

Supplementary Scheme Report

For the proposed transfer of business from Marine Shipping Mutual Insurance Company Limited (MSMI) to North of England Protecting and Indemnity Association Limited (NOE)

1 October 2015

Prepared for:

The High Court of Justice of England and Wales

Prepared by:

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1. Introduction

- 1.1. Section 109 of the Financial Services and Markets Act 2000 (the FSMA) requires that a scheme report (Scheme Report) must accompany an application to the High Court of Justice of England and Wales (the Court) to approve an insurance business transfer. The Scheme Report should address the question of whether any policyholders impacted by the insurance business transfer are adversely affected to a material extent. The Scheme Report should be produced by a suitably qualified independent person (the Independent Expert) who has been nominated or approved for this purpose by the Prudential Regulation Authority (the PRA) in consultation with the Financial Conduct Authority (the FCA).
- 1.2. The PRA in consultation with the FCA approved the form of the Scheme Report dated 12 June 2015 and this Supplementary Scheme Report should be read in conjunction with that Scheme Report

2. Purpose of the Scheme

- 2.1. The proposed Scheme is to transfer all of the insurance business of MSMI to NOE pursuant to Part VII of the FSMA. Provided it is sanctioned, the Scheme will become effective on the 1 November 2015 (the Effective Date). Under the Scheme, all policies of MSMI will be transferred to NOE together with all the liabilities and assets of MSMI. The intention is that MSMI will subsequently be dissolved. Until MSMI's authorisation is cancelled, it must retain a Minimum Capital Requirement (MCR) and thus the Scheme allows for the value of assets to be transferred to be reduced to the extent necessary to maintain MSMI's MCR, with the remaining balance to be transferred as soon as possible following MSMI's de-authorisation.
- 2.2. The main purpose of the Scheme, as confirmed in discussions with NOE management, is to achieve a more efficient use of capital and savings in costs by managing one company, NOE, rather than managing two separate companies, NOE and MSMI.

3. Scope of work

- 3.1. The purpose of this Supplementary Scheme Report is for the Independent Expert to provide an update on any relevant new information or events that have occurred since the date of the Scheme Report and to provide an opinion on whether they have affected the proposed insurance business transfer. In this Supplementary Scheme Report, I have used a number of terms and abbreviations that are defined in Appendix E of the Scheme Report.
- 3.2. This Supplementary Scheme Report considers, but is not limited to, the following matters:
 - the latest available financial information in respect of the transferor and transferee;
 - any recent economic, financial or regulatory developments; and
 - any representations made by policyholders or affected persons that raise issues not previously considered in the Scheme Report.
- 3.3. The Regulator has approved the form of this Supplementary Scheme Report in the context of the Scheme.

4. Appointment

- 4.1. I, Keith Tucker, have been appointed by the Directors of NOE and MSMI to act as the Independent Expert for the proposed scheme to transfer all of the insurance business of MSMI to NOE pursuant to Part VII of the FSMA (the Scheme).
- 4.2. My fees incurred in the preparation of this Supplementary Scheme Report are payable by NOE and MSMI.

- 4.3. An extract of the relevant sections from the Engagement Letter regarding this appointment is contained in Appendix A of the Scheme Report.
- 4.4. My role is to produce the Scheme Report and Supplementary Scheme Report as described in the PRA Insurance Business Transfers Statement of Policy and the Financial Conduct Authority (the FCA) Handbook section SUP 18 and as required by section 109 of the FSMA.
- 4.5. This Supplementary Scheme Report complies with the applicable rules on expert evidence and with the guidance set out by the Regulators in the PRA Insurance Business Transfers Statement of Policy and Chapter 18 of the FCA Supervision Manual (SUP 18), which forms part of the FCA Handbook.
- 4.6. My appointment as Independent Expert for this Scheme has been approved by the Regulator.

5. Professional experience

- 5.1. I am a Fellow of the Institute and Faculty of Actuaries in the UK and an Associate of the Society of Actuaries in the USA.
- 5.2. I have skills in all areas of general and life insurance work including reserving, capital, pricing and transfers of business. My recent work has been primarily in the field of general insurance including calculation of capital, loss reserves and other balance sheet items, both on a Solvency I and Solvency II basis, and assisting clients with various aspects of their Solvency II implementation. The clients that I dealt with underwrite similar business to that of the two parties (NOE and MSMI) involved in this Scheme.
- 5.3. At the commencement of this assignment, I was employed as a Director in the Insurance Industry Group practice of Moore Stephens LLP and have more than 30 years' experience as a qualified actuary in the insurance industry. I left the employment of Moore Stephens on 8 February 2013 but continued with this assignment on a consultancy basis to Moore Stephens. A brief summary of my experience is contained in Appendix B of the Scheme Report.

6. Independence

- 6.1. I confirm that I have no direct connections with NOE, MSMI, North Insurance Management Limited (NIML), Sunderland Marine Mutual Insurance Company Limited (SMMI) or Sunderland Marine Insurance Company Limited (SMI), the current name of SMMI. In particular, I have never worked on any project involving NOE, MSMI, NIML, SMMI or SMI apart from the work carried out in connection with the preparation of the Scheme Report and this Supplementary Scheme Report.
- 6.2. Simon Gallagher, Managing Partner at Moore Stephens and head of the Moore Stephens Insurance Industry Group, is acting as the peer reviewer and is responsible for the oversight of my work carried out in connection with the preparation of the Scheme Report and this Supplementary Scheme Report.

7. Updates to the Scheme Report due to the latest financial information

- 7.1. In preparing this Supplementary Scheme Report I have relied upon the information contained in copies of the following documents supplied by NOE management:
 - a) SMI Strategic Report, Directors Report and Financial Statements (for the financial year ending 20 February 2015).

- b) SMI Own Risk Solvency Assessment Report – May 2015 (based upon the actual financial results at 20 February 2015 and the business plan updated and presented to the Board in May 2015).
- c) SMI ICA Capital Position board papers (based upon the actual financial results at 20 February 2015).
- d) SMI PRA Returns (for the period ending 20 February 2015).
- e) MSMI Strategic Report, Directors Report and Financial Statements (for the financial year ending 20 February 2015).
- f) MSMI PRA Returns (for the period ending 20 February 2015).
- g) NOE Combined Financial Statements (for the financial year ending 20 February 2015).
- h) NOE Own Risk Solvency Assessment Report – May 2015 (based upon the actual financial results at 20 February 2015 and the business plan updated and presented to the Board in May 2015).
- i) NOE ICA Capital Position board papers (based upon the actual financial results at 20 February 2015).
- j) NOE PRA Returns (for the period ending 20 February 2015).
- k) Financial review from the Agenda for the meeting of the NOE Board of Directors on 16 September 2015

7.2. The financial information relating to MSMI shown in the Scheme Report was as at the financial year ending 20 February 2014. This was summarised in section 1.7 (**Scheme’s impact on transferring policyholders of MSMI**) and in **Table A** of paragraph 1.7.1 of the Scheme Report. The revised **Table A** is shown below with corresponding figures relating to the financial year ending 20 February 2015.

Table A (revised)	
MSMI insured vessels, policyholders and claims technical provisions*	
Open Policy Year	2010/11
Number of insured vessels	490
Number of policyholders#	48
	US \$
Gross technical provisions for claims	3,958,000
Reinsured under External Reinsurance Arrangements	1,951,000
Reinsured under Reinsurance Agreement with NOE	2,007,000
Net technical provisions for claims	0
<i>* As at 20 February 2015.</i>	
<i># These are the number of groups of policyholders – each group may have several member companies but from an underwriting and contact perspective, the group level is the most relevant statistic. For the open policy year at 20 February 2015, the actual number of insured vessels, policies and policyholders were 490, 490 and 50 respectively.</i>	

- 7.3. **Table B** in paragraph 1.7.4 of the Scheme Report shows financial information for both NOE and MSMI as at the financial year ending 20 February 2014. The revised **Table B** is shown below with corresponding figures relating to the financial year ending 20 February 2015.

Table B (revised)		
MSMI and NOE gross technical provisions and surplus assets (free reserves)*		
US \$	MSMI	NOE #
Gross technical provisions for claims **	3,958,000	1,133,421,000
Surplus assets (free reserves)	5,980,000	338,109,000
Surplus assets as a percentage of gross technical provisions for claims	151.1%	29.8%
Gross technical provisions for claims of MSMI as a percentage of gross technical provisions for claims of NOE #		0.35%
* As at 20 February 2015.		
# NOE consolidated balance sheet figures including MSMI and SMI.		
** Sections 4.1.7 and 4.1.8 of the Scheme Report give further information on the technical provisions for claims.		

- 7.4. **Table D** in paragraph 1.10.4 of section 1.10 (**Impact of merger of NOE and SMMI**) of the Scheme Report shows financial information for MSMI and NOE as at the financial year ending 20 February 2014. It also shows financial information for SMI as at 28 February 2014 (the date of acquisition of SMI by NOE). The revised **Table D** is shown below with corresponding figures relating to the financial year ending 20 February 2015 for MSMI, SMI and NOE.

Table D (revised)			
MSMI, SMI and NOE gross technical provisions and surplus assets (free reserves)*			
US \$	MSMI	SMI	NOE #
Gross technical provisions for claims	3,958,000	184,459,000	1,133,421,000
Surplus assets (free reserves)	5,980,000	61,081,000	338,109,000
Surplus assets as a percentage of gross technical provisions for claims	151.1%	33.1%	29.8%
Gross technical provisions for claims of MSMI as a percentage of gross technical provisions for claims of NOE #			0.35%
* As at 20 February 2015.			
# NOE consolidated balance sheet figures including MSMI and SMI.			

- 7.5. **Table E** in paragraph 1.10.6 of the Scheme Report shows financial information for NOE as at the financial year ending 20 February 2014 and for SMI as at 28 February 2014 (the date of acquisition of SMI by NOE). The revised **Table E** is shown below with corresponding figures all relating to the financial year ending 20 February 2015.

Table E (revised)			
SMI and NOE gross technical provisions and surplus assets (free reserves)*			
US \$	SMI	NOE @	NOE @@
Gross technical provisions for claims	184,459,000	1,131,470,000	1,133,421,000
Surplus assets (free reserves)	61,081,000	332,129,000	338,109,000
Surplus assets as a percentage of gross technical provisions for claims	33.1%	29.4%	29.8%
Gross technical provisions for claims of SMI as a percentage of gross technical provisions for claims of NOE @ and NOE @@		16.3%	16.3%
<i>* As at 20 February 2015.</i>			
<i>@ NOE consolidated balance sheet figures including SMI but excluding MSMI (apart from the reinsurance from MSMI to NOE).</i>			
<i>@@ NOE consolidated balance sheet figures including MSMI and SMI</i>			

- 7.6. **Table F** in paragraph 7.1.3 of section 7.1 (**Consideration of the Solvency I capital position**) of the Scheme Report summarises the Solvency I capital situation for both MSMI and NOE as at the financial year ending 20 February 2014. The revised **Table F** is shown below with corresponding figures all relating to the financial year ending 20 February 2015.

Table F (revised)		
MSMI and NOE Solvency I capital resources* and CRR **		
US \$	MSMI	NOE
Available capital resources*	4,140,000	361,212,000
Solvency I CRR **	3,362,000	115,273,000
Capital resources * expressed as a percentage of the CRR **	123.1%	313.4%
<i>* The excess of Solvency I admissible assets over liabilities at 20 February 2015</i>		
<i>** Solvency I Capital Resources Requirement at 20 February 2015</i>		

The figures shown in the above **Table F (revised)** for NOE have been prepared on a solo company basis and therefore relate only to NOE and do not include MSMI or SMI (apart from the reinsurance from MSMI and SMI to NOE). This is in contrast to the original **Table F** in paragraph 7.1.3 of the Scheme Report that shows combined NOE figures that include MSMI. Given that the MSMI figures are of a trivial nature when compared to the NOE figures, the inclusion or exclusion of MSMI in the NOE figures would not materially alter the figures for NOE shown in the above **Table F (revised)**.

- 7.7. **Table G** in paragraph 7.1.4 of the Scheme Report summarises the Solvency I capital situation for SMI as at the financial year ending 31 December 2013. The revised **Table G** is shown below with corresponding figures all relating to the financial year ending 20 February 2015.

Table G (revised)	
SMI Solvency I capital resources # and CRR ##	
UK £	SMI
Available capital resources #	37,084,000
Solvency I CRR ##	9,539,000
Capital resources # expressed as a percentage of the CRR ##	388.8%
<i># The excess of Solvency I admissible assets over liabilities at 20 February 2015</i>	
<i>## Solvency I Capital Resources Requirement at 20 February 2015</i>	

- 7.8. **Appendix F (Balance Sheets Pre- and Post-Transfer)** of the Scheme Report shows balance sheets for MSMI and NOE based on figures relating to the financial year ending 20 February 2014. The revised balance sheets are shown below based on the figures relating to the financial year ending 20 February 2015.

MSMI Balance Sheet (prior to Effective Date) based on 20 February 2015 figures:

	US\$ (000's)	US\$ (000's)
ASSETS		
Financial Investments (fixed income securities)		15,327
Reinsurer's share of technical provisions		3,958
Debtors		
Arising out of direct insurance operations	16	
Arising out of reinsurance operations	1,579	
Total Debtors		1,595
Cash at bank and in hand		8,005
Prepayments and accrued Income		17
Total Assets		28,902
LIABILITIES		
Reserves		
Income and Expenditure account	(1,270)	
NOE Capital Reserve	7,250	
Total Reserves		5,980
Technical provisions (claims outstanding)		3,958
Creditors		
Amounts due to parent company	8,986	
Arising out of reinsurance operations	9,584	
Other creditors	394	
Total Creditors		18,964
Accruals and deferred Income		-
Total Liabilities		28,902

NOE Combined Balance Sheet (prior to and post Effective Date) based on 20 February 2015 figures:

	US\$ (000's)	US\$ (000's)
ASSETS		
Intangible assets		17,104
Property, plant and equipment		32,183
Reinsurer's share of technical provisions		394,831
Financial assets		
Equity securities	70,960	
Debt securities	650,555	
Derivative financial instruments	16,322	
Loans and receivables (including insurance and reinsurance receivables)	170,640	
Total financial assets		908,477
Corporation tax debtor		62
Deferred tax asset		621
Cash and cash equivalents		269,343
Total Assets		1,622,621
LIABILITIES		
Accumulated Surplus		
Income and Expenditure account	(5,684)	
Contingency funds	336,912	
Revaluation reserve	6,881	
Total Accumulated Surplus		338,109
Non-controlling interest		230
Technical provisions (unearned premiums and claims outstanding)		1,133,421
Derivative financial instruments		18,399
Reinsurance payables		37,750
Trade and other payables		42,685
Corporation tax creditor		1,288
Retirement benefit liability		50,739
Total Liabilities		1,622,621

8. Other developments since the date of the Scheme Report

- 8.1. I have made enquiries as to the NOE Group's current financial situation following on from the figures last reported as at 20 February 2015. I have had sight of the document listed in 7.1 k) above (Financial review from the Agenda for the meeting of the NOE Board of Directors on 16 September 2015). This document gives the latest projection of the NOE Group balance sheet at 20 February 2016 and shows no material change in the surplus assets (free reserves) over the period since 20 February 2015.
- 8.2. In my Scheme Report section **1.11 (The Parent Company Guarantee given by NOE to SMI)** I concluded that that the Parent Company Guarantee given by NOE to SMI has minimal impact on the financial security of MSMI policyholders both pre- and post-Effective Date. I have made enquiries with regard to any developments that may affect that conclusion and I can confirm that no such developments have taken place and that my conclusion still stands.
- 8.3. In my Scheme Report section **1.12 (Litigation and other recent developments)** I made reference to SMI and NOE both being party to proceedings concerning an appeal to the relevant tax authority in Germany concerning the quantum of insurance premium taxes (IPT) levied. I concluded that this development did not have any material impact on the Scheme and has minimal impact on the level of financial security available for NOE and MSMI policyholders. I have made enquiries as to the latest development in this matter and can confirm that the situation remains as stated in my Scheme Report and that my conclusion still stands.
- 8.4. In addition to the information mentioned in 7.1 above, I have had sight of the First Witness Statement of Christopher Philip Owen and the Second Witness Statement of Alan Andrew Wilson; both prepared following the order made by the Court on 8 July 2015 (the Directions Order). From these Witness Statements I have concluded that:
- a) The communications programme agreed and ordered at the Directions Hearing of 8 July 2015 has been carried out.
 - b) No representations have been received to date concerning the Scheme.
 - c) To date, no one is intending to appear at Court to object to the Scheme.

9. Conclusions stated in the Scheme Report revisited

My conclusions stated in section **1.13 (Conclusions)** of the Scheme Report are revisited in the following sections. *The words in italics are quotes from the Scheme Report.*

- 9.1. In paragraph 1.13.1 of the Scheme Report I stated: *"The main purpose of the Scheme, as confirmed in discussions with NOE management, is to achieve a more efficient use of capital and savings in costs by managing one company, NOE, rather than managing two separate companies, NOE and MSMI. I have no reason to doubt that this is likely to be the beneficial outcome of the Scheme (see sections 1.6 and 3 of this Scheme Report for more information)."*
- 9.1.1. **This conclusion still stands and is not affected by the updated financial information.**
- 9.2. In paragraph 1.13.2 of the Scheme Report I stated: *"The transfer of the External Reinsurance Arrangements from MSMI to NOE is included within the Scheme and the mechanism for giving notice to the External Reinsurance Parties is described in section 8 of this Scheme Report. The liabilities reinsured post-Effective Date will be exactly the same as the liabilities*

reinsured pre-Effective Date. The External Reinsurance Parties will be notified of the Scheme and the External Reinsurance Arrangements will continue with the same financial effects and service standards pre- and post-Effective Date. My conclusion is based on the fact that the reinsured liabilities and the reinsurers will not change as a result of the Scheme (see sections 1.7 and 4 of this Scheme Report for more information)."

9.2.1. This conclusion still stands and is not affected by the updated financial information.

9.3. In paragraph 1.13.3 of the Scheme Report I stated: "A deteriorating claims experience on the MSMI policies pre- or post-Transfer with the consequent need to increase claims payments and claims technical provisions, would require NOE and the External Reinsurance Parties to increase their claims payments and claims technical provisions, with the effect being no change in the net technical provisions of zero for the MSMI policies. For NOE, any such increase would have to come from any surplus assets (free reserves) in NOE or by way of a call to NOE's members. **Thus, based on the assumption that the External Reinsurance Parties would honour their commitments under the External Reinsurance Arrangements, I conclude that the Scheme has no material effect on the net risks facing MSMI or NOE as a result of such a deteriorating claims experience (see sections 1.7, 1.9, 4 and 6 of this Scheme Report for more information)."**

9.3.1. This conclusion still stands and is not affected by the updated financial information.

9.4. In paragraph 1.13.4 of the Scheme Report I stated: "Prior to the Scheme taking effect, if one or more of the External Reinsurance Parties were to default on their liabilities to MSMI, the additional funds required by MSMI would have to come from any surplus assets (free reserves) in MSMI, which amounted to US\$5,810,000 or 30.1% of the gross technical provisions for MSMI claims in the balance sheet of 20 February 2014. As NOE is the sole member of MSMI (and MSMI being a wholly owned subsidiary of NOE), any additional funds required by MSMI to replenish such surplus or for any other reason would have to come from any surplus assets in NOE or by way of a call to NOE's members. NOE had surplus assets (as shown in the consolidated balance sheet of 20 February 2014 that included MSMI) of US\$312,274,000 or 32.1% of the gross technical provisions for claims of NOE and MSMI combined. It should also be noted that the gross technical provisions for claims of MSMI amounted to only 2.0% of the gross technical provisions for claims of NOE and MSMI combined. **I conclude that, since the total gross claims of MSMI are relatively minor compared to the consolidated NOE total gross claims and NOE's surplus assets, a reinsurance default by one or more of the External Reinsurance Parties would be unlikely to cause any financial problems due to the fact that NOE would in all likelihood put additional funds as required in MSMI. Moreover, NOE's reputation in the market would suffer if such additional funds were not forthcoming (see sections 1.7, 1.9, 4 and 6 of this Scheme Report for more information)."**

9.4.1. This conclusion still stands although the figures quoted can be updated from Table B (revised) shown in paragraph 7.3 of this Supplementary Scheme Report. In the balance sheet at the financial year ending 20 February 2015 the surplus assets of MSMI amounted to US\$5,980,000 or 151.1% of the gross technical provisions for MSMI claims. In the consolidated balance sheet for NOE (that includes both MSMI and SMI) at the financial year ending 20 February 2015 the surplus assets amounted to US\$338,109,000 or 29.8% of the gross technical provisions for claims. As at the financial year ending 20 February 2015, the gross technical provisions for claims of MSMI amounted to only 0.35% of the gross technical provisions for claims shown in NOE's consolidated balance. The large changes in the percentages figures for MSMI (from 30.1% to 151.1% and from 2.0% to 0.35%) are due to the large decline in the gross technical provisions for claims for MSMI, from US\$19,330,000 at 20 February 2014 to US\$3,958,000 at 20 February 2015. MSMI is in run off and the decline in gross technical reserves is in line with expectations and largely due to the settlement of outstanding claims over the relevant period.

- 9.5. In paragraph 1.13.5 of the Scheme Report I stated: *“The situation with regard to a possible default of one or more of the External Reinsurance Parties post-Effective Date would be that any additional funds would come from the surplus assets in NOE and, if any further funds were required, this would come from a call on NOE’s members. Pre-Effective Date the MSMI policyholders benefit from the protection of MSMI’s surplus assets (as at 20 February 2014 amounting to US\$5,810,000 or 30.1% of MSMI’s gross technical provisions for claims) whereas post-Effective Date they will benefit, together with all other policyholders in NOE, from the protection of NOE’s surplus assets (as at 20 February 2014 amounting to US\$312,274,000 or 32.1% of NOE’s gross technical provisions for claims). Thus, I conclude that the Scheme will have minimal effect on the protection afforded to MSMI policyholders against a default by one or more of the External Reinsurance Parties (see sections 1.7 and 4 of this Scheme Report for more information).”*
- 9.5.1. This conclusion still stands although the figures quoted can be updated with those shown in 9.4.1 above. Whilst the situation pre-effective date now shows MSMI having the protection of surplus assets of US\$5,980,000 or 151.1% of the gross technical provisions for claims, it should be noted that the MSMI gross technical provisions for claims amount to only US\$3,958,000 or just 0.35% of the total consolidated NOE gross technical provisions for claims of US\$1,133,421,000. The total surplus assets shown in NOE’s consolidated balance sheet of US\$338,109,000 (or 29.8% of the NOE consolidated gross technical provisions for claims) provides a substantial buffer when compared to the US\$1,951,000 of gross technical provisions of MSMI that are reinsured to External Reinsurance Parties. The latter figure is shown in Table A (revised) in paragraph 7.2 of this Supplementary Scheme Report.
- 9.6. In paragraph 1.13.6 of the Scheme Report I stated: *“Whilst the Scheme has no effect on the net liabilities of NOE that derive from the MSMI policies (which amounted to US\$5,901,000 as at 20 February 2014), a possible default of one or more of the External Reinsurance Parties post-Effective Date would require additional funds from the surplus assets in NOE and, if any further funds were required, this would come from a call on NOE’s members. I conclude that, whilst the situation post-Effective Date is different from that pre-Effective Date in that NOE assumes the whole risk of a default by one or more of the External Reinsurance Parties, in a practical sense for the reasons set out in section 1.13.4 above, the risks facing NOE and its members are little changed by the Scheme (see sections 1.9 and 6 of this Scheme Report for more information).”*
- 9.6.1. This conclusion still stands although the figure quoted can be updated from Table A (revised) shown in paragraph 7.2 of this Supplementary Scheme Report. The net liabilities of NOE that derive from the MSMI policies amounted to US\$2,007,000 as at 20 February 2015.
- 9.7. In paragraph 1.13.7 of the Scheme Report I stated: *“Although the Scheme will not take place until the Effective Date and the financial figures will change over time, I have no reason to believe that the financial strength of NOE immediately post-Effective Date will be different from the situation immediately before the Effective Date. I conclude from the figures shown in Table B (in section 1.7.4 of this Scheme Report) that the policyholders of MSMI will benefit directly from a greater level of surplus assets (expressed as a percentage of the gross technical provisions for claims) as part of the larger company NOE than if MSMI were a totally separate company (see sections 1.7, and 4 of this Scheme Report for more information).”*
- 9.7.1. This conclusion is not entirely valid given the revised figures of 20 February 2015 when compared to those of 20 February 2014. The first sentence quoted is still valid in that I have no reason to believe that the financial strength of NOE immediately post-Effective Date will be different from the situation immediately before the Effective Date. Whilst post-Effective Date the policyholders of MSMI will benefit from the larger pool of surplus assets in NOE as part of the larger NOE company, in percentage terms the “cover” provided by the surplus assets will fall from 151.1% to 29.8% of the gross technical provisions for claims as shown in Table B (revised) in paragraph 7.3 of this Supplementary Scheme Report.
- 9.7.2. This apparent large percentage change in the “cover” provided by the surplus assets when expressed as a percentage of the gross technical provisions for claims is entirely the

consequence of the closed book of MSMI business running down over time (to eventually zero in gross technical provisions) whereas the surplus assets or capital will remain relatively unchanged unless action is taken by MSMI and NOE management.

- 9.7.3. It should be noted that whilst the gross technical provisions for claims of MSMI amounted to US\$3,958,000 as at 20 February 2015, the net technical provisions were zero and were also zero as at 20 February 2014. This is due to the fact that all MSMI business is reinsured with either NOE or External Reinsurance Parties. Thus, the real protection given to MSMI policyholders is already provided by NOE and the External Reinsurance Parties and this will be the same post-Effective Date.
- 9.8. In paragraph 1.13.8 of the Scheme Report I stated: *“I have also considered the Solvency I, ICAS and Solvency II capital situation in section 7 of this Scheme Report where I conclude that NOE has the greater financial strength when compared to MSMI and that post-Effective Date, the transferred MSMI policyholders will benefit directly from the greater financial strength of NOE.”*
- 9.8.1. This conclusion still stands and for Solvency I can be demonstrated by consideration of Table F (revised) in paragraph 7.6 of this Supplementary Scheme Report. As at 20 February 2015, the available capital resources of NOE amounted to US\$361,212,000 compared to a Capital Resources Requirement (CRR) of US\$115,273,000 giving “cover” of 313.4%. The corresponding figures for MSMI were capital resources US\$4,140,000 and CRR US\$3,362,000 giving “cover” of 123.1%.
- 9.8.2. I have had access to documents not in the public domain in respect of the ECR, ICAS and Solvency II regulatory capital calculations for NOE and SMI. These documents are listed in 7.1 b), c), h) and i) above. MSMI is included in the calculations for NOE. I conclude that both NOE and SMI have a healthy surplus of regulatory capital in excess of all these capital requirements.
- 9.9. In paragraph 1.13.9 of the Scheme Report I stated: *“NIML manages the MSMI policies now and Post-Effective Date, the transferred MSMI policies will continue to be managed by the same personnel in NOE. Thus, I conclude that the Scheme will have no impact on the standards of service given to MSMI policyholders (see sections 1.7 and 4 of this Scheme Report for more information).”*
- 9.9.1. This conclusion still stands.
- 9.10. In paragraph 1.13.10 of the Scheme Report I stated: *“My conclusion is that, in the unlikely event that there are Residual Policies, the situation for any such policies would be substantially the same pre- and post-Effective Date as they are currently reinsured with NOE under the existing Reinsurance Agreement and would be reinsured with NOE under the Residual Policies Reinsurance Contract post-Effective Date (see sections 1.8 and 5 of this Scheme Report for more information).”*
- 9.10.1. This conclusion still stands.
- 9.11. In paragraph 1.13.11 of the Scheme Report I stated: *“Table E in section 1.10.6 of this Scheme Report shows the impact of the Scheme from the perspective of SMI policyholders. This table clearly shows the trivial impact of the MSMI liabilities and assets being transferred to NOE under the Scheme. Thus, I conclude that the financial impact of the Scheme on SMI policyholders will be minimal.”*
- 9.11.1. This conclusion still stands although the figures have changed. Table E (revised) is shown in paragraph 7.5 of this Supplementary Scheme Report.

9.12. In paragraph 1.13.12 of the Scheme Report I stated: *“I have considered the effect on MSMI policyholders of the Parent Company Guarantee given by NOE to SMI and have **concluded that it has minimal impact on the financial security of MSMI policyholders both pre- and post-Effective Date.**”*

9.12.1. This conclusion still stands.

9.13. In paragraph 1.13.13 of the Scheme Report I stated: *“I am satisfied that the proposed approach to communication with policyholders (as described in section 8 of this Scheme Report) is both proportionate and reasonable.”*

9.13.1. This conclusion still stands.

9.14. In paragraph 1.13.14 of the Scheme Report I stated: *“As per SUP 18.2.36(4)(c) of the FCA Handbook and section 2.33(4)(c) of the PRA’s Insurance Business Transfers Statement of Policy, I am satisfied that the costs and tax effects of the Scheme do not affect the security of any the of the policyholders contractual rights in MSMI, NOE and SMI. No costs relating to the Scheme will be borne by the policyholders. In reaching these conclusions, I have relied on information supplied by Chris Owen, Corporate Counsel & Company Secretary of NOE.”*

9.14.1. This conclusion still stands.

9.15. In paragraph 1.13.15 of the Scheme Report I stated:

“My overall conclusions are:

- *The Scheme has a beneficial effect on NOE in terms of future administration costs and future capital requirements.*
- *MSMI policyholders will benefit directly from the greater financial strength of NOE post-Effective Date.*
- *The Scheme has no material financial impact on NOE’s risk profile and policyholders whether as a going concern business or in an insolvency situation.*
- *The Scheme has no material impact on the proprietary interests of the members of NOE.*
- *The Scheme has no impact on the service standards for all policyholders in NOE and MSMI.*
- *The Scheme has minimal impact for SMI policyholders.”*

9.15.1. These overall conclusions still stand.

9.16. My conclusions are based on information available at the date of this Supplementary Scheme Report and published financial information for NOE, SMI and MSMI as at 20 February 2015.

10. Use of this Supplementary Scheme Report

- 10.1.** This Supplementary Scheme Report has been prepared to inform the Court of the likely effect of the Scheme upon Affected Policyholders and members of MSMI and NOE. It has been prepared solely for the purposes of the FSMA requirements for insurance business transfer schemes and solely in respect of the Scheme.
- 10.2.** A copy of this Supplementary Scheme Report will be made available to the Regulator and the Court. A copy of this Supplementary Scheme Report will be given free of charge to any person who requests it.
- 10.3.** I assume no responsibility whatsoever in respect of, arising out of, or in connection with the contents of this Supplementary Scheme Report to parties other than those mentioned above. If other parties choose to rely in any way on the contents of this Supplementary Scheme Report then they do so entirely at their own risk.
- 10.4.** Draft versions of this Supplementary Scheme Report and any other interim working papers must not be relied on by any person for any purpose.

11. Uncertainty

There is always an element of uncertainty surrounding the calculation of liabilities associated with general insurance transactions, including transfers of insurance policies. I have taken into account this uncertainty in reaching my conclusions in this Supplementary Scheme Report.

12. Independent Expert's declaration

- 12.1.** I confirm that I understand my duty to the Court and have complied and will continue to comply with it. I understand that I must help the Court on matters within my expertise. I confirm that I understand this duty overrides any obligation to the persons from which I have received instructions or from whom I have been paid.
- 12.2.** I have exercised reasonable care and skill in order to be accurate and complete in preparing this Supplementary Scheme Report. I have not, without forming an independent view, included or excluded anything which has been suggested to me by others. I will notify those instructing me immediately and confirm in writing if, for any reason, my existing Scheme Report or this Supplementary Scheme Report requires any correction or qualification.
- 12.3.** I confirm that I am aware of the requirements of the Civil Procedure Rules Part 35, Practice Direction Part 35 and the Protocol for the Instruction of Experts to give Evidence in Civil Claims.
- 12.4.** I confirm that I have made clear which facts and matters referred to in this Supplementary Scheme 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.



Keith Tucker FIA, ASA

1 October 2015