Supplementary Report of the Independent Expert on the proposed transfer of insurance business from

Stonebridge International Insurance Ltd to Advent Insurance PCC Ltd (UIB Cell)

in accordance with Part VII of the Financial Services and Markets Act 2000

For the High Court of Justice of England and Wales

FINAL
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LCP

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1. Executive summary

1.1. The Proposed Transfer

Stonebridge International Insurance Ltd (SIIL) is a UK insurer which was acquired by Global Premium Holdings Ltd (GPH), a company in the Embignell Group, on 28 February 2021. SIIL currently operates across the UK and the European Economic Area (EEA). Its current in-force policies are located in the UK, Germany, and Spain. It has run-off exposure in 7 other EEA states. Its operations across the EEA have utilised the EEA's Freedom of Services (FofS) arrangement under the passporting regime provided for in the European Solvency II Directive. The passporting regime allow firms headquartered and authorised in an EEA State to carry on insurance business throughout the EEA on the basis of their home state authorisation.

Following the withdrawal of FofS rights for SIIL upon expiry of the Brexit Transition Period on 31 December 2020, SIIL will not legally be able to carry on the EEA business in reliance on those rights. This means, for example, that in the absence of a dispensation from the local regulator or a transitional regime in the relevant EEA state for UK firms who previously relied on passporting rights, SIIL will not be able to issue new or renewal insurance policies across the EEA and may not legally be able to pay valid claims to existing EEA policyholders.

In Germany and Spain the local regulatory authorities agreed to a further extension until 31 December 2022. This exception was granted specifically to allow SIIL to complete the Proposed Transfer. The Proposed Transfer is intended to secure continuity of cover for SIIL's German and Spanish policyholders. The Proposed Transfer is also intended to safeguard the administration of valid claims to existing EEA policyholders.

If SIIL is unable to complete the Proposed Transfer the German and Spanish policies will have to be cancelled prior to 31 December 2022.

GPH also owns a cell (UIB Cell) which is part of Advent Insurance PCC Ltd, an insurance entity based in Malta (see section 3 of the Scheme Report for more information on Protected Cell Companies).

To provide certainty that SIIL's current EEA policyholders can continue to have cover after the Brexit Transition Period with minimum disruption, SIIL is proposing to transfer its EEA business into Advent Insurance PCC Ltd, acting in respect of UIB Cell ("UIB Cell") (the Proposed Transfer). The transfer will include SIIL's current European portfolios (Spain and Germany), as well as its run-off European portfolios (Italy, France, Ireland and the Nordics).

UIB Cell is able to operate across the European Economic Area (EEA) on a FofS basis under the passporting regime provided for under the European Solvency II Directive. It is licensed to write accident and sickness insurance policies.

SIIL's insurance business includes personal accident, sickness, unemployment and drivers' protection plans and accidental death policies underwritten for private individuals. The EEA business currently written by SIIL is accidental death and accident cash plans.

The planned Effective Date of the Proposed Transfer is 1 November 2022.

When I refer to "UIB Cell" throughout this report I mean Advent Insurance PCC Ltd, acting in respect of UIB Cell, unless stated otherwise.

1.2. My role as Independent Expert

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

As IE, my overall role is to assess whether:

- The security provided to policyholders of SIIL and UIB Cell will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any material adverse impact on service standards experienced by policyholders.
- Any reinsurer of SIIL or UIB Cell will be materially adversely affected.

I provided the Scheme Report for the Proposed Transfer (dated 2 May 2022) ahead of the Directions Hearing, which was held on 6 May 2022.

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

1.3. Summary of developments since the Scheme Report

The main activities in relation to the Proposed Transfer since the Scheme Report was issued on 2 May 2022 have been as follows:

Proposed Transfer

- The Scheme Report and other associated scheme documents were presented to the High Court at the Directions Hearing on 6 May 2022, where approval was received to start notifications in line with the communications plan.
- SIIL has provided updated reserving and capital projections for the policies potentially impacted by the Proposed Transfer.

Reserving

- SIIL, UIB Cell and Advent have provided final audited provisions as at 31 December 2021.
- The transferring business represents approximately 48% by number of in-force policies and 41% by value of the Transferor’s current UK GAAP liabilities as at 31 December 2021 and if the transfer is sanctioned will represent approximately 48% by number and 172% by value of the Transferee’s existing liabilities as at 31 December 2021.

Capital

- SIIL and UIB Cell have updated their analysis of projected SCR coverage ratios based on more recent data. This is discussed further in section 5.
- The projected SCR coverage ratios (the ratio of an insurer’s available capital to the amount of capital that must be held in order to meet regulatory capital requirements) immediately pre- and post- the Proposed Transfer based on the updated projections are as follows:
  - For Non-transferring Policyholders, the SCR coverage ratio is projected to increase from 216% to 226%.
  - For Transferring Policyholders, the SCR coverage ratio is projected to decrease from 216% to 196%.
  - For Existing Transferee Policyholders, the SCR coverage ratio is projected to decrease from 244% to 196%.

The table below includes a comparison to the ratios from the Scheme Report:

	SCR coverage ratios in Scheme Report			Updated SCR coverage ratios		
	Day 0	Day 1	Movement due to Transfer	Day 0	Day 1	Movement due to Transfer
Non-transferring Policyholders	181%	223%	43%	216%	226%	10%
Transferring Policyholders	181%	181%	0%	216%	196%	(20%)
Existing Transferee Cell Policyholders	225%	181%	(44%)	244%	196%	(47%)

Having reviewed the updated SCR coverage ratios, and movements from Day 0 to Day 1, I have not changed my overall opinion from that set out in my Scheme Report.

I do not consider the above reductions in coverage ratios for Transferring Policyholders and Transferee Policyholders to represent a materially adverse effect on these policyholders' security. The SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 196% coverage ratio therefore equates to a remote probability of insolvency (much lower than 0.5%). Since the probability of insolvency is already remote at 196%, the difference in capital coverage ratios of 196% and 216% for Transferring policyholders, or 196% and 244% for Transferee policyholders, does not, in my opinion, equate to a material difference in the probability of insolvency or a material change in the probability of policyholder claims being paid in full. I have also reviewed a number of adverse scenarios and have satisfied myself that policyholders would still be paid in full in these scenarios.

In summary, although there is a reduction in SCR coverage ratio for both Transferring and Transferee policyholders, I do not consider the impact of this reduction to be material and, therefore, I do not consider the security provided to any group of Policyholders to be materially adversely affected by the Proposed Transfer.

In addition, the coverage ratios following the Proposed Transfer are now projected to be higher than those expected when I provided my Scheme Report.

Capital Management Policy

- UIB Cell has now implemented a capital management policy, including a formal minimum capital coverage ratio and a coverage ratio target.

Policyholder communications and other

- SIIL and UIB Cell have communicated with policyholders and placed notices in all planned publications in line with the communication plan agreed with the High Court at the Directions Hearing.
- As at 30 September 2022, SIIL had received 715 responses as a result of the communication with policyholders. Twelve of these are from policyholders who have requested to cancel their policy, giving their disagreement to the Proposed Transfer as the reason. SIIL has categorised these 12 as objections, and all have now been cancelled meaning that these policyholders will not be impacted by the Proposed Transfer. The remaining responses have been general queries or requests to cancel their policy (with no indication that the cancellation is due to the Proposed Transfer). Policyholder responses to communications and objections are discussed further in section 7.

1.4. Additional considerations for the Supplementary Report

In reaching my conclusions in this Supplementary Report, I have considered the following new information that has become available since the Scheme Report was issued on 2 May 2022:

- Updated GAAP/IFRS provisions as at 31 December 2021 for SIIL and UIB Cell;
- Updated SCR coverage ratio and balance sheet projections;
- Updated projected SII balance sheets of SIIL and UIB Cell immediately pre- and post- the Proposed Transfer;
- New capital management policy for UIB Cell;
- An update on the impact of COVID-19 on policyholders; and
- Queries or objections related to the Proposed Transfer raised by stakeholders.

1.5. Summary of my conclusions

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

I have set out below my summary conclusions, considering the effect of the Proposed Transfer on the following groups of policyholders:

- "Non-Transferring Policyholders", who will remain with SIIL after the Proposed Transfer.
- "Transferring Policyholders", who will transfer from SIIL to UIB Cell as a result of the Proposed Transfer.
- "Existing Transferee Policyholders", ie policyholders of UIB Cell at the time of the Proposed Transfer, who will remain with UIB Cell after the Proposed Transfer.

Non-Transferring Policyholders

At the Effective Date of the Proposed Transfer, there are projected to be 255,366 Non-Transferring Policyholders (made up of 216,805 in-force policies and 38,561 run-off policies), which represents 68% of SIIL's projected pre-transfer business by number of policyholders and 73% based on projected SII technical provisions.

I have concluded that the security provided to Non-Transferring Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that no material impact on service standards is expected for Non-Transferring Policyholders following the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and UK GAAP technical provisions for SIIL are appropriate, and SIIL has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for SIIL is projected to increase from 216% to 226% as a result of the Proposed Transfer.
- Further, SIIL is expected to remain well or very well capitalised throughout the 3-year projected period.
- I am satisfied that SIIL is expected to remain well capitalised under a range of adverse scenarios. In more extreme adverse scenarios, such as SIIL's reverse stress test, I am satisfied that Non-Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- SIIL is not planning any material changes to how the business is carried out. In particular, there are no plans to change how Non-Transferring Policyholders are serviced post-transfer.

Transferring Policyholders

At the Effective Date of the Proposed Transfer, there are projected to be 122,198 Transferring Policyholders (made up of 70,445 in-force policies and 51,753 run-off policies) which represent 32% of SIIL's projected pre-transfer business by number of policyholders and 27% based on projected SII technical provisions.

I have concluded that the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that no material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II, UK GAAP and IFRS technical provisions for SIIL and UIB Cell are appropriate. Further, the approach currently used by SIIL to calculate the provisions for Transferring Policyholders will continue to be applied post-transfer by UIB Cell.
- The SCR coverage ratio for Transferring Policyholders is expected to decrease from 216% to 196% as a result of the Proposed Transfer. On the face of it, this decrease would appear to be a reduction in security. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 196% coverage ratio therefore equates to a remote probability of insolvency (much lower than 0.5%). Since the probability of insolvency is already remote at 196%, the difference in capital coverage ratios of 196% and 216% does not, in my opinion, equate to a material difference in the probability of insolvency. I therefore do not consider the security provided to Transferring Policyholders to be materially adversely affected by this decrease.
- The amount of capital available is lower in UIB Cell than it is in SIIL. However, the nature of claims on SIIL's and UIB Cell's business is low severity with relatively low volatility from year to year. In the event of a particularly large claim, UIB Cell will have reinsurance in place to cover the amount in excess of £200,000.
- Further, UIB Cell Policyholders have access to the resources of Advent Insurance PCC Ltd's Core capital to pay claims in the remote case of UIB Cell insolvency. More information on Advent Insurance PCC Ltd ("Advent") and the structure of protected cell companies is provided in Section 3.1 of my Scheme Report.
- UIB Cell is expected to remain at least well capitalised throughout the projected period.
- I am satisfied that UIB Cell is expected to remain well capitalised under a range of adverse scenarios in relation to both the Transferring Business and its other business. In more extreme adverse scenarios, for example UIB Cell's reverse stress test, policyholders would still be paid in full. I am satisfied that the likelihood of such a scenario is also sufficiently remote such that Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- Transferring Policyholders who currently have access to the Financial Ombudsman Service (FOS) will lose access to the FOS in respect of acts and omissions taking place after the Effective Date of the Proposed Transfer but will continue to have access to the relevant overseas regulator and will gain access to a similar insurance ombudsman in Malta.
- In the absence of the Proposed Transfer, SIIL may not be able to legally pay policyholder claims and will have to cancel all EEA policies. Therefore, Transferring Policyholders may be adversely affected if the Proposed Transfer does not proceed. In addition, Transferring Policyholders would need to find alternative future cover.
- SIIL and UIB Cell are planning to minimise any changes to how the Transferring Business is carried out, to avoid disruption to the operating model or its customers. For example, there are no changes planned to outsourced providers or to how Transferring Policyholders are serviced following the Proposed Transfer.

Existing Transferee Policyholders

Independent of the Proposed Transfer, UK risks which had previously been written into UIB Cell are being renewed into SIIL. This means that although as at 31 December 2021 there were approximately 154,000 in-force policies in UIB Cell, by October 2022, immediately prior to the Proposed Transfer, there are projected to be only approximately 10,000, and these are all due to be renewed into SIIL in November 2022. There will still be technical provisions in UIB Cell to cover the run-off of policies.

At the Effective Date of the Proposed Transfer, the Existing Transferee Policyholders' run-off liabilities are expected to make up 55% of the post-transfer projected SII technical provisions of UIB Cell.

I have concluded that the security provided to Existing Transferee Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that no material impact on service standards is expected for these policyholders following the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and IFRS technical provisions for UIB Cell are appropriate, and UIB Cell has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for Existing Transferee Policyholders is expected to decrease from 244% to 196% as a result of the Proposed Transfer. I do not consider the security provided to Existing Transferee Policyholders to be materially adversely affected by this decrease as UIB Cell will still be well capitalised. Further, UIB Cell's own funds will increase from £5.0m to £5.7m as a result of the Proposed Transfer, so Existing Transferee Policyholders will have access to a slightly larger capital base.
- On the face of it, the decrease in SCR coverage ratio for Existing Transferee Policyholders from 244% to 196% would appear to be a reduction in security. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 196% coverage ratio therefore equates to a remote probability of insolvency (much lower than 0.5%). Since the probability of insolvency is already remote at 196%, the difference in capital coverage ratios of 196% and 244% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Further, UIB Cell is projected to remain well capitalised or very well capitalised throughout the projected period.
- I am satisfied that UIB Cell is expected to remain well capitalised under a range of adverse scenarios. In more extreme adverse scenarios, such as UIB Cell's reverse stress test, I am satisfied that Existing Transferee Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- UIB Cell is not planning any material changes to how the business is carried out. In particular, there are no plans to change how Existing Transferee Policyholders are serviced following the Proposed Transfer.

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

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

The uncertainty around the impact of COVID-19 is expected to continue over the coming months and potentially beyond the Effective Date of the Proposed Transfer.

In the Scheme Report I discussed SIIL's and UIB Cell's views that they have remained resilient to the impact of COVID-19 with no noticeable detriment resulting from the pandemic. I have now been provided with an update for this Supplementary Report, which I summarise below:

SIIL

There have been no material changes to the information provided in the Scheme Report. The only possible change is related to claims development. There have been some delays in claims reporting on Accidental Death (AD) claims possibly linked to court delays/probate delays due to COVID-19. SIIL has made adjustments to the development patterns in its projections to allow for late reported claims.

There was a reduction of AD claims during the pandemic, possibly linked to national lockdowns. This is expected to return to normal levels as Covid-19 moves from pandemic to endemic in the UK and Europe, which has been allowed for by SIIL in its forward-looking projections.

UIB Cell

There have been no material changes to the information provided in the Scheme Report. UIB Cell have not received any further COVID-19 related claims and there has been no legal action in respect of COVID-19 related claims.

Overall

Based on the information provided, I have concluded that COVID-19 is unlikely to have a material impact on the Proposed Transfer.

2. Introduction

2.1. Background

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

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

SIIL and UIB Cell have jointly nominated Charl Cronje (I or me) of Lane Clark & Peacock LLP (LCP, we, or us) to act as the Independent Expert for the proposed insurance business transfer scheme (the Proposed Transfer) of the insurance business of SIIL to UIB Cell under Section 105 of the FSMA. The Proposed Transfer is intended to be effected on 1 November 2022 (the Effective Date).

In my role as Independent Expert, I prepared a Scheme Report for the Proposed Transfer. This was issued on 2 May 2022 and was presented to the High Court on 6 May 2022. In the Scheme Report I stated that, ahead of the Sanction Hearing for the Proposed Transfer, I would prepare a Supplementary Report (this report), covering any relevant matters which have arisen since the date of the Scheme Report. In particular, I have considered whether any developments since the Scheme Report cause my conclusions in the Scheme Report to change.

2.2. Scope of this Supplementary Report

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

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

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

For presentational purposes some GBP amounts in this report have been converted from EUR at an exchange rate of £1 = EUR1.18.

2.3. Use of this Supplementary Report

This Supplementary Report has been produced by Charl Cronje FIA of LCP under the terms of LCP’s written agreement with SIIL and UIB Cell. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Supplementary Report has been prepared for the purpose of accompanying the application to the High Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Supplementary Report is not suitable for any other purpose. The Supplementary Report must be read in conjunction with the Scheme Report of 2 May 2022.

A copy of the Supplementary Report will be sent to the PRA and the FCA and will be filed with the High Court as part of the evidence supporting the application to sanction the Scheme.

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

2.4. Reliances

I have based my work on the data and other information made available to me by SIIL and UIB Cell. Appendix 2 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of SIIL, UIB Cell and their advisors.

My additional analysis for the Supplementary Report is based on data from 31 December 2021. This is the latest set of year-end audited accounts available at the time of preparing this report.

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

- SIIL and UIB Cell will submit witness statements to the High Court stating that all information provided to me by SIIL and UIB Cell is correct and complete in all material respects to the best of their knowledge, information, and belief.
- Each of SIIL and UIB Cell has provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer is accurate and complete.
- SIIL and UIB Cell have provided attestations that there have been no material adverse changes to the financial position of SIIL or UIB Cell since that information was provided to me.
- SIIL and UIB Cell have read this IE Supplementary Report, and each has agreed that it is correct in terms of all factual elements of the Proposed Transfer.
- I have conducted basic checks on the data provided to me for internal consistency and reasonableness.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the integrity of this data for the purpose of 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.

In section 2 of the Scheme Report, I explained that I have taken into account legal advice provided to SIIL on the following items related to the Transfer:

- The statutory basis and form of a Protected Cell Company (PCC);
- Segregation of assets and liabilities in a PCC;
- Application of regulatory capital requirements to a PCC;
- The nature of a PCC and implications for policyholder security; and
- The impact of the Proposed Transfer on access to:
  - the United Kingdom’s Financial Services Compensation Scheme; and
  - the United Kingdom’s Financial Ombudsman Service.

In addition I sought my own independent legal advice as to the validity of the Transferee, as defined in the Scheme as “Advent Insurance PCC Ltd, acting in respect of UIB Cell”. In my opinion this legal advice agrees with that provided to SIIL and confirms the validity of the Transferee.

SIIL and UIB Cell have confirmed that they have received no other specific legal advice relevant to my role as IE for the Proposed Transfer.

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

UIB Cell’s assumed exchange rate of £1 = €1.18 has been used throughout this report to ensure consistency.

2.5. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for scheme reports set out in:

- the PRA's Statement of Policy issued in January 2022: The PRA's approach to insurance business transfers;
- FG22/1: the FCA's guidance to the review of Part VII insurance business transfers issued in February 2022; and
- the PRA Rulebook and the FCA Handbook.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 200: Insurance (TAS 200) issued by the Financial Reporting Council (FRC). The FRC is responsible for setting technical actuarial standards in the UK.

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

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

2.6. Materiality

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

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

In complying with the reporting requirements of TAS 100, I have made judgements on the level of information to include in this Supplementary Report (and the 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.

2.7. Definition of "materially adverse"

In order to determine whether the Proposed Transfer will have a "materially adverse" impact on any group of policyholders, 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.

In the Court of Appeal judgment in the Prudential v Rothesay case, the judge commented on the word 'material' and drew the distinction between 'real' and 'fanciful' risks and that the Court should address the former rather than the latter. I have borne this distinction in mind when reaching my conclusions as to whether any set of policyholders is materially adversely affected.

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

2.8. Transferring policies

In the Scheme Report, I discussed the policyholders involved in the Proposed Transfer. I have now received updated numbers of each type projected to be in-force or in run-off at the Effective Date.

The following table presents these updated projections for the number of policyholders and technical provisions as at the Effective Date of the Proposed Transfer.

Projection as at October 2022	Number of in-force policyholders	Number of run-off policyholders	SII technical provisions £m
Non-Transferring Policyholders	216,805	38,561	3.9
Transferring Policyholders	70,445	51,753	1.4
Total Transferor Policyholders	287,249	90,315	5.3
Existing Transferee Policyholders	9,744	148,256	1.7

Source: SIIL, UIB Cell. Figures from UIB converted assuming £1 = €1.18

The most material change since the Scheme Report is a reduction in the projected number of in-force Non-Transferring policies (reduced from 270,657 to 216,805). This reduction is driven by the free Accidental Death policies which are renewing into SIIL from UIB Cell. Volumes of these policies were lower than usual during 2020 due to COVID-19 and it was expected that, when marketing efforts increased, volumes would return to pre-COVID levels. However, volumes have remained low, so the overall policy numbers expected at the Effective Date are lower than previously projected. Although large in numbers, these policies only make up a very small portion of the liabilities and this change does not alter the conclusions of my Scheme Report.

As at the Effective Date of the Proposed Transfer, there are projected to be 70,445 in-force Transferring Policyholders and 9,744 in-force Transferee Policyholders. In total there are projected to be 122,198 Transferring Policyholders and 158,000 Transferee Policyholders (ie including policies in run-off that could still bring a claim). The Transferring Policies are projected to represent SII technical provisions of £1.4m compared to total SII technical provisions for SIIL of £5.3m.

A further breakdown of Transferring Policyholders is shown in the tables below.

In-force policies by country

Country	Number of policyholders
Germany	60,936
Spain	9,508
Total	**70,445**

Source: SIIL.

Run-off EEA policies by country

Country	Statute of Limitations (years)	Number of policyholders
Germany	3	17,388
Spain	5	8,575
France	2	12,991
Italy	2	8,611
Nordics	1-10	3,980
Ireland	6	209
Total		**51,753**

Source: SIIL.

This includes all policyholders who have previously held a policy with SIIL and where that policy will still be within the statute of limitations at the Effective Date of the Proposed Transfer. Due to the short-term nature of the business, and the fact that these policies were cancelled in 2020, I would not expect a material number of claims to emerge from these policyholders.

3. My approach as IE and conclusions

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

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

The five steps and my considerations are detailed in the sections as follows:

- Step 1: Assessing the provisions of SIIL and UIB Cell – considered in section 4.
- Step 2: Assessing the capital positions of SIIL and UIB Cell – considered in section 5.
- Step 3: Assessing overall policyholder security – considered in section 6.
- Step 4: Assessing policyholder communications – considered in section 7.
- Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders – considered in section 8.

A list of all information considered is included in Appendix 2. Further details on my approach as IE are set out in section 4 of the Scheme Report.

4. Reserving considerations

4.1. My considerations relating to reserving

As IE, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for all relevant policyholders, that is: Transferring, Non-Transferring and Existing Transferee Policyholders; and
- whether any aspects of the reserving may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 5 of the Scheme Report, based on data and provisions as at:

- 31 December 2020 and 30 June 2021 for SIIL; and
- 31 December 2020 for UIB Cell.

In this Supplementary Report, I have also considered updated data, GAAP/IFRS and SII provisions as at 31 December 2021 for SIIL and UIB Cell .

SIIL and UIB Cell have each confirmed that the approach and basis for calculating the IFRS technical provisions and Solvency II technical provisions has not changed since the Scheme Report.

4.2. SIIL provisions (UK GAAP)

The following table shows the level of UK GAAP technical provisions as at December 2021 (the latest available figures at the time of my writing of my report) for SIIL, split between the Non-Transferring and Transferring Policyholders.

SIIL – UK GAAP technical provisions at December 2021

	Gross of reinsurance £m
Non-Transferring Policyholders	3.7
Transferring Policyholders	2.4
Total SIIL	6.1

Source: SIIL

The provisions are made up of the earned claims reserves (ie claims reserves in respect of cover up to December 2021) and unearned premium reserves (ie the portion of premium in respect periods of cover after December 2021).

The business transferring to UIB Cell is EEA accident and health business. The business transferring makes up 41% of SIIL's total technical provisions as at December 2021. This is lower than 49% shown in the Scheme Report as at 30 June 2021 driven by the fact that all EEA policies, except for the German and Spanish policies, were cancelled at the end of 2020. These liabilities are running off, and are expected to fall further by the time of the Proposed Transfer. In addition, the Non-Transferring technical provisions have increased due to:

- the addition of a prudence margin of 14%;
- a strengthening in provisions following worse than expected UK Accidental Death experience; and
- business renewing into SIIL from UIB Cell.

4.3. UIB Cell provisions (IFRS)

The following table shows the level of IFRS technical provisions as at December 2021 (the latest available figures at the time of my writing of my report) for UIB Cell.

UIB Cell – of IFRS technical provisions at December 2021

	Gross of reinsurance €m
Total UIB Cell	1.7

Source: UIB Cell

The provisions are made up of the earned claims reserves.

The technical provisions for UIB Cell have reduced since those as at December 2020 that were presented in the Scheme Report. This follows favourable experience overall and the renewal of policies into SIIL.

4.4. Overall conclusion: Reserving considerations

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

I have concluded that the Non-transferring Policyholders, Transferring Policyholders and the Existing Transferee Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

5. Capital considerations

5.1. My consideration related to capital

As IE, my overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for both SIIL and UIB Cell;
- 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.

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

In this Supplementary Report, I have also considered the following:

- The new capital management policy put in place by UIB Cell; and
- Updated SCR coverage ratio and balance sheet projections, based on data as at 31 December 2021 for SIIL and UIB Cell.

5.2. Capital policies

I have now reviewed the capital policies for each of SIIL, UIB Cell and Advent. SIIL has set a minimum risk appetite for capital of 130% of the SCR. It has a target capital zone of 150% to 170% of the SCR. This target has been set to provide extra assurance that the main activities can continue and allows SIIL to make ongoing investments in people and resources as well as absorbing short-term planned and unplanned financial stresses. SIIL is currently holding in excess of this to allow for the restructure following the acquisition of SIIL and the Brexit Transition Period (eg the UK risks renewing into SIIL) although in the long term it intends to reduce this to be within its target zone.

Advent maintains a minimum solvency coverage ratio of 120%. This is aligned with the MFSA's expectations that insurance undertakings maintain a level of buffer above the SCR. Advent also requires its cells, including UIB Cell, to maintain this 20% buffer.

In the Scheme Report I explained that the UIB Cell aims to operate with a capital coverage ratio in excess of 120% but that it did not have a formal target in place. UIB Cell committed to putting a capital management policy in place and including within it targets for minimum capital coverage. I have now reviewed this capital management policy and summarise the key requirements below:

- A minimum capital coverage ratio of 120% at all times.
- A forward-looking capital coverage of at least 130% (ie for the full three-year business plan projection).
- A target capital zone in excess of 130%.

If the SCR was to fall below 120% or be projected to fall below 120%, the policy specifies that the cell owners must immediately introduce sufficient additional capital into the UIB Cell to bring its coverage ratio above this minimum. Should the UIB Cell wish to continue with its current business plan, it must introduce within 3 months sufficient capital to raise its coverage to its forward-looking capital coverage target of 130%. Dividend payments are only made when appropriate, taking into consideration actual and projected business performance as well as the current and future capital position of the cell.

I have discussed the target capital zone with UIB Cell. UIB Cell has confirmed that it intends to continue to have a capital coverage ratio broadly in line with SIIL's current risk appetite, and therefore that it intends to hold capital significantly in excess of a 130% capital coverage ratio.

Based on my analysis, I am satisfied that Policyholders will not be materially adversely impacted by the Proposed Transfer.

5.3. Projected SCR coverage ratios as at 1 October 2022

The following table sets out the projected SCR and coverage ratios, prepared by SIIL and UIB Cell, as at 1 October 2022 before and after the Proposed Transfer. I do not expect any material difference between 1 October 2022 and the 1 November 2022 proposed Effective Date.

Projected as at 1 October 2022 (converted £m)	Own Funds	SCR	Own Funds in excess of SCR	SCR coverage ratio	Projected movement in coverage ratio
Day 0 – before Transfer					
SIIL	16.0	7.4	8.6	216%	
UIB Cell	5.0	2.0	2.9	244%	
Day 1 – after Transfer					
SIIL	15.3	6.8	8.6	226%	10%
UIB Cell	5.7	2.9	2.8	196%	(47%)

Source: SIIL and UIB Cell. Figures from UIB converted assuming £1 = €1.18

All coverage ratios have increased since the analysis in the Scheme Report. The largest movement is on SIIL, where there has been an increase in own funds driven by profit retained in the entity following good experience during 2021.

In summary:

- Non-Transferring Policyholders: the SCR coverage ratio for Non-Transferring Policyholders is projected to increase from 216% to 226%.
- Transferring Policyholders: The SCR coverage ratio for Transferring Policyholders is projected to reduce from 216% to 196% following the Proposed Transfer. However, UIB Cell is still projected to be well-capitalised immediately after the Proposed Transfer.
- Existing Transferee Policyholders: the SCR coverage ratio for Existing Transferee Policyholders is projected to reduce from 244% to 196% after the Proposed Transfer. However, UIB Cell is still projected to be well-capitalised immediately after the Proposed Transfer.

On the face of it, the reduction in SCR coverage ratio for Transferring Policyholders of 216% to 196% and for Existing Transferee Policyholders of 244% to 196% could appear to be a fall in capital strength. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 196% coverage ratio therefore equates to a remote probability of insolvency (much less than 0.5%). Therefore, the reductions in capital coverage ratios from 216% or 244%, respectively, to 196%, do not, in my opinion, equate to a material difference in the probability of insolvency.

In addition, SIIL has explained to me that it is currently capitalised in excess of its target range of 150-170% and it is the intention that any excess capital will be used to pay dividends in the future or to support business growth. It is therefore not a fair reflection on the long-term position to compare coverage ratios in excess of this range.

Based on this analysis, both SIIL and UIB Cell are projected to remain either well capitalised or very well capitalised both immediately pre- and post-Transfer. Therefore, I do not expect the changes in SCR coverage ratios immediately pre- and post- the Proposed Transfer to lead to any material adverse changes in the strength of capital protection for any group of policyholders.

5.4. The planned capital structures for SIIL and UIB Cell

Based on projections as at October 2022, all of SIIL's and UIB Cell's own funds are classified as unrestricted tier 1, ie the highest quality.

At the point of Transfer, SIIL will transfer assets to UIB Cell equal to £300,000 in excess of the liabilities transferred (on a GAAP basis) related to the Proposed Transfer.

In addition, although I have not relied on this when making my conclusions, the UIB Cell has access to capital in Advent's Core should it be required for solvency purposes (ie if UIB Cell cannot meet its SCR).

5.5. SCR scenarios analysis

For this Supplementary Report, I have again considered the impact of a range of adverse and extreme scenarios on each of SIIL and UIB Cell, based on updated projections prepared by SIIL. These scenarios are consistent with those included in the Scheme Report. I have considered each scenario both with and without the Proposed Transfer going ahead.

The purpose of the analysis is to assess whether SIIL and UIB Cell can withstand plausible adverse experience on the business and whether, under these circumstances, each insurer still provides appropriate security to all groups of policyholders. Except where stated, each scenario has been applied to both SIIL and UIB Cell simultaneously.

The following table summarises the adverse scenarios considered. Further details of the scenarios considered are set out in section 6 of the Scheme Report.

Adverse scenarios

Scenario	Description
A. Worsening combined ratio	A combined ratio, calculated as (claims + expenses)/(premium), equivalent to the worst combined ratio that SIIL/UIB Cell has experienced in the past 10 years
B. 50% more renewal cancellations	A 50% increase in renewal cancellations/lapses
C. 50% higher expenses	A 50% increase in administration expenses
D. 8% increase in claims inflation	Additional claims inflation of 8% per annum (cumulative)
E. Assets devalued by 10%	A 10% fall in the value of assets.
F. Credit rating downgrade for main counterparties	A credit downgrade for main counterparties which will impact the counterparty default risk for SIIL and UIB Cell
G. Data breach	Data breach resulting in a fine of £250,000.
H. Default on intragroup loan	A full default on both the SIIL and UIB Cell intragroup loans
I. 50% higher claims	A 50% increase in claims and premiums technical provisions
J. Combined adverse scenario	A combination of 50% higher claims, expenses, and renewal cancellations (scenario B, C and I simultaneously)
K. Reverse stress	A combination of adverse events that would reduce UIB Cell's capital to zero post-transfer

For each scenario, I have considered the projected SCR coverage ratio and assessed whether each of SIIL and UIB Cell:

- is expected to remain at least well capitalised during the projected period – ie an SCR coverage ratio of 150% or higher.
- is expected to meet its risk appetite – ie an SCR coverage ratio of 130% or higher.
- is expected to meet the SCR under Solvency II – ie, an SCR coverage ratio of 100% or higher.

The assessments for each scenario are set out in Appendix 1. This includes the assessment for each scenario both with and without the Proposed Transfer going ahead. The updated results of scenarios following the Proposed Transfer are similar to those in my Scheme Report, and are summarised as follows:

- Following the Proposed Transfer, SIIL and UIB Cell are expected to remain at least well capitalised under all moderately adverse scenarios and some extreme scenarios (scenarios A to H).
- With or without the Proposed Transfer proceeding, both SIIL and UIB Cell continue to meet their regulatory capital requirements under all scenarios except for the reverse stress test. As set out in the following bullets, more extreme scenarios (ie I and J) are expected to lead to either SIIL's or UIB Cell's solvency coverage ratio falling below risk appetite.

- In Scenario I, immediately following the Proposed Transfer the solvency coverage ratio would fall below the forward-looking risk appetite for UIB Cell. Assuming the adverse scenario impacts both SIIL and UIB Cell, Transferring Policyholders would therefore be moving from a well-capitalised insurer with a solvency coverage ratio of 165% to UIB Cell with a solvency coverage ratio of 124%. However, the UIB Cell remains solvent without requiring additional support from Advent's Core. In addition, the solvency coverage ratio is projected to return to being well capitalised the following year.
- In this scenario, I have increased the technical provisions by 50% for both the run-off UIB Cell business and the Transferring Business (along with a corresponding increase in SCR) immediately post Transfer, without any corresponding increase in the assets transferred. This level of claims deterioration has not been seen in SIIL's and UIB Cell's business previously and is unlikely due to the nature of the risks (short reporting time, short settlement time and mostly fixed benefit). I therefore view this as an extreme scenario. If the increase in claims occurred a year after the Transfer, and not immediately post Transfer, the UIB Cell is projected to remain well-capitalised even with a 50% increase in claims.
- Scenario J follows on from scenario I and is driven by the 50% increase in claims. Even in this extreme scenario, UIB Cell meets its regulatory minimum capital requirement, remains solvent and able to pay policyholders in full.
- In Scenarios I and J, there would be a reduction in solvency coverage ratio below the risk appetite for the Existing UIB Cell Transferee Policyholders also. The majority of these policyholders will have renewed their policies into SIIL and therefore will see a reduction in solvency coverage ratio for the run-off policies (in UIB Cell) but an increase for their newer in-force policies (in SIIL).
- Given the extreme nature of scenario I and J, the fact that policyholders would still be paid in full and that the solvency coverage ratio would return to being well-capitalised within one year, I do not consider policyholders to be materially disadvantaged by the Transfer.
- By design, the UIB Cell's solvency coverage ratio falls to 7% under the reverse stress test. I consider the chance of this scenario to be remote. In this scenario UIB Cell would breach its individual cell capital requirements (excluding any capital from the Core). However, it would still be able to pay Policyholder claims in full. In this scenario, if the Proposed Transfer did not proceed SIIL would also have a low solvency coverage ratio of only 47%. I therefore do not consider policyholders to be materially adversely affected by the Proposed Transfer.

Although not allowed for in my conclusions, the UIB Cell would also have access to the own funds of Advent's Core to top up the solvency coverage ratio and ensure the regulatory capital was maintained.

My conclusions from this analysis are the same as they were in the Scheme Report, summarised as follows:

Non-Transferring Policyholders

- For Non-Transferring Policyholders, I compared the impact of the scenarios on SIIL both with and without the Proposed Transfer going ahead.
- In both cases, SIIL is able to withstand a range of plausible adverse experience on its business.
- Therefore, under these scenarios, I am satisfied that Non-Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.

Transferring Policyholders

- For Transferring Policyholders, I compared the impact of the scenarios on SIIL both with and without the Proposed Transfer going ahead.
- In both cases, each of SIIL and UIB Cell is able to withstand a range of plausible adverse experience on its business.
- Therefore, under these scenarios, I am satisfied that Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.

Existing Transferee Policyholders

- For Existing Transferee Policyholders, I compared the impact of the scenarios on UIB Cell both with and without the Proposed Transfer going ahead.
- In both cases, UIB Cell is able to withstand a range of plausible adverse experience on its business.
- Therefore, under these scenarios, I am satisfied that Existing Transferee Policyholders are not materially adversely affected as a result of the Proposed Transfer.

5.6. Overall conclusion: Capital considerations

Following my review of the capital policies and projections, and the fact that the results of adverse scenarios following the Proposed Transfer have not materially changed since my Scheme Report, I am satisfied that my conclusions related to capital remain unchanged from the Scheme Report. In summary:

- **The projected capital requirements have been calculated materially appropriately for both SIIL and UIB Cell.**
- **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.**

6. Policyholder security

6.1. My considerations relating to policyholder security

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

- Whether the likelihood of valid policyholder claims being paid is maintained following the Proposed Transfer for Non-Transferring, Transferring and Existing Transferee Policyholders.
- Whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

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

In this Supplementary Report, I have also considered the following:

- Updated projected balance sheets of SIIL and UIB Cell immediately pre- and post- the Proposed Transfer.
- Updated capital requirements for Advent.

6.2. Updated impact on the Solvency II balance sheets of SIIL and UIB Cell

I have updated my analysis set out in section 7.2 of the Scheme Report to reflect SIIL and UIB Cell's latest projections based on data as at 31 December 2021. This analysis is based on projected balance sheets pre- and post- the Proposed Transfer, on 1 October 2022 (any differences between this date and the Effective Date of 1 November 2022 are expected to be immaterial).

Solvency II balance sheets for SIIL and UIB Cell: projections as at 1 October 2022

Converted £m	Pre-Transfer		Post-Transfer		Movement due to Proposed Transfer	
	SIIL	UIB Cell	SIIL	UIB Cell	SIIL	UIB Cell
Investments	12.9	0.5	12.9	0.5	0.0	0.0
Intra-Group loans	4.0	2.0	4.0	2.0	0.0	0.0
Cash	3.8	5.0	1.7	7.2	(2.1)	+2.1
Other assets	2.7	0.3	2.7	0.3	0.0	0.0
Total assets	**23.5**	**7.8**	**21.4**	**9.9**	**(2.1)**	**+2.1**
Technical provisions	5.3	1.7	3.9	3.2	(1.4)	+1.4
Other liabilities	2.2	1.1	2.1	1.1	(0.1)	0.0
Total liabilities	**7.5**	**2.8**	**6.0**	**4.3**	**(1.5)**	**+1.4**
Tier 1 basic own funds	16.0	5.0	15.3	5.7	(0.6)	+0.7
Tier 2 ancillary own funds	0.0	0.0	0.0	0.0	0.0	0.0
Tier 3 own funds	0.0	0.0	0.0	0.0	0.0	0.0
Total capital	**16.0**	**5.0**	**15.3**	**5.7**	**(0.6)**	**+0.7**

Source: SIIL, UIB Cell. UIB Cell figures converted assuming £1 = EUR 1.18

The table above shows simplified Solvency II balance sheets for SIIL and UIB Cell pre- and post- the Proposed Transfer. The impact of the Transfer is that £1.4m or around 27% of SIIL's total Solvency II technical provisions liabilities are expected to be transferred out of SIIL.

Since the Scheme Report, SIIL has decided to transfer additional assets to UIB Cell as part of the Proposed Transfer. It now intends to transfer £300,000 in excess of the liabilities (on a UK GAAP basis) of the Transferring business to UIB Cell. This is approximately 20% of the projected liabilities as at the Effective Date. All projected numbers shown in this Supplementary Report include this additional £300k.

With the exception of this additional cash transfer, whilst there have been movements in certain balance sheet items from the version presented in the Scheme Report, the overall monetary impact of the transfer on SIIL and UIB Cell is materially the same. The value of the technical provisions of the Transferring Policies on both a GAAP and SII basis has increased since the original analysis. However, as the assets that will be transferred to cover these liabilities have also been increased in line with the liabilities (on a GAAP basis), the overall impact of the Transfer from this increase has not changed materially.

Key movements – SIIL

Overall SIIL's capital reduces by £0.6m. This is driven by:

- the difference in the valuation of EEA risk liabilities on a UK GAAP and a SII basis, the assets transferring have been set to match the liabilities on a UK GAAP basis which is a larger number than on a SII basis; plus
- an additional £300k that will be transferred to UIB Cell as part of the Proposed Transfer.

The key movements in the balance sheet for SIIL are as follows:

- £2.1m reduction in assets, due to the assets being transferred to UIB Cell to support the liabilities being transferred from SIIL.
- £1.4m reduction in technical provisions due to the EEA risks being transferred out of SIIL following the Proposed Transfer.

Key movements – UIB Cell

The key movements in the balance sheet for UIB Cell are as follows:

- £2.1m increase in assets, due to the assets being transferred from SIIL to support the liabilities being transferred to UIB Cell.
- £1.4m increase in technical provisions due to the EEA risks being transferred into UIB Cell following the Proposed Transfer.

Overall UIB Cell's capital increases by £0.7m. As for SIIL, this is driven by the difference in the valuation of liabilities on a UK GAAP and a SII basis and the transfer of an additional £300k from SIIL to UIB Cell.

6.3. Nature of the companies

As discussed in the Scheme Report, although the primary focus of my analysis has been on the security provided by the UIB Cell alone, it is a constituent cell of Advent and therefore benefits from the additional capital in Advent's Core. It should be noted that my conclusions are not dependent on this additional capital.

As at 31 December 2021, Advent had an MCR of €3.7m and an SCR of €11.8m and eligible own funds to cover this of €15.5m, reduced from €26.3m due to the restriction of own fund items in respect of ring-fenced funds.

Access to the Core provides a larger potential capital base in absolute amount and additional security to policyholders of UIB Cell.

I am satisfied that the facts that Advent is a Protected Cell Company and that the UIB Cell is a constituent cell do not materially adversely impact Transferring Policyholders.

6.4. Overall conclusion: Policyholder security

Based on the analysis set out above, I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that, based on policyholder security, it is unlikely that any group of policyholders will be materially adversely affected by the Proposed Transfer.

7. Policyholder communications

7.1. My considerations relating to policyholder communications

In section 8 of the Scheme Report, I assessed the appropriateness of SIIL's proposed communication strategy to inform policyholders of the Proposed Transfer.

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

In this Supplementary Report, I have also considered the following:

- Policyholder responses to SIIL and UIB Cell's communications; and
- Policyholder objections to the Proposed Transfer.

7.2. Policyholder responses to SIIL and UIB Cell's communications

SIIL and UIB Cell have confirmed that communications with policyholders have been carried out in line with the communications plan agreed with the High Court at the Directions Hearing on 6 May 2022. In total, communications were sent to 66,448 policyholders. Communication packs were issued during the period 22 June 2022 to 6 September 2022.

As at 30 September 2022, which was the latest available data prior to finalising this Supplementary Report, SIIL and UIB Cell had received 715 policyholder responses. The reasons for the contact are summarised in the following table:

Reason	Number of responses	% of notifications sent
General enquiry	317	0.5%
Cancellation	385	0.6%
Returns	0	0.0%
Objection	12	0.02%
Complaint	1	<0.01%
Technical enquiry	0	0.0%
Other	0	0.0%
Total	**715**	**1.1%**

As the table above shows, general enquiry and cancellation numbers are 0.5% and 0.6% of notifications sent respectively.

General enquiries are typically things such as changes of address, name, confirmation on what is covered. SIIL has informed me that it is normal for it to receive approximately a 1% general response rate from any mass policyholder communication.

The nature of the policies is that in some cases the insured just wants to cancel cover. I understand that the majority of the cancellations are policyholders who have reviewed their cover and have decided to cancel it, rather than specific objections to the Proposed Transfer.

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

7.3. Policyholder objections to the Proposed Transfer

To date, SIIL has received responses from 12 policyholders that it has classified as objections. In each case, the policyholder has requested a cancellation of their policy and has referenced the Proposed Transfer as the reason for cancelling. Four policyholders raised concerns about their policy moving overseas, while seven stated they did not want the Scheme to happen but did not provide detail on any specific aspect of the Transfer that they disagreed with. A further policyholder is only eligible for his policy for one more year so has decided to cancel early. These policyholders have not raised formal objections and have not indicated that they intend to appear at the Sanction Hearing.

Having reviewed these 12 responses from policyholders, and taking into account that these policies have now been cancelled, my view is that they do not give a material cause for concern regarding the Proposed Transfer.

As of 30 September 2022, objections accounted for less than 0.02% of the 66,448 notifications sent.

Therefore, I do not view the volume of objections as a concern and none of the objections give me cause me to change my conclusions related to the Proposed Transfer.

7.4. Overall conclusion: Policyholder communications

The communications have been carried out in line with the communications plan agreed with the High Court at the Directions Hearing on 6 May 2022. I have not identified any objections or complaints that have caused me to change my conclusions related to the Proposed Transfer. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded the communications strategy will ensure adequate coverage of affected parties.

I have also concluded that the planned communication is sufficiently clear for policyholders to understand the effects of the Proposed Transfer and that SIIL and UIB Cell have sufficient resources to deal with any objections, enquiries or complaints received following the Part VII communication exercise.

8. Customer service and other considerations

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

8.1. Customer service

SIIL and UIB Cell have confirmed to me that no changes have been made to the customer service plans since my analysis for the Scheme Report and that no material changes to policyholder administration and claims handling are expected, ie the policyholder experience, in respect of:

- Non-Transferring Policyholders;
- Transferring Policyholders; and
- Existing Transferee Policyholders.

Policyholder benefits and contractual rights will not change as a result of the Transfer.

Processes will continue with no change for Non-Transferring and Existing Transferee Policyholders. To ensure continuity of service for Transferring Policyholders, outsourcing agreements have been extended to cover the UIB Cell for the Transferring Business. These outsourcing agreements cover:

- claims handling;
- customer service, quality assurance and complaints handling;
- processing inbound mail and documentation dispatch; and
- the insurance administration platform.

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

8.2. Conduct risk

SIIL and UIB Cell have confirmed to me that there have been no material changes to policies or procedures relevant to conduct risk since my analysis for the Scheme Report. I remain satisfied that conduct risk and governance processes are in line with market practice and that appropriate procedures are in place for mitigating conduct risks. I am also satisfied that there will not be a material change in conduct risk pre- and post- transfer and therefore that no groups of policyholders will be materially disadvantaged as a result of the Proposed Transfer.

8.3. Overall conclusion: Customer service and other considerations

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

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

9. Conclusions and Statement of Truth

I have considered the Proposed Transfer and its likely effects on the Non-Transferring Policyholders, the Transferring Policyholders, and the Existing Transferee Policyholders.

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 Existing Transferee Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Existing Transferee Policyholders following the Proposed Transfer.

9.1. IE duty and declaration

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

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

I confirm that I am aware of the requirements applicable to experts in Part 35 of the Civil Procedure Rules, Practice Direction 35, and the Guidance for the Instruction of Experts in Civil Claims 2014. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I have understood and complied with my duty to the Court.

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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 and Actuarial Profession Standard X2: Review of Actuarial Work.

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Appendix 1 – SCR scenario analysis

For each scenario, I have considered the projected SCR coverage ratio and assessed whether each of SIIL and UIB Cell:

- is expected to remain well capitalised during the projected period – ie, a SCR coverage ratio of 150% or higher.
- is expected to meet its risk appetite – ie, a SCR coverage ratio of 130% or higher.
- is expected to meet the SCR under Solvency II – ie, an SCR coverage ratio of 100% or higher.

I have reviewed each scenario over the three-year Projection Period and have used the lowest of the coverage ratios when making the above assessments (eg if inflation caused the coverage ratio to be lower in 2024 than in 2022, I have used the 2024 ratio to assess whether it remains within risk appetite).

SIIL

	SCR coverage ratio at date at transfer		Remains well capitalised?		Meets risk appetite?		Meets SCR?	
Scenario:	Without transfer	With transfer	Without transfer	With transfer	Without transfer	With transfer	Without transfer	With transfer
Base	216%	226%	Yes	Yes	Yes	Yes	Yes	Yes
A. Worsening combined ratio	208%	215%	Yes	Yes	Yes	Yes	Yes	Yes
B. 50% more renewal cancellations	209%	219%	Yes	Yes	Yes	Yes	Yes	Yes
C. 50% higher expenses	187%	194%	Yes	Yes	Yes	Yes	Yes	Yes
D. 8% increase in claims inflation	203%	212%	Yes	Yes	Yes	Yes	Yes	Yes
E. Assets devalued by 10%	191%	201%	Yes	Yes	Yes	Yes	Yes	Yes
F. Credit rating downgrade for main counterparties	207%	223%	Yes	Yes	Yes	Yes	Yes	Yes
G. Data Breach	206%	215%	Yes	Yes	Yes	Yes	Yes	Yes
H. Default on intragroup loans	194%	206%	Yes	Yes	Yes	Yes	Yes	Yes
I. 50% higher claims	165%	187%	Yes	Yes	Yes	Yes	Yes	Yes
J. Combined adverse scenario	131%	150%	No	No*	Yes	Yes	Yes	Yes
K. Reverse Stress	47%	72%	No	No	No	No	No	No

* Although the coverage ratio with the transfer is shown as 150%, this is due to rounding. The exact number is just below 150% and therefore is not well-capitalised.

The assessment in regard to whether SIIL remains well capitalised, meets its risk appetite and meets its SCR is the same as in the Scheme Report for all day 1 scenarios. For day 0 scenarios, scenario H and I are now well-capitalised where previously they were not, driven by a higher base coverage ratio. For scenario J, SIIL now meets its risk appetite in the day 0 scenario where previously it did not. These changes do not alter my conclusions from those stated in the Scheme Report.

UIB Cell

Scenario:	SCR coverage ratio at date at transfer		Remains well capitalised?		Meets risk appetite?		Meets SCR?	
	Without transfer	With transfer	Without transfer	With transfer	Without transfer	With transfer	Without transfer	With transfer
Base	244%	196%	Yes	Yes	Yes	Yes	Yes	Yes
A. Worsening combined ratio	197%	164%	Yes	Yes	Yes	Yes	Yes	Yes
B. 50% more renewal cancellations	242%	195%	Yes	Yes	Yes	Yes	Yes	Yes
C. 50% higher expenses	235%	178%	Yes	Yes	Yes	Yes	Yes	Yes
D. 8% increase in claims inflation	224%	183%	Yes	Yes	Yes	Yes	Yes	Yes
E. Assets devalued by 10%	219%	174%	Yes	Yes	Yes	Yes	Yes	Yes
F. Credit rating downgrade for main counterparties	196%	162%	Yes	Yes	Yes	Yes	Yes	Yes
G. Data Breach	229%	186%	Yes	Yes	Yes	Yes	Yes	Yes
H. Default on intragroup loans	191%	159%	Yes	Yes	Yes	Yes	Yes	Yes
I. 50% higher claims	181%	124%	Yes	No	Yes	No	Yes	Yes
J. Combined adverse scenario	171%	107%	Yes	No	Yes	No	Yes	Yes
K. Reverse Stress	59%	7%	No	No	No	No	No	No

The assessment in regard to whether UIB Cell remains well capitalised, meets its risk appetite and meets its SCR is the same as in the Scheme Report for all day 1 scenarios apart from scenario H which is now well-capitalised. For day 0 scenarios, scenario J is now well-capitalised where previously it was not, driven by a higher base coverage ratio. This change does not alter my conclusions from those stated in the Scheme Report.

Transferring Policyholders (SIIL to UIB Cell)

	SCR coverage ratio at date at transfer		Remains well capitalised?		Meets risk appetite?		Meets SCR?	
Scenario:	Without transfer	With transfer	Without transfer	With transfer	Without transfer	With transfer	Without transfer	With transfer
Base	216%	196%	Yes	Yes	Yes	Yes	Yes	Yes
A. Worsening combined ratio	208%	164%	Yes	Yes	Yes	Yes	Yes	Yes
B. 50% more renewal cancellations	209%	195%	Yes	Yes	Yes	Yes	Yes	Yes
C. 50% higher expenses	187%	178%	Yes	Yes	Yes	Yes	Yes	Yes
D. 8% increase in claims inflation	203%	183%	Yes	Yes	Yes	Yes	Yes	Yes
E. Assets devalued by 10%	191%	174%	Yes	Yes	Yes	Yes	Yes	Yes
F. Credit rating downgrade for main counterparties	207%	162%	Yes	Yes	Yes	Yes	Yes	Yes
G. Data Breach	206%	186%	Yes	Yes	Yes	Yes	Yes	Yes
H. Default on intragroup loans	194%	159%	Yes	Yes	Yes	Yes	Yes	Yes
I. 50% higher claims	165%	124%	Yes	No	Yes	No	Yes	Yes
J. Combined adverse scenario	131%	107%	No	No	Yes	No	Yes	Yes
K. Reverse Stress	47%	7%	No	No	No	No	No	No

Following on from the SIIL and UIB Cell assessments above, the assessment in regard to whether Transferring Policyholders remain with an insurer that is well capitalised, meets its risk appetite and meets its SCR is the same as in the Scheme Report for all day 1 scenarios apart from scenario H which is now well-capitalised. For day 0 scenarios, scenario H and I are now well-capitalised where previously they were not, driven by a higher base coverage ratio. For scenario J, SIIL now meets its risk appetite in the day 0 scenario where previously it did not. These changes do not alter my conclusions from those stated in the Scheme Report.

It is also worth noting that the results shown above if the Proposed Transfer does not go ahead (ie “without transfer”) are relevant to the run-off of Transferring Policies only as it will not be possible to write EEA risks into SIIL following Brexit Transition arrangements.

Appendix 2 – Summary of data provided

The following is a list of the key additional data items I have requested and received in assessing the Proposed Transfer for the purpose of this Supplementary Report. All data I have requested has been provided to me. Each of SIIL and UIB Cell has provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

- Draft High Court and regulatory documents prepared by SIIL and UIB Cell for the Proposed Transfer, including:
  - SIIL second witness statement draft (provided on 15 August 2022)
  - UIB Cell second witness statement draft (provided on 15 August 2022)
  - Scheme document (provided on 05 August 2022)
  - Sanction order (provided on 05 August 2022)
- Responses and objections from stakeholders to the Proposed Transfer:
  - Summary of the communications received from policyholders (as of 30 September 2022)
  - Number of objections received to date and a summary of the nature of the objections (as of 30 September 2022)
- Documentation and data relating to technical provisions, including:
  - Advent's and SIIL's audited financial statements as at 31 December 2021
  - UIB Cell annual independent reserve report as at 31 December 2021
  - SIIL's Actuarial Function Report as at 31 December 2021
  - SIIL's and UIB Cell's Technical Provisions as at 31 December 2021
  - Updated SIIL policy numbers as at the Effective Date
- Documents relating to capital, including:
  - SIIL's and UIB Cell's standard formula SCR as at 31 December 2021
  - UIB Cell's Capital Management Policy
  - Projections of future SII balance sheets and capital requirements at the point of transfer
  - Various additional scenarios for SIIL and UIB Cell pre- and post-transfer
- Data Accuracy Statement
  - For each of SIIL and UIB Cell

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