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Summary of the Independent Expert's Report on the Proposed Transfer of a Portfolio of Policies from Arch Insurance (UK) Limited to Arch Insurance (EU) dac

About the independent expert

My name is Simon Sheaf and I am a Partner and Head of General Insurance Actuarial and Risk at Grant Thornton UK LLP. I am a Fellow of the Institute and Faculty of Actuaries. I have nearly 30 years of experience working within the general insurance industry. I have previously been a member of both the Council and the Management Board of the Institute and Faculty of Actuaries.

About this document

This document is a summary of my report ("my Report") that has been prepared following my nomination by Arch Insurance (UK) Limited ("AIUK") and Arch Insurance (EU) dac ("AIEU") to be the Independent Expert reporting on the proposed insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 to transfer a portfolio of policies from AIUK to AIEU ("the Scheme"). My appointment has been approved by the Prudential Regulation Authority ("PRA") having consulted with the Financial Conduct Authority ("FCA").

This summary sets out the key findings, methodology, assumptions and analysis from my Report. This summary is subject to the same limitations on its use as those set out in my Report. This summary of my Report must be considered in conjunction with my Report and reliance must not be placed solely on this summary. In the event of real or perceived conflict between this summary and my Report, my Report shall prevail. I have used a number of terms and abbreviations within this summary that are defined in my Report.

Copies of my Report can be obtained:

- At <http://www.archcapgroup.com/Insurance/Arch-PartVII>
- By emailing Archpart7@archinsurance.co.uk
- By writing to Arch Insurance (UK) Limited, 5th Floor, Plantation Place South, London, EC3R 5AZ, United Kingdom.

Purpose of the Scheme

Under its current authorisations, AIUK is permitted to sell and administer general insurance contracts across a range of classes of business in the EEA through its EEA Passporting Rights. However, AIUK's EEA Passporting Rights may no longer exist following the current transition period in respect of the UK's withdrawal from the European Union ("Brexit Transition Period"). AIUK is therefore seeking to transfer its insurance business in the EEA (apart from that in the UK) to another entity within the same corporate group that will have the appropriate permissions to transact this business after the end of the Brexit Transition Period.

The proposed Scheme relates to the transfer to AIEU of the business currently underwritten by AIUK on a Freedom of Services ("FOS") and a Freedom of Establishment basis ("FOE") in EEA countries other than the UK (the "Transferring Portfolio").

The purpose of the Scheme is to transfer the legal obligations relating to the Transferring Portfolio from AIUK to AIEU, while retaining the transferring business within the Arch Group.

Who will be affected by the Scheme?

The policyholders affected by the Scheme include not only the policyholders within the Transferring Portfolio but also the policyholders remaining within AIUK at the time of the Scheme and the existing policyholders within AIEU prior to the Scheme.

I am not required to consider the impact of the Scheme on any policyholder that subsequently takes out a policy with either AIUK or AIEU.

My role

An Independent Expert's Report is required under Section 109 of the Financial Services and Markets Act 2000 in order that the Court may properly assess the impact of the proposed Scheme. My Report describes the proposed transfer of business under the Scheme and considers the potential impact on all affected policyholders, including the security of their policies and the levels of service that policyholders can expect to receive once the Scheme becomes effective.

Scope of the Scheme

The business being transferred is all of the following risks except for those set out in the next paragraph:

- All direct insurance policies forming part of the portfolio of general insurance policies of AIUK carried out prior to the Effective Date where the risk associated with such policy is written on an FOS or FOE basis
- The outwards reinsurance policies issued to AIUK where these are relevant to or provide protection for a policy referred to in the previous bullet point
- Contracts and other commitments to which AIUK is a party at the transfer date and which relate to the policies or reinsurance policies referred to above
- The assets and liabilities (excluding misselling liabilities) relating to each of the above.

There are certain policies that will not be transferred to AIEU under the Scheme. These are:

- All direct insurance policies forming part of the portfolio of general insurance policies of AIUK carried out prior to the Effective Date where the risk associated with such policy is not written on an FOS or FOE basis
- All inwards reinsurance policies.

For the avoidance of doubt, I understand from AIUK and AIEU that there are currently no policies or reinsurance contracts that will not be transferred to AIEU under the Scheme other than those captured in the two bullet points above.

Overview of my analysis

In considering the impact of the Scheme on policyholders, I have considered both the impact of the Scheme on the financial resources available to support policyholders and also a number of non-financial impacts regarding how the policyholders' experience may change as a result of the Scheme.

My approach to considering the effect of the Scheme on non-financial service levels experienced by policyholders has been to determine if a change in service arrangements would occur if the Scheme were to proceed, and to compare any changes with the arrangements that would be in place were the Scheme not to proceed.

Impact of COVID-19

My analysis has included allowing for the impact of COVID-19. While I have relied on estimates performed by AIUK and AIEU I have reviewed these estimates and I have made my own adjustments where I have deemed this appropriate for my own analysis. I have considered the impact of COVID-19 on both a best estimate basis and under a plausible but very pessimistic scenario.

My opinion is that I consider that both AIUK and AIEU will have sufficient assets to meet their liabilities following a reasonably foreseeable worsening of the COVID-19 global pandemic or following a new reasonably foreseeable global pandemic.

Will the Scheme impact the security of the policyholders?

Compensation schemes

Following the Scheme, there will be no change to the compensation available to policyholders remaining in AIUK in the event of the insolvency of AIUK as policyholders that are eligible for Financial Services Compensation Scheme ("FSCS") protection prior to the Scheme will continue to be eligible following the Scheme.

There will also be no change to the compensation available to the existing policyholders of AIEU in the event of the insolvency of AIEU as policyholders that are eligible for Insurance Compensation Fund ("ICF") protection prior to the Scheme will continue to be eligible following the Scheme.

Policyholders of the Transferring Portfolio that are currently eligible for FSCS protection will retain their access to the FSCS following the Scheme provided that the policy was issued in the UK prior to the time UK officially left the EU, 11:00pm on 31 January 2020. However, transferring policies which are currently eligible for FSCS protection but which were written after this time will lose their access to FSCS following the Scheme. However, AIUK has informed me that it has not identified any policies in the Transferring Portfolio that were written after 11:00pm on 31 January 2020 and that are eligible for FSCS protection. It is not expected therefore that there are any policyholders within the Transferring Portfolio which are currently eligible for FSCS protection but which will lose access to FSCS protection following the Scheme.

In the unlikely scenario that there are any policyholders within the Transferring Portfolio which are currently eligible for FSCS protection and which will lose FSCS protection as a result of the Scheme, these policyholders may have access to certain local schemes in their home jurisdictions, for example Irish policyholders will have access to the Insurance Compensation Fund ("ICF") which is the Irish equivalent scheme, however these may be more limited in scope.

Even in the unlikely scenario that there are a small number of policyholders who may lose access to the FSCS following the Scheme, I believe that this will be less detrimental to them than the impact should the Scheme not go ahead. This is because, should these policyholders remain within AIUK, there is a risk that AIUK may lose the right to continue to provide insurance cover to these policyholders following the UK's departure from the EU. Furthermore, it is my opinion that AIEU will be sufficiently capitalised following the Scheme and that it is highly unlikely that AIEU will experience financial difficulties that result in the transferring policyholders requiring compensation.

Transferring Portfolio

My opinion is that I do not expect the security of the transferring policyholders to be materially adversely affected by the Scheme, including under insolvency, for the following reasons:

- I am of the opinion that AIEU will be sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the existing policyholders within AIEU after the Scheme
- To ensure that the Scheme does not materially adversely impact the existing policyholders within AIEU prior to the Scheme, AIEU has informed me that the Arch Group will inject additional capital into AIEU on 5 December 2020, prior to the Scheme. AIEU has further informed me that the respective boards of directors for AIEU and the parent of AIEU which will be making the capital injection have passed resolutions approving this capital injection. I understand from AIEU that the intention is for the capital injection to restore AIEU's solvency position following the Scheme to a level that is broadly in line with its solvency position prior to the Scheme.
- The transferring policyholders will be transferring from an entity with a lower solvency position than the entity they are transferring into following the Scheme
- Both AIUK and AIEU benefit from an 85% quota share reinsurance provided by another entity within the Arch Group. Consequently, the transferring policyholders will continue to benefit from this protection after the transfer.
- I am satisfied that the underlying assets backing this reinsurance are sufficient to enable it to meet its obligations
- No policyholders will lose access to the Financial Services Compensation Scheme (the compensation fund of last resort for customers of authorised financial services firms in the UK) following the Scheme
- In the event of the insolvency of AIEU, the Irish insolvency regulations will be at least equally favourable and, in some cases, more favourable to the transferring policyholders than the UK regulations would be in the event of the insolvency of AIUK.
- No policyholders are expected to lose access to the FSCS as a result of the Scheme.

Please note that the above opinion is predicated on the fact that the capital injection into AIEU will be in force from the date of the Scheme.

Policyholders remaining in AIUK

In my opinion the Scheme will not have a material adverse impact on the security of the policyholders remaining in AIUK, including under insolvency, for the following reasons:

- I am of the opinion that AIUK will be sufficiently capitalised in order to meet policyholder obligations
- There will be no change in the insolvency regulations for policyholders remaining within AIUK as a result of the Scheme since they will be subject to the UK insolvency regulations both before and after the Scheme

- Furthermore, following the Scheme, there will be no change to the compensation available to policyholders remaining in AIUK in the event of the insolvency of AIUK
- AIUK benefits from an 85% quota share reinsurance provided by another entity within the Arch Group
- I am satisfied that the underlying assets backing the quota share reinsurance are sufficient to enable it to meet its obligations.

As a result, I do not expect the security of the policyholders remaining in AIUK to be materially adversely affected as a result of the Scheme.

Existing policyholders of AIEU

In my opinion the Scheme will not have a material adverse impact on the security of the existing policyholders within AIEU prior to the Scheme, including under insolvency, for the following reasons:

- I am of the opinion that AIEU will be sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and of the existing policies within AIEU prior to the Scheme
- To ensure that the Scheme does not materially adversely impact the existing policyholders within AIEU prior to the Scheme, AIEU has informed me that the Arch Group will inject additional capital into AIEU on 5 December 2020, prior to the Scheme. AIEU has further informed me that the respective boards of directors for AIEU and the parent of AIEU which will be making the capital injection have passed resolutions approving this capital injection. I understand from AIEU that the intention is for the capital injection to restore AIEU's solvency position following the Scheme to a level that is broadly in line with its solvency position prior to the Scheme
- There will be no change in the insolvency regulations for the existing policyholders of AIEU as a result of the Scheme since they will be subject to the Irish insolvency regulations both before and after the Scheme.
- Furthermore, following the Scheme, there will be no change to the compensation available to the existing policyholders of AIEU in the event of the insolvency of AIEU
- AIEU benefits from an 85% quota share reinsurance provided by another entity within the Arch Group
- I am satisfied that the underlying assets backing the quota share reinsurance are sufficient to enable it to meet its obligations.

As a result, I do not expect the security of the existing policyholders in AIEU prior to the Scheme to be materially adversely affected as a result of the Scheme. Please note that this opinion is predicated on the fact that the capital injection into AIEU will be in force from the date of the Scheme.

What are the other financial impacts of the Scheme?

I have considered the impact of the Scheme on each of investment strategy; liquidity position; ongoing expenses; pension arrangements; tax; new business strategy; and other transfers. I do not identify any changes in any of these areas as a result of the Scheme that would cause any material adverse impact to any of the three groups of policyholders.

What is the non-financial impact of the Scheme?

Ombudsman services

Following the Scheme, policyholders remaining within AIUK that are currently eligible will continue to be eligible to refer complaints to the Financial Ombudsman Service ("FOS").

As the existing policyholders of AIEU will continue to be insured by an insurer that is authorised by the CBI following the Scheme, there will also be no change in their access to the Financial Services and Pensions Ombudsman ("FSPO") as a result of the Scheme.

AIUK has informed me that it has reviewed the Transferring Portfolio and it has not identified any policyholders that meet the FOS's eligibility criteria but do not meet FSPO's eligibility criteria. As a result, I do not believe the loss of access to FOS will have a material adverse impact on these policyholders as these policyholders will continue to have access to the FSPO which also offers a free service and is an equivalent ombudsman in terms of scope and authority to issue binding decisions. In addition to the FSPO, policyholders domiciled in the EEA may also be able to refer complaints to the ombudsman service in their country of domicile through FIN-NET. FIN-NET is a network comprising of the national organisations responsible for settling consumers' complaints in the area of financial services out of court from all EEA countries.

Other factors

In addition, I have considered the impact of any changes as a result of the Scheme to each of regulatory jurisdiction claims handling and policy administration; recognition of the Scheme in other jurisdictions; governance and management frameworks; 'Brexit'; a recent court ruling in respect of another proposed transfer; the non-financial impact of COVID-19; and the impact on policyholders should the scheme not become effective. I do not identify any changes as a result of the Scheme in any of these

areas that cause any material adverse impact on policyholders.

Will the Scheme impact reinsurers?

AIEU has continued to underwrite AIUK's EEA business on the same net basis that was historically assumed by AIUK. In particular, AIEU has maintained the same reinsurance protections in respect of this business and currently shares in the same Arch Group reinsurance programme in which AIUK participates. The reinsurers transferring under the Scheme therefore currently already transact with AIEU and the transferring reinsurers therefore will not be entering into a relationship with a new cedent as a result of the Scheme.

In addition, as the Transferring Portfolio comprises of business that was underwritten prior to 1 January 2020 only, the Scheme will not change the underlying risks that the transferring reinsurers are exposed to as the business would have already been underwritten at the date of the Scheme.

As a result, my opinion is that the Scheme will have no material adverse impact on AIUK's or AIEU's current or historical reinsurers.

Overall conclusion

I have considered the Scheme and its likely effect on transferring policyholders, policyholders remaining within AIUK, policyholders currently within AIEU and reinsurers. I do not expect any group of policyholders or reinsurers to be materially adversely affected by the Scheme and therefore I see no reason why the Scheme should not proceed.

Please note that my opinion is predicated on the fact that the capital injection into AIEU will be in force from the date of the Scheme.



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