Scheme Report of the Independent Actuary on the proposed transfer of insurance business from AmTrust International Underwriters Designated Activity Company to AmTrust Assicurazioni SpA in accordance with Section 13 of the Assurance Companies Act 1909

Report as at 19 February 2020

Prepared by:

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LCP

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Appendices

1. Executive summary

1.1. The Proposed Transfer

The Proposed Transfer is part of AmTrust Group's (also referred to as AmTrust) strategy regarding the business to be written by each entity ie so that all Italian medical malpractice business is in one insurer, AmTrust Assicurazioni SpA (AA), supervised by the Italian regulator IVASS.

This involves the transfer of the business from AmTrust International Underwriters DAC (AIU) to an Italian Company within the AmTrust Group, AA.

Proposed Transfer: it is proposed that AIU's Italian medical malpractice business will transfer from AIU to AA pursuant to Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the 2015 Regulations. The transfer is planned for 1 July 2020 (the Effective Date).

In addition to the Proposed Transfer, AmTrust are preparing to make further transfers as part of their response to Brexit and other wider strategic changes. These are summarised below and covered in more detail in Section 2.2:

- The Section 13 transfer of surety business from AIU to Liberty Mutual Insurance Europe SE (LMIE), a third-party outside of the AmTrust Group, with a proposed Effective Date of 31 March 2020.
- The Part VII transfer of Italian medical malpractice risks (including a non-material amount of related accident and health and legal expenses business) from AmTrust Europe Limited (AEL) to AA and other non-UK EEA risks (excluding Italian medical malpractice) from AEL to AIU, with a proposed Effective Date of 1 July 2020.
- The Part VII transfer of all business from AMT Mortgage Insurance Ltd (AMIL) to AIU with a proposed Effective Date of 1 October 2020.

1.2. My role as Independent Actuary

AmTrust have appointed me to act as the Independent Actuary (IA) for the Proposed Transfer. The Central Bank of Ireland (CBI) has been notified of my appointment.

As IA, my overall role is to assess whether:

- The security provided to policyholders of AIU will be materially adversely affected by the implementation of the Proposed Transfer.
- The security provided to AA policyholders will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any materially adverse impact on service standards experienced by policyholders.

- Any reinsurer of AIU covering the transferring business will be materially adversely affected. Note that an assessment of the impact on AIU's reinsurers is not strictly required under Section 13 of the Assurance Companies Act 1909. However, I have included this assessment for consistency with the two Part VII transfers planned by AmTrust Group in the UK, and for which such an assessment is required by the UK Prudential Regulation Authority (PRA).

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

1.3. Summary of my conclusions

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

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

A: Non-transferring Policyholders

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

Summary rationale:

- The approach and methodology used to calculate insurance provisions and the level of reserves held by AIU are supported by my own independent projections.
- Further support is provided by the results of an independent external reserve review and a further independent external regulatory review.
- AIU has no plans to change the approach for how insurance provisions are set.
- The reserving process and governance for AIU will be materially unchanged post-transfer.
- The Transferring Policyholders represent only c. 28% of AIU's business based on booked provisions net of reinsurance as at 30 June 2019.

- The SCR coverage ratio for Non-transferring Policyholders is expected to decrease from 160% to 150% as a result of the Proposed Transfer. I do not consider the security provided to the Non-transferring Policyholders to be materially adversely affected by this decrease as AIU will be well-capitalised and the coverage ratio remains above AIU's risk appetite.

- AIU's coverage ratio is expected to return to pre-transfer levels by September 2021 ie within 15 months of the Proposed Transfer, assuming all transfers proceed as planned.

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

Summary rationale:

- AIU 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 Policyholders

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

Summary rationale:

- The Transferring Policyholders will remain within the AmTrust Group and AA is subject to the same group-wide policies as AIU.
- AmTrust has confirmed that the transferring policies will continue to be reserved for 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.
- The SCR coverage ratio for the Transferring AIU to AA Policyholders is expected to decrease from 160% to 150% as a result of the Proposed Transfer. I do not consider the security provided to Transferring Policyholders to be materially adversely affected by this decrease as AA will be well-capitalised and the coverage ratio remains above AA's risk appetite.
- AA's coverage ratio is expected to increase above pre-transfer levels by June 2021 ie within 12 months of the Proposed Transfer, assuming all transfers proceed as planned.
- The Solvency II prudential regulation framework will continue to apply to the transferring business post-transfer.

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

Summary rationale:

- AmTrust is not planning any changes to how the Transferring Policyholders are serviced following the Proposed Transfer.

C: AA Policyholders

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

Summary rationale:

- AA has no plans to change the approach for how insurance provisions are set.
- The size of the incoming portfolio of business from AIU will be relatively small compared to the volume of business expected to be written by AA by the Effective Date of the Proposed Transfer.
- The future reserving process and governance for AA will be materially unchanged post-transfer.
- The SCR coverage ratio for AA Policyholders is expected to increase from 145% to 150% as a result of the Proposed Transfer, and is projected to stay above this level. AA will be well-capitalised, and the coverage ratio is above AA's risk appetite.

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 is carried out.
- There are no plans to change how AA Policyholders are serviced following the Proposed Transfer.

Reinsurers

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

AIU has two main live reinsurance policies protecting the transferring business, a quota share arrangement with AmTrust International Insurance as of 1 January 2019, which is fully collateralised, and a quota share arrangement with Swiss Re as of 1 July 2019.

There are also two expired quota share arrangements with AII (for business written prior to 1 January 2019) and Maiden. The Maiden quota share is fully collateralised and the AII quota share is partially collateralised, €132m in security has been set aside which built up over 2019 and is reported to the CBI on a quarterly basis. There is also reinsurance cover from a specific quota share and specific excess of loss policies.

Maiden is in the process of re-domiciling from Bermuda to Vermont in the United States. Re-domiciling to a non-Solvency II equivalent territory would, all else being equal, lead to an increase in AIU's SCR and a therefore a reduction in its SCR coverage ratio.

Maiden has agreed an endorsement to its contract with 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 is at the same level as it would have been prior to any re-domicile. Therefore, there is no adverse impact on AIU's SCR pre- or post-Transfer nor their SCR coverage ratio.

The protection provided to the Transferring Policyholders from the reinsurance cover will transfer to AA.

Summary rationale:

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

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

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

2. Introduction

2.1. Background

Any transfer of business carried out by one Irish authorised insurance company to another Irish or EEA authorised insurance company is governed by Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015.

Under Section 13 of the 1909 Act, any scheme that provides for a transfer, in whole or in part, of the business of an Irish authorised insurance company to another Irish or EEA authorised insurance company requires prior sanction of the High Court. The Court will consider the scheme on the basis of a petition brought by the Boards of Directors of both the transferor (AIU) and transferee (AA) companies. Whilst not mandatory for a non-life transfer such as the Proposed Transfer, in practice, the petition is accompanied by a report on the terms of the scheme by an IA.

The purpose of the IA's report is to provide an independent opinion for the Court on the likely effects of the scheme on the policyholders of the two companies concerned. The security of policyholders' contractual benefits and the effects of the scheme on the fair treatment and reasonable expectations of policyholders are the main considerations of the report.

In addition, in this case, I have considered whether any reinsurers impacted by the insurance business transfer are adversely affected to a material extent. An assessment of the impact on AIU's reinsurers is not strictly required under Section 13 of the Assurance Companies Act 1909. However, I have included this assessment for consistency with the requirements of the UK Prudential Regulation Authority (PRA).

AmTrust nominated Stewart Mitchell (I or me) of Lane Clark & Peacock LLP (LCP, we, or us) to act as the IA for the proposed insurance business transfer scheme (the Proposed Transfer) of certain insurance business from AIU to AA. The Proposed Transfer is intended to be effected on 1 July 2020 (the Effective Date).

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

2.2. The Proposed Transfer

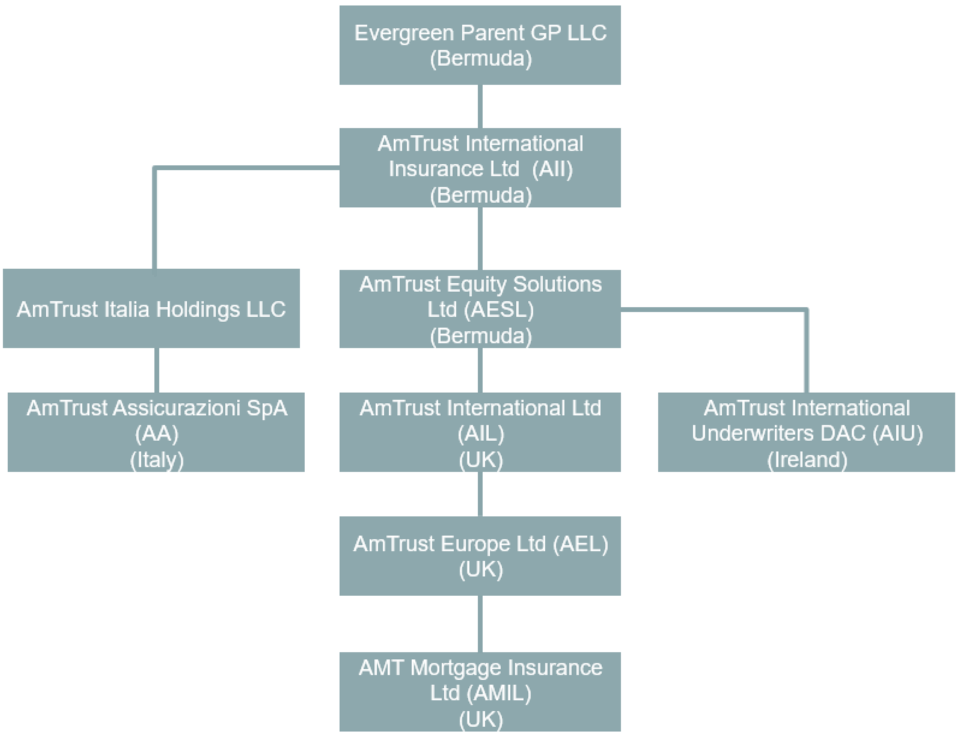
Under the Proposed Transfer, the Italian medical malpractice business of AIU will transfer to AA, an insurer within the AmTrust Group recently authorised in Italy.

AIU's ultimate parent company is Evergreen Parent GP, LLC, a company incorporated in Bermuda. In this report I have referred to the term 'Group' to refer to Evergreen and all subsidiary companies and 'AmTrust Group' to all AmTrust entities.

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

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

AmTrust Group structure



AmTrust Group transfers

Transfer 1

The Part VII transfer of all risks from AMT Mortgage Insurance Ltd (AMIL) to AIU with a proposed Effective Date of 1 October 2020 ie after the Proposed Transfer. I am acting as the Independent Actuary (IA) for this transfer.

Transfer 2

The Part VII transfer of the Italian medical malpractice business (including a non-material amount of related accident and health and legal expenses business) from AmTrust Europe Limited (AEL) to AA and other non-UK EEA risks (excluding Italian medical malpractice) to AIU with a proposed Effective Date of 1 July 2020 ie at the same time as the Proposed Transfer. I am acting as the IE for this transfer.

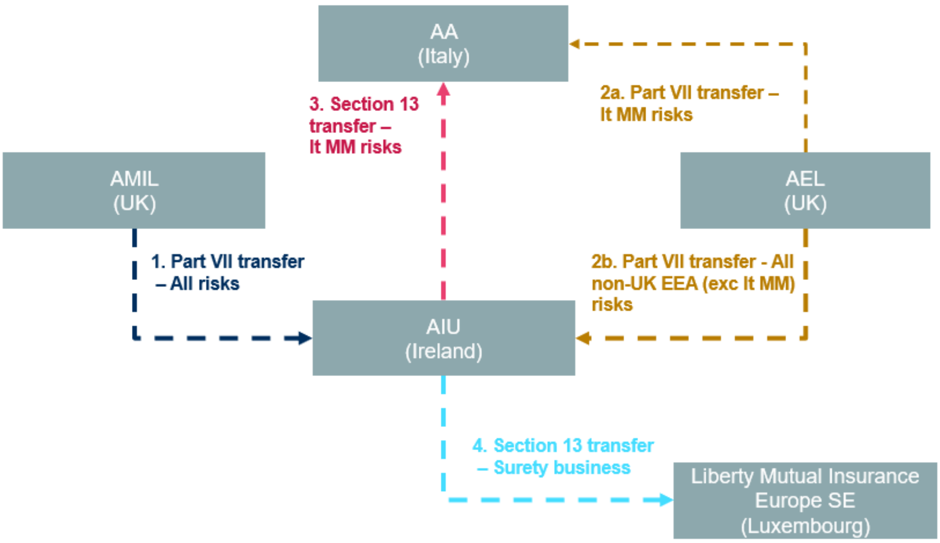
Transfer 3 (the Proposed Transfer covered by this report)

The Section 13 transfer of AIU's Italian medical malpractice business to AA, with a proposed Effective Date of 1 July 2020. As set out in this report, I am acting as the IA for this transfer.

Transfer 4

The Section 13 transfer of surety business from AIU to Liberty Mutual Insurance Europe SE (LMIE), a third-party outside of the AmTrust Group, with a proposed Effective Date of 31 March 2020 ie before the Proposed Transfer. I am acting as the peer reviewer for this transfer.

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



* It MM = Italian Medical Malpractice

I comment on the impact of Transfers 1 and 2 on the Proposed Transfer later in this report, including contingencies for the various combinations of potential transfers.

Transfer 4 is expected to complete before the Proposed Transfer. Unless otherwise stated, results for AIU in this Scheme Report are presented assuming that Transfer 4 has taken place. The surety portfolio, as at 30 June 2019, accounts for only c. 6% of the total AIU net of reinsurance claims reserves. Since the surety business is already 100% reinsured by LMIE there will only be a minimal change in AIU's projected SCR coverage ratio as a result of Transfer 4.

Therefore, my conclusions regarding the Proposed Transfer in this report would be unchanged whether Transfer 4 proceeds or not.

2.3. Independent Actuary appointment

My appointment

AmTrust has appointed me to act as the IA for the Proposed Transfer. AmTrust will bear the costs associated with the production of my report. I note that no costs or expenses of the Proposed Transfer will be borne by policyholders.

My experience

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

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

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

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

Independence statement

I confirm that I have no direct or indirect interests in AIU, either personally or via LCP. In particular:

- I am not, directly or indirectly, a shareholder in AIU or any other company within the AmTrust Group and I am not a member of any pension scheme under the management of AIU;
- I do not hold any insurance policies issued by AIU.

I have been appointed to act as the IE or IA for Transfers 1, 2 and 3 and a partner of LCP Ireland has been appointed as the IA for Transfer 4. I do not consider LCP's or my involvement in these transfers to impact my independence in relation to the Proposed Transfer.

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

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

2.4. Scope of this Scheme Report

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

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

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

2.5. Use of this Scheme Report

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

This Scheme Report has been prepared for the purpose of accompanying the application to the Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Section 13 of the Assurance Companies Act 1909. The Scheme Report is not suitable for any other purpose.

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

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

2.6. Reliances

In preparing this report, I have reviewed various documents relating to the companies involved. I have developed an understanding of the business carried out by the companies, the markets in which they operate and the financial and capital requirements of writing such business. I have also considered the risk profiles of the businesses and the risk management procedures that are in place.

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

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

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

- AIU and AA will submit grounding affidavits to the Court stating that all information provided to me is correct and complete in all material aspects.
- 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.
- AIU and AA have confirmed to me that there have been no material adverse changes to the financial position of AIU or AA since that information was provided to me.
- AIU and AA have read this IA Scheme 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 other specific legal advice relevant to my role as IA for the Proposed Transfer.

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

2.7. Professional standards

This report complies with the 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 while producing this report.

This report has been subject to independent peer review prior to its publication. This peer review has been undertaken by Declan Lavelle FSAI who is a Partner at LCP and has appropriate experience and expertise to act as the peer reviewer of this report and has acted as the IA for Transfer 4.

2.8. Materiality

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

I have applied this concept of materiality in planning, performing and reporting the work described in this Scheme Report. 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 drafting this report, I have made judgements on the level of information to include in this Scheme Report. For example, to make the report easier to read, I have not included all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments.

2.9. Definition of "materially adverse"

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.

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

3. Outline of Proposed Transfer

3.1. The companies involved in the Proposed Transfer

AmTrust International Underwriters DAC

AIU is an Irish registered insurance company incorporated in Ireland in January 1991, authorised and regulated by the CBI. Following a merger transaction on 29 November 2018, Evergreen Parent GP, LLC became the ultimate parent company of AIU.

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

AmTrust International Insurance Ltd (Bermuda) is an intermediate holding company of AIU, owning 100% of the issued share capital through AmTrust Equity Solutions (Bermuda). AIU benefits from financial, operational and management support from the AmTrust Group.

AIU effects and carries out contracts of general insurance. The company writes multiple lines of business across the EU, EEA and the USA. Its main underwriting activities cover casualty, property, general liability, medical malpractice, surety and specialty business.

AIU writes both direct business and inwards reinsurance business and benefits from reinsurance and retrocession.

AmTrust Assicurazioni SpA

AA is an Italian insurance company. The acquisition of it by the AmTrust Group was approved recently by AA's Italian regulator, Istituto per la Vigilanza sulle Assicurazioni (IVASS).

The origins of AA followed AmTrust Group's purchase of a 100% stake in the share capital of BancAssurance Popolari Danni SpA (BAP) on 15 May 2019. Prior to this, BAP had transferred its portfolio to Cargeas Assicurazioni SpA in early November 2018. A single policy for each line of business was retained in order to keep BAP's insurance licences. These policies expired between July and September this year ie before the expected Effective Date of the Proposed Transfer of 1 July 2020.

New business began to be written into AA during Q3 2019. As at mid-November 2019, c. €4m of gross premiums had been written in respect of medical malpractice business. This is expected to increase to between €25m and €30m by 31 December 2019. The majority of this is expected to be medical malpractice business (€20m to €25m depending on renewals from AIU to AA), together with some legal protection and professional indemnity business. I will comment on the amount of business written to date and the updated business split forecast at the Effective Date of the transfer in my Supplementary Report.

I will comment on the amount of business written to date and the updated business split forecast at the Effective Date in my Supplementary Report.

3.2. Description of the Proposed Transfer

Transferring policies

If sanctioned by the Court, the Proposed Transfer will transfer all rights and obligations relating to the Italian medical malpractice business written by AIU to AA.

As at 30 June 2019, the transferring policies represent booked provisions of €50.4m net of reinsurance ie c. 28% of the total booked provisions for AIU of €183.8m. Further detail is provided in Section 5.5 of this report.

AIU expect that all policies they plan to transfer to AA will be able to transfer at the Effective Date. Should this not be possible for any reason, there are provisions in the Scheme Document to allow for the transfer of such policies at a later date.

Reinsurance

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

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

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

Reinsurance is purchased on a group basis and allocated to individual companies in line with their business plans. This is a centralised function managed under the service agreement with AII.

AIU has two main live reinsurance policies protecting the transferring business, a 50% quota share arrangement with AII for risks that incepted on or after 1 January 2019, which is fully collateralised, and a quota share arrangement with Swiss Re as of 1 July 2019. The coverage is on a policy attachment basis ie only policies underwritten within the twelve-month period of the policy are covered.

There are also two expired quota share arrangements:

- AII – from 1 May 2007 to 31 December 2018, 85% of the business written was reinsured, the proportion of medical malpractice ceded was 45%. This quota share is partially collateralised, €132m in security has been set aside which built up over 2019 and is reported to the CBI on a quarterly basis.

- Maiden Re – this reinsurance covered 40% of the Italian and French medical malpractice business written between 3 April 2011 and 31 December 2018. This reinsurance is fully collateralised.
- Maiden is in the process of re-domiciling from Bermuda to Vermont in the United States. Re-domiciling to a non-Solvency II equivalent territory would, all else being equal, lead to an increase in AIU's SCR and a therefore a reduction in its SCR coverage ratio.
- Maiden has agreed an endorsement to its contract with 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 is at the same level as it would have been prior to any re-domicile. Therefore, there is no adverse impact on AIU's SCR pre- or post-Transfer nor their SCR coverage ratio.

In addition, there is a further quota share and several excess of loss reinsurance arrangements covering specific product lines. The excess of loss reinsurance responds to reinsured liabilities before the quota share reinsurance.

Following the Proposed Transfer, the reinsurance cover protecting the Transferring Policyholders will transfer to AA. New business underwritten by AA will be covered by the Swiss Re quota share policy.

Other related transfers planned to take place before the Proposed Transfer

Section 2.2 described a transfer of a portfolio of surety business written through AIU to Liberty Mutual Insurance Europe SE (LMIE) (Transfer 4). This transfer went through a Directions Hearing on 4 November 2019 and is being separately considered by another IA at LCP.

The Effective Date of Transfer 4 is 31 March 2020 ie before the Proposed Transfer. Unless otherwise stated any figures for AIU in this Scheme Report, in the context of the Proposed Transfer, are presented assuming Transfer 4 has taken place.

The transferring surety portfolio, as at 31 March 2019, accounts for only c. 6% of the total AIU claims reserves net of reinsurance and is expected to lead to a non-material increase in AIU's projected Solvency Capital Requirement (SCR) coverage ratio as the business is already reinsured by LMIE.

As such, my conclusions regarding the AEL to AIU transfer would not be affected whether or not Transfer 4 has taken place by the Effective Date of the Proposed Transfer.

I will confirm in my Supplementary Report if Transfer 4 has or has not taken place and will consider the consequences if not.

Details of this transfer, and other transfers that impact on the Proposed Transfer, are given in Section 2.2.

3.3. Purpose of the Proposed Transfer

The purpose of the Proposed Transfer is part of a wider AmTrust Group strategy to simplify the business currently written across the AmTrust Group in Europe. The Proposed Transfer is part of the plan so that all Italian medical malpractice business is in one insurer (AA) supervised and regulated by IVASS.

3.4. Alternative options considered

This report considers the effects on the relevant policyholders, if the Proposed Transfer being presented to the Court is implemented. The responsibility to consider alternative schemes rests with the directors and managers of the companies involved. No alternative schemes of transfer were considered in this case.

AmTrust plan to go ahead with all transfers, including the Proposed Transfer, irrespective of whether Brexit takes place or not.

If any of the planned transfers, or part of a planned transfer, does not get sanctioned, AmTrust will go ahead with those transfers that are sanctioned.

AmTrust has confirmed to me that capital, assuming availability, will be allocated to group entities as needed to ensure that regulatory capital coverage for the receiving and transferring entities are maintained in any eventuality. The mechanism by which this will be achieved is as follows:

- AEL and AIU will transfer to AA assets equal to the technical provisions and other net liabilities related to Proposed Transfer.
- AEL and AIU will also pay dividends to their parent companies equal to any capital in excess of 150% of their SCR after taking account the proposed transfers. These dividends will then be used, as needed, by the Group to fund the capital needs of AA up to a 150% SCR coverage ratio following the execution of the transfers.

3.5. Key dependencies

The key dependencies of the Proposed Transfer are as follows:

- Court approval required for the Proposed Transfer – the Directions Hearing is scheduled for 2 March 2020 and the Sanctions Hearing is anticipated for the 22 June 2020. The Court will take into account whether the CBI has any objections to the Proposed Transfer.
- Any objections raised by policyholders, reinsurers or regulators after the Directions Hearing – I will comment on these (if any exist) in my Supplementary Report.
- IVASS has requested an external review of the impact under Italian GAAP of transferring AEL and AIU medical malpractice portfolios to AA. The first draft of this review has not yet been provided but I will comment on the final results of this review in my Supplementary Report.

4. My approach as IA

As IA, my overall role is to assess whether:

- The security provided to policyholders of AIU and AA 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 AIU covering the transferring business will be materially adversely affected.

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

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

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

Step 1: Assessing the provisions of AIU and AA

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

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

Step 2: Assessing the capital positions of AIU and AA

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

For both AIU and AA, the level of capital required is set under the European Solvency II standard. A key metric under Solvency II is the Solvency Capital Requirement (SCR).

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

I have assessed the appropriateness of the projected capital requirements of AIU and AA. Details of this step are set out in Section 6.

Step 3: Assessing overall policyholder security

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

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

Step 4: Assessing policyholder communications

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

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

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

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

5. Reserving considerations

5.1. Introduction to insurance reserving

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

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

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

5.2. Introduction to reserving bases

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

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

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

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

5.3. My considerations relating to reserving

As IA, my overall assessments related to reserving are:

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

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

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

Within these areas, I have also considered any expected differences in the reserving approach between AIU and AA to understand how this may affect non-transferring and transferring policyholders.

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

5.4. Approach to my review

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

5.5. Appropriateness of provisions

The following table shows the level of booked GAAP provisions as at 30 June 2019 (the latest available figures at the time of my writing of my report) for AIU, split between the non-transferring and transferring business. The transferring provisions represent c. 28% of the total pre-transfer provisions, net of reinsurance.

The non-transferring provisions in the table below includes the surety portfolio which is planned to be transferred from AIU to LMIE (see Transfer 4 in Section 2.2). The transferring surety business is €54m gross of reinsurance and €11m net of reinsurance.

Summary of GAAP booked provisions for AIU at 30 June 2019

€m	Gross of reinsurance	Net of reinsurance
Non-transferring AIU	718.6	130.8
Transferring to AA	223.0	50.4
Total AIU	**941.6**	**181.2**

Source: AIU, figures include case estimates (outstandings), ULAE, IBNR and UPR

My assessment of the appropriateness of provisions

I have considered the appropriateness of the following:

- Booked provisions for AIU;
- Booked provisions for AA;
- Calculation of the transferring provisions; and
- Solvency II technical provisions for AIU and AA.

Central reserving oversight function

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

The team currently reserving the Italian medical malpractice business, that will transfer to AA, will be replaced by a local team in Italy. This is expected to be completed in advance of the Effective Date of the transfer. Therefore, no change in the reserving function is expected pre- and post-transfer. Although the Chief Actuary will provide oversight of the reserving process, responsibility for setting AA's reserves will sit with AA.

Independent projections for AIU by the IA

I have performed my own independent projections on a sample of AIU's business, covering key classes including Italian and French medical malpractice, US General

Liability and US Commercial Credit. These classes accounted for c. 70% of AIU's booked claim reserves as at 31 December 2018. I applied triange-based reserving methodologies to these key classes deriving my own assumed development patterns, making use of benchmark data to inform my selected assumptions where I believed this was necessary.

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

My review of AIU's booked provisions

The focus of my assessment of the booked provisions for AIU was a review of the documents provided to me by AIU relating to the calculated provisions as at 31 December 2018 (the latest date that full audited results were available), and my discussions with key members of AIU's reserving team.

AIU performs quarterly-reserving exercises. For example, at year-end 2018, detailed analysis was performed on an early-close set of data (30 September 2018) and the assumptions derived applied to data as at 31 October 2018. Actual claims experience in the two months to 31 December 2018 was then compared to expectations and taken into account when setting the year-end provisions.

The approach taken by AIU uses standard actuarial techniques such as the chain ladder, expected loss ratio and Bornhuetter-Ferguson methods for most classes with alternative techniques used for other classes where standard approaches are not appropriate.

The provisions calculated by the AIU actuarial team are on a best estimate basis. A small management margin is held in the booked provisions in respect of reserve uncertainty. As at 31 December 2018, the overall margin was c. 1% of the net best estimate gross claim reserves. This is not a material amount.

The best estimate provisions ie before the addition of the management margin, will transfer to AA. AA will then set a management margin in line with its respective policies to reflect the underlying uncertainty within the overall portfolio.

The level of management margin is not material. I am satisfied that the Transferring Policyholders will not be materially adversely impacted by the Proposed Transfer, as any future management margin will reflect the specific uncertainties within each entity.

The booked provisions are not discounted for the "time value of money". To the extent that claims will be paid out some time in the future, there is an argument that having no discounting provides an additional element of prudence in the provisions. This is due to the ability to earn investment income up to the point the claims are paid.

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

External independent review - AIU

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

The total best estimate provisions as calculated by the independent review were slightly higher than the total best estimate provisions booked by AIU (less than 1%), but well within a range of reasonable best estimates. The range around the best estimate gross provisions indicated by this independent review, assuming full correlation across the classes of business, was -13% to +24% of the best estimate. This range is intended to represent a range of estimates that another actuary might produce from the data provided by making different but still reasonable actuarial judgments. AIU's booked reserves were at -1% in this range. On a net basis, the range was also -13% to +24% with AIU's booked reserves also at -1% in this range.

Whilst the ranges are wide, I believe it is reasonable given the inherent uncertainty in the business written and that a wide range of alternative, but plausible, best estimate assumptions could be justified.

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

A further regulatory independent review was also commissioned in March 2019 from a different external actuarial consultancy firm. This review focussed on the Italian and French medical malpractice, surety and US commercial credit portfolios written by AIU. In respect of the medical malpractice portfolio, the review covered an independent review of the claim reserves as at 30 September 2018.

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

The review did not highlight any findings rated as critical although the review recommended that additional reserving methods should be used to further validate the level of reserves.

Conclusion on AIU's booked provisions

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

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

Booked provisions for AA

In the context of the Proposed Transfer, AA's GAAP provisions to date are small. As such, I have not performed a similar assessment to that of AIU. However, AmTrust has confirmed that the reserving approach taken will be the same as that for AIU and overseen by AmTrust's Chief Actuary.

Therefore, I do not have any concerns around their reasonableness at this stage. The volume of business to be written by AA is expected to increase by the time of the Proposed Transfer and I will consider this matter further in my Supplementary Report.

Calculation of the transferring provisions

For the purpose of the Proposed Transfer, the approach taken to calculate the transferring provisions is the same as for the non-transferring provisions. As I consider the overall provisions to be appropriate, based on my review of the overall methodology taken, I also consider the calculation of transferring provisions to be appropriate.

Solvency II technical provisions for AIU and AA

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

For AIU an allowance for ENIDs is made within the TPs as the data used to estimate GAAP provisions does not typically include experience from rare events. The use of a truncated distribution is a common approach where an assumption is made as to the level of claims from such rare events. An ENID load has been calculated using this approach. AIU's ENID load, as at 31 December 2018, is c. 5% of the total net best estimate technical provisions. I consider this implied loading to be in line with that typically held by other diversified insurers writing similar classes of business.

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

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

However, there is an offsetting element of prudence given that some items within the SCR would usually be expected to reduce to zero after one year (eg catastrophe risk) but these are being run-off in line with the Solvency II TPs.

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

On a net basis, AIU's risk margin is higher reflecting the increased volatility due to the relatively high level of reinsurance: as at 31 December 2018, 85% of AIU's booked reserves were reinsured. Overall, I believe the approach taken and the results of the risk margin calculation are materially appropriate for AIU.

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

As noted above for booked provisions, AA has confirmed that the technical provisions approach for AA will be in line with AIU. Therefore, I do not have any concerns around their appropriateness at this stage. I will consider this further in my Supplementary Report.

5.6. Key uncertainties when setting provisions

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

Specific uncertainties in relation to AIU's business include:

- Several of the classes of business written by AIU and AA can have claims that are only finally agreed and paid many years after the original incident date eg medical malpractice, general liability and structural defect classes.
- The medical malpractice business is written on a claims-made basis meaning once the policy terminates no new claims can be made under the policy terms. However, existing claims notified within the policy term can continue to experience adverse development and can take a long time to settle. This is because it can take many years for the full consequences of any negligence to become apparent and for a quantum around total claim payments to be established. Hence inflation and the cost of future claims is a key uncertainty. However, I believe this delay to be shorter than if the business were written on a losses-occurring basis, where the potential further delay from claim incident to an insurer being notified can also increase the delay in settlement.
- In addition, potential disputes over liability and the complexity of settlement negotiations can lead to further delays. AIU has specialist claims handling teams and insists on full control throughout the claims review process.
- Use of market benchmarks: several classes of business written by AIU are small in volume meaning that claims experience is likely to be volatile. Given this volatility, AIU has judgementally selected tail development factors or used benchmark development factors to inform and sense check these selections. These classes will be subject to greater than usual uncertainty.
- Some of the benchmarks used by AIU to help inform and validate the use of development patterns based on their own experience are based on business written by London Market insurers. Whilst there is uncertainty to the extent that these benchmarks are appropriate to the business written by AIU, the reliance on these benchmarks has reduced over time.
- There is uncertainty regarding the appropriateness of the use of benchmarks, to the extent that AIU's business may develop differently to that of the benchmarks.

The uncertainties in the AIU portfolio, and the sub-portfolio transferring to AA, are typical of the longer tail liabilities written within a general insurance portfolio. Reinsurance is used to mitigate the impact of these key uncertainties and a risk margin is also held within the Solvency II technical provisions.

5.7. Current reserving process and governance

AIU reserving processes

The reserving process for AIU is based on the AmTrust group-wide process. The Head of Actuarial Function of AIU makes a recommendation on the level of reserves to the quarterly AIU Reserving Committee. Formal approval for the decisions is taken by the Reserving Committee. Overall responsibility for reviewing, challenging and recommending the level of provisions within the financial statements and regulatory returns lies with the AIU Board.

AIU uses standard actuarial techniques and the approach is in line with typical market practices for calculating provisions for the classes of business written by AIU. AIU have used commercially available reserving software, together with Excel spreadsheets, to calculate their provisions.

They now perform their calculations in Excel spreadsheets only given the relatively small proportion of the analysis that was performed in the commercial software. This approach is also in line with typical market practice, and I did not identify any material concerns with the appropriateness of the processes used

An internal audit review was carried out in October 2018 and concluded that the governance and controls over AIU's reserving process were satisfactory.

The external regulatory review for AIU included a detailed assessment of the reserving process and highlighted some areas of improvement that AIU will be addressing over the next six months. These range from applying a wider range of methodologies in estimating reserves to improving the reliability of the data used and the efficiency of the overall process. My own review reconciles with the key findings from these external reviews. I believe that addressing these recommendations, eg the use of additional methods to cross-check the level of reserves, will benefit policyholders, lead to more robust estimation of reserves and potentially reduce the risk of unexpected reserve deteriorations in the future.

The report of the findings from this review has not yet been finalised. I will comment on the findings from this external review, together with AIU's formal management response to the recommendations from the review and the implementation of any proposed actions, and any impact on the Proposed Transfer, in my Supplementary Report.

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

Overall, I concluded that, together with the work that will be performed to address the recommendations made in the external review, AIU's reserving process is appropriate.

Wider stakeholder involvement in the reserving process

The AIU Reserving Committee is attended by a wide group of members, including representation from the Chief Executive Officer, actuarial function, key underwriters and the claims team. Papers are circulated in advance of the Reserving Committee and members are encouraged to challenge the results.

Actions from the Reserving Committee and any changes recommended are recorded in the minutes and circulated to attendees.

I have reviewed the papers circulated to the Reserving Committee and have concluded they provide sufficient detail for appropriate decisions to be taken.

Reserving process governance

I have seen evidence of clear minutes from the Reserving Committee, including the capture of action points. There are terms of reference in place for the Reserving Committee. Each of these is evidence of appropriate governance around the reserving process.

AA reserving process

The reserving approach for AA is expected to be in line with the AmTrust Group policies and overseen by the AmTrust Group Chief Actuary though final responsibility for setting AA's reserves will sit with AA. I have reviewed the draft Reserving Policy for AA and confirmed that this is the case. I will consider this again in my Supplementary Report.

5.8. Future reserving approach and governance

Beyond any improvements recommended from the external regulatory review of AIU, AIU has confirmed there are no planned changes in the reserving approach for either GAAP or Solvency II provisions for AIU post transfer. I also understand that the reserving approach for the AA is expected to be in line with AIU and other entities in the AmTrust Group.

There will also be no change to the governance process for reserving, beyond any improvements recommended from the external review above.

5.9. Setting of case estimates

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

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

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

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

AIU set case estimates on a best estimate basis in line with the following philosophy: "The Company's aim in relation to setting reserves against claims is to establish a reserve figure which reflects the probable exposure on the file and what the Company reasonable expects to pay based on all of the facts available."

The approach to setting case estimates for AA will be in line with the wider AmTrust Group approach. In addition, although employees will transfer from AIU/AEL to AA, Italian medical malpractice claims for AA will be handled by the same claims team in Italy that currently handles AIU's Italian claims, with overall governance of the process structured and maintained by AA.

I do not expect there to be any change in the approach of setting case estimates following the transfers.

5.10. Overall conclusion: Reserving considerations

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

Non-transferring Policyholders

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

Summary rationale:

- The approach and methodology used to calculate insurance provisions and the level of reserves held by AIU are supported by my own independent projections.
- Further support is provided by the results of an independent external reserve review and a further independent external regulatory review.
- AIU has no plans to change the approach on how insurance provisions are set.
- AIU has confirmed that the future reserving process and governance for AIU will be materially unchanged post-transfer.
- The Transferring Policyholders represent only c. 28% of AIU's business based on booked provisions net of reinsurance as at 30 June 2019.

Transferring Policyholders

I have concluded that an appropriate level of provisions will be maintained for the Transferring Policyholders and that they will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

Summary rationale:

- The Transferring Policyholders will remain within the AmTrust Group and AA is subject to the same group-wide policies as AIU.
- 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 an appropriate methodology.

AA Policyholders

Based on the work described above, I have concluded that an appropriate level of provisions will be maintained for the AA Policyholders and that they will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

Summary rationale:

- AA has no plans to change the approach for how insurance provisions are set.
- The size of the incoming portfolio of business from AIU will be relatively small compared to the volume of business expected to be written by AA by the Effective Date of the Proposed Transfer.
- The future reserving process and governance for AA will be materially unchanged post-transfer.

6. Capital considerations

6.1. Introduction to insurance capital setting

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

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

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

6.2. Calculating capital requirements

Regulatory capital requirement

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

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

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

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

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

Both AIU and AA use the standard formula without USPs to calculate their SCRs. AA has an unapproved internal model which is also considered for wider capital management purposes.

Capital requirements beyond a "one-year" view

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

AIU use the standard formula which does not give an estimate of the SCR on an ultimate view. However, AIU have considered risk beyond the one-year view within their 31 December 2018 Own Risk and Solvency Assessment (ORSA) through a number of scenarios beyond the next 12 months including risks that are not covered within the standard formula.

In addition, AIU uses an economic capital model (ECM) to set their internal measures of capital. Although this model is not approved for regulatory purposes, it provides an alternative view of capital requirements over the ultimate time horizon.

I performed a comparison of AIU's 1-year and Ultimate SCR as at 31 December 2018 derived under the ECM. This is shown below:

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

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

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

- Insurance risk – has two elements; premium risk which increases on an ultimate basis and reserve risk which is lower on an ultimate basis. The reduction in reserve risk is due to movements in the risk margin on the 1-year basis and its unwinding on an ultimate basis. This reduction more than offsets the increase in premium risk leading to an overall reduction in insurance risk. Whilst the risk margin may go up or down over the 1-year basis, it is not required on an ultimate basis and is fully released.
- Market risk – on a 1-year basis, market risk is driven by short term volatility in investment returns whilst over the longer term, the expectation is that volatility will be smoothed and also offset by accumulated investment returns.
- Diversification allowance – the diversification allowance is larger on an ultimate basis reflecting that credit for diversification between years that can be allowed for compared to the 1-year basis.

Minimum Capital Requirement

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

AIU is projected to be very well-capitalised on this measure. The MCR capital coverage ratio as at 31 December 2018 was 533%. Therefore, I have not considered the MCR further as part of my assessment of capital considerations post transfer, and my primary focus is on the SCR.

6.3. Components of capital requirements

The key components of the SCR for AIU and AA are:

- *Insurance risk*, which is made up of:
  - *Premium r*isk: the risk that may arise from an inaccurate assessment of the risks associated with writing an insurance policy or from uncontrollable factors. As a result, the insurer's costs may significantly exceed premiums.
  - *Reserving risk*: the risk that the value of insurance claims proves to be higher than expected. For example, this covers the risk of deterioration in reserves or other catastrophe events, and uncertainties related to existing liabilities.
- *Market risk*: the risk of changes in each insurer’s financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this covers the risk of falls in the value of assets that are being held to make future claims payments.

- *Counterparty default risk*: the risk of defaults or downgrades by counterparties that either owe the insurer money or hold money on its behalf. For example, this covers the risk of the failure of a reinsurer or a broker.
- *Operational risk*: the risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would cover the risk of fraud or IT failure.

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

The most material component of the SCR for AIU is insurance risk, which represents 46% of the undiversified SCR, as reported in AIU's Solvency and Financial Condition Report as at 31 December 2018. This is expected given that insurance is the core business of AIU. The next most material component of the SCR is market risk, representing 22% of the SCR for AIU.

Based on the calculations provided as at 30 June 2019, insurance risk is also the most material component of the SCR for AA, accounting for c. 95% of the undiversified SCR. Whilst this proportion is projected to reduce over time, non-life insurance risk is still expected to be the most material component of the SCR.

6.4. My considerations related to capital

As IA, my overall assessments related to capital are:

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

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

- The capital policy for AIU and AA (Section 6.6);
- SCR appropriateness for AIU and AA (Section 6.7);
- SCR scenarios analysis for AIU and AA (Section 6.8);
- The planned capital structures for AIU and AA (Section 6.9); and
- Projected SCR coverage ratios (Section 6.10).

6.5. Approach to my review

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

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

6.6. The capital policy for AIU and AA

I have reviewed the Risk Appetite Statement for AIU, as I understand the formal capital policy is being finalised, and the capital policy for AA. The risk appetite for the solvency coverage ratio is broadly consistent across both entities with AIU targeting a 140% level and AA targeting 145%, further details are provided in Section 6.9.

AA is targeting a higher SCR coverage ratio than AIU partly due to AA being effectively a mono-line insurer ie to recognise the concentration risk in writing almost exclusively Italian medical malpractice business.

6.7. SCR appropriateness for AIU and AA

I have reviewed the SCR appropriateness for AIU considering two aspects: the appropriateness of using the standard formula; and calculating my own independent estimates of the SCR. Since AA has only recently started writing business, I have not performed a full review of the SCR appropriateness for AA at this stage.

Appropriateness of the standard formula for AIU

AIU uses the standard formula to calculate the SCR. AIU has an ECM which, although not approved by the regulator, can be considered when assessing the appropriateness of the use of the standard formula.

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

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

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

The ECM produces a slightly higher aggregate capital requirement than the standard formula. The ECM relies on the standard formula to calculate the capital requirement for certain aspects eg operational risk.

The degree of diversification allowance is greater under the ECM than the standard formula. The ECM applies a number of correlation assumptions, for example between classes, types of losses, key risks etc. However, the standard formula does not apply quite as many correlation assumptions. In addition, the standard formula correlations are prescribed, with limited ability to adjust for AIU's own views of the degree of dependency.

The difference in diversification allowance is not enough to offset the higher level of capital, primarily in respect of insurance risk, under the ECM compared to under the standard formula. The reason for this difference is attributable to the modelling differences between how ECM treats insurance risk compared to the standard formula. Premium and reserve risk under the ECM is modelled on an ultimate time horizon with emergence factors applied to derive the risk over one year. This compares to the standard formula where prescribed risk factors are applied to premium and reserve volumes. Therefore, it is not surprising to see differences between the two approaches.

A secondary driver for the difference is that for insurance risk, the ECM assesses the movement in the risk margin over one year. However, the standard formula keeps the risk margin constant in the stressed scenario, as set out in Article 83 of the Delegated Act which governs Solvency II. Therefore, a more like-for-like comparison between the ECM and standard formula could be to exclude the risk margin adjustment from the ECM result. On this basis, the SCR of €170.4m would reduce to €116.2m.

Non-quantifiable risks that are not captured within the standard formula are regularly monitored by AIU. AIU concluded that no adjustments or additional capital loadings were required in addition to the SCR calculated using the standard formula. Based on my review of the description of the monitoring of non-quantifiable risks within AIU's ORSA, I concluded that these risks were mitigated so that no adjustments were required to the SCR as calculated by the standard formula.

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

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

Conclusion on the appropriateness of the standard formula for AIU

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

- I believe the standard formula sufficiently captures the risks that AIU is exposed to. For risks that are not captured by the standard formula, these are regularly monitored and mitigated by AIU.
- The findings of the 2019 external assessment show that AIU's SCR is conservative when allowing for AIU's specific risk profile.
- Based on the analysis as at 31 December 2018, the standard formula gives a higher capital requirement than both the 1-year (after the risk margin allowance) and ultimate requirements as calculated by AIU's own ECM, indicating that the standard formula was not understating the capital requirements.
- The standard formula results are broadly consistent each quarter which gives some assurance around the stability of the results.
- The AIU ECM is based on a model for AmTrust Group's Lloyd's syndicate, which is subject to Lloyd's validation requirements. As such, I have considered the results from this model in my assessment of the standard formula appropriateness.

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

Independent calculation of the SCR for AIU

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

My independent estimates provide me with the evidence required to support my conclusion that the standard formula SCR for AIU has been calculated materially correctly.

Appropriateness of the standard formula for AA

AA uses the standard formula to calculate its SCR. I am not aware of any plans to develop an internal model in the short to medium term. Given the relative infancy of AA, and the potentially volatile claims experience because of small premium volumes and a lack of development history, this limits the use of AA's own data to parameterise an internal model or apply USPs in the standard formula without the need for significant expert judgement. I believe the use of the standard formula to calculate the SCR is materially appropriate.

Independent calculation of the SCR for AA

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

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

6.8. SCR scenario analysis for AIU and AA

Within the ORSA for AIU, several scenarios have been considered to understand the impact on the SCR coverage ratio.. These scenarios do not take into account the impact of the various planned transfers.

AIU scenarios

For AIU, the key downside scenarios are:

1. **Reserve deterioration** – An increase in reserves equivalent to a 1 in 10-year event. This represents the risk that AIU's provisions turn out to be inadequate.
2. **Economic downturn** – a combination of an increase in incurred claims equivalent to a 1 in 5-year event, a 5% loss on debtors and a discontinuation of mortgage business.
3. **Reinsurer default –** default of Maiden and AII, two key reinsurers for AIU. This is effectively a **reverse stress test** for AIU ie a what-if scenario to assess what level of reinsurer default could threaten AIU's solvency.

A summary of the impact of each scenario is set out below:

Scenario	Impact on SCR/own funds relative to base scenario	Impact on AIU's risk appetite
Reserve deterioration	The scenario leads to an increase in the insurance reserving risk. This is partially offset by a reduction in market risk due to the reduction in net asset values. Overall this leads to an increase in the SCR. The level of own funds also reduces.	The scenario would lead to a reduction in the SCR coverage ratio in 2020 and 2021 relative to the base scenario. It is expected to fall just below AIU's tolerated risk appetite level (140%) in 2020 before improving further in 2021.
Economic downturn	The increase in SCR is driven by an increase in counterparty default risk. Similarly, the scenario leads to a reduction in the level of own funds.	Whilst the scenario would lead to a reduction in the SCR coverage ratio relative to the base scenario, it is still above AIU's tolerated risk appetite level.
Reinsurer default	The default of Maiden and AII would significantly increase insurance risk due to the increase in technical provisions. This would also lead to a significant fall in own funds. This would lead to AIU's insolvency with no new business to be written.	The likelihood of this event occurring is expected to be very remote. The SCR coverage ratio drops well below AIU's tolerated risk appetite which is not unexpected given the severity of the event and AIU's dependency on its reinsurance arrangements.

I consider the scenarios to be reasonable for the following reasons:

- The scenarios focus on the key risks that drive AIU's capital position. The reserve and economic stresses are reasonably likely representing, respectively, 1-in-10 and 1-in-5 year events.
- The impact of each scenario on the SCR and level of own funds, relative to the base scenario, is directionally as expected.
- The impact of each scenario is considered beyond the next 12 months. In each scenario, the solvency coverage ratio is expected to be above the risk appetite level by 2021.
- The insolvency causing event (reverse stress test) for AIU is expected to be extremely remote. I consider this to be reasonable on the basis of the respective financial strength of AII and Maiden and the collateralisation of the reinsurance. AIU's ORSA describes the management actions in the event of reinsurer default. Management would place AIU into solvent run-off.

AA scenarios

For AA, the key downside scenarios are:

1. **Reserve deterioration** – an increase in reserves equivalent to a 10% increase in loss ratio across all lines of business.
2. **Economic downturn** – a c. 7% reduction in market values of all assets held in 2020.
3. A combination of the two scenarios above.
4. **Reverse stresses** – four reverse stress scenarios were considered:

4.1 A deterioration in loss ratio on the medical malpractice business that leads to a reduction in the SCR coverage ratio to 100% (equivalent to an increase in loss ratio from 65% to 200% and a simultaneous increase in the retained portion per claim increasing from €2.5m to €5.0m).

4.2 No recoveries from the excess of loss reinsurance treaty.

4.3 An increase in AA's retention of each claim from €2.5m to €10.0m.

4.4 An increase in premium income in 2020 from €90m to €135m without an increase in own funds.

A summary of the impact of each scenario is set out below:

Scenario	Impact on SCR/eligible own funds relative to base scenario	Impact on AA's risk appetite
Reserve deterioration	This scenario leads to a gradual reduction in the SCR coverage ratio driven primarily by a reduction in the level of own funds through to 2021. The SCR also increases over the period, driven primarily by an increase in insurance risk.	The SCR coverage ratio decreases from AA's risk appetite level of 145% to 117% by 2021.
Economic downturn	This scenario leads to a gradual reduction in the SCR coverage ratio driven primarily by a reduction in the level of own funds through to 2021. The SCR also reduces over the period driven primarily by a reduction in market risk.	The SCR coverage ratio decreases from AA's risk appetite level of 145% to 130% by 2021.
Combined reserve deterioration and economic downturn	This combined scenario leads to a greater proportionate reduction in the level of own funds than in the SCR.	The SCR coverage ratio decreases from AA's risk appetite level of 145% to 113% by 2021. This reduction in SCR coverage ratio is greater than the first two scenarios individually given the greater proportionate reduction in the level of own funds than the SCR.
Deterioration in loss ratio	A reduction in level of own funds from €50.9m to €42.1m and an increase in the SCR from €35.1m to €42.0m.	This leads to a reduction in AA's SCR coverage ratio from 145% to 100%.

Scenario	Impact on SCR/eligible own funds relative to base scenario	Impact on AA's risk appetite
No recoveries	No change in the level of own funds but an increase in the SCR from €35.1m to €56.1m.	This leads to a reduction in AA's SCR coverage ratio from 145% to 91%.
Increase in retention	A reduction in level of own funds from €50.9m to €48.1m and an increase in the SCR from €35.1m to €61.3m.	This leads to a reduction in AA's SCR coverage ratio from 145% to 78%.
Increase in premium income	No change in the level of own funds but an increase in the SCR from €35.1m to €44.7m.	This leads to a reduction in AA's SCR coverage ratio from 145% to 114%.

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

- The scenarios focus on the key risks that drive AA's capital position.
- The impact of each scenario on the SCR and level of eligible own funds, relative to the base scenario, is directionally as expected.
- The impact of each scenario, bar the reverse stress tests, is considered beyond the next 12 months and leads to an SCR ratio in excess of 100%.
- The insolvency causing event (reverse stress) for AIU is expected to be extremely remote.

I consider that AIU and AA have demonstrated resilience to reasonably severe shocks with which are designed to capture the risks that each entity faces.

Post-Transfer scenarios

AIU scenarios

AIU, as part of their 2019 ORSA, has considered scenarios to understand the potential impact on the post-transfer SCR coverage ratio of specific risks. The description and results of the key scenarios that have a material impact on the coverage ratio are as follows:

- **Swiss Re termination** – In this scenario, the quota share with Swiss Re is not renewed at the scheduled date of 1 July 2020 and is not replaced by any additional cover over the remainder of the projection period.
- **Wider insurance stress** – The wider insurance stress consists of an increase in ultimate loss ratios (ULRs) in line with the 80th percentile of the AIU economic capital model. There is also a downgrade of the credit rating for all reinsurance partners.

- **Deterioration in medical malpractice experience** – This scenario, includes an increase in the ULRs for the Italian Medical Malpractice business line equivalent to the 80th percentile worst result. In this scenario the portfolio transfer of the Italian Medical Malpractice business is delayed by one year and takes place on 1 July 2021.
- **Lehman asset shock** – This scenario involves a shock to investments in line with the stresses that occurred following the default of Lehman Brothers in 2008. The haircut to assets impacts both the investments held on AIU's balance sheet and the collateral held against the reinsurance exposures to Maiden and AII.
- **Cyber stress** – The cyber stress scenario, consists of a single operational loss of €101m on 1 July 2020.
- **Reverse stress** – The reverse stress, takes the form of the loss of the Swiss Re quota share reinsurance from 1 July 2020 and an operational shock of €101m from a cyber event occurring at the same time.

	Q2 2020	Q4 2020	Q4 2021	Q4 2022
Base	**150%**	**150%**	**154%**	**154%**
Scenarios				
Swiss Re termination	146%	140%	129%	127%
Wider insurance stress	108%	129%	135%	136%
Deterioration in medical malpractice experience	124%	119%	144%	145%
Lehman asset shock	144%	145%	148%	150%
Cyber stress	150%	112%	115%	116%
Reverse stress	146%	103%	95%	95%
Movement from base				
Swiss Re termination	(4%)	(10%)	(25%)	(27%)
Wider insurance stress	(42%)	(21%)	(19%)	(18%)
Deterioration in medical malpractice experience	(26%)	(31%)	(10%)	(9%)
Lehman asset shock	(6%)	5%)	(6%)	(4%)
Cyber stress	0%	(38%)	(39%)	(38%)
Reverse stress	(4%)	(47%)	(59%)	(59%)

These scenarios are used for tracking against business plan expectations during 2020. As a result, the base results are not exactly comparable to the capital projections derived when assessing the impact of the transfers on SCR coverage ratios. However, I still believe these ORSA scenarios to be materially appropriate for use in my assessment of the impact of the stresses on AIU on a post-transfer basis.

The reverse stress test leads to SCR coverage ratios below the 100% level but not a breach of AIU's MCR ie insolvency. It demonstrates AIU's relative resilience to losses of this size and nature.

All other scenarios lead to smaller reductions in the SCR coverage ratio post-transfer. To ensure AIU is sufficiently capitalised relative to its own risk appetite level of 140%, additional capital would be required from AIU's parent in respect of a number of these scenarios.

The wider insurance stress would lead to a notable reduction in SCR coverage ratio as at Q2 2020. This is not unexpected given the relative severity of the deterioration in claims experience, equivalent to a 1-in-5-year event, which would reduce the level of own funds and increase in SCR. The increase in SCR would be driven by an increase in reserve risk and counterparty default risk as a result of the downgrade in the credit ratings of reinsurers.

The termination of the Swiss Re quota share programme would lead to an increase in own funds relative to the base scenario as expected profits are no longer ceded to Swiss Re. However, this is more than offset by the increase in SCR following an increase in net exposures.

The deterioration in medical malpractice experience, leading to a delay in the transfer of one year, would lead to a notable reduction in coverage ratio in 2020 driven by a decrease in own funds and increase in SCR. However, AIU's SCR coverage ratio is expected to increase to above risk appetite levels by the end of 2021. This is due to a projected reduction in SCR over the period due to a reduction in non-life insurance risk since the earned business from the transferring business in the period following the transfer is no longer expected. The increase in coverage ratio is also driven by an increase in own funds following a decrease in new business on transferring lines that now no longer contribute to new business strain.

The Lehman shock has a relatively small impact on AIU's coverage ratio which is not unexpected given AIU's fairly cautious investment strategy limiting their potential exposure.

The cyber shock would lead to a notable reduction in AIU's SCR coverage ratio through a reduction in level of own funds. However, this is partially offset by a corresponding reduction in the tax liability.

For similar reasons as for the pre-transfer scenarios modelled for AIU as part of their 2018 ORSA, I consider the scenarios modelled here to be reasonable. I consider that AIU has demonstrated resilience to reasonably severe shocks, designed to reflect the key risks it faces, post-transfer.

AA scenarios

The impact of post-transfer scenarios is currently being considered by AA and I will comment on these further in my Supplementary Report. The scenarios that AA expects to consider include the following:

- A yield curve and inflation shock
- An extreme insurance market crisis including a parental default
- A number of smaller impact events that all occur at the same time
- Deterioration in loss ratios.

6.9. The planned capital structures for AIU and AA

No material change is planned to AIU's capital structure post transfer. Virtually all of AIU's own funds were classified as unrestricted tier 1, ie the highest quality. Less than 6% of AIU's own funds sat in a restricted ring-fenced fund.

A solvency coverage ratio of 150% is targeted for AIU post-transfer, higher than the current risk appetite for AIU of 140%.

For AA, a higher risk appetite solvency coverage ratio of 145% is targeted reflecting the concentration of medical malpractice business within this entity. However, post-transfer a solvency coverage ratio of 150%, in excess of the risk appetite, is targeted.

AmTrust has confirmed that they will look to maintain targeted capital coverage levels across each entity post-transfer.

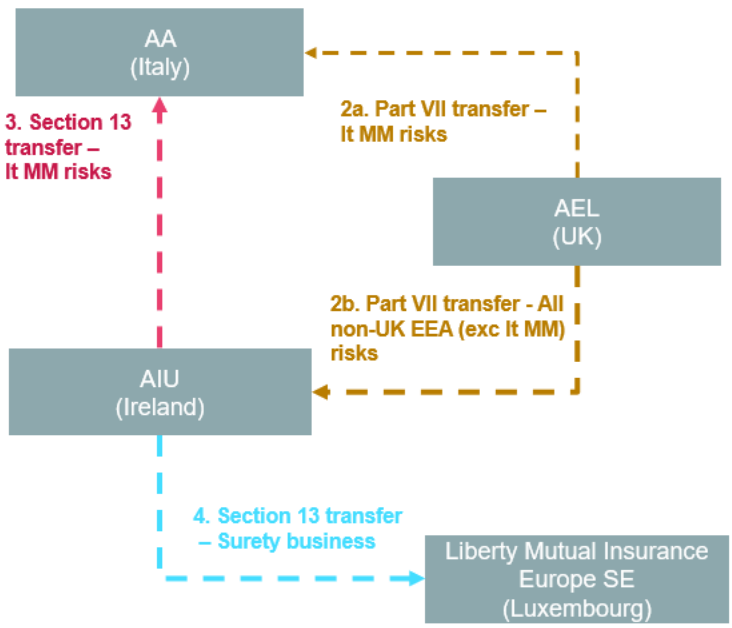
AEL and AIU will transfer to assets to AA equal to the technical provisions and other net liabilities related to the Proposed Transfer.

AEL and AIU will also pay dividends to their parent companies equal to any capital in excess of 150% of their SCR after taking into account the various planned transfers. These dividends will then be used, as needed, by the Group to fund the capital needs of AA up to a 150% SCR coverage ratio following the execution of the transfers.

6.10. Projected SCR coverage ratios

The following tables set out the SCR coverage ratios for AIU and AA pre- and post- the Proposed Transfer, as set out in the following diagram. Please refer to Section 2.2 for more detail. Day 0 is the day before the Effective Date of the Proposed Transfer (1 July 2020) and Day 1 is the day after the Effective Date. Transfer 2 also has the same Effective Date as the Proposed Transfer.

The figures in the first table below assume that Transfer 2 (ie 2a: AEL to AA and 2b: AEL to AIU), occurs at the same time as the Proposed Transfer (Transfer 3: AIU to AA).



* It MM = Italian Medical Malpractice

Note that in the figures presented below, Transfer 4 is also assumed to have already taken place given it has an Effective Date of 31 March 2020 ie before the Effective Date of the Proposed Transfer.

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

SCR and coverage ratios pre- and post- the Proposed Transfer and Transfer 2

	SCR coverage ratio	Change in coverage ratio	Own funds (€m)	SCR (€m)	Own funds less SCR (€m)
Day 0 – pre-Transfer					
AIU	160%		270.1	168.4	101.7
AA	145%		124.0	85.5	38.5
Day 1 – post-Transfer					
AIU (2b ☑, 3 ☑)	150%	(10%)	240.5	160.6	80.0
AA (2a ☑, 3 ☑)	150%	+5%	332.4	222.0	110.4

Source: AmTrust

Key: ☑ - transfer expected to take place, ☒ - transfer not expected to take place

In summary, following the Proposed Transfer, and assuming that Transfer 2 takes place as planned:

Non-transferring Policyholders

- The SCR coverage ratio of Non-transferring AIU Policyholders is projected to decrease from 160% to 150%. However, AIU is well-capitalised post-transfer and remains capitalised above its risk appetite.
- I do not expect the decrease in the AIU SCR coverage ratio to lead to a material decrease in the probability of AIU remaining solvent over one year.
- AIU's coverage ratio is expected to return to pre-transfer levels by September 2021 ie within 15 months of the Proposed Transfer, assuming all transfers proceed as planned. Assuming the AMIL to AIU transfer does not take place, AIU's coverage ratio is expected to return to pre-transfer levels by June 2021.

Transferring Policyholders

- The SCR coverage ratio of Transferring AIU to AA Policyholders is projected to decrease from 160% to 150%. However, AA is well-capitalised post-transfer and remains capitalised above its risk appetite.
- The Transferring Policyholder's SCR coverage ratio is expected to return to pre-transfer levels by June 2021 ie within 12 months of the Proposed Transfer, assuming all transfers proceed as planned.

AA Policyholders

- The SCR coverage ratio of AA Policyholders is expected to increase from 145% to 150%, ie above AA's risk appetite level of 145%. AA becomes well-capitalised (rather than having sufficient capital) as a result of the Proposed Transfer.

- AA's SCR coverage ratio is expected to stay above this level and increase to 168% by December 2021 ie within 18 months of the Proposed Transfer.

Market comparison of SCR coverage ratio

LCP perform an annual market review of Solvency II reporting across the UK and Ireland. I have compared the targeted coverage ratio of 150% for each AmTrust entity against, firstly, the full sample of insurers analysed and, secondly, by insurer type.

In the market review, we classified each insurer according to whether more than 50% of their gross written premiums were written in a single Solvency II line of business. If not, they were classified as multi-line insurers. On this basis, based on 2018 year-end figures, AIU would be classified as a multi-line insurer and AA as a general liability insurer.

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

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

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

AIU's post-transfer SCR coverage ratio of 150% would be close to the 50th percentile of other multi-line insurers. This analysis gives me comfort that the post-transfer coverage ratio of AIU is not out of line with the wider market.

Although the market analysis was based on UK and Irish insurers, there is benefit in comparing AA's post-transfer SCR coverage ratio to other general liability insurers in the review. AA's coverage ratio of 150% would be within the 25th-50th percentile range for general liability insurers sampled in the review. Therefore, I consider AA's post-transfer coverage ratio not to be out of line with the wider UK and Irish markets, albeit it is in the second quartile of the capital coverage ratios.

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

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

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

Contingencies

AmTrust have confirmed that the Proposed Transfer and Transfer 2 will go ahead irrespective of whether Brexit happens or not. They have also confirmed that, if for any reason one particular transfer, or part of a transfer, does not go ahead, all other transfers, or parts of transfers, will proceed.

Given this, AmTrust has modelled the SCR coverage ratio for all possible permutations of transfers. Under these permutations, the projected SCR coverage for all entities is either above 150% ie well-capitalised or above the pre-transfer level.

Hence the conclusions I drew earlier in this section remain appropriate. The various permutations of transfers are summarised in the table below:

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

	SCR coverage ratio	Change in coverage ratio	Own funds (€m)	SCR (€m)	Own funds less SCR (€m)
Day 0 – pre-Transfer					
AIU	160%		270.1	168.4	101.7
AA	145%		124.0	85.5	38.5
Day 1 – post-Transfer					
AIU (2b ☒, 3 ☑)	150%	(10%)	206.6	137.8	68.8
AIU (2b ☑, 3 ☒)	150%	(10%)	287.7	191.9	95.8
AA (2a ☒, 3 ☑)	150%	+5%	219.0	146.2	72.8
AA (2a ☑, 3 ☒)	150%	+5%	236.2	157.9	78.3

Source: AmTrust

Key: ☑ - transfer expected to take place, ☒ - transfer not expected to take place

6.11. Overall conclusion: Capital considerations

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

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

- **The projected capital requirements for AIU and AA have been calculated appropriately for both Non-transferring Policyholders, Transferring Policyholders 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.**

7. Policyholder security

7.1. My considerations relating to policyholder security

As IA my overall assessments related to policyholder security are:

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

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

- Balance sheets of AIU and AA (Section 7.2)
- Solvency positions of AIU and AA (Section 7.3)
- Access to a compensation scheme (Section 7.4)
- Access to an insurance ombudsman service (Section 7.5)
- Reinsurance arrangements with reinsurers (Section 7.6)
- Insurance regulation (Section 7.7)

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

7.2. Balance sheets of AIU and AA

I have based my analysis on projected balance sheets, immediately pre- (Day 0) and post- (Day 1) the Proposed Transfer, on the anticipated Effective Date of 1 July 2020.

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

For the comparison below, I have assumed that all the other proposed transfers within the AmTrust Group that are due to take place before or on the Effective Date of the Proposed Transfer will have taken place.

GAAP balance sheets of AIU and AA (€m)

	AIU €m Day 0 Pre-Transfer	AA €m Day 0 Pre-Transfer	AIU €m Day 1 Post-Transfer	AA €m Day 1 Post-Transfer
Investments and cash	483	158	424	598
Deferred acquisition costs	27	8	29	18
Reinsurers recoverables	636	35	523	554
Insurance and intermediaries receivables	110	23	104	47
Any other assets, not shown elsewhere	40	0	40	0
Total Assets	**1,296**	**224**	**1,121**	**1,217**
Technical provisions	865	79	736	814
Technical creditors	64	19	76	26
Any other liabilities, not shown elsewhere	68	0	73	(2)
Total Liabilities	**998**	**98**	**885**	**838**
Total Equity	**298**	**126**	**236**	**379**

Source: AmTrust

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

Note that the AA figures above are not on an Italian GAAP basis. This does not allow credit to be taken for policy deductibles until the underlying claim has been paid. I do not expect the transferring AIU policyholders to AA to be materially disadvantaged by this accounting treatment since it will, all else being equal, lead to a higher level of booked provisions than under Irish GAAP. This does not have an impact on a Solvency II basis and so projected SCR coverage ratios are unchanged.

AmTrust has had preliminary discussions around the implications of this accounting issue and potential solutions with their Italian advisers and auditors and with IVASS. The main option being considered is the possibility of booking an intangible asset (or goodwill) representing the difference in valuations under UK/Ireland GAAP and Italian GAAP bases. This option would be enhanced if a third party, through a reinsurance agreement or financial guarantee, supported this asset. I will provide an update on this issue in my Supplementary Report.

As expected, given the Proposed Transfer, the key movements in the balance sheet for AIU are the reduction in technical provisions, together with the corresponding reduction in reinsurance recoverables, and the reduction in investments and cash. The reduction in AIU's balance sheet reflects that business transferring out to AA is more significant than that transferring in from AEL.

AA's balance sheet increases significantly due to the receipt of the transferring AEL and AIU business.

7.3. Solvency positions of AIU and AA

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

Solvency positions of AIU and AA (€m)

	AIU €m Day 0 Pre-Transfer	AA €m Day 0 Pre-Transfer	AIU €m Day 1 Post-Transfer	AA €m Day 1 Post-Transfer
Total own funds eligible to meet SCR	270.1	124.0	240.5	332.4
SCR	168.4	85.5	160.6	222.0
SCR coverage ratio	**160%**	**145%**	**150%**	**150%**

Source: AmTrust

As set out in the above table, AIU is well-capitalised immediately before and after the Proposed Transfer. AA is expected to be sufficiently capitalised before the Proposed Transfer and well-capitalised immediately after the Proposed Transfer (as described in Sections 6.1 and 6.10).

7.4. Access to a compensation scheme

In some states, a national insurance compensation scheme may provide compensation to insurance policyholders or claimants in the event of the insolvency of an insurance company.

The Irish Insurance Compensation Fund is one such scheme. However, this is not relevant to the Transferring Policyholders as it is designed to facilitate compensation only in relation to risks situated in Ireland.

The transferring policies cover risks situated in Italy and as such the Transferring Policyholders would not have had access to the Irish Compensation Fund. Therefore, access to national insurance compensation schemes for Transferring Policyholders would not be impacted by the Proposed Transfer.

In Italy a compensation scheme is only available for a small number of specific classes of business (such as the Guarantee Fund for Victims of Road Accidents). Therefore, Transferring Policyholders are unlikely to have access to such schemes.

I have therefore concluded the Transferring Policyholders will not be disadvantaged in terms of access to national insurance compensation schemes.

7.5. Access to an insurance ombudsman service

FIN-NET is a network of national organisations responsible for settling consumers' complaints in the area of financial services out of court. The network covers the countries of the European Economic Area.

Policyholders of AIU can access this network via the Financial Services and Pensions Ombudsman's Bureau of Ireland.

However, these ombudsman services are applicable only to policyholders who fall within the definition of "consumer" which varies from EEA Member State to Member State. For example, in Ireland, consumers are defined as personal customers and limited companies, charities, clubs, trusts and partnerships with turnover of less than €3m. The Transferring Policyholders are unlikely to meet this definition.

In Italy there is no generic national ombudsman although there are schemes based on a regional basis which can be contacted through IVASS or the Arbitro Bancario Finanziario (ABF).

I have therefore concluded the Transferring Policyholders will not be disadvantaged by loss of access to an ombudsman service.

7.6. Reinsurance arrangements with reinsurers

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

Reinsurance is purchased on a group basis and allocated to individual companies in line with their business plans. This is a centralised function managed under the service agreement with AII. Quota share is a common type of reinsurance arrangement, where an insurer shares a set proportion of premiums and claims with the reinsurer.

AIU has two main live reinsurance policies protecting the transferring business, a 50% quota share arrangement with AII for risks that incepted on or after 1 January 2019, which is fully collateralised, and a quota share arrangement with Swiss Re as of 1 July 2019. The coverage is on a policy attachment basis ie only policies underwritten within the twelve-month period of the policy are covered.

There are also two expired quota share arrangements:

- AII – from 1 May 2007 to 31 December 2018, 85% of the business written was reinsured, the proportion of medical malpractice ceded was 45%. This quota share is partially collateralised, €132m in security has been set aside which built up over 2019 and is reported to the CBI on a quarterly basis.
- Maiden Re – this reinsurance covered 40% of the Italian and French medical malpractice business written between 3 April 2011 and 31 December 2018. This reinsurance is fully collateralised.
- Maiden is in the process of re-domiciling from Bermuda to Vermont in the United States. Re-domiciling to a non-Solvency II equivalent territory would, all else being equal, lead to an increase in AIU's SCR and a therefore a reduction in AIU's SCR coverage ratio.
- Maiden has agreed an endorsement to its contract with 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 is at the same level as it would have been prior to any re-domicile. Therefore, there is no adverse impact on AIU's SCR pre- or post-Transfer nor their SCR coverage ratio.

In addition, there is a further quota share and several excess of loss reinsurance arrangements covering specific product lines. The excess of loss reinsurance responds to reinsured liabilities before the quota share reinsurance

All of AIU's reinsurance that provides cover for the transferring business will transfer to AA. Similarly, reinsurance arrangements providing cover for non-transferring business will remain with AIU.

New business risks will be covered by the existing Swiss Re quota share. AA, as indicated in their business plan application to IVASS, will purchase excess of loss cover to protect its catastrophe liability exposures.

Existing AA policyholders are currently protected by the Swiss Re policy, but post-transfer will be exposed to Maiden and AII. Whilst this represents a new risk for AA policyholders, I do not believe they are materially adversely affected due to the relative financial strength of both entities and their respective parent companies. Also, Maiden will be required to post additional collateral above the level of the best estimate reserves held due to the plans to re-domicile in Vermont.

7.7. Insurance regulation

Prudential regulation

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

Both Ireland and Italy are currently regulated under Solvency II. Solvency II covers the prudential regulation of insurers, including risk management and capital requirements.

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

Conduct regulation

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

There is currently less harmonisation in conduct regulation across the EEA compared to prudential regulation. However, a number of existing EU Directives govern consumer regulation across the EEA, so apply to both Ireland and Italy.

For example, since October 2018, the Insurance Distribution Directive (IDD) has strengthened and consolidated the existing rules covering the distribution of insurance and reinsurance, and also the administration and performance of an insurance policy once it has been written.

There is access to similar mechanisms regulating terms of conduct regulation in both Ireland and Italy for the Transferring Policyholders based on EU Directives.

However, since the Transferring Policyholders are and will remain in Italy, they will be subject to the same conduct regulation before and after the Proposed Transfer.

Conclusions on regulation

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

7.8. Overall conclusion: Policyholder security

Based on the work and rationale described above, I have concluded that it is very unlikely that the security provided to Transferring Policyholders will be materially adversely affected by the Proposed Transfer.

8. Policyholder communications

8.1. My considerations relating to policyholder communications

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

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

8.2. Overview of communications strategy

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

- *Non-transferring Policyholders:* It is not proposed to issue individual notifications of the Proposed Transfer to Non-transferring Policyholders.
- *Transferring Policyholders:* It is not proposed to issue individual notifications of the Proposed Transfer to Transferring Policyholders pre-transfer. AA will directly notify Transferring Policyholders post-transfer.
- *AA Policyholders:* It is not proposed to issue individual notifications of the Proposed Transfer to AA Policyholders.
- *Reinsurers*: A letter will be sent to each reinsurer of the transferring business providing details of the Proposed Transfer and requesting written consent to the Proposed Transfer. Such consent will be deemed to have been provided if no signed consent is received within four weeks.
- *Intermediaries and other parties (including brokers, managing general agents (MGA) and schemes):* It is not proposed to directly notify those who have placed business for the Transferring Policyholders.

There is no requirement under Irish or Italian law for AIU to write to Non-transferring Policyholders, Transferring Policyholders or AA Policyholders before the Proposed Transfer.

Following the Proposed Transfer, IVASS will publish a notice that the transfer has occurred in its official monthly Supervisory Bulletin. Under Italian law, AA is required to directly notify Transferring Policyholders and relevant beneficiaries that the transfer has occurred, within ten days of the publication of the notice in the Supervisory Bulletin.

The Transferring Policyholders are established in Italy, but AIU does not have the residential address of all the beneficiaries of the policies. Therefore, the letter to Transferring Policyholders will include a request for the recipients to directly notify any relevant beneficiaries under the policies as required.

8.3. Planned notices

In compliance with Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015, AIU will publish a notice of the Proposed Transfer in Ireland as :

- the Iris Oifigiúil; and
- two national newspapers in Ireland (the Irish Examiner and the Irish Independent).

AIU will, out of caution, publish details of the Proposed Transfer in The Financial Times (International edition) and one other quality national newspaper in each EEA Member State, save that:

- where the circulation of The Financial Times (International edition) is below 2,000 in any particular EEA Member State, AIU will publish in two quality or business national newspapers in each such EEA Member State; and
- it is proposed to advertise in Belgium in one Flemish-language quality newspaper and one French-language quality newspaper to reflect that both Flemish and French are widely spoken in Belgium.

Both AIU and AA will:

- display key documents regarding the Proposed Transfer including this report at their registered offices in accordance with Section 13 (3) (c) of the 1909 Act; and
- include notices on their website homepages linking directly to the dedicated webpages relating to the Proposed Transfer which will include access to the key documents relating to the Proposed Transfer.

IA conclusion

I am satisfied that the communications strategy is reasonable and appropriate and that those who will be affected by the Proposed Transfer will be informed appropriately.

I am satisfied that the approach not to issue individual notifications to the various stakeholders regarding the Proposed Transfer pre-transfer is reasonable as they are not materially adversely affected and further that there is no legal requirement for such notification.

8.4. Translation of key documents

Public notices and advertisements will be made in the relevant local language in each country. The documents relating to the Proposed Transfer provided by AA will be in Italian.

Readers of the translated IA reports should rely on AIU and AA, and not myself or LCP, to ensure that the translations into Italian or any other language are accurate.

8.5. Clarity of communication

I have reviewed drafts of the Scheme Document, the Petition to the High Court and the letter to be sent to Transferring Policyholders post-transfer.

IA conclusion

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

8.6. Overall conclusion: Communication strategy

Based on my review of the communication strategy, I have concluded that the planned communications strategy is appropriate.

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

9. Customer service and other considerations

9.1. Customer service

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

The same claims handlers will continue to handle all AIU Italian medical malpractice claims from the Italian office post-transfer as pre-transfer. The only change post-transfer is that claims over €1m, that were previously approved by AIU, will now be approved by AA. Policyholders will not be impacted by this change to the claims handling process.

In addition, AmTrust will maintain the same contact details for policyholders and forward policyholders' communications if required.

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

9.2. Tax implications

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

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

Therefore, there are no tax implications of the Proposed Transfer on Non-transferring Policyholders or Transferring Policyholders.

9.3. Investment management implications

AIU's investment strategy is approved by an investment committee with oversight by the Board. This committee adheres to similar governing principles and guidelines set at the AmTrust Group level. The investment mix of AIU and AA is expected to be similar. As at 31 December 2018, the majority of AIU's invested assets were in corporate or government bonds. A small proportion is invested in bank deposits, collateralised securities and collective investment vehicles.

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

The investment strategy of AA follows the wider strategy of the AmTrust Group and is managed in a similar manner to AIU.

No changes to AIU's investment strategy are planned as a result of the proposed transfer.

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

9.4. Implications on ongoing expense levels

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

Therefore, I do not anticipate that this will create any materially adverse impact to the Non-transferring Policyholders or Transferring Policyholders as a consequence of the Proposed Transfer.

9.5. Impact on liquidity position

The liquidity position of a company represents its ability to meet all claim payments and other obligations as and when they fall due. AIU monitors asset liquidity as part of its ORSA process. AA will also follow a similar process. AIU invests mainly in government bonds and corporate bonds which are normally readily convertible into cash. AA will also follow a similar strategy. As both AIU and AA are open to new business, liquidity is also available from new premium income.

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

9.6. Set-off

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

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

9.7. Overall conclusions: Customer service and other considerations

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

10. Conclusions and Statement of Truth

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

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

I have concluded that:

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

10.1. Issues to highlight

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

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

- Any changes to the final details of the Proposed Transfer.
- Any policyholder or reinsurer objections received.
- Updated financial information and capital projections.
- Formal capital policy for AIU
- Updated details on business written by AA prior to the Proposed Transfer.
- Progress on AIU's management response to the final recommendations from the AIU external regulatory review and the implementation of the proposed actions.
- The potential consequences (if any) if Transfer 4 has not taken place by the time of the Proposed Transfer.
- The impact of post-transfer scenarios for AA.
- Findings from the review of the transferring Italian medical malpractice portfolios requested by IVASS.
- The accounting treatment of unpaid deductible recoveries under Italian GAAP.

I will consider these points further as part of my Supplementary Report.

10.2. IA 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.

10.3. Sign-off

Stewart Mitchell FIA
Partner

19 February 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 Irish High Court in respect of the insurance business transfer scheme described in this report, in accordance with Section 13 of the Assurance Companies Act 1909. The Scheme Report is not suitable for any other purpose.

A copy of the Scheme Report will be sent to the Central Bank of Ireland and will accompany the Scheme application to the Court.

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

Professional Standards

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

Appendix 1 – Glossary

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

Appendix 1 (cont)

Term	Definition
Excess of Loss Reinsurance	A type of reinsurance in which the reinsurer indemnifies the ceding company for losses that exceed a specified limit (in respect of individual claims or the aggregate cost of claims). Excess of loss reinsurance is a form of non-proportional reinsurance.
Expected Loss Ratio method	An actuarial method for estimating future payments or numbers based on combining an exposure measure and an assumed rate per unit of exposure (the "initial expected loss ratio") for the written business.
Financial Reporting Council (FRC)	The body responsible for setting actuarial standards in the UK. The FRC also regulates auditors and accountants and sets the UK's Corporate Governance and Stewardship Codes.
Generally accepted accounting principles (GAAP)	A collection of commonly-followed accounting rules and standards for financial reporting. GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.
Incurred but not enough reported (IBNER)	See definition of IBNR
Incurred but not reported (IBNR)	The provision for claims that are reported in the future but relate to events that have already occurred. This includes provision for estimated developments to existing open claims, ie those that have been reported but not fully settled. The provision for these open claims is called IBNER (Incurred But Not Enough Reported). Depending on the type of insurance being considered and the claims handling approach, both the IBNR and IBNER can be either positive or negative.
Independent Actuary	A suitably qualified person appointed to produce an independent report, for the Court, on an insurance business transfer scheme, in accordance with Section 13 of the Assurance Companies Act 1909. The Independent Actuary's primary duty lies with the Court, and the opinion of the actuary is independent of those of the sponsoring companies involved in the Transfer and the CBI.
Insurance Compensation Fund (Ireland)	The Insurance Compensation Fund is primarily designed to facilitate payments to policyholders in relation to risks in the State where an Irish authorised non-life insurer or a non-life insurer authorised in another Member State goes into liquidation.
Institute for Insurance Supervisions – IVASS	The regulator of the insurance sector in Italy
Market risk	The risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this covers the risk of falls in the value of assets that are being held to make future claims payments.

Appendix 1 (cont)

Term	Definition
Minimum Capital Requirement (MCR)	A formulaic calculation of the capital requirement as part of the existing European Solvency II regulations for insurers. Breaching the MCR defines the point of intensive regulatory intervention. The calibration of the MCR is to be the capital required to give an 85% confidence level of sufficient capital to last one year. The MCR is a simpler calculation than the SCR and is typically a less onerous requirement.
Operational risk	The risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would cover the risk of fraud or IT failure.
Own funds	The capital in excess of provisions available to meet the SCR capital requirements under Solvency II.
Proposed Transfer	The proposed insurance business transfer of AIU to AA under Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015.
Quota share reinsurance	A reinsurance contract in which the insurer and reinsurer share both claims and premiums in the same proportion. The reinsurer usually pays a commission to the insurer to allow for their costs of selling and administering the policy.
Required capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (ie the SCR).
Reinsurance	An arrangement with another insurer to share or pass on risks. For example, in the case of the Proposed Transfer, AIU is transferring underwriting (insurance) risk to AII using a reinsurance quota share arrangement.
Reinsurance bad debt	Reinsurance bad debt is a provision for amounts that are owed by reinsurers but which may not be paid, eg due to the insolvency of the reinsurer.
Risk Appetite	A framework of boundaries within which an insurer operates. The framework captures the risks to which the company is exposed and sets risk-specific and aggregate limits within which to manage the organisation.
Scheme Document	A document submitted to the Court setting out details of the Scheme or Proposed Transfer.
Scheme Report	This report prepared by me, as the Independent Actuary, for submission to the Court.

Appendix 1 (cont)

Term	Definition
Solvency Capital Requirement (SCR)	The amount of capital insurers are required to hold under Solvency II regulations. This is an estimate of capital required to ensure that an insurer is able to meet its obligations over the next 12 months with a probability of at least 99.5%. If an insurer's capital (ie the excess of its assets over its liabilities) falls below the SCR, it will trigger regulatory intervention, with the intention of remedying that position.
Solvency Financial Condition Report (SFCR)	Solvency II requires each insurer to publish an SFCR annually that contains certain qualitative and quantitative information.
Solvency II	The system for establishing (among other things) minimum capital requirements for EEA (re)insurers under the Solvency II Directive 2009/138/EC.
Standard Formula	A prescribed approach under Solvency II for the calculation of capital based on an insurer's financial information (eg premiums and claims provisions).
TAS 100	The FRC issued Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) which applies to all actuarial work produced after 1 July 2017.
TAS 200	The FRC issued Technical Actuarial Standard 200: Insurance (TAS 200) which applies to all actuarial work produced after 1 July 2017.
Technical provisions	Under Solvency II, the technical provisions cover the ultimate costs of settling all claims arising from events occurring up to the balance sheet date plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
Transferee	The insurer to which the business is being transferred, AmTrust Assicurazioni SpA (AA).
Transferor	The insurer from which the business is being transferred, AmTrust International Underwriters Designed Activity Company (AIU).
Unallocated Loss Adjustment Expenses (ULAE)	Unallocated Loss Adjustment Expenses are expenses relating to the handling of claims that are not allocated to specific claims, eg claim handlers' salaries and office space.
Underwriting risk	The risk that the value of insurance claims proves to be higher than expected.
Unearned Premium Reserve (UPR)	A provision for the unexpired portion of insurance policies and appears as a liability on the insurer's balance sheet, since the premium would be paid back upon cancellation of the policy.

Appendix 2 – Extract from Terms of Reference

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

Summary of agreed scope of work

I, Stewart Mitchell will act as Independent Actuary (IA) to support your planned Section 13 transfer of AmTrust International Underwriters (AIU) business into AmTrust Assicurazioni SpA (AA).

Your primary requirement is for the IA to act in line with Section 13 of the Assurance Companies Act 1909.

The key deliverables from the work will be:

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

Appendix 3 – CV of Stewart Mitchell FIA

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

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

Professional experience

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

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

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

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

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

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

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

Appendix 4 – Summary of data provided

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

1. **Draft Court and regulatory documents prepared by AmTrust for the Proposed Transfer, including:**
   - AIU Scheme Document (dated 10 December 2019)
   - Grounding affidavit AIU (dated 10 December 2019)
   - Grounding affidavit AA (dated 10 December 2019)
   - Petition to the High Court (dated 10 December 2019)
   - Legal Notice (dated 10 December 2019)

2. **Draft proposed communication plan and communications prepared by AmTrust:**
   - Proposed Communications Plan including Legal Notice (dated 10 December 2019)
   - Letter to Transferring Policyholders (dated 10 December 2019)

3. **Documents relating to provisions and reserving processes, including:**
   - AIU Internal Reserve Review Reports 2018
   - AIU External Reserve Review Reports 2018
   - AIU Actuarial Report on Technical Provisions 2018
   - AIU Audit and Reserve Committee Meeting Notes 2018
   - AIU Internal Audit Reports 2018
   - AIU Draft Terms of Reference 2018
   - AIU and AA Draft Reserving Policy

4. **Documents relating to capital and related processes, including:**
   - Solvency and Financial Condition Report (SFCR) for AIU year ending 31 December 2018
   - AIU and AA 2018 Own Risk and Solvency Assessment (ORSA) report
   - Details of AIU and AA's post-transfer ORSA scenario testing as part of the 2019 ORSA

- AA ORSA Policy (draft)
- AIU and AA Capital Management Policy 2018
- AIU Risk Appetite Statement
- AIU and AA Business Plan
- AIU and AA standard formula calculations
- AIU standard formula appropriateness assessments

5. Other evidence prepared by AIU and AA to support the Proposed Transfer, including:

- Draft projections of future balance sheets and capital requirements up to 31 December 2021 for AIU and AA
- Details of the impact of the Proposed Transfer on contact points and service standards
- Details of the tax, investment and liquidity implications of the Proposed Transfer

6. Data Accuracy Statement

- For AIU and AA

Appendix 5 – Mapping to requirements

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

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

I have included references from the UK regulators, the PRA and FCA, for ease of comparison to other IE/IA reports for Part VII and Section 13 transfers within the AmTrust Group.

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (1) FCA 18.2.33 (1) ASP 4.5(i)	Who appointed the independent expert and who is bearing the costs of that appointment	2.3 (page 12)
PRA 2.30 (2) FCA 18.2.33 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator (the PRA)	2.3 (page 12)
PRA 2.30 (3) FCA 18.2.33 (3) ASP 4.5(ii)	A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role	2.3 (page 12) Appendix 3
PRA 2.30 (4) FCA 18.2.33 (4) ASP 4.5(iii)	Whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest	2.3 (page 12)
PRA 2.30 (5) FCA 18.2.33 (5) ASP 4.5(iv)	The scope of the report	2.4 (page 13)
PRA 2.30 (6) FCA 18.2.33 (6) ASP 4.5(v)	The purpose of the scheme	3.3 (page 20)
PRA 2.30 (7) FCA 18.2.33 (7) ASP 4.5(vi)	A summary of the terms of the scheme in so far as they are relevant to the report	3 (page 17)

Appendix 5 (cont)

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (8) FCA 18.2.33 (8) ASP 4.5(vii)	What documents, reports and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided	Appendix 4
PRA 2.30 (9) FCA 18.2.33 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others	2.6 (page 14)
PRA 2.30 (10) FCA 18.2.33 (10)	The people the independent expert has relied on and why, in their opinion, such reliance is reasonable.	2.6 (page 14)
PRA 2.30 (11) FCA 18.2.33 (11) ASP 4.5(ix)	Their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee	Executive summary (page 4) 10 (page 68)
PRA 2.30 (12) FCA 18.2.33 (11A)	Their opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme.	Executive summary (page 4) 10 (page 68)
PRA 2.30 (13) FCA 18.2.33 (12) ASP 4.5(xiv)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme.	10 (page 68)
PRA 2.30 (14) FCA 18.2.33 (13)	For each opinion that the independent expert expresses in the report, an outline of their reasons	Reserving: 5.10 (page 34) Capital: 0 (page 55) Policyholder: 7.8 (page 61) Communication: 8.6 (page 64) Other: 9.7 (page 67)
PRA 2.32 (1) FCA 18.2.35 (1)	A description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme	3.2 (page 18)

Appendix 5 (cont)

Guidance reference	Guidance	Scheme report reference
PRA 2.32 (2) FCA 18.2.35 (2)	A description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	3.2 (page 18)
PRA 2.33 (1) FCA 18.2.36 (1)	Include a comparison of the likely effects if it is or is not implemented	3.4 (page 20)
PRA 2.33 (2) FCA 18.2.36 (2)	State whether they considered alternative arrangements and, if so, what	3.4 (page 20)
PRA 2.33 (3) FCA 18.2.36 (3)	Where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences they consider may be material to the policyholders	Executive summary (page 4) 7.4 (page 58)
PRA 2.33 (4) FCA 18.2.36 (4) ASP 4.5(viii) ASP 4.5(xii)	Include their views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; (b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and (c) the cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations	(a) Executive summary (page 4) 7.4 (page 58) (b) and (c) 9 (page 65)

The Proposed Transfer does not involve any mutual companies or long-term insurance business. As such, PRA 2.35 and PRA 2.36, FCA 18.2.38, FCA 18.2.39 and ASP 4.5(x), (xi), (xiii), and (xv) do not apply.

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