact of economic risks to which the portfolio is exposed, the following assumptions have been considered:

- **Severity** – as a consequence of a fall in house prices;
- **IBNR as a % of case estimates** – as a consequence of an increase in the number of future delinquencies; and
- **Unearned premium loss ratio** – also, as a consequence of an increase in the number of future delinquencies.

The results of these more pessimistic assumptions are shown in the table below. All figures are shown on a GAAP basis.

Assumption	Base	Realistic downside	Extreme
Number of delinquencies#	1,588	1,588	1,588
Total maximum claim amount	€36.7m	€36.7m	€36.7m
Number of delinquencies that become a claim (DCRR)	55.0%	62.0%	100.0%
Severity (claim amount as % of total cover)	84.7%	90.0%	100.0%
Total case estimates	€17.1m	€20.5m	€36.7m
IBNR as % of case estimates	2.9%	3.0%	5.8%
Total IBNR	€0.5m	€0.6m	€2.1m
Total claims reserves (A)	**€17.6m**	**€21.1m**	**€38.9m**
Unearned premiums	€32.0m	€32.0m	€32.0m
Unearned premium loss ratio	16%	50%	110%
Additional unexpired risk reserve	€0.0m	€0.0m	€3.2m
Total premium reserves (B)	**€32.0m**	**€32.0m**	**€35.2m**
Total reserves (A + B) *	**€49.6m**	**€53.2m**	**€74.1m**
Impact on reserves	**n/a**	**+€3.5m**	**+€24.5m**

This is the number of existing claims and so do not increase under the alternative bases. The extreme basis models these claims at their maximum value.
Future new delinquencies are modelled under the unearned premium estimate.
*Includes OS, IBNR, UPR and additional unexpired risk reserve (AURR) where required.

The **realistic downside** basis assumes:

- a 10% increase in the DCRR as per sensitivity B above;
- a slight increase in severity;
- small increase in the IBNR as a percentage of case reserves; and
- an increase in the UPR loss ratio initially in line with the average of experience between 2005 and 2008, moderated by the stricter underwriting guidelines applied now compared to that period and an allowance in the frequency of claims as a result of government actions and the introduction of payment holidays by lenders.

The **extreme** basis assumes:

- the worst case possible with regards to the DCRR and severity of claims;
- a doubling of the IBNR as a percentage of case reserves due to reporting delays driven by COVID-19 uncertainties; and
- an increase in the UPR loss ratio in line with the average of experience between 2005 and 2008.

Note that the impact of these more pessimistic reserving assumptions has been considered on a GAAP basis to demonstrate the sensitivity of the reserves to the key assumptions. For the realistic downside basis, GAAP reserves increase by €3.5m. For the extreme scenario, reserves increase by €24.5m driven primarily by the increase in case estimates.

AMIL has also performed a number of stress scenarios, including on reserves and the impact of COVID-19, to investigate the impact of those scenarios on its SCR coverage ratio. Details are provided in section 6.8.

AMIL reserving process and governance

I have been provided with the quarterly reserving reports, presentations made to the Board and the Board meeting minutes. These reports explain in detail any findings that have led to changes in the assumptions, which are then discussed and approved by the Board.

AMIL do not hold a management margin on their booked provisions in respect of reserve uncertainty.

The same claims team that currently handle AMIL claims will transfer across to a dedicated claims function within AIU and the same individuals will continue to handle these claims for AIU.

Conclusion on AMIL's booked provisions

Based on my review of AMIL's process, I concluded that the methodology used to set the provisions was appropriate, and I did not identify any concerns around the appropriateness of the provisions and therefore the value of transferring provisions.

5.5.2. Booked provisions for AIU

Independent projections for AIU by the IE

I have performed my own independent projections on a sample of AIU's business, covering key classes including Italian and French medical malpractice, US General Liability and US Commercial Credit. These classes accounted for c. 70% of AIU's booked claim reserves as at 31 December 2018. I applied triangular-based reserving methodologies to these key classes deriving my own assumed development patterns, making use of benchmark data to inform my selected assumptions where I believed this was necessary.

In aggregate, my independent projections were c. 2% higher than AIU's gross actuarial best estimates. I consider this to be well within a range of reasonable best estimates given the type of business written by AIU and my wider experience of insurers' writing similar business.

My review of AIU's booked provisions

AIU's approach to setting provisions is similar to AMIL with a quarterly-reserving exercise performed. At each year-end, detailed analysis is performed on an early-close set of data as at 30 September and the assumptions derived applied to data as at 31 October. Actual claims experience in the two months to 31 December is then compared to expectations and taken into consideration when setting year-end provisions.

The booked provisions are not discounted for the "time value of money". This is in line with normal market practice.

The focus of my assessment of the provisions was a review of the documents provided to me by AIU relating to the calculated provisions as at 31 December 2018 (the latest date that full audited results were available at the time of my analysis), and my discussions with key members of AIU's reserving team. In addition, I tested the reasonableness of the AIU's reserving assumptions through my own independent projections as described above.

The provisions calculated by the AIU actuarial team are on a best estimate basis. A small management margin is held in the booked provisions in respect of reserve uncertainty. As at 31 December 2018, the overall margin was c. 1% of the net best estimate gross claim reserves.

I do not consider the fact that AIU hold a management margin of 1% and AMIL do not any margin to be material in the context of what I consider to be a reasonable range of best estimates of provisions.

The use of benchmarks is limited for AIU. Projections for the Surplus Lines general liability and professional indemnity classes are performed by AmTrust USA at an individual programme level. London Market Association benchmarks are used at an aggregate level for this business to provide a sense check against the more granular level of the underlying projections. The benchmarks are based on risk codes which I consider appropriate eg E3, E5, E7 and E9 for the professional indemnity class and NA and UA for the general liability class.

External independent review of reserves - AIU

AIU commissioned an independent review of AIU's best estimate reserves gross and net of reinsurance from an external actuarial consultancy. The most recent review that I considered in my assessment was at 31 December 2018. The approach taken uses standard actuarial techniques such as the chain ladder, expected loss ratio and Bornhuetter-Ferguson methods. These are techniques that I would expect to see for business of this type.

This report indicates that the total best estimate gross and net of reinsurance provisions calculated by the actuarial consultancy were c. 1% higher than the total best estimate provisions booked by AIU. This is not materially different and is within what I consider a range of reasonable best estimates.

The range around both the best estimate gross and net provisions indicated by the independent review was -13% to +24% of the best estimate. Whilst the range is wider than my experience would indicate, I believe it is reasonable given the inherent uncertainty in the business written and that a range of alternative, but plausible, best estimate assumptions could be justified.

My review of the external independent reserve review, in addition to my own independent projections, provides additional evidence of the appropriateness of the booked provisions.

External regulatory review - AIU

A regulatory independent review was also performed for AIU by an external adviser. The review focussed on the Italian and French medical malpractice, surety and US commercial credit business written by AIU. In respect of the medical malpractice portfolio, the review covered an independent estimate of the claim reserves as at 30 September 2018.

Overall, the level of reserves estimated in the regulatory review by the external actuarial consultancy firm were effectively the same as AIU's best estimate on a net of reinsurance basis. A management margin is also held in on top of AIU's actuarial best estimate.

Although I have not adopted the external third parties' reserve estimates and views, they provide additional evidence to support the conclusions I reached based on my own independent projections of the appropriateness of the provisions booked by AIU.

Conclusion on AIU's booked provisions

Based on my own independent projections of the provisions for AIU, I concluded that the level of booked provisions for AIU was reasonable and I did not identify any concerns around the appropriateness of the provisions.

My conclusion was supported by my review of AIU's approach and methodology, and the level of provisions indicated by two further independent reserve reviews.

5.5.3. Solvency II technical provisions for AMIL and AIU

The starting point for the calculation of the Solvency II technical provisions (TPs) is the booked GAAP provisions, and I have reviewed the approach taken by AMIL and AIU to convert the booked GAAP provisions into the TPs. My review has focussed on the areas which involve a degree of subjectivity and, in my experience, are the areas of greatest interest to an independent reviewer. This included Events Not in the Data (ENIDs) and the Risk Margin.

For both AMIL and AIU an allowance for ENIDs is made within the TPs as the data used to estimate GAAP provisions does not typically include experience from rare events. The use of a truncated distribution is a common approach where an assumption is made as to the level of claims from such rare events. An ENID load has been calculated using this approach for AIU. For AMIL, the ENID load is calibrated from the most recent run of AmTrust's economic capital model with allowances made for the run-off of reserves and the risk-in-force and pricing loss ratios for more recent years where there is a greater level of uncertainty.

AIU's ENID load as at 31 December 2018 was c. 5% of the total net best estimate technical provisions. AMIL's ENID load as at 31 December 2019 was c. 6% of the total net best estimate technical provisions. I consider these loadings to be in line with that typically held by other insurers writing similar classes of business. In addition, the ENID load for AMIL is larger than AIU. This is to be expected given the potentially greater uncertainty AMIL faces from its, effectively, monoline portfolio compared to AIU which writes a more diversified range of business.

The risk margin within the TPs under Solvency II represents the potential costs of transferring insurance obligations to a third-party should an insurer fail. The Solvency II guidelines allow four simplifications to the calculation of the risk margin. AMIL and AIU use 'Method 2' where an entity's SCR runs off in line with the best estimate TPs ie excluding the risk margin.

Whilst 'Method 2' is an approach I have seen in my wider experience, market practice is moving towards assuming a slower run-off pattern than implied by the TPs. Therefore, it could be argued that the Risk Margin, and therefore the Solvency II TPs are understated, due to a lower projected SCR at each future point in time.

However, there is an offsetting element of prudence given that items within an entity's SCR would usually be expected to reduce more quickly than the rate implied by running off in line with the best estimate Solvency II TPs eg:

- Catastrophe risk – one would expect the majority of this to disappear after one year; and
- Other Credit risk – one would expect broker balances to be mostly paid within a year.

AMIL's risk margin as at 31 December 2018 is approximately 9% of the best estimate gross and net technical provisions. I have compared this to LCP's market-wide benchmarking exercise of 100 of the largest non-life insurers in the UK and Ireland. Given that this sample includes only a small number of firms that write similar business to AMIL, my comparison is to a weighted average of all insurers in this sample. On this basis, AMIL's risk margin is in line with the overall market average of 9% of total net best estimate non-life technical provisions.

AIU's risk margin as at 31 December 2018 is c. 4% of the best estimate gross technical provisions. 85% of AIU's total best estimate gross technical provisions relate to general liability and miscellaneous financial business, for which a typical risk margin based on LCP's market review is c. 5% of best estimate gross technical provisions. I consider AIU's risk margin, as a percentage of best estimate gross technical provisions, to be broadly in line with the rest of the market.

On a net basis, AIU's risk margin is higher reflecting the increased volatility due to the relatively high level of reinsurance, as at 31 December 2018 85% of AIU's booked reserves were reinsured.

Overall, I believe the approach and level of risk margin is materially appropriate for AMIL and AIU.

My conclusion is that AMIL and AIU's approach used to calculate the TPs is appropriate. I have not sought to re-perform the calculation of the TPs or verify the calculations performed by AMIL or AIU.

5.6. Key uncertainties when setting provisions

The ultimate costs of settling general insurance claims are subject to uncertainty in terms of both the frequency (ie how many valid claims there will be) and severity (ie the cost of settling each claim) including exposure to inflation in claim amounts over time. Therefore, there are uncertainties when setting the corresponding provisions.

There are several uncertainties in setting provisions for the classes of business written by AMIL and AIU:

- The mortgage indemnity business is inherently uncertain given the long-tailed nature of these liabilities and the limited history of large market events to determine the potential risk of future deteriorations. However, since this business is already being written in AIU, the process for setting of provisions for this type of business will be relatively similar between AMIL and AIU.
- Several classes of AIU business written are small in volume with limited historical data meaning that claims experience is likely to be volatile. Given this volatility, AIU has judgementally selected tail development factors or used benchmark development factors. These classes will be subject to greater than usual uncertainty.
- AIU use benchmarks to help inform and validate some of their selected development patterns. Whilst there is uncertainty about the extent to which these benchmarks are appropriate to the business written by AIU, the reliance on these benchmarks has reduced over time. They are mostly used for liability classes where benchmarks are provided by an external consultant, and classes which are in run-off and are not material to the overall reserves.

Reinsurance is used to mitigate the impact of these key uncertainties and also a risk margin is held within the Solvency II technical provisions. AIU also use data from elsewhere within the AmTrust Group to supplement their analysis.

5.7. Current reserving process and governance

AMIL and AIU reserving processes

The reserving process for AMIL and AIU is based on the general group-wide process, with quarterly formal committee meetings held.

Given the nature of the mortgage business written by AMIL, the standard actuarial projection techniques typically used for reserving are not appropriate to estimating the level of provisions to be held. AMIL's claim reserving methodology relies on a number of assumptions around claim frequencies and severities and the maximum claim size under the terms of the policy.

These assumptions are reviewed every quarter by the actuarial team and presented to the Board for their review and final approval. The assumptions are dependent on underlying economic conditions and given that this usually does not change significantly from one quarter to the next, changes in assumptions tend to be relatively small from one period to the next. My review of presentation packs provided to the Board confirms this.

AIU use standard actuarial techniques and the approach is in line with standard market practices to calculate provisions for the types of insurance cover. They have used commercially available reserving software, together with Excel spreadsheets, to calculate their provisions.

AmTrust's Chief Actuary makes a recommendation on the ultimate loss ratios to the AIU Reserve Committee who then make the final selections. The ultimate responsibility for reviewing, challenging and recommending the level of provisions to hold and incorporate within the financial statements lies with the AIU Board.

The external regulatory reviews for AIU included a detailed assessment of the reserving process and highlighted some areas of improvements that AIU will be addressing over the next six to twelve months. These range from applying a wider range of methodologies in estimating reserves to improving the reliability of the data used and the efficiency of the overall process. Action is being taken by AIU to address the recommendations made and to improve the overall reserving process.

I will consider AIU's progress against the recommendations made in the external reports and the implementation of any proposed actions in my Supplementary Report.

Wider stakeholder involvement in the reserving process

The AMIL and AIU formal committee meetings are attended by a wide group of members, including the Chief Executive Officer, actuarial function, key underwriters and the claims team. Papers are circulated in advance of the committee meeting and members are encouraged to challenge the results. I have reviewed the papers circulated to the AIU Reserving Committee and AMIL Board and have concluded they provide sufficient detail for appropriate decisions to be taken.

Actions from the formal committee meetings and any changes recommended are recorded in the minutes and circulated to attendees.

Reserving process governance

There is evidence of internal peer review of AMIL and AIU's reserving analysis. I have seen evidence of this whilst reviewing the calculation spreadsheet files provided to me and following conversations with the actuarial teams. I have also seen evidence of clear minutes from committees involved in the reserving process, including post-meeting email discussions to agree outstanding points and actions.

There are terms of reference in place for the various committees involved in the reserving process. Each of these is evidence of appropriate governance around the reserving process.

The external regulatory review of AIU noted that improvements were needed around the documentation of the methodologies used and the assumptions applied in the reserving process. I will comment AIU's progress in the implementation of their proposed actions to address the recommendations of the review in my Supplementary Report.

Given the significant uncertainty around the medical malpractice portfolio in particular, it was also recommended that the risk function increases its focus on reserving risk, ie the risk that reserves will be inadequate, in modelling capital requirements.

AIU, as part of their wider governance, comply with the requirements set out in the Sarbanes-Oxley Act (Sarbox) of 2002. Sarbox holds CEOs responsible for their company's financial statements, with stringent auditing standards in place.

5.8. Future reserving approach and governance

Beyond the improvements recommended from the external regulatory reviews of AIU, AmTrust has confirmed there are no planned changes in the reserving approach for either GAAP or Solvency II provisions for AIU post-transfer.

There will also be no change to the governance process for reserving, beyond the improvements recommended from the external regulatory reviews.

5.9. Setting of case estimates

Claims handlers assess claims as they are notified to an insurer and use their judgement and experience to estimate the likely cost of each claim. This is known as setting a "case estimate".

Typically, these case estimates would be a key input into the reserving process as a basis for projecting the estimated costs of future claims, ie those that have not yet been reported and the additional cost of settling those that have been reported.

The provision for these future claims is known as IBNR (incurred but not reported). The IBNR includes estimated developments to existing open claims, ie those that have been reported but not fully settled. The provision for these open claims is called IBNER (incurred but not enough reported). Depending on the type of insurance being considered, and the claims handling approach, both the IBNR and IBNER can be either positive or negative.

A memo provided to me by AmTrust describes how claims are handled across the AmTrust operating companies under a group service arrangement with AmTrust International. The AmTrust Group claims structure ensures that the claims strategy, including claims and reserving philosophy, is consistent across the companies.

AMIL's case reserves are estimated for a delinquent loan (loans with arrears) as the claim frequency multiplied by an assumed severity of loss given a claim. The case reserve considers expected claim frequency and severity based on historical data and the maximum claim under the terms of the policy. Allowances are also made for differences that might arise between mortgage markets in different countries and the underlying economic conditions. There are a number of assumptions underlying the parameters set and these are reviewed each quarter for appropriateness by the actuarial team.

IBNR is only allowed for the latest two accident quarters owing to the relatively short reporting delay expected for claims of this nature.

The same claims team that currently handle AMIL claims will transfer across to a dedicated claims function within AIU and the same individuals will continue to handle these claims for AIU. AIU aim to "establish a reserve figure which reflects the probable exposure" and is expected to be paid "based on all of the facts available".

AmTrust has confirmed to me that there will be no change in the approach to setting case estimates following the transfers.

5.10. Overall conclusion: Reserving considerations

I have set out below my overall conclusions related to reserving. These reserving considerations should not be considered in isolation. For example, the overall level of protection for policyholders also depends on the level of capital held, and a range of other considerations. My overall conclusions on the Proposed Transfer are set out in Section 10.

Transferring Policyholders

I have concluded that the Transferring Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

The key reasons for reaching my conclusions for Transferring Policyholders are as follows:

- The calculation of provisions has been performed using techniques that are reasonable and have been relatively stable over a number of years.
- AIU has confirmed that the future reserving process and governance for AIU will be materially unchanged post-transfer, other than for those actions agreed as a result of the external regulatory review.

AIU Policyholders

I have concluded that the AIU Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

The key reasons for reaching my conclusions for the AIU Policyholders are as follows:

- The calculation of provisions for AIU has been performed using techniques and approaches in line with standard market practice.
- My own independent projections and those of two external actuarial consultancies support the level of provisions held by AIU.
- The AMIL and AIU reserving processes are in line with the wider AmTrust Group process.
- AIU has confirmed that the future reserving process and governance for AIU will be materially unchanged post-transfer, other than for those actions agreed as a result of the external regulatory review.

6. Capital considerations

6.1. Introduction to insurance capital setting

A key reason why insurers hold capital is to withstand adverse or extreme levels of claims and other losses. The capital is held in excess of the provisions for policyholders' claims and for the other costs associated with running an insurer.

An insurer's "capital coverage ratio" is calculated as the available capital in excess of provisions divided by the capital required under regulations. The coverage ratio is a measure of capital strength and, whilst it does not capture all aspects of policyholder protection, all else being equal, a higher coverage ratio provides more protection. A higher ratio indicates there is more capital available per £ of capital required. Under Solvency II, the level of available capital is referred to as "own funds".

For the purposes of this report, I describe a company as having "sufficient capital" (relative to the regulatory capital requirement under consideration) if the coverage ratio is above 100%. I describe a company as "well-capitalised" if the coverage ratio is between 150% and 200% and "very well-capitalised" if the coverage ratio is more than 200%.

6.2. Calculating capital requirements

For AMIL and AIU, the level of capital required is set under the European Solvency II standard.

A key metric under Solvency II is the SCR. This is an estimate of capital required to ensure that an insurer can meet its obligations over the next 12 months with a probability of at least 99.5%.

Under Solvency II, there are three ways in which the SCR can be calculated:

- Standard formula: under this approach, the SCR is set using a prescribed calculation and parameters, as specified in the Solvency II regulations. Within the standard formula framework, insurers can use undertaking-specific parameters (USPs) to help improve the parameterisation of the calculation for their specific business.
- Internal model: under this approach, the SCR is set using the insurer's own internal capital model. The internal model is developed and parameterised by the insurer to reflect their specific business.
- Partial internal model: under this approach, the SCR is set using a combination of the standard formula and the insurer's own internal capital model. Under this approach, some aspects of the SCR are calculated using the internal model, and the remainder is calculated using the standard formula.

The choice of approach is made by the insurer; however, an insurer needs to obtain regulatory approval in order to use USPs, an internal model or a partial internal model to calculate their SCR. An insurer does not need approval to calculate their SCR using the standard formula without USPs but does need to complete their own assessment of the appropriateness of the standard formula for this purpose.

AMIL and AIU use the standard formula without USPs to calculate their SCR.

They have also considered the impact on the SCR coverage ratio of a number of stress and scenario tests. AMIL and AIU have also used an economic capital model (ECM) internally for wider capital management process. The ECMs are an unapproved by a regulator and so this limits the credibility I can place on them when reaching my conclusions beyond an overall sense check of the reasonableness of the standard formula results.

Capital requirements beyond a "one-year" view

The SCR is a "one-year" view of risk as it focuses on risks that an insurer faces over the next 12 months. As part of their overall capital management, insurers typically also consider an "ultimate" view of risk that considers the risks faced over the period until the business is fully run-off.

AMIL and AIU use the standard formula which does not give an estimate of the SCR on an ultimate view. The standard formula only gives an estimate of the SCR over the 1-year time horizon.

However, both AMIL and AIU have considered risk beyond the one-year view within their 31 December 2018 Own Risk and Solvency Assessments (ORSAs) based on their ECMs.

They also considered risk beyond the one-year view through a number of scenarios, including risks that are not covered within the standard formula.

The ORSAs each included a forward-looking assessment of capital requirements.

- For AMIL, this showed that the "to ultimate" capital coverage ratio, based on their ECM, is projected to increase from 213% in 2018 to 236% in 2019 and 270% in 2020. Note that the 2018 SCR coverage ratio based on the use of their standard formula is 212% ie is not materially different to the 213% ratio above. AMIL's forward-looking assessment assumes that from Q2 2019 no new business is written into AMIL but into other entities within the AmTrust Group. The 2019 ORSA showed a SCR coverage ratio of 171% as at Q3 2019 and a forecast of 194% as at Q3 2020. The reduction from the 2018 ORSA was due to the payment of a dividend at Q2 2019.

In the ORSA, AIU's SCR coverage ratio was expected to stay above 158% through to 2021. This is before taking into account the Proposed Transfer or any other changes in the structure of the business following other transfers that are due to take place or the impact of COVID-19.

Both firms use an ECM to set their internal measures of capital. Although these models are not approved for regulatory purposes, they provide an alternative view of capital requirements over the ultimate time horizon. However, I note that as at Q2 2019, AMIL's Board made the decision to no longer run the ECM given how close the results had been compared to the Standard Formula over a number of quarters.

For AMIL, a 1-year SCR under the ECM has never been run on account of the long-tailed nature of AMIL's liabilities. Therefore, a 1-year view could be materially unrepresentative of the capital required. As a result, only an ultimate view of the SCR has been derived under the ECM.

I have performed a comparison of AIU's 1-year and ultimate SCR as at 31 December 2018 derived under the economic model.

Comparison of 1-year and Ultimate AIU ECM results (€m)

Risk	ECM - 1-year basis	ECM – Ultimate basis
Insurance Risk	131.2	82.4
Credit Risk	58.1	145.1
Market risk	55.4	45.5
Operational risk	22.3	22.3
Undiversified SCR	267.0	295.3
Diversified SCR	**170.4**	**131.8**

The key drivers for the lower SCR on an ultimate basis compared to the 1-year basis are:

- Insurance risk – has two elements; premium risk, which increases on an ultimate basis, and reserve risk, which is lower on an ultimate basis. I have challenged AmTrust around the reasonableness of reserve risk being lower on an ultimate basis. There are two main differences between 1-year and ultimate reserve risk:
    - The ECM first models ultimate reserve risk, and then produces 1-year reserve risk by determining a proportion of a proportion of the ultimate risk to be "recognised" in the first year.
    - On a 1-year basis, reserve risk includes potential movements in the risk margin over one-year. On an ultimate basis, the risk margin is fully released, and reserve risk can be offset by the amount of the starting risk margin.

I consider the amount of risk recognised in the first year to be relatively conservative given the long-tailed nature of the risks written by AIU. From my review of their parameterisation of the ECM, AIU take the highest assumption from the various methods considered and so are potentially overstating the 1-year risk. For example, they are recognising 75% of medical malpractice reserve risk within year one. I consider this to be a conservative assumption, based on my wider experience of modelling this class of business.

In addition, the methodology for assessing the movement in risk margin used by AIU is somewhat conservative. The risk margin is calculated based on a constant factor of liabilities. During extreme scenarios, the liabilities will be materially higher at the end of the year than they were at the beginning. The use of a constant factor will tend to overstate the risk margin after one year, which in turn overstates the increase in one-year reserve risk.

Overall, the reduction in reserve risk from 1-year to ultimate more than offsets the increase in premium risk, leading to an overall increase in insurance risk for AIU from 1-year to ultimate.

- Market risk – AIU's approach to market risk on an ultimate basis is to assume that, after one year, all assets will be sold, and a portfolio of low risk government bonds will be purchased. Ultimate market risk is therefore lower than 1-year market risk as it includes this expected investment profit, with limited additional risk beyond the first year. This is a common approach to modelling market risk on an ultimate basis.

  A common approach within the market is to show insurance risk on a discounted basis, and to have no investment income beyond the first year. AmTrust has instead elected to show insurance risk on an undiscounted basis and allow for the discount benefit by showing investment income beyond the first year. I consider this approach to be reasonable, as the assumptions made are consistent and do not include any element of double-counting of investment returns.

- Diversification allowance – the diversification allowance shown above appears to be larger on an ultimate basis than on a 1-year basis. However, this is a knock-on effect from the market risk issues described above, whereby results are distorted by changes to the expected profit.

Credit risk (split between reinsurance credit and non-reinsurance credit risk) is higher on an ultimate basis than a 1-year basis. This is reasonable as, given the nature of the business written by AIU, it takes a long time for claims to be fully paid. Therefore, reinsurance credit risk exposures (the main driver of credit risk) is expected to emerge slowly as well. The emergence of non-reinsurance credit risk would be expected to emerge more quickly as it relates to amounts owed over a shorter time frame.

Operational risk in the ECM model is calculated using the standard formula and is assumed to be the same on a 1-year and ultimate basis. I consider this to be reasonable and is an approach I have seen elsewhere.

As the ECM model is unapproved, only limited credibility can be given to the results from it as it has not undergone the review of the regulator required for approval. I have used the results of the ECM as an overall sense check of the reasonableness of the standard formula results.

Minimum Capital Requirement

Another key measure of capital under Solvency II is the Minimum Capital Requirement (MCR). This is a simpler calculation than the SCR and typically a less onerous requirement.

Both AMIL and AIU are projected to be very well-capitalised on this measure. The MCR capital coverage ratios as at 31 December 2019 were 670% and 576% respectively. Therefore, I have not considered the MCR further as part of my assessment of capital considerations post transfer, and my primary focus is on the SCR.

6.3. Components of capital requirements

The key components of the SCR common to AMIL and AIU are:

- *Insurance risk*, which is made up of:
  - *Premium ri*sk: the risk that may arise from an inaccurate assessment of the risks associated with writing an insurance policy or from uncontrollable factors. As a result, the insurer's costs may significantly exceed premiums.
  - *Reserving risk*: the risk that the value of insurance claims proves to be higher than expected. For example, this covers the risk of deterioration in reserves or other catastrophe events, and uncertainties related to existing liabilities.
- *Market risk*: the risk of changes in each insurer’s financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this covers the risk of falls in the value of assets that are being held to make future claims payments.
- *Counterparty default risk*: the risk of defaults or downgrades by counterparties that either owe the insurer money or hold money on its behalf. For example, this covers the risk of the failure of a reinsurer or a broker.
- *Operational risk*: the risk of losses caused by failures in an insurer’s operational processes, people and systems, or from events that are external to the insurer. For example, this would cover the risk of fraud or IT failure.

The sum of these components gives the “undiversified” SCR. The SCR (ie diversified SCR) is typically lower than the undiversified SCR, as it allows for the statistical diversification / correlation between the components.

The most material component of the SCR for AMIL and AIU is insurance risk, which represents 65% and 47% of the undiversified SCR respectively, as reported in AMIL’s and AIU’s Solvency and Financial Condition Report as at 31 December 2019. This is expected given that insurance is the core business of AMIL and AIU. The next material component of the SCR is market risk, representing 27% and 21% of the undiversified SCR for AMIL and AIU respectively.

6.4. My considerations related to capital

As IE, my overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for both transferring and non-transferring policyholders;
- whether there are expected to be any material adverse changes in the strength of capital protection for any group of policyholders (I have assessed this by comparing the projected SCR coverage ratios pre- and post- the Proposed Transfer); and
- whether any other aspects of the capital considerations may lead to policyholders being materially adversely affected by the Proposed Transfer.

To make these assessments, I have considered the following areas:

- The capital policy for each of AMIL and AIU (Section 6.6);
- SCR appropriateness for AMIL and AIU (Section 6.7);
- The SCR under stressed scenarios for AMIL and AIU (Section 6.8);
- The planned capital structures for AMIL and AIU (Section 6.9); and
- Projected SCR coverage ratios (Section 6.10).

6.5. Approach to my review

I have reviewed several documents provided by AMIL relating to the calculation of capital requirements and projected coverage ratios. A list of the key data and documentation reviewed is provided in Appendix 4.

I have also independently calculated selected aspects of the standard formula SCR calculation for AMIL and AIU using LCP’s standard formula model and compared my results to those produced by AMIL and AIU.

6.6. The capital policy for each of AMIL and AIU

I have reviewed the capital policy for AMIL and the Risk Appetite Statement for AIU (a more formal capital policy will be available later in 2020 and I will comment on this in my Supplementary Report). There are no material differences between the two. AMIL has a targeted solvency coverage ratio of 120% whilst AIU targets a solvency coverage ratio of 140%. For both entities, if the coverage ratio falls below the targeted level, an escalation process is triggered and a capital injection would be sought from the respective parent companies.

6.7. SCR appropriateness for AMIL and AIU

I have considered the SCR appropriateness for AMIL and AIU considering two aspects: the appropriateness of using the standard formula; and calculating my own independent estimates of the SCR.

6.7.1. Appropriateness of the standard formula for AMIL

AMIL has reviewed the appropriateness of the standard formula for calculating the SCR.

A detailed review of the appropriateness of the standard formula was performed by AMIL in 2016. Since that review, on a quarterly basis, AMIL has performed a comparison of the results of the standard formula SCR to that of their own ECM.

Given the similarity in results between the standard formula and ECM for a number of quarters, the ECM was not run in 2019. As such, our assessment below is based on the latest year-end results available. In any case, we place more reliance on the detailed results of stress and scenario testing performed by AmTrust in assessing the appropriateness of the standard formula and its use to assess policyholder security.

As at 31 December 2018, the ultimate SCR under AMIL's ECM was c. 1% lower than under the standard formula (€39.0m compared to €39.5m). A comparison across key risks is set out in the following table:

Comparison of the 1-year standard formula SCR and Ultimate ECM SCR for AMIL (€m)

Risk	Standard Formula	ECM
Insurance Risk	31.2	25.4
Credit Risk	2.3	2.3
Market risk	13.4	13.4
Operational risk	1.4	6.3
Undiversified SCR	48.2	47.3
Diversified SCR	**39.5**	**39.0**

Differences in the capital charge for the key risk types arise since the ECM models the risks differently to the standard formula.

- Insurance risk - under the ECM, premium and reserve risk are modelled on an ultimate time horizon. This compares to the standard formula where prescribed risk factors are applied to premium and reserve volumes.
- Operational risk – under the ECM, operational risk is set using a scenario-based approach, specific to AMIL's risk exposure. The standard formula capital uses a factor-based approach which is applied to the earned premiums and technical provisions and then added on directly to the Basic SCR, with no diversification allowance made.

The calculation of credit and market risk in the ECM is based on the standard formula.

The ECM gives similar overall results to those calculated by the standard formula. This gives some support that the standard formula approach is appropriate for AMIL for the purpose of assessing policyholder security.

Conclusion on the appropriateness of the standard formula for AMIL

I am satisfied that the standard formula is an appropriate basis for calculating the SCR for AMIL, and for assessing policyholder security for AMIL for the following reasons:

- Since the formal 2016 assessment, each subsequent quarterly review shows that the standard formula SCR is within a relatively close range (10% tolerance) of that derived under the ECM.
- The 2018 ORSA compares results of the Standard Formula versus the internal model for the main components of the SCR as at 3Q18. In summary, on a like for like basis, the ECM produces a lower aggregate capital requirement value than the standard formula. Therefore, the standard formula is not understating the capital requirement for AMIL. This has consistently been the case for previous quarter-end comparisons.
- No regulatory load has been applied to the AMIL's level of capital as calculated by the standard formula.
- I believe the standard formula sufficiently captures the risks that AMIL is exposed to. For risks that are not captured by the standard formula, AMIL have processes in place to monitor these. These are also considered explicitly through stress and scenario testing as part of their annual ORSA process.
- There are several uncertainties underlying the business written by AMIL which could limit the appropriateness of AMIL's own data to parameterise an internal model or apply USPs in the standard formula without the need for significant expert judgement. These uncertainties include potentially volatile claims experience given the long-tailed nature of the mortgage liabilities. However, I am still satisfied to rely

on analysis based on AMIL's own data in their ECM in forming my opinion because, given the small size and nature of the liabilities within the portfolio, any market benchmarks are likely to be of limited use.

Independent calculation of the SCR for AMIL

I have also performed an independent calculation of the material aspects of the standard formula SCR for AMIL and compared my results to those produced by AMIL. This is based on LCP's own standard formula model using data supplied by AMIL.

My independent estimates support my conclusion that the standard formula SCR for AMIL has been calculated materially correctly.

6.7.2. Appropriateness of the standard formula for AIU

As for AMIL, AIU has an unapproved economic model although the standard formula is used to calculate the SCR.

Based on the assessment as at 31 December 2018, the latest information available at the time of my analysis, the one-year SCR under the ECM was c. 2% higher than under the standard formula (€170.4m compared to €167.7m). A comparison across key risks is set out in the following table:

Comparison of 1-year SCR between the standard formula and ECM for AIU (€m)

Risk	Standard Formula	ECM
Insurance Risk	101.1	131.2
Credit Risk	41.5	58.1
Market risk	46.6	55.4
Operational risk	22.3	22.3
Undiversified SCR	211.5	267.0
Diversified SCR	**167.7**	**170.4**

Across each risk type, the capital charge under the standard formula is lower than under the ECM and also when the risks are aggregated.

The ECM produces a slightly higher aggregate capital requirement than the standard formula. Some elements of the ECM rely on the standard formula to calculate the capital requirement. For example, operational risk under the ECM is assumed to be equal to that derived using the standard formula. A future improvement is being considered where the ECM models operational risk based on risk scenarios specific to AIU. As operational risk is a relatively small driver of the SCR and would give more diversification credit if calculated in the ECM, I believe this is a reasonable approach.

Differences in the degree of diversification credit between the ECM and standard formula arise since the modelling approaches are different.

- The ECM contains a number of implicit correlation assumptions (eg dependency between insurance and market risk through inflation) and explicit correlation assumptions applied through a copula approach with tail dependency (eg correlations between types of losses within a class and between classes in premium and reserving risk).
- The explicit correlation assumptions are based on AIU's judgment on the degree of dependency between risks.
- The standard formula allows for diversification between sub-risk in each main risk category (eg 25% correlation between currency and interest rate risk within market risk) and between each main risk category (eg 25% correlation between non-life insurance and market risk). These correlations are prescribed with limited flexibility for adjustment to reflect an entity's own views of the degree of dependency.

There is more diversification in the ECM than the standard formula for the following reasons:

- there is less correlation assumed between the different risks than under the standard formula which leads to more diversification credit; and
- operational risk is diversified against other risks whereas it is added directly onto the SCR in the standard formula with no diversification credit allowed for. The approach under the standard formula is prudent.

The difference in diversification allowance is not enough to offset the higher level of capital, primarily in respect of insurance risk, under the ECM compared to under the standard formula. The reason for the difference includes:

- Differences between how ECM models insurance risk compared to the standard formula. Premium and reserve risk under the ECM is modelled on an ultimate time horizon with emergence factors applied to derive the risk over one year. This compares to the standard formula where prescribed risk factors are applied to premium and reserve volumes.
- For insurance risk, the ECM assesses the movement in the risk margin over one year. However, the standard formula keeps the risk margin constant in the stressed scenario, as set out in Article 83 of the Delegated Act which governs Solvency II. Therefore, a more like-for-like comparison between the ECM and standard formula could be to exclude the risk margin adjustment from the ECM result. On this basis, the SCR of €170.4m would reduce to €116.2m, driven by a reduction in insurance risk.

This reduction is overstated since the methodology for assessing the movement in risk margin used by AIU is somewhat conservative in that the risk margin is calculated based on a constant factor of liabilities. In the event of a stressed scenario, the liabilities will be materially higher at the end of the year than they were at the beginning, and so the use of a constant factor will tend to overstate the risk margin after one year and therefore the movement from time 0 to time 1.

Even with a much smaller reduction in the risk margin movement, the 1-year SCR under the standard formula would be greater than the 1-year SCR under the ECM. In addition, the 1-year SCR under the standard formula is also greater than the ultimate SCR under the ECM.

Non-quantifiable risks that are not captured within the standard formula are regularly monitored by AIU. These include:

- Liquidity risk – AIU regularly reviews its liquidity position. In addition, AIU's assets are mainly invested in relatively liquid corporate and government bonds.
- Group risk – AIU regularly monitor the failures or downgrades of the Parent Company and/or any other entity in the Group. AIU maintains a level of own funds ensuring it meets its agreed risk appetite. They also consider this risk explicitly as part of their ORSA.
- Legal and Regulatory risk – AIU mitigates this risk through consulting with their internal Group Legal and Compliance Function and external consultants and advisors as necessary.
- Strategic risk – AIU's strategy and business plan are reviewed annually in their ORSA and business performance is reviewed monthly.

AIU concluded that no adjustments or additional capital loadings were required in addition to the SCR calculated using the standard formula. Based on my review of the description of the monitoring of non-quantifiable risks within AIU's ORSA, I concluded that these risks were mitigated so that no adjustments were required to the SCR as calculated by the standard formula.

External independent standard formula review for AIU

A standard formula appropriateness review for AIU was performed in 2019 by an external consultancy firm. The findings of this assessment showed that if allowances were made in the standard formula for AIU's specific risk profile, through the use of undertaking specific parameters (USPs), the SCR would be at least 10% lower ie the SCR as calculated by the standard formula is conservative overall given AIU's risk profile.

AIU's most recent Actuarial Function Report (AFR) and SCR comparison documentation, dated December 2018, provides the actuarial function's view on the appropriateness of the standard formula for the purpose of calculating the SCR. The conclusion is that the standard formula is appropriate for calculating the SCR and represents a conservative approach to setting capital.

Conclusion on the appropriateness of the standard formula for AIU

I have reviewed the standard formula appropriateness assessments provided by AIU and the supporting analysis and I am satisfied that the standard formula is an appropriate basis for calculating the SCR for AIU for the following reasons:

- Based on my analysis above, I believe the standard formula sufficiently captures the risks that AIU is exposed to. For risks that are not captured by the standard formula, these are regularly monitored and mitigated by AIU.
- The findings of the 2019 external assessment show that AIU's SCR is conservative when allowing for AIU's specific risk profile.
- Based on the analysis as at 31 December 2018, the standard formula gives a higher capital requirement than both the 1-year (after the risk margin allowance) and ultimate requirements as calculated by AIU's own ECM, indicating that the standard formula was not understating the capital requirements.
- The standard formula results are broadly consistent each quarter which gives some assurance around the stability of the results.
- The AIU model is based on a model used for AmTrust Group's Lloyd's syndicate, which is subject to Lloyd's validation requirements. Notwithstanding that AIU is not a Lloyd's syndicate and the ECM is unapproved, I take only limited comfort that the ECM model can be used to supplement AIU's scenario testing, which I discuss below, to provide support to the results of the standard formula SCR.

I have concluded that the standard formula is an appropriate basis for calculating the SCR for AIU.

Independent calculation of the SCR for AIU

I have also performed an independent calculation of the material aspects of the standard formula SCR for AIU and compared my results to those produced by AIU. This is based on LCP's own standard formula model using data supplied by AIU.

My independent estimates support my conclusion that the standard formula SCR for AIU has been calculated materially correctly.

6.8. SCR scenario analysis

To assess the impact of the Proposed Transfer on Transferring Policyholders and AIU Policyholders, I asked AmTrust to consider two scenarios that focus on the key risks facing policyholders, namely an extreme recession and reinsurer default. These have been performed on a pre and post-transfer basis.

Pre-transfer scenarios

AMIL scenarios

For AMIL, the key scenarios considered are:

1. **Extreme recession scenario** – Under this scenario, loss ratios are increased to those seen in 2005 to 2008, the worst results experienced by AMIL. This scenario allows for an increase in future delinquencies and the experience is based on the following Italian economic indicators:
   - 25% fall in Italian house prices;
   - Increase in unemployment rate from 6.7% to 12.7%;
   - Decrease in GDP of 9%.
2. **Reinsurer default** – Under this scenario, all AMIL's reinsurers are assumed to default.

The impact of each of these scenarios is shown below:

Scenario	Own Funds (€m)	SCR (€m)	SCR coverage ratio
Base (Day 0)	**61.3**	**33.5**	**183%**
Extreme recession scenario	31.9	34.3	93%
Reinsurer default	58.9	34.4	171%

- **Extreme recession scenario** – this scenario leads to a significant drop in the level of AMIL's own funds following an increase in premium provisions. The increase in SCR is relatively small given the increase in premium provisions impacts operational risk, a relatively small driver of the overall SCR. Even in this scenario, AMIL would still have sufficient funds to pay claims and meet its MCR.
- **Reinsurer default** – this scenario leads to a small decrease in the SCR coverage ratio. The impact of this scenario is limited since the reinsurance technical provisions on a Solvency II basis are far smaller than on a GAAP basis, due to the low loss ratio on the unexpired risks. I consider the default of all of AMIL's reinsurers to be unlikely given they are all rated A or above.

I consider the scenarios modelled by AMIL to be reasonable for the following reasons:

- The scenarios focus on the key risks that could impact AMIL's capital position.
- The impact of each scenario on the SCR and level of eligible own funds, relative to the base scenario, is directionally as expected.
- The economic assumptions underlying the extreme recession scenario may prove not to be sufficiently severe. Currently, the European Commission's expectations for the Italian economy include a fall in GDP of 9.5% and an unemployment rate of 11.8%. These assumptions are similar to those in the scenario, but these may prove to be understated in the event of second or third waves of COVID-19 or changes in the level of government support eg payment holidays.
- However, my view is that the extreme recession scenario includes elements of prudence that would offset the impact of higher economic indicators.
- Significant changes were made to underwriting criteria in 2009 including increasing the minimum employment period for applicants, restricting debt to income ratios and excluding applicants with any adverse credit history. The impact of these changes was to reduce the loss ratio from over 100% in 2008 to 15% in 2009, in fundamentally similar economic conditions, and it has stayed at this level since.
- In addition, the extreme recession scenario makes no allowance for reinsurance as 33% quota share reinsurance for the portfolio was only purchased from 2011 onwards.
- For these reasons I do not expect the current AMIL portfolio to perform as badly under similar economic indicators as the experience seen historically.

AIU scenarios

For AIU, the key scenarios considered are:

1. **Extreme recession scenario** – This scenario reflects the impact of an extreme recession following the impact of the COVID-19 pandemic on AIU's exposed classes of business. AIU consider a reduction in own funds of four times of that included within the base case, reflecting a more severe deterioration in investment performance, lower business volumes and increases in bad debt and reserves.

2. **Default of AII, a key reinsurer for AIU** – This scenario assumes no reinsurance recoveries from AII but no haircut on the collateral backing the reinsurance.

The impact of each of these scenarios is shown below:

Scenario	AIU Own Funds (€m)	AIU SCR (€m)	AIU SCR coverage ratio	Change in SCR coverage ratio
Base (Day 0)	**193.4**	**138.5**	**140%**	
Extreme recession	200.6	186.7	107%	(33%)
Reinsurer default	(198.3)	183.7	(108%)	(248%)

- **Extreme recession scenario** – the SCR coverage ratio falls from 140% to 107% in this scenario due to a material increase in the SCR with a much smaller increase in own funds. However, AIU remains sufficiently capitalised and claims would still be able to be paid.
- **Default of AII** – In the event of default by AII, but no haircut or reduction in the collateralised recoveries, AIU's coverage ratio reduces from 140% to minus 108%. Given AIU's significant reinsurance protection arrangement with AII, this scenario would lead to the insolvency of AIU. The default of AII, which I consider to be highly unlikely given its financial rating, would represent an extreme scenario.

I consider the scenarios modelled by AIU to be reasonable for the following reasons:

- The scenarios focus on the key risks that drive AIU's capital position.
- The impact of each scenario on the SCR and level of own funds, relative to the base scenario, is directionally as expected.
- The potential insolvency causing event (reinsurer default) for AIU is expected to be extremely remote. I consider this to be reasonable on the basis of the financial strength of AIU and AII and demonstrates how significant the stress would need to be to lead to insolvency.

Post-transfer scenarios

AMIL scenarios

Post-transfer scenarios are not relevant for AMIL as all business is expected to be transferred to AIU. Following the Proposed Transfer, the intention is to dissolve AMIL under section 112(8) FSMA following its de-authorisation.

AIU Policyholders – the impact of including the AMIL portfolio within AIU

Following the Proposed Transfer, AIU Policyholders will be more exposed to the economic risks that impact the AMIL portfolio, in particular the Italian economy and housing market. Therefore, the pre-transfer AIU scenarios have also been applied with the AMIL portfolio included to illustrate the impact of the Proposed Transfer on the coverage ratio for AIU Policyholders . The impact of these scenarios is set out below:

Scenario	AIU Own Funds (€m)	AIU SCR (€m)	AIU SCR coverage ratio	Change in SCR coverage ratio
Base (Day 0)	**193.4**	**138.5**	**140%**	
Base (Day 1)	**219.1**	**156.3**	**140%**	
Extreme recession	132.8	170.0	78%	(62%)
Reinsurer default	(175.1)	200.7	(87%)	(227%)

The Day 1 SCR coverage ratio remains the same as the Day 0 ratio as AmTrust plan to maintain coverage at the risk appetite level ie 140%. The scenarios are then applied to the Day 1 position.

Under the extreme recession scenario, AIU's SCR coverage ratio falls to 107% pre-transfer and 78% post-transfer, due to the exposure to economic risks within the AMIL portfolio. In this scenario, AIU still remains solvent and claims can still be paid.

Under the reinsurer default scenario, AIU's SCR coverage ratio falls to minus 108% pre-transfer. Post transfer, and assuming default of AMIL's reinsurers as well, AIU's SCR coverage ratio actually increase to minus 87%, albeit AIU is still insolvent. In this scenario, the same capital injection into AIU as the base scenario is assumed. This leads to an increase in own funds and therefore a less negative SCR coverage ratio post transfer.

AMIL is not as heavily reliant on reinsurance as AIU and so default of AMIL's reinsurers is expected to have a relatively small impact on the AIU Policyholders.

Under the extreme recession scenario, AIU Policyholders are worse off post-transfer compared to the pre-transfer position. However, this scenario does not include the impact of any management actions to respond to a fall in the SCR coverage ratio below risk appetite. In this event, AIU would use levers such as capital injections from the AmTrust Group or reinsurance to restore the SCR coverage to the risk appetite level of 140%. This is in line with AIU's recovery plan.

In the event of reinsurer default, AIU would be insolvent whether the AMIL portfolio transfers in or not. I consider a combined default of AII and AMIL's reinsurers to be extremely unlikely.

Therefore, under the scenarios considered, I do not consider AIU Policyholders to be materially disadvantaged by the Proposed Transfer.

6.9. The planned capital structures for AMIL and AIU

All of AMIL's own funds are classified as unrestricted tier 1. Post-transfer AMIL will be dissolved under section 112(8) FSMA following its de-authorisation.

No material change is planned to AIU's capital structure post-transfer. Virtually all of AIU's own funds were classified as unrestricted tier 1, ie the highest quality. Less than 6% of AIU's own funds sit in a restricted ring-fenced fund. A solvency coverage ratio of 140% is targeted for AIU post-transfer ie in line with the current risk appetite.

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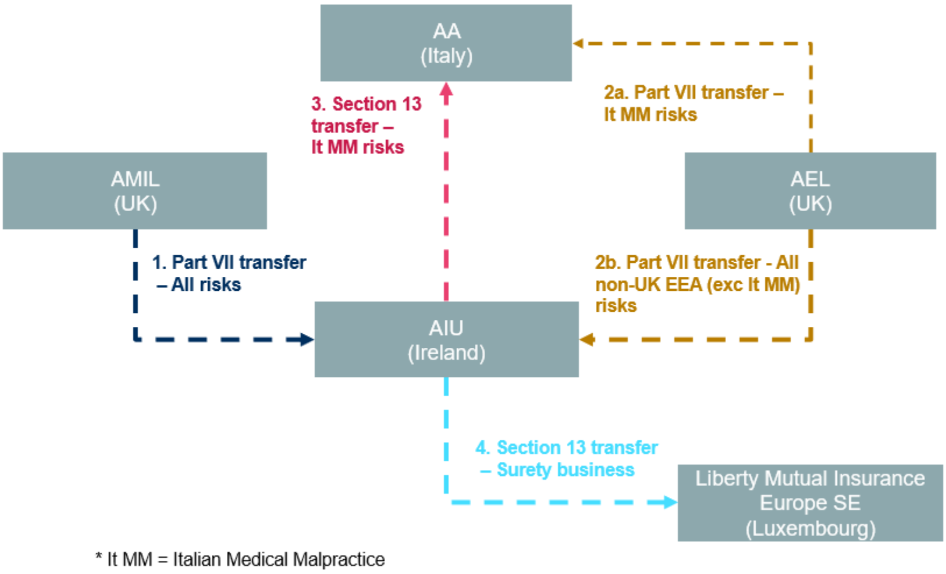
6.10. Projected SCR coverage ratios

The following tables set out the SCR coverage ratios for AMIL and AIU pre- and post-the Proposed Transfer. Day 0 is the day before the Effective Date of the Proposed Transfer (31 October 2020) ie pre-transfer and Day 1 is the day after the Effective Date ie post-transfer.

The first table below represents the expectation that all other transfers that are due to take place prior to the Effective Date of the Proposed Transfer will have. Transfer 4 has already completed. Please refer to Section 2.2 for more detail on these transfers. The diagram below summarises the various AmTrust transfers.



The figures below are projections, and I will comment on any updates to the figures in my Supplementary Report.

SCR and coverage ratios pre- and post- the Proposed Transfer

	SCR coverage ratio	Change in coverage ratio	Own funds (£m)	SCR (£m)	Own funds less SCR (£m)
Day 0 – pre-Transfer					
AMIL	183%		52.7	28.8	23.9
AIU	140%		166.3	119.1	47.2
Day 1 – post-Transfer					
AMIL	n/a	n/a	3.4	n/a	n/a
AIU	140%	0%	188.4	134.4	54.0

Source: AmTrust. Figures converted assuming £1 = €1.16.

In summary, following the Proposed Transfer, and assuming all other transfers take place as planned:

AMIL

- The drop in AMIL's SCR coverage ratio from 212% as at 31 December 2018 (as quoted in AMIL's 2018 SFCR) to 168% by 31 December 2019 (as quoted in the 2019 SFCR) reflected a €25m dividend payment during Q2 2019.
- AMIL's SCR coverage ratio is projected to increase from 168% to 183% by Day 0. The increase is driven by a reduction in the SCR from £31.2m to £28.8m. This follows no new business being written in 2020 and the subsequent run off of technical provisions. In addition, during Q1 2020 in anticipation of the Proposed Transfer, AMIL switched into government bonds leading to a lower capital charge in respect of market risk and a further decrease in the SCR. The level of own funds is broadly unchanged over the period.
- Post transfer, AMIL will be left with total own funds of £3.4m. I understand that these funds will remain until AMIL is deregistered and in the meantime will be used to support the MCR.

Transferring Policyholders

- The SCR coverage ratio for these policyholders is expected to decrease from 183% to 140%. These policyholders will no longer be part of a well-capitalised insurer (as defined in Section 6.1). However, I do not expect the Transferring Policyholders be materially disadvantaged as this downside will be offset by the benefit of being part of a larger, more diversified, rated insurer. In addition, the uncertainty of having claims not paid after the transition period will be removed.

AIU Policyholders

- The increase in AIU's SCR coverage ratio from 133% as at 31 December 2018 (as quoted in AIU's 2018 SFCR) to 144% by 31 December 2019 (as quoted in the 2019 SFCR was driven by an increase in own funds relating to the sale of Nationale Borg in October 2019.
- AIU's SCR coverage ratio is projected to decrease to 140% by Day 0 reflecting planned dividends and injections up to the date of the Proposed Transfer, targeting AIU's risk appetite level. AIU is still projected to be a sufficiently capitalised insurer. Even in the event that other transfers impacting AIU do not take place (AEL to AIU and AIU to AA), AmTrust has committed to targeting at least an SCR coverage ratio of 140% in all scenarios.
- I do not expect AIU Policyholders to be materially disadvantaged in terms of a change in SCR coverage ratio by the Proposed Transfer as this is unchanged pre- and post-transfer.
- AIU's coverage ratio is expected to maintain at or slightly above 140% over the next two years to June 2022.

Market comparison of SCR coverage ratio

I performed the following analysis which gave me comfort that the post-transfer coverage ratio of AIU of 140% is not out of line with the market.

LCP perform an annual market review of Solvency II reporting across the UK and Ireland. I have compared the targeted coverage ratio of 140% for AIU against, first, the full sample of insurers analysed and, secondly, the results by insurer type.

In the market review, we classified each insurer according to whether more than 50% of their gross written premiums were written in a single Solvency II line of business. If not, they were classified as multi-line insurers. The split of AIU's gross written premiums by material Solvency II line of business as at 31 December 2018 is as follows:

Solvency II line of business	AIU
General Liability	39%
Miscellaneous financial loss	31%
Credit and suretyship	17%
Fire and damage	8%
Other	5%
Total	**100%**

On this basis, based on 2018 year-end figures, AIU would be classified as a multi-line insurer but with a focus on general liability business respectively. We consider this classification to be appropriate for benchmark comparison purposes given that no single Solvency II line of business dominates its business.

The key results from this market review are set out below:

	2018 coverage ratio		
Type of insurer	Average	25th – 50th percentile	50th – 75th percentile
All	**206%**	**138% - 162%**	**162% - 208%**
Multi	165%	132% - 151%	151% - 183%
General liability	218%	128% - 174%	174% - 305%

Source: LCP – Financial strength improves despite increasing risk – Solvency II reporting across the UK and Ireland (July 2019)

AMIL's pre-transfer SCR coverage ratio is above the 50th percentile of all insurers.

AIU's post-transfer SCR coverage ratios would be around the 40th percentile of other multi-line insurers. If we were to classify AIU based on the Solvency II lines of business that it will write post-transfer, AIU would be a general liability insurer. AIU's target SCR ratio would be around the 30th percentile for general liability insurers.

A 100% coverage ratio equates to the estimate of capital required to ensure that an insurer can meet its obligations over the next 12 months with a probability of at least 99.5%.

A coverage ratio of over 100% therefore corresponds to a risk of less than 0.5%, or 1 in 200 that an insurer cannot meet its obligations over the next 12 months.

Given AIU's coverage ratio is unchanged post-transfer, my view is that AIU Policyholders are not materially adversely affected by the Proposed Transfer in this respect.

Risk beyond a one-year basis is considered through scenario testing, looking at the impact of plausible and extreme events on the SCR coverage ratio beyond the next 12 months. This is in addition to a forward-looking assessment of capital requirements of the base scenario before considering the Proposed Transfer or any other changes in the structure of the business. In addition, AMIL and AIU consider an ultimate view of capital through their economic capital model.

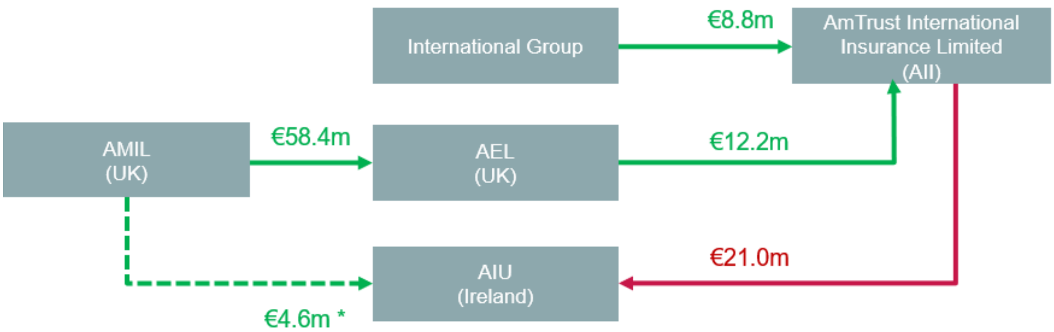
Therefore, I do not expect there to be any material adverse changes in the strength of capital protection for any group of policyholders.

Summary of capital movements

In respect of the Proposed Transfer (AMIL to AIU), AmTrust are targeting a post-transfer coverage ratio of 140% for AIU. Excess capital within the non-European AmTrust International Group entities and AMIL (via AEL) will be paid out as a dividend to AII. AII will then contribute funds to AIU such that a Day 1 SCR coverage ratio of 140% is maintained.

Capital funding options will be assessed to determine the most capital efficient option to achieve this. One of the options is the increased use of reinsurance which would lead to an increased counterparty risk to policyholders. I will provide an update on funding options in my Supplementary Report. If the transfers are ultimately funded through a contribution of cash or investments, this would come from the own funds of AII.

A summary of the capital movements is set out in the diagram below:



The expectation is that the capitalisation of AIU is partially funded by holding back some of the excess funds arising from transfers 2 and 3 as at June 2020 which could otherwise have been released by AIU as dividends at that time.

The €4.6m transferring in from AMIL to AIU arises from the change in own funds following the Proposed Transfer. Due to changes in the valuation on arrival of the own funds in AIU, the business and assets transferring in have a positive own funds impact on AIU of the order of €4.6m. The main driver of this is the difference in the valuation of expenses in AMIL compared to AIU. This arises from the fact that AMIL, as a runoff company, only has a small amount of business supporting a relatively larger runoff expense base.

Therefore, overall, there is a capital release of €58.4m from AMIL and a capital injection of €25.6m into AIU following the Proposed Transfer. These numbers broadly reconcile to the change in own funds for and the change in equity in the GAAP balances sheets for AMIL and AIU pre- and post-transfer, allowing for currency conversion and differences in GAAP and SII valuations.

Further capital support of €8.0m and €11.0m is projected to be needed during 2021 and 2022 to maintain AIU's SCR coverage ratios at the risk appetite level of 140%. If these amounts are needed, capital funding options would be assessed to determine the most capital efficient option. If it is ultimately funded through a contribution of cash or investments, it would come from the own funds of AII.

Contingencies

AmTrust has confirmed that the Proposed Transfer will go ahead irrespective of whether successful trade negotiations are achieved at the end of the transition period or not. They have also confirmed that, if for any reason one particular transfer, or part thereof, does not go ahead, all other transfers, or parts thereof will proceed.

I have considered the various permutations of transfers not proceeding as planned and set out my conclusions on this below from the perspective of the groups of affected parties and the other planned transfers. My conclusions in this regard are set out in the Executive Summary.

I have considered this further through assessing the impact of each permutation of transfers on SCR coverage ratios. Under all of these permutations, the projected SCR coverage for all entities is 140% ie towards the upper end of the "sufficiently capitalised" band. For example, even if transfers 2 and 3 have not taken place by the Effective Date of the Proposed Transfer, AIU's pre and post-transfer SCR coverage ratio is still projected to be 140%.

Hence the conclusions I drew earlier in this section remain appropriate. The various permutations of transfers are summarised in the table below (transfer 4 was sanctioned in March 2020):

SCR and coverage ratios pre- and post- transfer – other permutations

	SCR coverage ratio	Change in coverage ratio	Own funds (£m)	SCR (£m)	Own funds less SCR (£m)
Day 0 – pre-Transfer					
AMIL	183%		52.7	28.8	23.9
AIU (2b ☒, 3 ☒)	140%		215.6	154.3	61.3
Day 1 – post-Transfer					
AIU (1 ☑, 2b ☒, 3 ☒)	140%	0%	235.9	168.7	67.2
AIU (1 ☑, 2b ☑, 3 ☒)	140%	0%	252.8	180.4	72.4
AIU (1 ☑, 2b ☒, 3 ☑)	140%	0%	170.8	121.9	48.9
AIU (1 ☑, 2b ☑, 3 ☑)	140%	0%	188.4	134.4	54.0

Source: AmTrust. Figures converted assuming £1 = €1.16.

Key: ☑ - transfer takes place, ☒ - transfer does not take place

6.11. Overall conclusion: Capital considerations

I have set out below my overall conclusions related to capital. These capital considerations should not be considered in isolation. For example, the overall level of protection for policyholders also depends on a range of other considerations. My overall conclusions on the Proposed Transfer are set out in Section 10.

Based on the work and rationale described above I have concluded that:

- **The projected capital requirements for AMIL and AIU have been calculated appropriately.**
- **Following the Proposed Transfer, I do not expect there to be any materially adverse changes in the strength of capital protection for Transferring Policyholders and AIU Policyholders.**

7. Policyholder security

7.1. My considerations relating to policyholder security

As IE, my overall assessments related to policyholder security are:

- whether the likelihood of valid policyholder claims being paid is maintained following the Proposed Transfer for both non-transferring and transferring policyholders.
- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

To make these assessments, I have considered the following areas:

- The GAAP balance sheets of AIU (Section 7.2)
- The solvency positions of AIU (Section 7.3)
- Access to the FSCS and other applicable compensation schemes (Section 7.4)
- Access to an Insurance Ombudsman Service (Section 7.5)
- Reinsurance arrangements with reinsurers (Section 7.6)
- Insurance regulation (Section 7.7)

Further details on each of these considerations are set out below, and my overall conclusion related to policyholder security is set out in Section 7.8.

7.2. Impact on the balance sheets of AIU

I have based my analysis on projected balance sheets, immediately pre- and post- the Proposed Transfer, on the anticipated Effective Date of 31 October 2020.

I will also prepare a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer, which will include an update of my conclusions in that report.

Note for the purpose of the comparison below, I have assumed that all transfers 2 and 3, as described in Section 2.2, will have taken place by the Effective Date.

GAAP balance sheets of AIU pre- and post- the Proposed Transfer (£m)

	AMIL £m Day 0	AMIL £m Day 1	AIU £m Day 0	AIU £m Day 1
Investments and cash	89	3	263	318
Deferred acquisition costs	0	0	32	32
Reinsurers recoverables	9	0	503	513
Insurance and int. receivables	2	0	61	63
Other assets	6	6	261	261
Total Assets	**106**	**9**	**1,120**	**1,187**
Technical provisions	42	0	711	754
Technical creditors	1	0	151	152
Other liabilities	9	6	64	66
Total Liabilities	**52**	**6**	**926**	**972**
Total Equity	**54**	**3**	**194**	**215**

Source: AmTrust. Figures converted assuming £1 = €1.16.

The table above shows simplified GAAP balance sheets for AMIL and AIU pre- and post- the Proposed Transfer.

Following the Proposed Transfer, the key movements in the balance sheet for AMIL and AIU are as expected:

- AMIL sees a reduction in its technical provisions, together with a corresponding reduction in reinsurer recoverables and investments and cash. The remaining assets in AMIL are there to support the MCR.
- AIU sees an increase in technical provisions together with an increase in investments and cash.

Overall, the total equity of AMIL reduces by £51m following the transfer. For AIU, it increases by £21m. This reflects the £18m (€21m) capital injection from AII as highlighted on page 65 *plus* £3m arising from differences between the GAAP and Solvency II valuation of the transferring liabilities.

7.3. Impact on the solvency positions of AMIL and AIU

The solvency positions of AMIL and AIU pre- and post-transfer are summarised in the following table. This assumes all other proposed transfers in the AmTrust Group that are due to take place before or on the Effective Date of the Proposed Transfer will have taken place.

Solvency positions of AMIL and AIU pre- and post- the Proposed Transfer (£m)

	AMIL £m Day 0	AIU £m Day 0	AMIL £m Day 1	AIU £m Day 1
Own Funds	52.7	166.3	3.4	188.4
SCR	28.8	119.1	n/a	134.4
SCR coverage ratio	**183%**	**140%**	**n/a**	**140%**

Source: AmTrust. Figures converted assuming £1 = €1.16

AIU is sufficiently capitalised immediately before and after the Proposed Transfer with no change in SCR coverage ratio as a result of the transfer in of AMIL.

7.4. Access to a Compensation Scheme

The Financial Services Compensation Scheme (FSCS) in the UK provides consumer protection. This statutory "fund of last resort" compensates customers in the event of the insolvency of a financial services firm. Insurance protection exists for individuals and small businesses in the situation where an insurer is unable to meet its liabilities for direct policyholders only (ie reinsured policyholders are not covered). For certain insurance that is compulsory in the UK (eg motor third-party liability insurance), insurance protection also exists for direct policyholders whether they are individuals or small businesses (being business with an annual turnover of less than £1,000,000).

The FSCS will pay 100% of any claim incurred for compulsory insurance (eg motor third-party liability insurance) and 90% of claims incurred for non-compulsory insurance (eg home insurance), without any limit on the amount payable. No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance.

It is very unlikely that Transferring Policyholders are eligible for access to the FSCS as they are all mortgage lenders, and one reinsurer, rather than consumers or small businesses. Therefore, I have concluded Transferring Policyholders are not materially adversely affected as their access (or lack of access) to the FSCS remains unchanged pre- and post-Transfer.

In Ireland there is an Insurance Compensation Fund, but this scheme is designed to only cover risks situated in Ireland. Therefore, Transferring Policyholders do not have access to this scheme pre- or post-transfer and are not disadvantaged by the Proposed Transfer.

7.5. Access to an Insurance Ombudsman Service

The Financial Ombudsman Service (FOS) provides private individuals, and micro-enterprises with a free, independent service for resolving disputes with financial companies. Micro-enterprises are defined to be businesses with less than €2m annual turnover and fewer than ten employees.

The FOS was extended on 1 April 2019 to also cover small businesses. Small businesses are defined in this context to be businesses with less than £6.5m turnover and either fewer than 50 employees or a balance sheet total of less than £5m.

It is not necessary for the private individual, micro enterprise or small business to live or be based in the UK for a complaint regarding an insurance policy to be dealt with by the FOS. However, it is necessary for the insurance policy concerned to be, or have been, administered from within the UK and/or issued from within the UK.

It is very unlikely Transferring Policyholders are eligible to refer complaints to the FOS as they are all mortgage lenders and one reinsurer. Therefore, I have concluded they are not materially adversely affected as their inability to refer complaints to the FOS access remains the same pre- and post-transfer.

7.6. Reinsurance arrangements with reinsurers

AMIL has a quota share reinsurance programme with a panel of highly rated reinsurers. The programme started in 2011 with a 33% cession which was in place until 2018. This was renewed in 2019 with a 50% cession. Before 2011 the business was not reinsured.

Reinsurance cover on the transferring policies will also transfer to AIU on the Effective Date of the Transfer. I have concluded there will be no adverse impact of the Proposed Transfer on AMIL's reinsurers since they will be exposed to the same claims pre- and post-transfer.

7.7. Insurance regulation

Prudential regulation

Prudential regulation requires financial firms to control risks and hold adequate capital to ensure regulated firms are being run in a safe and sound way.

The UK and Ireland are currently regulated under Solvency II. Solvency II covers the prudential regulation of insurers, including risk management and capital requirements. The position regarding UK insurance regulation in the medium to long term post-Brexit is currently unclear. However, the expectation is that the UK will seek to maintain equivalence with Solvency II. Transferring Policyholders will continue be regulated under Solvency II.

Based on the above considerations, I do not expect Transferring Policyholders to be materially adversely affected by the changes in prudential insurance regulation governing their policies when transferring from a UK insurer to an insurer in Ireland.

Conduct regulation

Conduct regulation of financial firms typically includes consumer protection, market conduct rules and ethical codes of conduct. Conduct is generally regulated by the insurance regulator in the country in which a risk is located and/or the location from which the business is carried out.

There is currently less harmonisation in conduct regulation across the EEA compared to prudential regulation. However, a number of existing EU Directives govern consumer regulation across the EEA, and so currently apply to the UK and Ireland. For example, the Insurance Mediation Directive (IMD) aimed to ensure appropriate levels of protection for customers.

The Insurance Distribution Directive (IDD), which replaced the Insurance Mediation Directive (IMD) across EEA member states on 1 October 2018, strengthened and consolidated the existing rules of the IMD covering the distribution of insurance and reinsurance, and also the administration and performance of an insurance policy once it has been written. As for Solvency II, the position regarding the compliance with IDD in the UK in the medium to long term post-transition period is currently unclear.

Therefore, the key relevant comparison is between the conduct regulations in the UK and those in Ireland. If these were materially different, this could potentially affect Transferring Policyholders where the business is currently carried out in the UK and post-transfer will be carried out in Ireland.

There is access to similar mechanisms in terms of conduct regulation in Ireland to those in the UK for Transferring Policyholders based on EU Directives. Transferring Policyholders will continue to have access to the same conduct regulation regime post-Transfer.

Conclusions on regulation

Based on the above considerations, I do not expect Transferring Policyholders to be materially adversely affected by the change in insurance regulation governing their policies moving from the UK to Ireland.

7.8. Overall conclusion: Policyholder security

Based on the work and rationale described above, I have concluded that the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

8. Policyholder communications

8.1. My considerations relating to policyholder communications

I have assessed the appropriateness of AmTrust's proposed communication strategy to inform policyholders and other stakeholders of the Proposed Transfer.

The key focus of my assessment was whether the policyholders and other stakeholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them.

8.2. Overview of communications strategy

AmTrust has developed a communication strategy to notify affected parties of the Proposed Transfer and to allow time for affected parties to raise objections to the Court. I have summarised the main points of the communications strategy below:

- *Transferring Policyholders:* AMIL will notify all Transferring Policyholders as discussed in Section 8.3.
- *AIU Policyholders:* It is not proposed to issue individual notifications to existing AIU Policyholders. A dispensation is being sought in this regard.
- *Reinsurers*: All of the reinsurers will be notified through the reinsurance broker. AMIL will provide a communication pack to the broker and request they send this to the lead reinsurer for each treaty. They will also request written confirmation that this has taken place.

IE conclusion

I am satisfied that the communications strategy will ensure that those who will be affected by the Proposed Transfer will be informed appropriately.

8.3. Planned dispensations and rationale

AmTrust has provided rationale to support their request for dispensation with indirect reference to the judgement of Norris J in the Directions Hearing in Re Aviva International Insurance Limited [2011] EWCH 1901 (Ch.) (the Aviva Judgement). The Aviva Judgement summarised the following factors as a rationale for granting a dispensation:

1. the impossibility of contacting policyholders;
2. the practicality of contacting policyholders;
3. the utility of contacting policyholders;
4. the availability of other information channels through which notice of the application can be made available;
5. the proportionality of strict compliance and the impact of collateral commercial concerns; and
6. the likely impact of the Proposed Transfer on policyholders.

Transferring Policyholders

Transferring Policyholders will be notified individually and given access to a communication pack which will provide details of the Proposed Transfer and the supporting rationale.

AMIL intend to notify the policyholders directly given they have the most relevant and up-to-date policyholder contact details and that policyholders are accustomed to receiving communications directly from AMIL.

AIU Policyholders

A dispensation is being sought from the requirement to notify existing AIU Policyholders.

AIU does not intend to notify AIU Policyholders of the transfer. Their rationale for the dispensation sought for AIU Policyholders is set out below (I have included in brackets the reference to the factors from the Aviva Judgement where applicable).

AIU's view is that these policyholders will have the opportunity to be made aware of the Proposed Scheme without direct notification (availability of other information channels).

AIU also believe the cost of direct notification of all AIU Policyholders is disproportionate to the benefit received from direct notification, particularly given the AIU Policyholders are not materially disadvantaged by the Proposed Transfer, the Proposed Transfer is primarily being undertaken to respond to Brexit and the number of transferring policies is a very small proportion of the total number of AIU's polices (proportionality and impact).

In addition, over the last year in preparation for Brexit, contracts with AMIL's existing EEA clients were cancelled and re-written into AIU. Therefore, a portion of the policyholders transferring over from AMIL will already have their current policy with AIU. Therefore, AIU Policyholders are already exposed to the uncertainty around mortgage insurance risks. Therefore, I am satisfied that AIU Policyholders are not materially disadvantaged by the Proposed Transfer and by the proposed communication approach.

Following reinsurers

A general dispensation is requested in respect of following reinsurers, as AMIL will not always have the relevant contact details for all reinsurers, e.g. in respect of non-lead reinsurers or where reinsurers have changed their contact details without giving notice to AMIL (impossibility).

IE conclusion

I am satisfied with the rationale for the various dispensations sought, as information regarding the Proposed Transfer is available from other sources and my conclusions support that all groups of policyholders and reinsurers are not materially disadvantaged by the Proposed Transfer.

8.4. Planned notices

AMIL and AIU will comply with the regulations and place a notice of the Proposed Transfer in:

- the London, Edinburgh and Belfast Gazettes; and
- The Times, Insurance Day and the Financial Times (International Edition) two national newspapers in the UK.

They believe that the choice of these publications are likely to be read by Transferring Policyholders and reinsurers of AMIL.

AMIL and AIU intend to request that the Court grants a dispensation from the requirement to place notices in two national newspapers in each non-UK EEA states on the following grounds:

- AMIL and AIU propose publishing a notice in the Financial Times (International Edition) and one other quality national newspaper in each relevant EEA state. AMIL and AIU consider their choice of publications to be appropriate given Transferring Policyholders are likely to read these publications; and
- the cost of advertising in an additional national newspaper in every non-UK EEA state is considered to be disproportionate relative to the number of policyholders who might be reached by such publication (proportionality).

IE conclusion

As AmTrust will be notifying all Transferring Policyholders and I have concluded that neither Transferring Policyholders, nor AIU Policyholders, are materially disadvantaged by the Proposed Transfer, I am satisfied with the proposed approach to advertisements.

8.5. Translation of key documents

All publication notices and major documents (including this report) will be provided in English. The communication pack will be sent, where applicable, in German, Spanish and Italian, as policyholders in these countries often receive communication in their local languages. Such translated versions will also be available on the AmTrust website.

Readers of such translations should rely on AmTrust and not myself or LCP to ensure that the translations into each language are accurate.

8.6. Clarity of communication

I have reviewed drafts of both the proposed letters to stakeholders, the summary of the Scheme Document and the Q&A booklet to be provided to policyholders explaining the background to the Proposed Transfer and the transfer process.

IE conclusion

I am satisfied the communication to policyholders regarding the Proposed Transfer is clear, fair and not misleading.

8.7. Overall conclusion: Communication strategy

Based on my review of the communication strategy, I have concluded the planned communications strategy will ensure adequate coverage of affected parties. AIU is applying for a number of dispensations from communicating to some affected parties. I have concluded that these are appropriate.

The communication strategy is not expected to be impacted by the COVID-19 pandemic, live Transferring Policyholders will be sent an email in addition to postal communication. There are only 29 Transferring Policyholders and no issues are expected in identifying from whom the responses have come from. Also, no resource constraints are expected in dealing with queries from policyholders.

I have also concluded that the planned communication is sufficiently clear for policyholders to understand the effects of the Proposed Transfer.

9. Customer service and other considerations

9.1. Customer service

AmTrust has confirmed that there will be no material changes to policyholder administration and claims handling for Transferring Policyholders and AIU Policyholders as a result of the Proposed Transfer.

AMIL have confirmed that day to day policyholder interaction will continue to be with the Mortgage & Credit team. In addition, AMIL expect to maintain previous contact details for policyholders regarding claims and servicing policies and will forward any policyholder correspondence to AIU.

Currently, Amtrust's Mortgage/Credit division handle mortgage claims for all entities in the AmTrust group, including AMIL, and this will continue after the Proposed Transfer. As such the Transferring Policyholders will not be affected operationally as a result of the Proposed Transfer, including any impact from the COVID-19 pandemic. AmTrust have confirmed that there are no other operational issues arising from COVID-19 that will impact any policyholders, in particular the current team will be able to service any foreseeable increase in claims activity.

As such, I do not expect that Transferring Policyholders will receive a materially different level of customer service following the Proposed Transfer.

9.2. Tax implications

In relation to the Proposed Transfer, I have considered the relevant types of tax that potentially impact the premium policyholders are charged:

- Corporation tax: this is levied on profits and policyholders are not directly affected by AMIL's or AIU's obligation to pay corporate tax.
- Value added tax (VAT): policyholders do not pay VAT on insurance premiums.
- Insurance premium tax (IPT): the applicable IPT rate for each policyholder is determined by the location of the risk insured which will not change. Therefore, the amount of IPT charged will not be affected by the Proposed Transfer.

Therefore, my understanding is that there are no tax implications of the Proposed Transfer for Transferring Policyholders or AIU Policyholders.

9.3. Investment management implications

AMIL and AIU's investment strategies are approved by their investment committees with oversight by their boards. Each committee adheres to similar governing principles and guidelines set at the Group level.

- As at 31 December 2019, the vast majority of AMIL's invested assets were in corporate or government bonds. A small proportion is invested in property, cash and holdings in other undertakings.
- Similarly, the majority of AIU's invested assets were in corporate or government bonds. A small proportion is invested in bank deposits, collateralised securities and collective investment vehicles.

Investment management is outsourced to specialists within the AmTrust Group. The management of AMIL and AIU's bond portfolio is outsourced to the same dedicated team of investment managers in another AmTrust Group company.

I am not aware of any planned changes to AIU's investment strategy as a result of the Proposed Transfer.

Therefore, I do not anticipate any materially adverse impact to Transferring Policyholders or AIU Policyholders in terms of investment management as a consequence of the Proposed Transfer.

9.4. Implications on ongoing expense levels

All costs and expenses incurred relating to the Scheme will be borne by AMIL and AIU and will not be borne by policyholders. One-off costs associated with the Proposed Transfer are expected to be modest relative to the size of the transferring business and existing portfolios of AMIL and AIU.

Therefore, there is no impact on Transferring Policyholders or AIU Policyholders as a result of any changes to ongoing expense levels.

9.5. Impact on liquidity position

The liquidity position of a company represents its ability to meet all claim payments and other obligations as and when they fall due. Both AMIL and AIU monitor asset liquidity as part of their ORSA processes. Both AMIL and AIU invest mainly in government bonds and corporate bonds which are normally readily convertible into cash. As AIU writes new business, liquidity is also available from premium income.

Therefore, I do not anticipate any materially adverse impact on the liquidity position for the Transferring Policyholders and AIU Policyholders as a consequence of the Proposed Transfer.

9.6. Set-off

I have considered whether the Proposed Transfer is likely to lead to any changes in the rights of set-off for creditors or debtors of AMIL or AIU. "Set-off" is a right that allows parties to cancel or offset mutual debts with each other by subtracting one from the other and paying only the balance.

I have not identified any material set-off rights as part of my review. Therefore, I do not believe considerations around set-off impact my conclusions.

9.7. Overall conclusions: Customer service and other considerations

Based on the work and rationale described above, I have concluded that no material impact on service standards for Transferring Policyholders and AIU Policyholders (or any other considerations within this section of the report) is expected following the Proposed Transfer.

10. Conclusions and Statement of Truth

I have considered the Proposed Transfer and its likely effects on Transferring Policyholders, AIU Policyholders and the reinsurers of the transferring business.

In reaching the conclusions set out below, I have applied the principles as set out in relevant professional guidance, being the Technical Actuarial Standards (TASs) TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance.

I have concluded that:

- **The security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.**
- **The security provided to AIU Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for AIU Policyholders.**
- **Reinsurers whose contracts with AMIL are transferring to AIU as part of the Proposed Transfer will not be materially adversely affected by the Proposed Transfer.**

10.1. Issues to highlight

I consider it necessary that I review the most recent information, up to the date of the Sanctions Hearing for the Proposed Transfer, when this becomes available, before confirming my opinion and conclusions.

Issues that I have highlighted in this report which require further review include:

- Any changes to the final details of the Proposed Transfer
- Any reinsurer and policyholder objections received
- The potential consequences if transfers 2 and 3 have not taken place by the time of the Proposed Transfer
- Updated AIU capital policy
- Any updated financial information, reserving and capital projections, particularly in light of ongoing developments with regards to the COVID-19 outbreak
- The majority of AMIL’s mortgage portfolio (85% of its current risk in force) was written in Italy which has been severely hit the COVID-19 outbreak. The impact of the outbreak on AMIL mortgage portfolio is an ongoing development. There is a considerable degree of uncertainty regarding this issue and I will provide an update of the situation in the next iteration of this report.

I will consider these points further in my Supplementary Report.

10.2. IE duty and declaration

My duty to the Court overrides any obligation to those from whom I have received instructions or paid for this Report. I confirm that I understand my duty to the Court and I have complied with that duty.

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 opinions on the matters to which they refer.

I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Protocol for Instruction of Experts to give Evidence in Civil Claims.

10.3. Sign-off

Stewart Mitchell FIA
Partner

3 July 2020

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www.lcp.uk.com

The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with AmTrust Management Services Limited. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Scheme Report, which is our work, has been prepared for the purpose of accompanying the application to the Court in respect of the insurance business transfer scheme described in this report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Scheme Report is not suitable for any other purpose.

A copy of the Scheme Report will be sent to the Prudential Regulatory Authority, the Financial Conduct Authority and will accompany the Scheme application to the Court.

This work is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Scheme Report for any other purpose other than that set out above.

Professional Standards

Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 200: Insurance.

Appendix 1 - Glossary

Term	Definition
Best estimate	An estimate prepared with no margin for either prudence or optimism included.
Bornhuetter-Ferguson (BF) method	A blend of the Chain Ladder Method and the Expected Loss Ratio Method (defined later in this glossary). The weighting given to each is dependent on how developed the claims are for a particular policy year.
Brexit	The expected exit of the UK from the EU following the referendum on continuing membership held in the UK in June 2016.
Capital Cover Ratio	The Capital Cover Ratio is the ratio of Available Capital to Required Capital. This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer. Also referred to as the SCR coverage ratio.
Central Bank of Ireland (CBI)	The regulator of the insurance sector in Ireland.
Chain Ladder method	An actuarial method for estimating future payments or numbers by using the historical pattern of past payments or numbers to estimate a development profile, which can be used to extrapolate future payments or numbers.
Core Tier 1	Under Solvency II, capital is categorised into 3 tiers based on the permanence and loss absorbency of the form of capital. Tier 1 capital is the highest quality.
Counterparty Default Risk	The risk of defaults or downgrades by counterparties that either owe an insurer money or hold money on its behalf. For example, this covers the risk of the failure of a reinsurer or a broker.
Court	The High Court of Justice of England and Wales.
Direct policyholders	Any policyholders that are not insurers or reinsurers.
European Economic Area (EEA)	The EEA Agreement established the EEA on 1 January 1994. The EEA unites the 28 EU member states with Iceland, Liechtenstein, and Norway into an internal market governed by the same basic rules. These rules aim to enable goods, services, capital, and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms.
Effective Date	The effective date of the Proposed Transfer, expected to be 1 July 2020.
European Union (EU)	The EU prior to Brexit, ie the 28 member states. Post-Brexit the EU will consist of 27 member states ie excluding the UK.

Appendix 1 (cont)

Term	Definition
Events not in data (ENIDs)	An estimate of possible future events or developments that are not in existing data. Insurers need to make allowance for ENIDs in their Solvency II technical provisions.
Excess of Loss Reinsurance	A type of reinsurance in which the reinsurer indemnifies the ceding company for losses that exceed a specified limit (in respect of individual claims or the aggregate cost of claims). Excess of loss reinsurance is a form of non-proportional reinsurance.
Expected Loss Ratio method	An actuarial method for estimating future payments or numbers based on combining an exposure measure and an assumed rate per unit of exposure (the “initial expected loss ratio”) for the written business.
Financial Conduct Authority (FCA)	The UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Financial Ombudsman Service (FOS)	Set up by the UK Parliament, the FOS is the UK’s official expert in sorting out problems with financial services. Parliament set up the FOS and has legal powers in the UK to address unresolved complaints between a business and a customer relating to financial services.
Financial Reporting Council (FRC)	The body responsible for setting actuarial standards in the UK. The FRC also regulates auditors and accountants and sets the UK’s Corporate Governance and Stewardship Codes.
Freedom of Establishment (FofE)	Under the EU Insurance Directives and Insurance Mediation Directive, insurance companies have the right to provide business services through a permanent presence within the EEA under the principle of FofE utilising the “passporting” system in place between EEA regulators.
Freedom of Services (FofS)	Under the EU Insurance Directives, insurance companies have the right to provide business services on a cross-border basis within the EEA under the principle of FofS utilising the “passporting” system in place between EEA regulators.
Financial Services Compensation Scheme (FSCS)	The FSCS is the compensation fund of last resort for customers of UK authorised financial services firms. This covers insurance for individuals and some insurance for small businesses.
Financial Services and Markets Act 2000 (FSMA)	The legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
Generally accepted accounting principles (GAAP)	A collection of commonly-followed accounting rules and standards for financial reporting. GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.

Appendix 1 (cont)

Term	Definition
Hard Brexit	A scenario where AEL no longer has FofS or FofE rights and may not legally be able to carry on with non-UK EEA business. For example, AEL would not be able to issue new insurance policies across the EEA and might not legally be able to pay valid claims to existing EEA policyholders.
Incurred but not enough reported (IBNER)	See definition of IBNR
Incurred but not reported (IBNR)	The provision for claims that are reported in the future but relate to events that have already occurred. This includes provision for estimated developments to existing open claims, ie those that have been reported but not fully settled. The provision for these open claims is called IBNER (Incurred But Not Enough Reported). Depending on the type of insurance being considered and the claims handling approach, both the IBNR and IBNER can be either positive or negative.
Independent Expert	A suitably qualified person appointed by the Court to produce an independent report on an insurance business transfer scheme, in accordance with the FSMA. The Independent Expert's primary duty lies with the Court, and the opinion of the expert is independent of those of the sponsoring companies involved in the Transfer and the PRA.
Insurance Compensation Fund (Ireland)	The Insurance Compensation Fund is primarily designed to facilitate payments to policyholders in relation to risks in the State where an Irish authorised non-life insurer or a non-life insurer authorised in another Member State goes into liquidation.
Market risk	The risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this covers the risk of falls in the value of assets that are being held to make future claims payments.
Minimum Capital Requirement (MCR)	A formulaic calculation of the capital requirement as part of the existing European Solvency II regulations for insurers. Breaching the MCR defines the point of intensive regulatory intervention. The calibration of the MCR is to be the capital required to give an 85% confidence level of sufficient capital to last one year. The MCR is a simpler calculation than the SCR and is typically a less onerous requirement.
Operational risk	The risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would cover the risk of fraud or IT failure.
Own funds	The capital in excess of provisions available to meet the SCR capital requirements under Solvency II.

Appendix 1 (cont)

Term	Definition
Prudential Regulation Authority (PRA)	The part of the Bank of England that carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
PRA's Statement of Policy	The Statement of Policy issued by the PRA entitled "Statement of Policy – The PRA's approach to insurance business transfers – April 2015"
Proposed Transfer	The proposed insurance business transfer of AEL to AIU and AA under Section 105 of the FSMA.
Quota share reinsurance	A reinsurance contract in which the insurer and reinsurer share both claims and premiums in the same proportion. The reinsurer usually pays a commission to the insurer to allow for their costs of selling and administering the policy.
Required capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (ie the SCR).
Reinsurance	An arrangement with another insurer to share or pass on risks. For example, in the case of the Proposed Transfer, AEL is transferring underwriting (insurance) risk to AII using a reinsurance quota share arrangement.
Reinsurance bad debt	Reinsurance bad debt is a provision for amounts that are owed by reinsurers but which may not be paid, eg due to the insolvency of the reinsurer.
Risk Appetite	A framework of boundaries within which an insurer operates. The framework captures the risks to which the company is exposed and sets risk-specific and aggregate limits within which to manage the organisation.
Scheme Document	A document submitted to the Court setting out details of the Scheme or Proposed Transfer.
Scheme Report	This report prepared by me, as the Independent Expert, for submission to the Court.
Section 13 transfer	The Irish equivalent of a UK Part VII transfer, regulated by the CBI.
Solvency Capital Requirement (SCR)	The amount of capital insurers are required to hold under Solvency II regulations. This is an estimate of capital required to ensure that an insurer is able to meet its obligations over the next 12 months with a probability of at least 99.5%. If an insurer's capital (ie the excess of its assets over its liabilities) falls below the SCR, it will trigger regulatory intervention, with the intention of remedying that position.
Solvency Financial Condition Report (SFCR)	Solvency II requires each insurer to publish an SFCR annually that contains certain qualitative and quantitative information.

Appendix 1 (cont)

Term	Definition
Solvency II	The system for establishing (among other things) minimum capital requirements for EEA (re)insurers under the Solvency II Directive 2009/138/EC.
Standard Formula	A prescribed approach under Solvency II for the calculation of capital based on an insurer's financial information (eg premiums and claims provisions).
TAS 100	The FRC issued Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) which applies to all actuarial work produced after 1 July 2017.
TAS 200	The FRC issued Technical Actuarial Standard 200: Insurance (TAS 200) which applies to all actuarial work produced after 1 July 2017.
Technical provisions	Under Solvency II, the technical provisions cover the ultimate costs of settling all claims arising from events occurring up to the balance sheet date plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
Transferee	The insurer to which the business is being transferred, being AmTrust International Underwriters Designed Activity Company (AIU).
Transferor	The insurer from which the business is being transferred, AMT Mortgage Insurance Limited (AMIL).
Unallocated Loss Adjustment Expenses (ULAE)	Unallocated Loss Adjustment Expenses are expenses relating to the handling of claims that are not allocated to specific claims, eg claim handlers' salaries and office space.
Underwriting risk	The risk that the value of insurance claims proves to be higher than expected.
Unearned Premium Reserve (UPR)	A provision for the unexpired portion of insurance policies and appears as a liability on the insurer's balance sheet, since the premium would be paid back upon cancellation of the policy.

Appendix 2 – Extract from Terms of Reference

LCP has been appointed by AmTrust Management Services Limited on behalf of AEL, AIU and AA.

Summary of agreed scope of work

I, Stewart Mitchell will act as IE to support your planned Part VII transfer of AMT Mortgage Insurance Limited (AMIL) business into AmTrust International Underwriters (AIU).

Your primary requirement is for the IE to act in line with Section 109 of the Financial Services Markets Act 2000.

The key deliverables from the work will be:

- The main and supplementary IE reports;
- Input as required to address any issues arising;
- Presenting my findings as IE to the Court and responding to any queries and additional court requests; and
- A summary report to support policyholder communications.

Appendix 3 – CV of Stewart Mitchell FIA

I am a Partner in LCP's Insurance Consulting practice and a Fellow of the Institute of Actuaries (qualified in 2004). I hold an MBA from City University Business School and qualified as an ACII with the Chartered Institute of Insurance.

I joined LCP in 2016, and prior to this was a Director at Ernst & Young LLP. I have 20 years' experience as a general insurance actuarial consultant, and a further 10 years' experience working in the insurance industry prior to joining Ernst & Young LLP.

Professional experience

I have a broad experience of actuarial engagements over the last 20 years. This experience covers reserving, capital, pricing, reinsurance and transactions.

I have been the IE and supported or provided peer review to the Independent Expert for seven other insurance business transfer schemes. I have also led the work on Section 166 regulatory reports for the PRA.

I hold a Lloyd's Signing Actuary practicing certificate and am currently the Signing Actuary for four Lloyd's syndicates. I have performed this role for many Lloyd's syndicates in the past, signing the opinions for up to nine Lloyd's syndicates in a single year-end.

I have previously been appointed by the Bermuda Monetary Authority as a Loss Reserving Specialist for Bermudian insurance companies and the Appointed Actuary for Lichtenstein insurance companies.

I have provided opinions on the adequacy of claims reserves for US regulators of UK based insurance companies and for HMRC for UK insurance companies.

I have extensive experience in independent reviews of claim liabilities for general insurance companies. I have also led capital modelling projects and reviews of Solvency II technical provisions.

I have worked with many insurers in reviews of claims liabilities and capital requirements for the purpose of mergers and acquisitions.

Appendix 4 – Summary of data provided

The following is a list of the key data items I have requested and received in assessing the Proposed Transfer. All data I have requested has been provided to me. AMIL and AIU have provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

1. Draft Court and regulatory documents prepared by AMIL and AIU for the Proposed Transfer, including:

- AMIL Scheme Document (draft dated 10 March 2020)
- AMIL First Witness Statement (draft dated 29 May 2020)
- AIU First Witness Statement (draft dated 10 March 2020)
- Legal notice (draft dated 10 March 2020)

2. Draft proposed communication plan and communication prepared by AMIL and AIU:

- Template letters to policyholders, reinsurers and reinsurance brokers (drafts dated 10 March 2020)
- Policyholder Q&A Booklet (draft dated 10 March 2020)
- Summary of the Scheme Document (draft dated 10 March 2020)

3. Documents relating to provisions and reserving processes, including:

- AIU Internal Reserve Review Reports 2018
- AMIL Internal Reserve Review Reports 2019
- AIU External Reserve Review Reports 2018
- AIU Actuarial Report on Technical Provisions 2018
- AIU Audit and Reserve Committee Meeting Notes 2018
- AMIL Board Meeting Notes 2018 and 2019
- AIU Internal Audit Reports 2018
- AIU Draft Terms of Reference 2018
- AMIL and AIU Reserving Policy
- AMIL Reserving and Earnings methodology documentation
- AMIL 3Q 2019 reserving calculations

4. Documents relating to capital and related processes, including:

- Solvency and Financial Condition Report (SFCR) for AMIL and AIU year ending 31 December 2018 and 2019
- AIU 2018 Own Risk and Solvency Assessment (ORSA) report
- AMIL 2019 ORSA report
- AIU Risk Appetite Statement
- AIU Business Plan
- AMIL and AIU Standard Formula calculations
- AMIL and AIU ECM model results
- Additional stress scenarios to illustrate the impact on capital for AIU

5. Other evidence prepared by AmTrust to support the Proposed Transfer, including:

- Draft projections of future balance sheets and capital requirements up to 30 June 2022 for AMIL and AIU
- Details of the potential impact of COVID-19 on the Proposed Transfer
- Details of the impact of the Proposed Transfer on contact points and service standards
- Details of the tax, investment and liquidity implications of the Proposed Transfer

6. Data Accuracy Statement

- For AMIL and AIU

Appendix 5 – Mapping to requirements

The table below shows the relevant section references in the Scheme Report where I have addressed each point in the guidance from:

- FCA x.x: Chapter 18 of the Supervision Manual of the FCA Handbook; and
- PRA x.x: the PRA's "Statement of Policy - The PRA's approach to insurance business transfers – April 2015".

I have included references from the UK regulators, the PRA and FCA.

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (1) FCA 18.2.33 (1)	Who appointed the independent expert and who is bearing the costs of that appointment	2.3 (page 15)
PRA 2.30 (2) FCA 18.2.33 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator (the PRA)	2.3 (page 15)
PRA 2.30 (3) FCA 18.2.33 (3)	A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role	2.3 (page 15) Appendix 3
PRA 2.30 (4) FCA 18.2.33 (4)	Whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest	2.3 (page 15)
PRA 2.30 (5) FCA 18.2.33 (5)	The scope of the report	2.4 (page 16)
PRA 2.30 (6) FCA 18.2.33 (6)	The purpose of the scheme	3.3 (page 23)
PRA 2.30 (7) FCA 18.2.33 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	3 (page 20)
PRA 2.30 (8) FCA 18.2.33 (8)	What documents, reports and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided	Appendix 4

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (9) FCA 18.2.33 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others	2.6 (page 17)
PRA 2.30 (10) FCA 18.2.33 (10)	The people the independent expert has relied on and why, in their opinion, such reliance is reasonable.	2.6 (page 17)
PRA 2.30 (11) FCA 18.2.33 (11)	Their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee	Executive summary (page 4) 10 (page 82)
PRA 2.30 (12) FCA 18.2.33 (11A)	Their opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme.	Executive summary (page 4) 10 (page 82)
PRA 2.30 (13) FCA 18.2.33 (12)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme.	10 (page 82)
PRA 2.30 (14) FCA 18.2.33 (13)	For each opinion that the independent expert expresses in the report, an outline of their reasons	Reserving: 5.10 (page 43) Capital: 6.11 (page 68) Policyholder: 7.8 (page 74) Communication: 8.7 (page 78) Other: 9.7 (page 81)
PRA 2.32 (1) FCA 18.2.35 (1)	A description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme	3.2 (page 22)
PRA 2.32 (2) FCA 18.2.35 (2)	A description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	3.2 (page 22)
PRA 2.33 (1) FCA 18.2.36 (1)	Include a comparison of the likely effects if it is or is not implemented	3.4 (page 24)

Appendix 5 (cont)

Guidance reference	Guidance	Scheme report reference
PRA 2.33 (2) FCA 18.2.36 (2)	State whether they considered alternative arrangements and, if so, what	3.4 (page 24)
PRA 2.33 (3) FCA 18.2.36 (3)	Where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences they consider may be material to the policyholders	Executive summary (page 4) 7.4 (page 71)
PRA 2.33 (4) FCA 18.2.36 (4)	Include their views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; (b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and (c) the cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations	(a) Executive summary (page 4) 7.4 (page 71) (b) and (c) 9 (page 79)

The Proposed Transfer does not involve any mutual companies or long-term insurance business. As such, PRA 2.35 and PRA 2.36 (FCA 18.2.38 and FCA 18.2.39) do not apply.

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