# *Supplementary Report of the Independent Expert on the proposed transfer of insurance business from AmTrust Europe Limited to AmTrust International Underwriters DAC and AmTrust Assicurazioni SpA in accordance with Part VII of the Financial Services and Markets Act 2000*

**For the High Court of Justice of England and Wales**

17 July 2020


Prepared by:

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**LCP**

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## Appendices

# 1. Executive summary

## 1.1. The Proposed Transfer

AmTrust Europe Limited (AEL) 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 July 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 AEL no longer has FofS or FofE rights, AEL would not legally be able to carry on the 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 non-UK EEA policyholders unless AEL 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, now that the UK has left the EU, with minimum disruption and to improve efficiencies within the Group, AEL is proposing to transfer (the Proposed Transfer) its Italian medical malpractice business to an Italian Company, AmTrust Assicurazioni SpA (AA), and the remaining non-UK EEA business to AmTrust International Underwriters DAC (AIU). AA was acquired by the AmTrust Group in 2019 and has recently started writing new business.

In addition, the aim of the AEL to AA transfer is part of a wider strategic change regarding the medical malpractice business written by each of AEL, AIU and AA and is intended to ensure that all Italian medical malpractice business is in one insurer, being AA, supervised by the Italian regulator IVASS.

The Effective Date of the Proposed Transfer is 31 July 2020. This is one month later than the original Effective Date of 1 July 2020 as stated in my Scheme Report. This follows the ongoing developments around COVID-19 and its potential impact on the Proposed Transfer. For AmTrust to be able to give appropriate consideration to this uncertainty, the Proposed Transfer has been delayed by one month.

There have been no other changes to the Proposed Transfer.

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

**Other AmTrust transfers**

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 are summarised below:

- A Section 13 transfer of AIU's Italian medical malpractice business to AA, with a proposed Effective Date also of 31 July 2020. Approximately a third of AIU's portfolio will transfer to AA, based on provisions net of reinsurance. This transfer passed the Directions Hearing stage on 2 March 2020.
- A Part VII transfer of all business from AMT Mortgage Insurance Ltd (AMIL) to AIU with a proposed Effective Date of 31 October 2020. This transfer passed the Directions Hearing stage on 8 July 2020.

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 AEL will be materially adversely affected by the implementation of the Proposed Transfer.
- The security provided to AIU and AA 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 AEL providing cover for the transferring business will be materially adversely affected.

I provided my Scheme Report for the Proposed Transfer (dated 3 March 2020) ahead of the Directions Hearing, which was held on 11 March 2020.

The purpose of this Supplementary Report is to confirm and/or update the conclusions of my Scheme Report, based on any material new developments in the intervening period, ahead of the Sanctions Hearing. This Supplementary Report should be read in conjunction with my Scheme Report.

### 1.3. Summary of developments since the Scheme Report

#### Activities since the Scheme Report

The main activities in relation to the Proposed Transfer since the Scheme Report was issued on 3 March 2020 have been as follows:

#### Proposed Transfer

- The Effective Date of the Proposed Transfer has changed from 1 July 2020 to 31 July 2020.
- Given the ongoing developments around COVID-19 and its impact on the Proposed Transfer, AmTrust have updated their SCR coverage ratio and balance sheet analyses to reflect this uncertainty. This is discussed further in later sections of this report.
- The Scheme Report and other associated scheme documents were presented to the Court at the Directions Hearing on 11 March 2020, where approval was received to start notifications in line with the communications plan.

#### Reserving

- The level of AEL's transferring provisions remained broadly flat on a net of reinsurance basis between 30 June 2019 and 31 March 2020. This is discussed in more detail in section 3.1.
- AA is expecting to write more business in 2020 than 2019 (gross written premiums of €83.6m vs €38.1m in 2019). The current projected volume is reduced from the business plan expectation of €174.2m as a result of renewals continuing to be written in AIU (and AEL) rather than AA as originally planned. The impact of this large change, and other changes following my Scheme Report, is discussed in more detail in section 3.
- IVASS requested an independent reserve review of the Italian medical malpractice portfolios transferring into AA from AEL and AIU. I have reviewed the findings of this report. A summary of this report is in section 3.1.2.
- AmTrust have taken accounting advice on how to address the impact of the differing treatment of policy deductibles between Italian accounting rules (GAAP) and those of other countries. A summary of the treatment is set out in section 3.1.3.
- As described in the Scheme Report, AEL was requested by the Prudential Regulatory Authority (PRA) to appoint a skilled person to perform an independent external review of the Italian and French medical malpractice portfolios. I reviewed the finalised version of the report, AEL Management's responses to the

recommendations made and progress on AEL's implementation of the proposed actions. A summary of my review is in section 3.1.5.

- As described in the Scheme Report, AIU commissioned an external regulatory review of certain aspects of its business by an independent actuarial consultancy, including the reserving process and its governance. This external regulatory review, which was instigated at the request of the Central Bank of Ireland (CBI), has been completed and we have reviewed the final findings.

  I reviewed the findings of this report and AIU Management's responses to the recommendations made. A summary of my review is in section 3.1.5.

## Capital

- Amtrust have updated their projections since my Scheme report was issued to allow for the impact of the COVID-19 pandemic. The updated projected post-transfer SCR coverage ratios are now as follows:
  - AEL – 140%, in line with risk appetite;
  - AIU – 172%, in excess of risk appetite of 140%; and
  - AA – 147%, in excess of risk appetite of 145%.
- Dividend payments from AEL, AIU, Motors Insurance Company Limited ("MICL"), a subsidiary of AFSI, and a €5m contribution from AII (which was paid on 30 June 2020) will be used to support AA's SCR coverage ratio post-transfer. Further detail is provided in section 3.2.
- The coverage ratios for AEL, AIU and AA will be guaranteed to be at least the level of risk appetite until 30 June 2021 by a Net Worth Maintenance Agreement (NWMA) with AmTrust Financial Services Inc. (AFSI), the parent company of the Amtrust entities. This commitment ultimately depends on the financial strength of AFSI and the Amtrust Group. This agreement is expected to be signed before the Sanctions Hearing.
- In the event of SCR coverage ratios falling below the risk appetite level for AEL, AIU or AA, I would expect AmTrust to implement management actions to restore the SCR coverage ratio to at least the risk appetite level. Given this, I have placed limited reliance on the NWMA, although the fact that AFSI's support has been formalised in the agreement does increase policyholder security up to June 2021.
- Following privatisation, AFSI no longer discloses its consolidated financial information publicly and so is not rated. However, members of the AmTrust Group have a current A. M. Best Financial Strength Rating, as of 13 August 2019, of "A-" (Excellent) reflecting its balance sheet strength (categorized by A. M. Best as very strong) and level of free assets.

### Policyholder communications and other

- AEL has communicated with policyholders and placed notices in various publications in line with the communication plan outlined in my Scheme Report, no changes to the plan were required due to the COVID-19 pandemic.
- There have been no objections to the Proposed Transfer, as at 17 July 2020.
- Following an application for a licence in San Marino, AA have received a positive opinion from IVASS which now allows them to conduct insurance activity in San Marino. AA is now engaging with the San Marino Insurance Authority to register the licence.
- AIU is in the process of applying to the CBI for additional class licences and passporting rights for surety business. This is a territory extension application and not a new licence application. The expectation is that these policies could be treated as residual policies and transferred after 31 July 2020, as soon as the CBI has approved the licence.
- The CBI has approved AIU's licence applications for the following:
    - Class 13 – General Liability (approved 29 April 2020);
    - Class 10 – Motor Vehicle Liability - Italy (23 June 2020);
    - Class 10 – Motor Vehicle Liability – Greece (24 June 2020); and
    - Class 17 – Legal expenses (1 July 2020).

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

The uncertainty around the impact of the COVID-19 pandemic is expected to continue until the Effective Date of the Proposed Transfer and beyond. AmTrust has considered the exposure of its Italian medical malpractice portfolio, and its wider business, to the pandemic.

As Italian medical malpractice policies are issued on a claims-made basis, only unexpired policies are exposed. AmTrust's view is that claims arising from the pandemic are likely to be limited. They expect there to be a reduction in claims frequency to the extent that non-essential operations will not be taking place, though limited credit has been taken for this in Amtrust's updated projections.

In addition to this, since specific instructions were provided to hospitals by the Italian government at the national and regional level following declaration of a 'state of national health emergency', AmTrust's view is, provided the hospitals complied with the Government's instructions with regards to COVID-19, it is unlikely that liability could be established. Liability would fall to the insurer in the event of gross negligence in the implementation of these instructions. There is draft law being taken to the Italian Parliament to determine the limitation in the event of gross negligence.

Over the short term, longer settlement delays are anticipated driven by a combination of hospitals not authorising settlements and any operational difficulties for AmTrust's claims team as they adjust to the new environment. Overall, the impact on the reserving process is expected to be limited.

Further protection from COVID-19 claims may arise from Article 1912 of the Italian Civil Code which excludes so-called exceptional major risks from general insurance coverage, including those associated with pandemics. AmTrust have received a legal opinion on this issue. Although AmTrust's view is that COVID-19 will be included within Article 1912, the legal opinion is not definitive on this issue and the conclusions in it are described as necessarily provisional.

In any case, it may take years to confirm whether COVID-19 is included in Article 1912 and this issue will not be resolved before the Sanctions Hearing. In the event COVID-19 is not included, AmTrust are more exposed to the potential risk of COVID-19 related claims. However, I believe the impact of such claims will be mitigated by the points I made earlier. AmTrust have considered the impact of a reserve stress scenario in the event that claims experience is worse than expected, whether due to COVID-19 or other factors.

I have not considered taking independent legal advice on this issue, as I do not think that this would give any more clarity of the likelihood of COVID-19 being included in Article 1912 or not at this stage.

COVID-19 could impact the other classes of business involved in the AEL to AIU transfer either directly eg travel or indirectly eg through insolvency caused by the economic downturn. Currently there is little reported claims activity. In addition, some classes could also be positively impacted by a reduction in exposure following lockdown measures to contain the pandemic eg motor warranty, though no allowance has been made for this given the uncertainty.

Whilst the uncertainty related to the evolving nature of the pandemic continues, any operational issues are likely to emerge over the short term as AmTrust's claims teams adjust to the new conditions. AmTrust have confirmed that they do not expect any operational difficulties over the short term to have a material impact on policyholders.

AmTrust have considered the potential impact of COVID-19 in their updated capital and balance sheet projections on Day 0 and Day 1 of the Proposed Transfer to reflect this risk. This is discussed in detail in sections 3.2 and 3.3.

### 1.5. Additional considerations for the Supplementary Report

In reaching my conclusions in this Supplementary Report, I have considered the following new information that has become available since the Scheme Report was issued on 3 March 2020:

- Updated booked provisions as at 31 March 2020;
- Recent claims experience and claim reserve movements;
- Updated SCR coverage ratio and balance sheet projections;
- The results of the independent reserve review requested by IVASS;
- Discussions with AmTrust on the impact of COVID-19 on the Proposed Transfer, including operational challenges;
- Accounting advice on the impact of the differing treatment of policy deductibles between Italian GAAP and other GAAP bases; and
- Any communications and/or objections related to the Proposed Transfer raised by stakeholders.

### 1.6. Summary of my conclusions

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

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

My overall conclusions are unchanged from those set out in the Scheme Report.

#### A: Non-transferring AEL Policyholders

**I have concluded that the security provided to Non-transferring AEL Policyholders will not be materially adversely affected by the Proposed Transfer.**

Summary rationale:

- The SCR coverage ratio for Non-transferring AEL Policyholders is expected to decrease from 150% to 140% as a result of the Proposed Transfer. I do not consider the security provided to Non-transferring AEL Policyholders to be materially adversely affected by this decrease as AEL remains towards the upper end of the sufficiently capitalised band defined in the Scheme Report. In addition, the coverage ratio is still in line with AEL's risk appetite and projected to increase to 150% within a year after the Effective Date of the Proposed Transfer.

- The SCR coverage ratio of AEL will be guaranteed to be a minimum of 140% until 30 June 2021 by a Net Worth Maintenance Agreement with AFSI, a parent company of AEL.
- The level of regulatory capital held on the 1-year standard formula basis is supported by consideration of stress scenarios including the impact of a recession and reinsurer default.
- The approach and methodology used to calculate insurance provisions and the level of reserves held by AEL are supported by my own independent projections.
- Further support for the level of reserves held by AEL is provided by the results of an independent external reserve review, a second independent external regulatory review and a third independent review of the transferring medical malpractice portfolio.
- AEL has confirmed that the future reserving process and governance for AEL will be materially unchanged post-transfer.
- Non-transferring AEL Policyholders are predominantly exposed to exposure from older years but will benefit from reduced uncertainty after the transfer of the Italian medical malpractice business where there remains material reserves in the older years.

**I have concluded that no material impact on service standards is expected for Non-transferring AEL policyholders following the Proposed Transfer.**

Summary rationale:

- AEL is not planning any material changes to how the non-transferring business is carried out.
- There are no plans to change how policyholders are serviced.

### B: Transferring AEL to AIU Policyholders

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

Summary rationale:

- The Transferring AEL to AIU Policyholders will benefit from contract certainty in the light of the uncertainty in trade negotiations during the transition period.

- The SCR coverage ratio for Transferring AEL to AIU Policyholders is expected to increase from 150% to 172% as a result of the Proposed Transfer. Therefore, the level of security provided to Transferring AEL to AIU Policyholders will be higher than AEL's and AIU's targeted risk appetite.
- The SCR coverage ratio of AIU is projected to be in excess of AIU's risk appetite for the next two years. In addition, it is guaranteed to be a minimum of 140% until 30 June 2021 by a Net Worth Maintenance Agreement with AFSI, a parent company of AIU.
- The level of regulatory capital held on the 1-year standard formula basis is supported by consideration of stress scenarios including the impact of a recession and reinsurer default.
- The Transferring AEL to AIU Policyholders will remain within the AmTrust Group and AIU is subject to the same group-wide policies as AEL.
- AmTrust has confirmed that the transferring policies will continue to be reserved in the same way post-transfer as pre-transfer.
- The calculation of the transferring provisions has been performed using the same methodologies as the non-transferring provisions which I consider appropriate.
- Further support for the level of reserves held by AEL is provided by the results of an independent external reserve review, a second independent external regulatory review and a third independent review of the transferring medical malpractice portfolio.
- Transferring AEL to AIU Policyholders which are currently eligible for FSCS protection will retain access to the FSCS in respect of events or circumstances before the Proposed Transfer but may lose access for events or circumstances which arise after the Proposed Transfer eg the insolvency of AIU.
- Access to the FSCS protection would only be required in the event of an insolvency of AEL. I consider this event to be unlikely. Therefore, I do not consider Transferring AEL to AIU policyholders are materially disadvantaged since it is unlikely they would need to access the FSCS. Further, they may prefer the removal of uncertainty of not having their claims paid to the loss of access to the FSCS.

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

Summary rationale:

- AEL 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 the operating model or its customers.

- Although some claims may be handled by AmTrust Group employees in Dublin rather than Nottingham, the AmTrust Group is not planning any material changes to how the Transferring AEL to AIU Policyholders are serviced following the Proposed Transfer.

### C: Transferring AEL to AA Policyholders

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

Summary rationale:

- The Transferring AEL to AA Policyholders will benefit from contract certainty in the light of the uncertainty in trade negotiations during the transition period and the removal of cross-border supervision by alignment with supervision by IVASS, the national regulator.
- The SCR coverage ratio for Transferring AEL to AA Policyholders is expected to decrease from 150% to 147% after the Proposed Transfer. I do not consider the security provided to Transferring AEL to AA Policyholders to be materially adversely affected by this decrease as AA is still towards the upper end of the sufficiently capitalised band defined in the Scheme Report. In addition, the coverage ratio is in excess of AEL's and AA's risk appetite.
- The SCR coverage ratio of AA is guaranteed to be a minimum of 145% until 30 June 2021 by a Net Worth Maintenance Agreement with AFSI, a parent company of AA.
- The level of regulatory capital held on the 1-year standard formula basis is supported by consideration of capital requirements in comparing the impact of stress scenarios including reserve deterioration and reinsurer default.
- The Transferring AEL to AA Policyholders will remain within the AmTrust Group and AA will be subject to the same group-wide policies as AEL.
- AmTrust has confirmed that the transferring policies will continue to be reserved in the same way post-transfer as pre-transfer.
- The calculation of the transferring provisions has been performed using the same methodologies as the non-transferring provisions which I consider appropriate.
- Further support for the level of reserves held by AEL is provided by the results of an independent review of the transferring medical malpractice portfolio.
- Transferring AEL to AA Policyholders which are eligible claimants may lose access to the FSCS for events or circumstances which arise after the Proposed Transfer eg the insolvency of AA. However, the majority of Transferring AEL to AA Policyholders are hospitals and private clinics and therefore not likely to be eligible for access to the FSCS due to the turnover threshold of £1,000,000.

- Access to the FSCS protection would only be required in the event of an insolvency of AEL. I consider this event to be unlikely. Therefore, I do not consider Transferring AEL to AA policyholders are materially disadvantaged since it is unlikely they would need to access the FSCS. Further, they may prefer the removal of uncertainty of not having their claims paid to the loss of access to the FSCS.

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

Summary rationale:

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

### D: AIU Policyholders

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

Summary rationale:

- The SCR coverage ratio for AIU Policyholders is expected to increase from 154% to 172% after the Proposed Transfer. I do not consider the security provided to these policyholders to be materially adversely affected as AIU will be a more well-capitalised insurer post transfer, with a coverage ratio in excess of its risk appetite.
- The SCR coverage ratio of AIU will be guaranteed to be a minimum of 140% until 30 June 2021 by a Net Worth Maintenance Agreement with AFSI, a parent company of AIU.
- The level of regulatory capital held on the 1-year standard formula basis is supported by consideration of stress scenarios including the impact of a recession and reinsurer default.

- 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 for the level of reserves held by AIU is provided by the results of an independent external reserve review, a second independent external regulatory review and a third independent review of the transferring medical malpractice portfolio.
- AIU has no plans to change the approach for how insurance provisions are set.
- The reserving process and governance for AIU will be materially unchanged post-transfer.
- AIU Policyholders are predominantly exposed to exposure from more recent years but will benefit from reduced uncertainty after the transfer to AA of the Italian medical malpractice portfolio which is a long-tailed class of business.

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

Summary 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.

### E: AA Policyholders

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

Summary rationale:

- The SCR coverage ratio for AA Policyholders is expected to decrease from 150% to 147% following the Proposed Transfer. I do not consider the security provided to AA Policyholders to be materially adversely affected by this decrease as AA is still towards the upper end of the sufficiently capitalised band and the coverage ratio is above AA's risk appetite.
- The SCR coverage ratio of AA will be guaranteed to be a minimum of 145% until 30 June 2021 by a Net Worth Maintenance Agreement with AFSI, a parent company of AA.
- The level of regulatory capital held on the 1-year standard formula basis is supported by consideration of capital requirements in comparing the impact of stress scenarios including reserve deterioration and reinsurer default.
- AA has no plans to change the approach for how insurance provisions are set.

- The reserving process and governance for AA will be materially unchanged post-transfer.
- Further support for the level of reserves is provided by the results of an independent external reserve review of the AEL and AIU medical malpractice portfolios transferring to AA.
- AA Policyholders are exposed only to the 2019 and 2020 years. As such transferring the Italian medical malpractice portfolios into AA will significantly increase their exposure to older years. However, they will benefit from reduced volatility through having a larger balance sheet.

**I have concluded that no material impact on service standards is expected for AA policyholders following the Proposed Transfer.**

Summary rationale:

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

### F: Reinsurers

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

The transferring policies primarily benefit from AEL's previous quota share arrangements with AII and Maiden, both of which are fully collateralised. AII and Maiden will continue to collateralise exposures to AEL and AIU transferring and non-transferring policyholder liabilities post-transfer.

Maiden re-domesticated during March 2020 from Bermuda to Vermont in the United States which is a non-Solvency II equivalent territory. The impact of this on AEL and AIU, as a reinsured of Maiden, all things being equal, would lead to an increase in the SCR and a therefore a reduction in the SCR coverage ratio.

Maiden has agreed an endorsement to its contract with AEL and AIU such that Maiden must provide additional collateral equal to the greater of 120% of the exposure amount of the liabilities, and such additional collateral needed to ensure the SCR coverage ratio is at the same level as it would have been prior to any re-domestication. Therefore, there is no impact on AEL and AIU's SCR coverage ratio, as measured on a 1-year basis using the standard formula.

Consideration of the 1-year SCR coverage ratio in itself is not sufficient as the impact on the capital required to run-off the business to ultimate should also be considered. I have addressed this by the use of stress scenarios for reserve deterioration and default of reinsurers.

The form of the collateral is the same as the current collateral arrangement, made up of cash and corporate bonds.

The main live reinsurance policy protecting the transferring business is the quota share reinsurance provided by Swiss Re for business written after 1 July 2019. The protection provided to the transferring policyholders from this reinsurance will transfer to AIU and AA.

There are also excess of loss reinsurance policies purchased by AEL for certain product lines that will transfer with the underlying policies.

Summary rationale:

- Exposure to claims faced by AEL'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 and my Scheme Report.

### Permutations of other AmTrust transfers

It is AmTrust's intention that, if any of the other AmTrust transfers or part of the Proposed Transfer does not get sanctioned, AmTrust will go ahead with the sanctioned transfers, or the part of the Proposed Transfer that is sanctioned. 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 six groups of affected parties and the other two uncompleted transfers.

**A: Non-transferring AEL Policyholders**

If only the AEL to AIU element of the transfer goes ahead, the AEL policyholders would be materially unaffected as AEL's risk profile as a multi-line insurer would remain broadly unchanged as only a relatively small part of the AEL business is transferring to AIU.

If only the AEL to AA element of the transfer goes ahead, then the AEL policyholders would not be exposed to the long tail medical malpractice business but would lose the diversification benefit from this portfolio.

If neither transfer goes ahead, the AEL Policyholders are unaffected.

**B: Transferring AEL to AIU 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 these policyholders whether the 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, but AEL policyholders are already exposed to this business within AEL pre-transfer.

**C: Transferring AEL to AA Policyholders**

The business transferring from AEL to AA, and also from AIU to AA, is Italian medical malpractice business, similar to that already written in AA. If this transfer does not go ahead, the transferring policyholders would continue to benefit from diversification being part of a multi-line insurer within AEL.

**D: AIU Policyholders**

AIU Policyholders are exposed to the AEL and, later in 2020, AMIL portfolios transferring in. 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.

**E: AA Policyholders**

AA writes a portfolio of Italian medical malpractice business ie the same business that will be transferred from both AEL and AIU. As such the risk profile of AA as a mono-line insurer is expected to be the same whether either or both the transfers are successful, although the volume of reserves would be different.

If neither transfer goes ahead, the AA Policyholders are unaffected.

**F: 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.

**AIU to AA transfer**

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

**AMIL to AIU transfer**



This transfer is expected to complete on 31 October 2020 ie after all the other AmTrust transfers are due to complete. The business transferring is mortgage insurance which is already written by AIU and is a relatively small amount of business compared to that of AIU overall. Hence, the risk profile of AIU is not expected to change materially. This transfer will only affect AIU and not AEL or AA.

**AIU to LMIE transfer**

This transfer became effective on 31 March 2020.

## Confirmation of factual correctness

This report has been reviewed by AEL, AIU and AA and each has agreed the report is correct in terms of all factual elements of the Proposed Transfer.

# 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 certain insurance business of AEL to AIU and AA under Section 105 of the FSMA. The Proposed Transfer is intended to be effected on 31 July 2020 (the Effective Date).

The Scheme Report was issued on 3 March 2020 and was presented to the Court on 11 March 2020. In the Scheme Report I stated that, before the date of the Sanctions Hearing, I would prepare a Supplementary Report (this report), covering any relevant matters which have arisen since the date of the Scheme Report.

In particular, I have considered whether any developments since the Scheme Report cause my conclusions in the Scheme Report to change.

## 2.2. Scope of this Supplementary Report

This Supplementary Report must be read in conjunction with the Scheme Report as the Supplementary Report does not contain the full details of the work I have performed in considering the Proposed Transfer. Reading the Supplementary Report in isolation may be misleading.

All terms used in the Supplementary Report are as defined in the Scheme Report. In combination with the Scheme Report, it complies with the professional actuarial guidance and standards set out in section 2.5 of this report.

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.

## 2.3. Use of this Supplementary Report

This Supplementary Report has been produced by Stewart Mitchell FIA of 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 Supplementary 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 Supplementary Report is not suitable for any other purpose. The Supplementary Report must be read in conjunction with the Scheme Report of 3 March 2020.

A copy of the Supplementary Report will be sent to the Prudential Regulation Authority, the Financial Conduct Authority and will accompany the evidence filed in Court at the Sanctions Hearing.

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 Supplementary Report for any other purpose other than that set out above.

## 2.4. Reliances

I have based my work on the data and other information made available to me by AmTrust, AEL, AIU and AA. Appendix 1 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of AEL, AIU, AA and their advisors.

I have used a combination of data as at 31 December 2018, 30 June and 31 December 2019 and 31 March 2020 for my analysis. I have also considered AmTrust's most up-to-date view of projected SCR coverage ratios which include the impact of the COVID-19 pandemic. AmTrust has confirmed it has made me aware of all material developments that would affect my conclusions.

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

- AEL, AIU and AA will submit witness statements to the Court stating that all information provided to me is correct and complete in all material aspects.
- Each of AEL, AIU and AA have provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.
- AEL, AIU and AA have confirmed to me that there have been no material adverse changes to the financial position of AEL, AIU or AA since that information was provided to me.

- AEL, AIU or AA have read this IE Supplementary 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 that I have not been provided with.

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

### 2.5. 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 Independent Expert and peer reviewer for other Part VII transfers.

## 2.6. 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 Supplementary Report. In particular, 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 Supplementary 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.

## 2.7. Definition of "materially adverse"

In order 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.

In this report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether or not policyholders and reinsurers are materially adversely affected.

## 3. My approach as IE and conclusions

My approach to assessing the Proposed Transfer, as set out in the Scheme Report, has been to perform five steps analysing evidence provided by AmTrust to support the Proposed Transfer.

My approach for the Supplementary Report has been to revisit each of these five steps and to consider whether any of the updated analysis or information available now would cause me to change my conclusions in that report. The five steps and my considerations are detailed in the sections that follow.

A list of additional information considered is included in Appendix 1. Further details on my approach as IE are set out in section 4 of the Scheme Report.

### 3.1. Step 1: Assessing the provisions of AEL, AIU and AA

As IE, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for Non-transferring, Transferring, AIU and AA Policyholders; and
- whether any aspects of the reserving may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 5 of the Scheme Report, based on data and provisions as at 30 June 2019. I have been provided with updated data and provisions as at 30 June 2019 and 31 March 2020 and a description of the material changes to provisions over that period.

These figures provided are on a UK GAAP basis. The provisions include a management margin.

The figures In the table summarising the booked provisions in section 5.5 of the Scheme Report were erroneously provided on a Solvency II basis rather than a GAAP basis and so are not comparable. This does not in any way impact my overall analysis or conclusions.

**Summary of UK GAAP booked provisions for AEL at 30 June 2019**

| £m | Gross of reinsurance | Net of reinsurance |
|---|---|---|
| Non-transferring AEL | 495.3 | 275.2 |
| Transferring to AIU | 171.1 | 88.3 |
| Transferring to AA | 640.7 | 178.9 |
| **Total AEL** | **1,307.0** | **542.4** |

*Source: AEL, figures include OS, IBNR and UPR (net of DAC)*

**Summary of UK GAAP booked provisions for AEL at 31 March 2020**

| £m | Gross of reinsurance | Net of reinsurance |
|---|---|---|
| Non-transferring AEL | 532.8 | 286.1 |
| Transferring to AIU | 168.8 | 86.3 |
| Transferring to AA | 531.1 | 179.3 |
| **Total AEL** | **1,232.7** | **551.7** |

*Source: AEL, figures include OS, IBNR and UPR (net of DAC)*

The overall level of gross of reinsurance provisions decreased between 30 June 2019 and 31 March 2020 by **£74m**. The key movements over the period were:

- Transferring to AA: **£109m** decrease in provisions
  - Higher level of paid claims than expected
  - Continued better than expected incurred experience (£5m gross of reinsurance) over the period on the Single Doctor class and a reduction in ULRs as at Q4 2019.
  - The Hospital business incurred claims developed slightly worse than expected (£8m gross of reinsurance for 2018 and prior) over the period but AmTrust judged these movements not be materially adverse given the size of the portfolio and elected to maintain the ultimate loss ratio position.
  - AA Policyholders are exposed to future reserve deterioration in the transferring portfolio. A scenario which considers this has included in section 3.2.
- Non-transferring AEL: **£37m** increase in provisions
  - Deterioration on the Professional Indemnity business of £16m following an increase in claims from advisors of buyer-funded developments, partially offset by smaller improvements in a number of other classes. Although much of the remaining AEL liabilities are long tail, I do not consider the AIU Policyholders to be materially disadvantaged from the Proposed Transfer as they benefit from reduced uncertainty due to the transfer of the Italian medical malpractice portfolio.
  - Increase in unearned premiums of £34m following greater than expected business volumes
  - Also, the legal expenses earning pattern was lengthened.
- Transferring to AIU: **£2m** decrease in provisions
  - Deterioration of £6m on the Greek Motor account following a detailed claims audit and reporting catch-up was more than offset by smaller movements on other classes.

On a net of reinsurance basis, provisions increased by **£9m**.

The provisions on the business transferring to AA increased marginally on a net basis, despite the gross improvement. The IBNR and UPR provisions moved broadly as expected. The gross outstanding claims decreased by £49m but the net outstanding claims increased by £22m.

The increase in the net outstanding claims was due to adjustments by the Amtrust Finance team relating to Claims Recovery Suspense (CRS) payments. These adjustments arise from a timing difference between claims that have actually been paid but are yet to be posted on AmTrust's systems.

The allocation of these adjustments across years had led to distortions due to the changing level of reinsurance. AmTrust is looking to improve the allocation of these CRS payments across years to reduce the level of distortion.

The proportion of the transferring provisions of the total pre-transfer provisions, net of reinsurance, is broadly unchanged between 30 June 2019 and 31 March 2020 at around half of AEL's provisions.

The business transferring from AEL to AIU is c. 20% of AIU's gross of reinsurance GAAP provisions as at 31 March 2020. Net of reinsurance, the proportion is c. 40%.

The Italian medical malpractice business transferring from AEL to AA is significantly greater than AA's existing provisions as at 31 March 2020. On both a gross and net of reinsurance basis, it is more than ten times AA's existing provisions, reflecting the significance of this portfolio to AA. This portfolio represents approximately two-thirds of AEL's total transferring business on a net of reinsurance basis as at 31 March 2020. This is a similar proportion to the provisions as at 30 June 2019.

### 3.1.1. Updated independent projections

I have performed my own updated independent projections on the total Italian medical malpractice portfolio across AEL and AIU since my Scheme Report. My updated projections were based on claim triangles as at 31 December 2019 provided to me by AmTrust. I derived my own development patterns based on this data and supplemented this with wider benchmark data to inform my tail selections. I used a number of widely accepted actuarial methods and derived expected loss ratios for the more recent underwriting years based on averages across the more developed prior underwriting years.

A comparison between my and AmTrust's gross estimates is set out below:

| | IE estimate €m | AmTrust estimate €m | Difference €m | % difference |
|---|---|---|---|---|
| Hospital | 193.0 | | | |
| Single Doctors | 15.3 | | | |
| Colpa Grave | 3.1 | | | |
| **Total IBNR** | **211.4** | **217.2** | **(5.9)** | **(3%)** |
| **Total reported outstanding claims** | **592.0** | **592.0** | **-** | **-** |
| **Total reserves** | **803.4** | **809.2** | **(5.9)** | **(1%)** |

My estimate of gross of reinsurance claims reserves (IBNR plus reported outstanding claims) was c. 1% lower than the aggregate of AEL and AIU's gross actuarial best estimates.

There is a large amount of subjectivity around the selection of assumptions, but I consider the difference of c. 1% to be well within a range of reasonable best estimates, especially for a class of business with potentially volatile claims experience.

### 3.1.2. Findings from IVASS review

IVASS requested an independent actuarial valuation of the Italian medical malpractice business to be transferred from AEL and AIU to AA. This analysis was performed on an Italian GAAP basis, gross of reinsurance and net of deductibles, on data as at 30 September 2019.

The best estimate of the claims reserves from this review was €1,260m. An estimated range of +/-5% (+/-€63m) was derived supported by scenario analyses. I believe this range is narrow given the potentially volatile claims experience for this type of business, the inherent uncertainty and my wider experience of these types of portfolios, I believe a larger range around the best estimate claims reserves of between -10% to +15/20% could be supported.

A comparison between the independent estimate and AmTrust's estimate of the Hospital portfolio, which accounts for more than 90% of the total reserves, was performed. The independent estimate was approximately €20m (2%) higher than AmTrust's estimate.

This comparison is only a proxy to the true difference as AmTrust's estimate was on a UK GAAP basis whilst the independent estimate was on an Italian GAAP basis.

However, I believe this is still a reasonable and proportionate comparison to make and the small difference is well within what I consider to be a reasonable range around the best estimate reserves.

The independent valuation was performed again on 31 December 2019 data. The independent estimate of reserves for the Hospital portfolio was lower than AmTrust's but not materially so, less than €10m.

### 3.1.3. Treatment of deductibles under Italian GAAP

Many of AmTrust's medical malpractice policies are written with self-insured retentions or deductibles paid by the insured. For deductible policies, the deductibles are paid upfront by AmTrust to injured parties and then recovered from the insured. However, under Italian GAAP, credit can only be taken for policy deductibles once the underlying claim has been paid. This will lead to an increase in provisions when the medical malpractice business transfers from AEL to AA.

AmTrust has sought accounting advice on this issue and their auditors have advised that the difference between the AEL/AIU and AA GAAP valuations for the transferring business (estimated to be c. €400m) can be treated as an intangible asset based on the auditor's interpretation of the relevant Italian standards (OIC 4 and OIC 24).

This difference in the treatment of deductibles is a GAAP issue. It has no impact on a Solvency II basis and therefore no impact on the Solvency II TPs nor the projected SCR coverage ratios for AA.

The impact on the new business being written in AA is not expected to be as significant as for the transferring business, since it is now more common for the deductible to be paid by the insured, and this issue will only affect a small number of legacy policies.

The difference in valuations arising on the new business written in AA will be covered through a reinsurance agreement with AII. Deductibles are usually paid within a few months but under this agreement, AII will cover any deductible receivables which are not paid by the hospital after two years.

### 3.1.4. AA reserving policy

I have reviewed AA's updated reserving policy. It demonstrates that AA's reserving approach is in line with those of AEL and AIU. I have concluded that the transferring policyholders from AEL and AIU to AA will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

I have not performed a separate analysis of AA's existing provisions on the basis that:

- AA's provisions as at 31 March 2020 are only c. 5% of the total gross provisions transferring into AA from AEL and AIU; and
- AA's reserving process is the same at that for AEL and AIU.

### 3.1.5. Findings from finalised external regulatory reviews for AEL and AIU

AEL's responses and progress in addressing the key findings from the review requested by the PRA are summarised below:

- **Reserving process**: the review identified some areas of deficiency in the existing process. For example, it recommended a wider range of actuarial methods could be applied to improve the process and provide additional insight into the key uncertainties. AEL Management agreed with the recommendations made and have already addressed a number of these during 2019.
- **Case estimation and pricing**: the review of the case estimation and pricing methodologies and processes for the medical malpractice business concluded it was broadly fit for purpose. AEL Management agreed with the high materiality recommendation made that a sample review of older case estimates be performed to understand the level of prudence or optimism in those estimates. This review has been performed and AEL is in the process of updating internal processes and performing additional analyses to regularly monitor this going forward to ensure the current processes continue to remain fit for purpose.
- **Governance**: the report identified a key-person risk dependency on the Chief Actuary. The report made a number of high and medium level recommendations that relate to potential resource constraints and an over-reliance on the Chief Actuary. Ongoing training of the junior members of the actuarial team and the recruitment of two additional staff by AIU in the Dublin office in 2019 will reduce the dependency on the Chief Actuary and help to address other recommendations. A reserving actuary was also recruited in April 2020 in Milan to provide dedicated support to the reserving of the AA business. In addition, the need for better overall documentation was acknowledged and AEL will be addressing this as a priority during 2020.

The external report provides sufficient detail on the review process and findings for me to assess its conclusions. I agree with the findings and conclusions and believe that they provide evidence, supplementing my own independent projections, of the appropriateness of AEL's booked provisions because:

- the booked reserves for the medical malpractice business depend to a great degree on the robustness of the case estimation process, which was found to be broadly fit for purpose; and
- the independent projections for the medical malpractice business were not materially different to AEL's projections.

AIU's responses and progress in addressing the key findings from the review requested by the CBI are summarised below:

- **Case estimation and pricing**: the review of the case estimation and pricing methodologies and processes for the Italian medical malpractice business concluded it was broadly fit for purpose. Some of the recommendations made in the review revolved around making more use of available information to update case reserves. AIU has addressed this and, in supporting documentation, explain why in some cases intermediary information has not been used. Other lower materiality recommendations have already been addressed by AIU.
- **Governance**: the report identified a shortage of resource in AIU's Actuarial Function, which affects its ability to deliver on its wider responsibilities, beyond core actuarial reserving. The report made a number of high and medium level recommendations arising from this. As noted earlier, AIU has employed two additional staff in the Dublin office in 2019 to help address these recommendations. In addition, AIU will be improving its overall documentation as a priority during 2020.

The external report provides sufficient detail on the review process and findings for me to assess its conclusions. I agree with the findings and conclusions and believe that they provide evidence, supplementing my own independent projections, of the appropriateness of AIU's booked provisions for the same reasons I set out for AEL above.

### Conclusion

I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

**I have concluded that an appropriate level of provisions will be maintained for the Non-transferring AEL, Transferring AEL to AIU and AA, AIU and AA Policyholders and that they will not be materially adversely affected by the reserving aspects of the Proposed Transfer.**

## 3.2. Step 2: Assessing the capital positions of AEL, AIU and AA

As IE, my overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for Non-transferring, Transferring, AIU and AA Policyholders;
- whether there are expected to be any material adverse changes in the strength of capital protection for either 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.

These assessments were considered in section 6 of the Scheme Report.

### Projected SCR coverage ratios

The following tables set out the SCR and coverage ratios for AEL, AIU and AA pre- and post- the Proposed Transfer. Note that since providing my Scheme Report, AmTrust has updated its analysis of projected SCR coverage ratios to reflect changes in its business plan, particularly in the light of the COVID-19 pandemic. As such, the coverage ratios quoted in this report have changed since those included in my Scheme Report. I have included last time's figures in brackets in the tables below.

**AEL – SCR and coverage ratio pre- and post- the Proposed Transfer**

| £m | Pre-Transfer Day 0 | Post-Transfer Day 1 |
|---|---|---|
| Total own funds eligible to meet SCR | 352.4 (381.2) | 236.3 (229.4) |
| SCR | 234.5 (213.8) | 169.2 (153.2) |
| **SCR coverage ratio** | **150% (178%)** | **140% (150%)** |

*Source: AEL*
*Corresponding table in the Scheme Report is within section 6.10*

Since the projections in my Scheme Report, the Day 0 projected SCR coverage ratio has reduced from 178% to 150%, driven by a £29m reduction in own funds and a £21m increase in the SCR.

The main driver of the reduction in own funds reflects the changes in AEL's business plan between the two sets of projections and reflecting the impact of the COVID-19 pandemic on AEL's technical provisions. The key changes in the own funds include:

- Increase in gross GAAP provisions (£80m reduction in own funds);
- Increase in future premiums (£65m reduction);
- Changes in conversion factors used from GAAP to Solvency II valuation leading to higher Solvency II technical provisions (£73m reduction);
- Increase in reinsurance recoveries following the increase in gross Solvency II technical provisions (£175m increase); and
- Other changes (£14m increase).

The key drivers of the increase in SCR are:

- Increase in non-life underwriting risk relating to higher than expected earned premiums which increases catastrophe and premium risk (£32m increase);
- Increase in operational risk following an increase in gross Solvency II technical provisions (£6m increase);
- Reduction in overall credit for diversification across risks (£9m increase);
- Reduction in market risk driven by de-risking of AEL's investments over the period (£15m reduction); and
- Reduction in default risk following the new quota share reinsurance policy with Swiss Re that incepted on 1 July 2019 and subsequent reduction in reinsurer exposure (£9m reduction).

Despite the reduction in AEL's projected Day 0 SCR coverage ratio, it is still projected to be above AEL's risk appetite level and at the top end of the sufficiently capitalised band as described in the Scheme Report.

AEL's Day 1 SCR coverage ratio has reduced from 150% to 140% since my Scheme Report. This change reflects AmTrust's intention to align AEL's post-transfer SCR coverage ratio with AEL's risk appetite following the impact of the COVID-19 pandemic.

This new target is still towards the upper end of the sufficiently capitalised band and at the level of AEL's risk appetite for SCR coverage. Following the Proposed Transfer, AEL's SCR coverage ratio is projected to increase to 150% by June 2021 reflecting a focus on better performing lines of business going forward.

**AIU – SCR and coverage ratio pre- and post- the Proposed Transfer**

| £m | Pre-Transfer Day 0 | Post-Transfer Day 1 |
|---|---|---|
| Total own funds eligible to meet SCR | 223.9 (233.0) | 201.0 (207.5) |
| SCR | 145.5 (145.3) | 116.9 (138.5) |
| **SCR coverage ratio** | **154% (160%)** | **172% (150%)** |

*Source: AIU (converted at £1=€1.16)*

*Corresponding table in the Scheme Report is within section 6.10*

Note, consistent with the results in the Scheme Report, the table above shows the expectation that both parts of the Proposed Transfer (AEL to AA and AEL to AIU) and the AIU to AA transfer proceed on the Effective Date. In the event that the AIU to AA transfer does not proceed as planned, AIU is still guaranteed to have a 140% SCR coverage ratio through the Net Worth Maintenance Agreement with AFSI, a parent company of AEL.

Since the projections in my Scheme Report, the Day 0 projected SCR coverage ratio for AIU has decreased from 160% to 154%. This decrease is due to a drop in projected own funds and small increase in SCR as a result of changes in AIU's business plan including the impact of the COVID-19 pandemic.

At Day 0, AIU's SCR coverage ratio is projected to be above AIU's risk appetite level and at the lower end of the well-capitalised band described in the Scheme Report.

AIU's Day 1 SCR coverage ratio has increased from 150% to 172% since my Scheme Report and is in the middle of the well-capitalised band. This followed the new dividend arrangements within the AmTrust Group in response to the COVID-19 pandemic and changes in the treatment of profit commissions between the two sets of projections.

Overall, AIU's SCR coverage ratio is projected to increase from 154% to 172% post-transfer. The key drivers of the reduction in SCR are:

- Transfer of the Italian Medical Malpractice portfolio to AA;
- Fall in net earned premiums over the next 12 months as a result of the Proposed Transfer reducing premium and catastrophe risk; and
- Reduction in non-life underwriting risk leads to a greater level of diversification between other risks.

AIU's SCR coverage ratio is projected to remain above AIU's risk appetite of 140% following the transfer in of the AEL business and transfer out of the Italian medical malpractice business to AA. Amtrust has committed to maintain AIU's SCR coverage ratio at 140% in the event that only the AEL to AIU or AIU to AA transfer completes.

**AA – SCR and coverage ratio pre- and post- the Proposed Transfer**

| £m | Pre-Transfer Day 0 | Post-Transfer Day 1 |
|---|---|---|
| Total own funds eligible to meet SCR | 50.9 (107.0) | 220.5 (286.7) |
| SCR | 34.0 (73.8) | 150.4 (191.5) |
| **SCR coverage ratio** | **150% (145%)** | **147% (150%)** |

*Source: AA (converted at £1=€1.16)*
*Corresponding table in the Scheme Report is within section 6.10*

Since the projections in my Scheme Report, Day 0 own funds for AA have reduced from £107.0m to £50.9m whilst the SCR has decreased from £73.8m to £34.0m. Although AA's Day 0 SCR coverage ratio is still projected to be above the targeted risk appetite of 145%, the movements between the two sets of projections are significant and are attributable to:

- lower business volumes expected to be written in 2020 compared to previous expectations (£72m compared to £150m) which significantly reduced the projected level of own funds. The lower volume is due to renewing policies being written into AIU (and AEL) until the Proposed Transfer, rather than into AA as originally planned;
- the placement of an excess of loss reinsurance arrangement on the medical malpractice professional indemnity business which significantly reduced catastrophe risk and the SCR;
- technical provisions are projected to be lower (£34m compared to £47m on a gross of reinsurance basis), operational and reserve risk also reduce and so does the SCR; and
- lower market risk following management action to move all investments into less risky Government bonds.

AA's Day 1 SCR coverage ratio has reduced from 150% to 147% since my Scheme Report. This change reflects AmTrust's intention to align AA's post-transfer SCR coverage ratio closer to AA's risk appetite following the impact of the COVID-19 pandemic. This is not a material change. AA's coverage ratio is projected to remain towards the upper end of the sufficiently capitalised band through to June 2022.

## Movement in Solvency II Balance Sheets

The following tables summarise the movements in AEL, AIU and AA's assets and liabilities on their Solvency II balance sheets between Day 0 and Day 1. It shows the movement due to each part of the transfer and the re-distribution of funds through dividend payments.

### AEL

| | | Movement due to: | | | |
|---|---|---|---|---|---|
| **£m** | **Day 0** | **AEL to AIU transfer** | **AEL to AA transfer** | **Dividend** | **Day 1** |
| Total Assets | 1,529.4 | (121.2) | (473.4) | (116.0) | 818.8 |
| Total Liabilities | 1,177.0 | (121.2) | (473.4) | | 582.5 |
| Own Funds | 352.4 | 0.0 | 0.0 | (116.0) | 236.3 |
| SCR | 234.5 | | | | 169.2 |
| **SCR coverage ratio** | **150%** | | | | **140%** |

The SCR coverage ratio of AEL resulting from the transfers increases from 150% to 208% (Own Funds - £352.4m, SCR - £169.2m) . This then reduces to 140% following the dividend payment to AII of £116m (€135m).

### AIU

| | | Movement due to: | | | |
|---|---|---|---|---|---|
| **£m** | **Day 0** | **AEL to AIU transfer** | **AIU to AA transfer** | **Dividend** | **Day 1** |
| Total Assets | 1,112.0 | 128.8 | (302.0) | (34.4) | 904.4 |
| Total Liabilities | 888.1 | 117.3 | (302.0) | | 703.4 |
| Own Funds | 223.9 | 11.5 | 0.0 | (34.4) | 201.0 |
| SCR | 145.5 | | | | 116.9 |
| **SCR coverage ratio** | **154%** | | | | **172%** |

The SCR coverage ratio of AIU resulting from the transfers increases from 154% to 197% (Own Funds - £235.4m, SCR - £119.7m). This then decreases to 172% following the dividend payment to AII of £34m (€40m).

## AA

| £m | Day 0 | Movement due to: AEL to AA transfer | AIU to AA transfer | Dividend | Day 1 |
|---|---|---|---|---|---|
| Total Assets | 112.8 | 508.6 | 308.4 | 172.0 | 1,101.8 |
| Total Liabilities | 61.9 | 535.4 | 284.0 | | 881.3 |
| Own Funds | 50.9 | (26.8) | 24.4 | 172.0 | 220.5 |
| SCR | 34.0 | | | | 150.4 |
| **SCR coverage ratio** | **150%** | | | | **147%** |

The SCR coverage ratio of AA resulting from the transfers decreases from 150% to 36% (Own Funds - £48.5m, SCR - £136.6m). This then increases to 147% following the re-distribution of funds of £172m (€200m).

Note that across all three entities combined, a surplus of £9.1m ie £11.5m less £26.8m plus £24.4m (€10.6m) arises from the following differences in valuations between entities:

- different loadings in technical provisions eg events not in data ("ENID") and gross expenses, and also in the treatment of ceded expenses in AIU;
- different risk margin loadings across the entities; and
- different tax rates across each entity which leads to different deferred tax positions.

Further detail around the capital movements are set out in the 'Summary of capital movements' section on page 40.

### Scenario analysis

AmTrust has updated its analysis of projected SCR coverage ratios to reflect changes in its business plan, particularly in light of the COVID-19 pandemic. There remains considerable uncertainty regarding the impact of COVID-19 and AmTrust have considered various scenarios to illustrate this.

Amtrust have considered a scenario which reflects an extreme recession including the impact of the COVID-19 pandemic on the classes of business exposed to such a recession.

This scenario assumes a reduction in own funds of four times of that included within the base case (the scenario underpinning the updated projections in this report) reflecting a more severe deterioration in investment performance, lower business volumes and increases in bad debt and reserves.

The scenarios have not been modelled explicitly using economic indicators as the business written is not driven by such indicators. The analysis is based on the broader macroeconomic effects on the insurance performance of the business written eg the extreme recession scenario assumes a 14% drop in asset values.

The impact of this scenario on the Day 0 and Day 1 SCR coverage positions of AEL and AIU, assuming no management action, is set out below.

### AEL – Extreme recession scenario

| £m | AEL Day 0 - Base | AEL Day 1 - Base | AEL Day 0 – Extreme | AEL Day 1 - Extreme |
|---|---|---|---|---|
| Total own funds eligible to meet SCR | 352.4 | 236.3 | 270.0 | 213.6 |
| SCR | 234.5 | 169.2 | 230.8 | 174.1 |
| **SCR coverage ratio** | **150%** | **140%** | **117%** | **123%** |

Under this scenario, AEL's Day 0 SCR coverage ratio is projected to decrease from 150% to 117% following a reduction in the level of own funds. Post-transfer on Day 1 it is higher at 123%, given that the business most likely to be impacted by a recession and the impact of COVID-19 will have transferred to AIU. Therefore, in this scenario, Non-Transferring Policyholders are actually better off following the Proposed Transfer.

### AIU – Extreme recession scenario

| £m | AIU Day 0 - Base | AIU Day 1 – Base | AIU Day 0 – Extreme | AIU Day 1 - Extreme |
|---|---|---|---|---|
| Total own funds eligible to meet SCR | 223.9 | 201.0 | 183.2 | 127.8 |
| SCR | 145.5 | 116.9 | 160.2 | 138.7 |
| **SCR coverage ratio** | **154%** | **172%** | **114%** | **92%** |

In the extreme recession scenario, AIU's Day 0 SCR coverage ratio is projected to decrease from 154% to 114% following a reduction in the level of own funds and increase in the SCR. On Day 1 it falls to 92% following the larger reduction in level of own funds relative to the SCR. In this scenario AIU Policyholders, and Transferring AEL to AIU Policyholders, are worse off following the Proposed Transfer. However, AIU would still be able to pay claims as they arise.

### AA - Severe reserve deterioration scenario

AA is exposed to the risk that the level of reserves in the AEL and AIU Italian medical malpractice portfolios which transfer into AA deteriorate. I asked AmTrust to consider a severe reserve deterioration scenario for AA where reserves increase by 40%.

| £m | AA Day 0 - Base | AA Day 1 - Base | AA Day 0 - Severe | AA Day 1 - Severe |
|---|---|---|---|---|
| Total own funds eligible to meet SCR | 50.9 | 220.5 | 46.1 | 115.4 |
| SCR | 34.0 | 150.4 | 35.1 | 189.3 |
| **SCR coverage ratio** | **150%** | **147%** | **132%** | **61%** |

Under this scenario AA's Day 0 SCR coverage ratio is projected to reduce to 132% compared to the base scenario of 150%. If this scenario were to happen after Day 1 of the Proposed Transfer, the coverage ratio would drop from 132% to 61% reflecting the more material impact a 40% deterioration in reserves has on the much larger portfolio of business post-transfer.

I consider a deterioration in reserves of this size to be unlikely. Whilst the Italian medical malpractice portfolio has historically seen deteriorations in reserves on older policy years, this has also been offset by improvements across more recent years. I believe that a further deterioration of 40% across all years, combined with the improvements being made to the case reserving processes to reduce the risk of unexpected future deteriorations, to be unlikely. I also note that even after such a deterioration AA maintains own funds of £115m and it would take an even larger reserve deterioration before claims could not be paid.

For the reasons set out in section 1.4, AmTrust expect the impact of COVID-19 on AA's liabilities to be limited, though this is likely to be driven by legal or political judgments of which there is still significant uncertainty. Also, there are potential benefits from reduced exposure and claims frequency due to the impact of the COVID-19 pandemic which AmTrust have taken no credit for in their projections of the reserves.

Even in the severe reserve deterioration scenario claims would still be able to be paid. As such, I have not considered an explicit COVID-19 scenario given the results and conclusions would be similar to this reserve deterioration scenario.

Following the initial adverse impact of COVID-19 on AA's asset values in March 2020, investment values have since recovered. In addition, AA's investment action to move all investments into less risky Government bonds has meant the impact of a COVID-19 asset stress is not expected to be material.

### Reinsurer default scenarios

Given the level of reinsurance protection that AEL, AIU and AA have, the risk of reinsurer default is a key uncertainty facing policyholders. I asked AmTrust to consider scenarios where there are no reinsurance recoveries from AII, a key reinsurer, but no haircut on the collateral backing the reinsurance on both a pre- and post-transfer basis.

### AEL

| £m | AEL Day 0 - Base | AEL Day 1 - Base | AEL Day 0 – RI default | AEL Day 1 – RI default |
|---|---|---|---|---|
| Total own funds eligible to meet SCR | 352.4 | 236.3 | 318.3 | 220.9 |
| SCR | 234.5 | 169.2 | 310.9 | 190.1 |
| **SCR coverage ratio** | **150%** | **140%** | **102%** | **116%** |

In this scenario, AEL's Day 0 SCR coverage ratio is projected to decrease from 150% to 102% following a reduction in the level of own funds and increase in the SCR. Post-transfer, the SCR coverage ratio is higher under this scenario at 116%, given the greater reinsurance coverage on the transferring business compared to the non-transferring business. Therefore, in this scenario, Non-Transferring Policyholders are better off following the Proposed Transfer.

### AIU

| £m | AIU Day 0 - Base | AIU Day 1 - Base | AIU Day 0 – RI default | AIU Day 1 – RI default |
|---|---|---|---|---|
| Total own funds eligible to meet SCR | 223.9 | 201.0 | 53.1 | 84.8 |
| SCR | 145.5 | 116.9 | 170.7 | 122.6 |
| **SCR coverage ratio** | **154%** | **172%** | **31%** | **69%** |

Given AIU's significant reinsurance protection arrangement with AII, this scenario leads to a material reduction in AIU's SCR coverage ratio from 154% to 31%. Post-transfer the SCR coverage ratio is higher at 69% given the greater reinsurance coverage on the business transferring out to AA than the business remaining and transferring into AIU. Therefore, under this scenario, AIU Policyholders are better off following the Proposed Transfer.

AIU is also exposed to the risk of default of its new quota share arrangement to reinsure US sourced lines of business to a US AmTrust company. The exposure under this reinsurance is material and about 80% of the exposure to that of AII post-transfer.

If the new quota share arrangement was to also default, this would lead to the insolvency of AIU, both pre- and post-transfer. I consider a scenario where both reinsurers default to be very unlikely.

### AA

| £m | AA Day 0 - Base | AA Day 1 - Base | AA Day 0 – RI default | AA Day 1 – RI default |
|---|---|---|---|---|
| Total own funds eligible to meet SCR | 50.9 | 220.5 | 50.9 | 98.7 |
| SCR | 34.0 | 150.4 | 34.0 | 250.8 |
| **SCR coverage ratio** | **150%** | **147%** | **150%** | **39%** |

AA has no reinsurance exposure to AII prior to the transfer. As a result, there is no change in its SCR coverage on Day 0. However, upon transfer of business in from AEL and AIU, the exposure increases leading to a reduction in the SCR coverage ratio from 150% to 39% in the event of default of AII. Therefore, in this scenario AA Policyholders are worse off following the Proposed Transfer. However, for reasons previously stated, I believe the likelihood of AII default to be low.

I consider the default of AII to be an unlikely event given its current A. M. Best Financial Strength Rating as of 13 August 2019 of "A-" (Excellent) reflecting its balance sheet strength and level of free assets.

### Summary of the impact of scenarios

Under the extreme scenario analysis, the Non-transferring Policyholders are better off post-transfer, but other categories of policyholders are worse off.

Under the reinsurer default scenario analysis, the Non-transferring Policyholders and the AIU Policyholders are better off post-transfer, but other categories of policyholders are worse off.

Whilst some policyholders are better off and others worse off under these scenarios, under all scenarios claims can still be paid as own funds remain positive. Further, these scenarios do not include any management actions and the Net Worth Maintenance Agreement guarantees the SCR coverage ratios at the risk appetite level until June 2021. Therefore, I have concluded that policyholders are not materially disadvantaged under these scenarios.

### Other scenarios considered in my Scheme Report

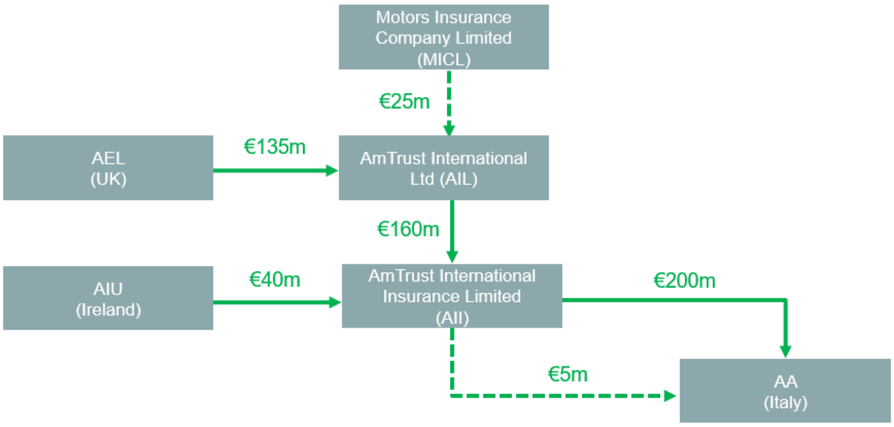
Whilst I have not rerun the other scenarios considered in my Scheme Report, I am still able to rely upon the conclusions I made. Under the scenarios considered, AEL, AIU and AA would still be able to pay claims as they arise. Only in the event of insolvency would this not be possible, but I consider the scenarios that would lead to such an event to be very remote.

## Summary of capital movements

To support the Proposed Transfer (AEL to AIU and AEL to AA) and the AIU to AA transfer, excess capital within AEL and AIU will be paid out as a dividend to AII, subject to regulatory approvals, plus contributions from other entities within the AmTrust Group. AII has also contributed €5m of capital which was paid to AA on 30 June 2020. AII will then provide an additional €200m to AA (funded by dividends from AEL, AIU and MICL, a subsidiary of AFSI) such that a Day 1 SCR coverage ratio of 147% for AA (ie above AA's risk appetite of 145%) is achieved.

The capital funding requirements have been calculated on Amtrust's latest assumptions regarding the impact of COVID-19 and also include the impact of additional reinsurance for AIU, reinsuring US sourced lines of business through a quota share arrangement with an Amtrust US company.

This is set out in the simplified diagram below showing the size of the dividends to be paid to AII and capital contribution to be made to AA by AII, assuming the COVID-19 assumptions used in AmTrust's analysis are realised:



The €200m contribution to AA is split as follows:

- €135m – via a dividend from AEL to AIL to AII;
- €25m – a portion of the dividend already made to AIL by MICL which will be paid as a dividend to AII; and
- €40m – via a dividend from AIU to AII.

Overall, the sum of own funds for AEL, AIU and AA increases post transfer by c. €36m. Note that AII contributed €5m of capital to AA on 30 June 2020 and so this does not feature in the increase of €36m.

The €36m is made up of the net dividend payments of €25m shown above (€200m less €135m less €40m) plus a further €11m arising from the differences in valuations between entities described earlier.

These differences have limited impact on a GAAP basis. As such, the dividend payment of €25m broadly reconciles with the overall change in equity in the GAAP balance sheets for AEL, AIU and AA pre- and post-transfer.

AmTrust's projections indicate that additional capital will be required to support AA and AIU in 2021 and 2022 as follows:

- AA will require a total of €60m (€40m in 2021 and €20m in 2022); and
- AIU will require €30m in 2022.

The €90m will be funded through €80m in dividends from AEL (€25m in Q4 2020 and €27.5m in each of 2021 and 2022) and a €10m capital injection from AII.

Both AIU and AA need further capital support as they grow. AIU's growth is partly organic growth but also through the business transferring from AEL. In addition, it is becoming less reliant on reinsurance protection which necessitates additional capital support. AA is also growing slowly over time writing a long-tailed class of business which requires capital support.

Overall, AA and AIU are dependent on AII for €10m of capital over 2021 and 2022.

This commitment ultimately depends on the financial strength of the AmTrust Group, in particular AII. AII's current A. M. Best Financial Strength Rating as of 13 August 2019 is "A-" (Excellent) reflecting their balance sheet strength and level of free assets.

### SCR coverage ratios for Policyholders

- **Non-transferring AEL Policyholders** – AEL's SCR coverage ratio reduces from 150% to 140% as a result of the Proposed Transfer. Although there is a reduction in coverage, it is still at AEL's targeted risk appetite level and AEL remains towards the upper end of the sufficiently capitalised band. Therefore, I believe these policyholders will not be materially adversely affected by the Proposed Transfer.
- **Transferring AEL to AIU Policyholders** – these policyholders will move from AEL, with a coverage ratio of 150%, to AIU, with a coverage ratio of 172%. They are transferring from one sufficiently capitalised insurer to a well-capitalised insurer. I do not believe these policyholders will be materially adversely affected by the Proposed Transfer.
- **Transferring AEL to AA Policyholders** – these policyholders will move from AEL, with a coverage ratio of 150%, to AA, with a coverage ratio of 147%. Given the small decrease in coverage, I do not believe these policyholders will be materially adversely affected by the Proposed Transfer.
- **Existing AIU Policyholders** – AIU's SCR coverage ratio increases from 154% to 172% post-transfer. As such, I do not believe these policyholders will be materially adversely affected by the Proposed Transfer.
- **Existing AA Policyholders –** AA's SCR coverage ratio decrease from 150% to 147% post-transfer. Given the small decrease in coverage, I do not believe these policyholders will be materially adversely affected by the Proposed Transfer.

I conclude that the security provided to all groups of policyholders will not be materially adversely affected by the Proposed Transfer.

### Conclusion

Therefore, I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

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

## 3.3. Step 3: Assessing overall 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 Non-transferring AEL, Transferring AEL to AIU and AA, AIU and AA Policyholders; and

- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 7 of the Scheme Report.

## Transferring AEL to AIU Policyholders

### FSCS

Those Transferring AEL to AIU Policyholders that currently have access to the Financial Services Compensation Scheme ("FSCS") will continue to have access for acts and omissions which took place prior to the Effective Date, but will lose this access for acts and omissions after this date.

Whilst there is an Insurance Compensation Fund ("ICF") in Ireland that performs a similar function to the FSCS, it is primarily designed to facilitate payments to policyholders in relation to risks situated in Ireland where an Irish authorised non-life insurer or a non-life insurer authorised in another EEA State goes into liquidation. It does not cover risks that are situated in another EEA state.

In addition, commercial policyholders are not covered by the ICF unless the claim is in respect of a liability to an individual. As a result, the ICF is unlikely to be accessible for the vast majority of the Transferring AEL to AIU Policyholders.

Therefore, in this respect, the Transferring AEL to AIU Policyholders will be worse off after the Proposed Transfer, but this is only in the event of the insolvency of AIU which I consider unlikely.

### FOS

Those Transferring AEL to AIU Policyholders that currently have access to the Financial Ombudsman Service ("FOS") will continue to have access for complaints arising prior to the Effective Date, but will lose this access for complaints arising after this date.

However, it is possible for them to make complaints against AIU through the Financial Services and Pensions Ombudsman ("FSPO") which operates in Ireland. The eligibility criteria is similar between the FOS and FSPO and the maximum compensation available is higher under the FPSO. In addition, the FSPO, like the FOS, is able to make decisions that are binding on the insurer that can only be appealed to the High Court in Ireland on points of law.

I do not expect Transferring AEL to AIU Policyholders to be materially worse off from losing access to the FOS given the similar benefits they gain from access to the FSPO.

## Transferring AEL to AA Policyholders

### FSCS

Those Transferring AEL to AA Policyholders that currently have access to the FSCS will continue to have access for acts and omissions which took place prior to the Effective Date, but will lose this access for acts and omissions after this date.

Other than the Guarantee Fund for Victims of Road Accidents, Italian law does not provide protection similar to the FSCS. However, under Italian law, there is specific protection for insureds in the event of insolvency where assets must be used to pay policyholders before other creditors, but payments will depend on the level of assets in any insolvency.

Therefore, in this respect, the Transferring AEL to AIU Policyholders will be worse off after the Proposed Transfer, but this is only in the event of the insolvency of AA which I consider unlikely.

### FOS

There is no equivalent to the FOS in Italy. However, the medical malpractice business is written through AEL's Italian branch and so these policyholders do not have access to the FOS. As such, the Transferring AEL to AA Policyholders are not materially worse off after the Proposed Transfer in this respect.

### GAAP balance sheet projections

The table below shows simplified balance sheets for AEL, AIU and AA pre- and post- the Proposed Transfer. Figures have been shown on a US GAAP basis, consistent with my

Scheme Report. This is the most consistent way to compare and aggregate across each entities' GAAP balance sheet.

**US GAAP balance sheets of AEL, AIU and AA pre- and post- the Proposed Transfer (£m)**

| | AEL £m Day 0 | AIU £m Day 0 | AA £m Day 0 | AEL £m Day 1 | AIU £m Day 1 | AA £m Day 1 |
|---|---|---|---|---|---|---|
| Investments and cash | 635 | 343 | 59 | 348 | 246 | 465 |
| Deferred acquisition costs | 66 | 34 | 8 | 54 | 33 | 22 |
| Reinsurers recoverables | 675 | 637 | 23 | 267 | 556 | 512 |
| Insurance and int. receivables | 121 | 83 | 14 | 120 | 72 | 27 |
| Other assets | 264 | 290 | 17 | 254 | 257 | 61 |
| **Total Assets** | **1,762** | **1,388** | **121** | **1,042** | **1,163** | **1,087** |
| Technical provisions | 1,192 | 868 | 54 | 601 | 726 | 788 |
| Technical creditors | 100 | 174 | 21 | 99 | 158 | 38 |
| Other liabilities | 42 | 67 | 2 | 39 | 66 | 6 |
| **Total Liabilities** | **1,334** | **1,109** | **77** | **739** | **949** | **832** |
| **Total Equity** | **428** | **278** | **44** | **303** | **214** | **255** |

*Source: AmTrust, figures converted assuming £1 = €1.16*

*Corresponding table in the Scheme Report is within section 7.2*

The impact of the transfer is relatively material for AEL given that, based on figures as at 31 March 2020, c. 50% of the net GAAP provisions will be transferred out.

As expected, given the Proposed Transfer, the key movements in the balance sheet for AEL are the reduction in technical provisions, together with the corresponding reduction in reinsurance recoverables, and the reduction in investments and cash.

AA's balance sheet increases significantly due to the receipt of the transferring AEL and AIU business. AIU's balance sheet reduces less significantly as the business transferring out to AA is partially offset by the business transferring in from AEL.

Overall, across all three entities combined, total assets on a GAAP basis are projected to increase by £22m from £3,271m to £3,293m. As noted above, a capital injection from outside of the AmTrust European Group will be made to support the Proposed Transfer.

Total liabilities decrease only marginally (less than £1m) and total equity increases from £750m to £772m, ie £22m (€26m). This reflects the net dividend payment of €25m and small differences between the GAAP and Solvency II valuation of the transferring liabilities.

### Conclusion

There have been no changes to the Proposed Transfer that affect the likelihood of policyholders receiving payments due on their claims or reduce the security provided to the policyholders since the Scheme Report. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

**I have concluded that the security provided to the Non-transferring AEL, Transferring AEL to AIU and AA, AIU and AA Policyholders will not be materially adversely affected by the Proposed Transfer.**

## 3.4. Step 4: Assessing policyholder communications

The assessments related to the communication plan were considered in section 8 of the Scheme Report.

### Communications plan

AEL has communicated with policyholders in line with the original communications plan, other than the following changes:

- Where a small number of coverholders were unable to send letters or emails to policyholders, alternative methods of communication were used eg customer portals;
- One newspaper publication had ceased circulation, so an alternative reputable publication was used instead;
- Where coverholders were unwilling to send communications, AmTrust sent these directly; and
- One coverholder went into insolvency and there are no means of obtaining the customer data. AmTrust are currently working to resolve this ongoing issue.

Taking into account the above changes, I still believe the communication strategy to be appropriate in ensuring the relevant parties are adequately notified of the Proposed Transfer.

To date, the only communications received from customers or cedants are as follows:

- Request for login details for the Sanctions Hearing;
- Background information on AmTrust;
- Queries as to why they have received this information and information on the Proposed Transfer; and
- Queries around the policy they have with AmTrust.

## Objections

The key aspect of the update on policyholder communications is for me to consider any objections to the Proposed Transfer. As of 17 July 2020, no objections to the Proposed Transfer had been received.

AEL has notified all reinsurers whose contracts of reinsurance will be transferring to AIU and AA of the Proposed Transfer. No objections have been raised by any of these parties.

## Conclusion

The communications plan has been executed as set out in the Scheme Report and no objections to the Proposed Transfer have been received. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report.

The COVID-19 pandemic has had no material impact on the implementation of the communications strategy. Policyholders were sent an email in addition to postal communication which avoided any delivery issues. The pandemic caused no delay in AmTrust publishing the necessary notices and documents on its website, which went live on 1 April 2020. There have been no resource constraints in dealing with queries from policyholders.

**Based on my review of the communication strategy, I have concluded the planned communications strategy will ensure adequate coverage of affected parties.**

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

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

The assessments related to the customer service and other considerations were considered in section 9 of the Scheme Report.

### Operational issues arising from COVID-19

Whilst the uncertainty related to the evolving nature of the pandemic continues, any operational issues are likely to emerge over the short term as AmTrust's claims teams adjust to the new conditions. AmTrust do not expect any operational difficulties which may arise over the short term to have a material impact on policyholders.

### Conclusion

Since the Scheme Report, there have been no changes to the Proposed Transfer that affect my analysis on customer service and other aspects of the Proposed Transfer. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

**I have concluded that no material impact on service standards (or any other considerations within this section of the report) is expected following the Proposed Transfer.**

## 4. Conclusions and Statement of Truth

I have considered the Proposed Transfer and its likely effects on the Non-transferring AEL Policyholders, Transferring AEL to AIU and AA Policyholders, AIU Policyholders and AA Policyholders and the transferring reinsurers.

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 Non-transferring AEL Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Non-transferring AEL Policyholders following the Proposed Transfer.**
- **The security provided to Transferring AEL to AIU and AEL to AA Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Transferring AEL to AIU and AEL to AA Policyholders following the Proposed Transfer.**
- **The security provided to AIU and AA Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for AIU and AA Policyholders following the Proposed Transfer.**
- **Reinsurers of AEL who provide cover for the transferring business will not be materially affected by the Proposed Transfer.**

### 4.1. 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.

**3704510**



I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Guidance for the Instruction of Experts in Civil Claims 2014.

*Stewart Mitchell FIA*
Partner

17 July 2020

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**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 – Summary of data provided

The following is a list of the key data items I have requested and received, or accessed directly, in assessing the Proposed Transfer. I continue to also rely on all data items received that are listed in Appendix 4 of the Scheme Report. All data I have requested has been provided to me. AEL, AIU and AA have provided Data Accuracy Statements 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 AEL, AIU and AA for the Proposed Transfer, including:

- Draft third witness statement - AEL (June 2020)
- Draft second witness statement – AIU (June 2020)
- Draft second witness statement – AA (June 2020)
- Draft sanctions order (June 2020)
- Draft post-sanction legal notice (June 2020)

## 2. Responses and objections from stakeholders to the Proposed Transfer

- Update on number of objections (July 2020)

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

- Summary of provisions as at 31 March 2020
- Updated projected GAAP balance sheet and SCR coverage ratio projections at Day 0 and Day 1 for AEL, AIU and AA (July 2020)
- Paper and scenarios on the impact of the COVID-19 pandemic
- Results of updated reserve review requested by IVASS

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

- SCR coverage ratio calculation files for AEL, AIU and AA (July 2020)
- Paper describing capital projections to support the AmTrust transfers (July 2020)
- Draft Net Worth Maintenance Agreements (July 2020)

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