Scheme Report of the Independent Actuary on the proposed transfer of insurance business from

AmTrust International Underwriters Designated Activity Company to Bothnia International Insurance Company Limited

in accordance with Section 13 of the Assurance Companies Act 1909

30 November 2022

Prepared by

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LCP

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1. Executive summary

1.1. The Proposed Transfer

The firms involved

AmTrust International Underwriters Designated Activity Company (AIUD or Transferor) is a non-life insurance company incorporated in Ireland in 1991 and registered under number 169384 and is part of the AmTrust group of companies.

Bothnia International Insurance Company Limited (Bothnia or Transferee) is a limited liability insurance company incorporated in Finland in 1993 and registered under number 0947118-3 and is part of the Compre group of companies.

Pallas Reinsurance Company Ltd. (Pallas Re) is a reinsurance company incorporated in Bermuda and registered under number 55121. Pallas Re currently reinsures the Transferring Business through a 100% quota share reinsurance arrangement with AIUD and is part of the Compre group of companies. It provides an 85% quota share agreement to Bothnia and this will include the Transferring Business post-transfer.

The Transferring Business

AIUD writes a number of insurance classes including a portfolio of French Medical Malpractice (FMM) business providing cover for around 200 French hospitals. The Proposed Transfer (Scheme), in accordance with Section 13 of the Assurance Companies Act 1909, is to transfer all of the FMM liabilities of AIUD (Transferring Business) to Bothnia. All rights and obligations of AIUD relating to the Transferring Business will also be transferred to Bothnia.

The FMM business was placed in run-off by AIUD in 2021, although there remains some unexpired exposure into 2023 due to mandatory renewals of a number of policies. AIUD wishes to transfer this business as part of its overall plans to improve the capital efficiency of the company. Bothnia is a specialist writer of run-off portfolios.

Effective Date

The Effective Date is expected to be 1 April 2023, shortly after the Sanctions Hearing which is scheduled for 14 March 2023.

Reinsurance

In anticipation of the Proposed Transfer, the FMM business was 100% reinsured effective from 1 January 2022 via a quota share arrangement with Pallas Re. At the point of the Proposed Transfer, this reinsurance will be commuted.

On 1 October 2022, a quota share reinsurance agreement was agreed between Pallas Re and Bothnia whereby Pallas Re provides an 85% reinsurance of Bothnia's whole portfolio. This reinsurance will include the liabilities from the Transferring Business from the Effective Date.

This 85% quota share agreement replaced a prior reinsurance agreement between London & Leith Insurance PCC SE (part of the Compre group) and Bothnia which was commuted on the same date the quota share agreement was put in place.

Claims handling

There will be continuity of claims handing and administration for the FMM claims as they will be handled by the same entity pre- and post-transfer (see section 9 for more details).

Claims handling for Remaining AIUD Policyholders and Existing Bothnia Policyholders will be unchanged as a result of the Proposed Transfer.

1.2. My role as Independent Actuary

AIUD and Bothnia have jointly appointed me to act as the Independent Actuary (IA) for the Proposed Transfer. The CBI has been notified of my appointment.

As IA my overall role is to assess whether:

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

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

1.3. Summary of my conclusions

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

- Remaining AIUD Policyholders, ie AIUD policyholders whose liabilities will remain with AIUD after the Proposed Transfer.
- Transferring AIUD Policyholders, ie AIUD policyholders whose liabilities will transfer to Bothnia as a result of the Proposed Transfer.
- Existing Bothnia Policyholders, ie policyholders of Bothnia immediately prior to the Proposed Transfer, who will remain with Bothnia after the Proposed Transfer.

In drawing my conclusions, I have considered the impact of the Proposed Transfer on all underlying Claimants and Beneficiaries (these terms are further explained in section 4).

Remaining AIUD Policyholders

All AIUD's current policyholders, other than the FMM policyholders whose liabilities are transferring to Bothnia (Transferring AIUD Policyholders), will remain with AIUD post-transfer (Remaining AIUD Policyholders). The Transferring Business represents 100% of AIUD's FMM business.

I have concluded that

- **the security provided to Remaining AIUD Policyholders will not be materially adversely affected by the Proposed Transfer.**
- **there will be no material impact on service standards for Remaining AIUD Policyholders following the Proposed Transfer.**

Summary rationale:

- The Remaining AIUD Policyholders will remain within AIUD and so will be subject to the same AmTrust group policies as before the Proposed Transfer.
- I am satisfied that the techniques and approaches used to calculate the Solvency II and GAAP technical provisions for the Remaining AIUD Policyholders are appropriate, and AIUD has confirmed that these will be materially unchanged post-transfer.
- I am satisfied that the best estimate liabilities of the Transferring Business as calculated by AIUD and Bothnia are within a reasonable range of best estimates.
- As the FMM business is currently 100% reinsured, there will be no change, for the Remaining AIUD Policyholders, to the net of reinsurance exposure as a result of the Proposed Transfer.
- The SCR coverage ratio for Remaining AIUD Policyholders is expected to increase from 151% to 163% as a result of the Proposed Transfer. I do not consider the security provided to Remaining AIUD Policyholders to be materially adversely affected as the coverage ratio increases and AIUD will remain well capitalised.

- AIUD is expected to remain well capitalised on an ongoing basis until at least December 2024. The planned dividend payments will be amended if necessary so that the SCR coverage ratio remains above 150%.
- I am satisfied that AIUD is expected to remain able to pay claims under a range of plausible but relatively extreme scenarios, and also under a more extreme reverse stress test.
- The impact of the scenarios on Remaining AIUD Policyholders is not materially different pre- and post-transfer, although I note the impact is slightly less post-transfer.
- AIUD is not planning any material changes to how its non-FMM business is carried out. In particular, there are no plans to change how Remaining AIUD Policyholders are serviced following the Proposed Transfer.
- There will be no change in claims handling or service standards for Remaining AIUD Policyholders as a result of the Proposed Transfer.

Transferring AIUD Policyholders

AIUD has identified c. 580 FMM policies relating to the Transferring Business and Transferring AIUD Policyholders, which are all hospitals located in France or Saint-Barthélemy which is an overseas collectivity ie administrative division of France (French hospitals). The Transferring Business represents 16% of AIUD's business based on gross booked provisions as at 30 June 2022, and 12% of net of reinsurance provisions.

I have concluded that

- **the security provided to Transferring AIUD Policyholders will not be materially adversely affected by the Proposed Transfer.**
- **there will be no material impact on service standards for Transferring AIUD Policyholders following the Proposed Transfer.**

Summary rationale:

- I am satisfied that the techniques and approaches used to calculate the Solvency II and GAAP technical provisions by Bothnia are appropriate, and Bothnia has confirmed that these will be materially unchanged post-transfer.
- I am satisfied that the best estimate liabilities of the Transferring Business as calculated by AIUD and Bothnia are within a reasonable range of best estimates.
- The FMM liabilities are relatively large compared to Bothnia's liabilities as at 30 June 2022, but post-transfer the liabilities will be 85% reinsured with Pallas Re, who reinsure the business 100% pre-transfer.
- The Transferring Business is reinsured by the same reinsurer pre- and post-transfer, although the level of reinsurance drops from 100% to 85%. The reinsurance will continue to be collateralised.
- The SCR coverage ratio for Transferring AIUD Policyholders is expected to increase from 151% (AIUD pre-transfer) to 169% (Bothnia post-transfer) as a result of the Proposed Transfer. I do not consider the security provided to Transferring AIUD Policyholders to be materially adversely affected as the SCR coverage ratio increases and Bothnia will be well capitalised, as was AIUD pre-transfer.
- Further, Bothnia's SCR coverage ratio is projected to increase post-transfer until at least December 2024 when Bothnia will become very well capitalised. Bothnia has confirmed that it is not currently contemplating any other material transfers into Bothnia which do not require regulatory approval.
- I am satisfied that Bothnia is expected to remain able to pay claims under a range of plausible but relatively extreme scenarios, and also under a more extreme reverse stress test.
- Bothnia is an EEA entity so the Transferring AIUD Policyholders business will continue to be regulated in the EEA following the Proposed Transfer. I have concluded that the rights of policyholders in respect of access to compensation schemes, eg the Irish Insurance Compensation Fund which only covers risks located in Ireland, will not change as a result of the Proposed Transfer.
- As the claims handling and administration service to the FMM policyholders will be performed by the same team and entity pre-and post-transfer, then there will be no change to the level of service received by the Transferring AIUD Policyholders.

Existing Bothnia Policyholders

At the Effective Date of the Proposed Transfer, Existing Bothnia Policyholders are projected to represent 54% and 70% of Bothnia's projected post-transfer gross and net of reinsurance technical provisions respectively.

I have concluded that

- **the security provided to Existing Bothnia Policyholders will not be materially adversely affected by the Proposed Transfer.**
- **there will be no material impact on service standards for Existing Bothnia Policyholders following the Proposed Transfer.**

Summary rationale:

- The Existing Bothnia Policyholders will remain within Bothnia so will be subject to the same Compre group policies as before the Proposed Transfer.
- I am satisfied that the techniques and approaches used to calculate the Solvency II and GAAP technical provisions for Bothnia are appropriate, and Bothnia has confirmed that these will be materially unchanged post-transfer.
- The FMM liabilities are relatively large compared to Bothnia's liabilities as at 30 June 2022, but post-transfer the liabilities will be 85% reinsured with Pallas Re, who reinsure the business 100% pre-transfer.
- The SCR coverage ratio for Existing Bothnia Policyholders is projected to decrease from 219% to 169% after the Proposed Transfer but Bothnia remains well capitalised.
- The decrease in SCR coverage ratio from 219% to 169% would appear to be a significant reduction. 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 169% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 169%, the difference in capital coverage ratios of 169% and 219% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Further, Bothnia's SCR coverage ratio is projected to increase post-transfer until at least December 2024 when Bothnia will be very well capitalised. Bothnia has confirmed that it is not currently contemplating any other material transfers into Bothnia which do not require regulatory approval.
- Therefore, I have concluded that the changes in SCR coverage ratios as a result of the Proposed Transfer will not lead to any material adverse changes in the strength of capital protection for the Existing Bothnia Policyholders.
- I am satisfied that Bothnia is expected to remain able to pay claims under a range of plausible but relatively extreme scenarios, and also under a more extreme reverse stress test.
- Bothnia is not planning any material changes to how its existing business is carried out. In particular, there are no plans to change how Existing Bothnia Policyholders are serviced following the Proposed Transfer.
- There will be no change in claims handling or service standards for Existing Bothnia Policyholders as a result of the Proposed Transfer.

1.4. COVID-19

AIUD suffered no significant adverse effect to its operational capabilities as a result of COVID-19. The pandemic has impacted the underwriting performance in some lines but there has been no material adverse effect on its financial position.

There is a government scheme in France so the FMM portfolio is not exposed to indemnity claims from the pandemic. One claim has been received due to treatment being delayed due to COVID-19 but this is not material.

Bothnia's exposure to COVID-19 is not expected to be material given the nature of its run-off portfolio.

1.5. Russia/Ukraine war

AIUD has no direct underwriting exposures in Russia or Ukraine although the longer term macro-economic impacts of the war are difficult to predict.

Bothnia, given the run-off nature of the portfolios it writes, has no direct exposure to the war but may be affected by the wider macro-economic impact of the war eg on investments. Bothnia has also adjusted its sanctions policy as a result of the war.

1.6. Inflation

AIUD allows for inflation implicitly in the IBNR reserves. In addition, a class specific load to allow for the risk of higher than expected inflation is added, depending on the drivers of inflation within the class.

For the FMM business, there are specific compensation rules in place which drive the calculation of awards. These will increase over time with inflation but the increases are relatively stable. The business is exposed to cost of care increases eg nursing hourly rates but this will mainly impact the larger losses to which there is limited exposure.

I have considered the impact of higher than expected future inflation in the stress and scenario tests I asked AIUD and Bothnia to prepare for me, for example by considering the impact of higher loss ratios (see section 6.10).

1.7. Next steps

The remainder of this report sets out my conclusions and other supporting information in more detail.

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

Specific issues that I have highlighted in this report which require further review include:

- Any others transfers that could affect the Proposed Transfer;
- Updated reserves and capital positions;
- Any policyholder objections received; and
- Any changes to the detail of the Scheme.

2. Introduction

2.1. Background

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

Under Section 13 of the 1909 Act, any scheme that provides for a transfer, in whole or in part, of the business of an Irish authorised insurance company to another Irish or EEA authorised insurance company requires prior sanction of the High Court. The High Court will consider the scheme on the basis of a petition brought by the board of directors of the transferor (AIUD) supported by affidavit evidence of both the transferor and the transferee (Bothnia) and, while not mandatory for a non-life transfer such as the Proposed Transfer, in practice, the petition is accompanied by a report on the terms of the scheme by an Independent Actuary.

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

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

2.2. Independent Actuary appointment

My appointment

AIUD and Bothnia have jointly appointed me to act as the IA for the Proposed Transfer. The CBI has been notified of my appointment. AIUD and Bothnia will jointly bear the costs associated with the production of my reports. I understand that no costs or expenses of the Proposed Transfer will be borne by policyholders.

My experience

I am a Fellow of the Institute and Faculty of Actuaries in the UK (FIA). I am the holder of a Certificate to act as a Lloyd's Syndicate Actuary.

I am a Partner in LCP's UK Insurance Consulting practice. I have experience in a wide range of areas of general insurance actuarial work including reserving, capital, pricing, Solvency II and transactions.

I have been appointed as the IE for six Part VII transfers and the IA for one Section 13 transfer. I have also been the peer reviewer on a number of further transfers and have also performed analysis to support the IE's conclusions.

I have almost 25 years' experience as a general insurance actuarial consultant, and a further 10 years' experience working in the insurance industry. Appendix 3 contains my CV with further details of my experience.

Independence statement

I confirm that I, Stewart Mitchell, and all members of the LCP team assisting me in my IA role are independent from the parties of the transfer and that I am able to act as your IA.

I confirm that neither I, nor any of the team, have any direct or indirect interests in AIUD or Bothnia (the firms), either personally or via LCP.

In particular:

- Neither I, nor any member of the team, is a shareholder in the firms or subsidiaries nor a member of any pension scheme under the management of any of these entities.
- Neither I, nor any member of the team, hold any insurance policies issued by the firms or any subsidiaries.

Other than as outlined below, LCP has not previously performed any work for the firms or for other entities in the AmTrust group or Compre Group within the last five years:

- I signed syndicate opinions for AmTrust Syndicate 2526 until 2018.
- I and another LCP partner acted as the Independent Expert and Independent Actuary for AmTrust in a series of related business transfers in 2020.
- I led an independent reserve review for AmTrust Europe Limited in 2021.
- Another LCP partner signs the syndicate opinion for Syndicate 44, a life syndicate previously managed by AmTrust.

I do not consider that these engagements affect my ability to act as IA on the Proposed Transfer.

2.3. Scope of this Scheme Report

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

This Scheme Report considers the effect of the Proposed Transfer upon the policyholders of AIUD and Bothnia. It contains a description of the Proposed Transfer, the methodology I have used to analyse the Proposed Transfer, the opinions I have formed, and reasons why I have formed those opinions.

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

The numbers in this report are shown in €.

2.4. Use of this Scheme Report

This Scheme Report has been produced by Stewart Mitchell FIA of LCP under the terms of our written agreements with AIUD and Bothnia. It is subject to any stated limitations (eg regarding accuracy or completeness).

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

A copy of the Scheme Report will be sent to the CBI and will accompany the Scheme application to the Court.

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

2.5. Reliances

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

Data

I have used data as at 31 December 2021 or 30 June 2022, where available, for my analysis. Prior to the Sanctions Hearing for the Proposed Transfer, I will prepare a Supplementary Report to confirm and/or update my conclusions in this report, based on any new material or issues that arise.

Projected data as at the Effective Date

The Effective Date of the Proposed Transfer is expected to 1 April 2023 ie shortly after the Sanctions Hearing which is scheduled for 14 March 2023 subject to the availability of the High Court.

AIUD's and Bothnia's projected Solvency Capital Requirement (SCR) and SCR coverage ratios immediately before and after the Proposed Transfer are based on an Effective Date of 1 April 2023.

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

- Each of AIUD and Bothnia has provided a data accuracy statement confirming that the data and information provided to me regarding the Proposed Transfer is accurate and complete.
- AIUD and Bothnia have read this IA Scheme Report and each has agreed that it is correct in terms of all factual elements of the Proposed Transfer.
- I have conducted basic checks on the data provided to me for internal consistency and reasonableness.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the integrity of the information provided for 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.

I have not needed to take any third-party legal advice on any aspects of the Proposed Transfer. AIUD and Bothnia have confirmed that they have received no other specific legal advice relevant to my role as IA for the Proposed Transfer.

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

2.6. Professional standards

I have considered the Code of Professional Conduct as issued by the Society of Actuaries in Ireland (SAI) while producing this report. This report has been prepared in accordance with the following Actuarial Standards issued by the SAI and the Financial Reporting Council (FRC) in the UK:

- SAI: Actuarial Standard of Practice PA-2 (ASP-PA-2) General Actuarial Practice;
- SAI: Actuarial Standard of Practice LA-6 (ASP-LA-6) Transfer of Long-Term Business of an Authorised Insurance Company (although, strictly speaking, this guidance is required to be followed only in the case of a scheme which relates to long-term business, ie life assurance);
- FRC: Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100); and
- FRC: Technical Actuarial Standard 200: Insurance (TAS 200).

This report has been subject to independent peer review prior to its publication, in line with ASP PA-2. This peer review has been undertaken by another Partner at LCP. The peer reviewer was not involved in the production of the report. They have appropriate experience and expertise to act as peer reviewer of this report.

2.7. Materiality

I have considered matters are material if they could, individually or collectively, influence the decisions to be taken by users of this report. An assessment of such materiality is a matter of reasonable judgement that requires consideration of both the users of the report and the context for which it is prepared.

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

In complying with the reporting requirements of ASP-PA2 and TAS 100, I have made judgements on the level of information to include in this Scheme Report. For example, to make the report easier to read, I have not included all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments.

2.8. 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.

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.

3. Outline of Proposed Transfer

3.1. The firms involved

AmTrust International Underwriters Designated Activity Company (AIUD)

AIUD is part of the AmTrust group of companies. It is a multinational property and casualty insurer, specialising in coverage for small to mid-sized businesses, and is rated A- (Excellent) by A.M. Best as at 31 August 2022.

The business written by AIUD focusses on warranty and specialty business including mortgage and credit, property and casualty lines. Business written also includes professional indemnity business, payment protection, income protection, plant & equipment, legal expenses, accident & health and home assistance.

AIUD is a wholly owned subsidiary within the AmTrust Financial Services Inc. (AFSI) group, registered in Delaware, USA. The ultimate parent of AIUD is Evergreen Parent L.P. registered in Delaware, USA.

Bothnia International Insurance Company Limited (Bothnia)

The Compre group is a global legacy risk acquirer with over 30 years' experience in the acquisition and management of insurance and reinsurance companies and portfolios in run-off. It is privately owned by Cinven and British Columbia Investment Management Corporation (BCI).

Bothnia is part of the Compre group and is an acquirer and manager of legacy insurance and reinsurance business. It is authorised and registered in Finland by the Finnish regulator (FIN-FSA) to carry out contracts of non-life insurance business in all non-life classes other than a few specific exceptions. Its immediate parent company is Compre Holdings Limited, registered in the UK.

The portfolio consists of a wide range of business including general liability, casualty, marine, aviation, transport and property. The main reserving risks arise from the US general liability, UK employers' liability, French decennial business and professional indemnity classes.

Bothnia has acquired a number of portfolios by a series of business transfers, the most recent transfers were:

- a Section 13 transfer of a portfolio of professional indemnity insurance for SMEs and specialist professionals such as dentists, brokers, architects etc. which was distributed through MGAs, principally in Europe (October 2020).
- a Part VII transfer of a wide range of classes of business written through a number of direct and reinsurance programmes from 1924 to 1990, mainly through pools. Classes written included accident, sickness, aircraft, ships, goods in transit, property, fire, motor liability, marine liability, general liability, credit and surety (June 2021).

The transfer of a German medical malpractice portfolio into Bothnia (Project Medicus) is expected to complete before the Proposed Transfer, subject to regulatory approval by the German regulator, BaFin. The projections in this report assume that this transfer goes ahead and the impact is included within the projections in this report.

Bothnia expect that any further potential material transfers in the next few years will be from a UK or Irish regulated company and so would need to go through a separate Section 13 or Part VII process and so would be subject to Scheme, Summary and Supplementary Reports from an Independent Actuary/Expert.

A portfolio of motor and marine business which would not be subject to a Section 13 or Part VII process may transfer into Bothnia during 2023, after the Proposed Transfer. I have asked Bothnia to provide projected SCR coverage ratios as at the end of 2023 and 2024 including the impact of this portfolio. The projected SCR coverage for Bothnia drops from 181% to 176% as at Q4 2023 and from 201% to 198% as at Q4 2024. I have concluded that this additional transfer would not affect my conclusions regarding the Proposed Transfer as it is not material.

3.2. Description of the Proposed Transfer

The Transferring Business

It is proposed that all the FMM liabilities from AIUD (the Transferring Business) will transfer to Bothnia (the Proposed Transfer, the Scheme). All rights and obligations of AIUD relating to the Transferring Business will also be transferred to Bothnia. All assets relating to the Transferring Business, including all assets representing the technical provisions relating to the Transferring Business, will also transfer.

French medical malpractice business was written by AIUD from 2009 to 2021. AIUD decided to exit this business in 2021 and terminated policies where possible with effect from the renewal date (typically 31 December 2021). There are a small number of mandatory renewals on some policies so premium will continue to be earned until 2023.

The FMM portfolio consists of public, and some private, profit and non-profit hospitals situated in France (including Saint Barthélemy, an overseas collectivity of France). The Transferring Business consists of c. 200 hospitals with c. 580 separate policies.

Effective Date

The Effective Date (the date when the Proposed Transfer is expected to occur) is expected to be 1 April 2023, shortly after the Sanctions Hearing which is scheduled for 14 March 2023 subject to the availability of the High Court.

Residual policies

If there are any AIUD policies for which the Court determines shall not be transferred on the Effective Date of the Scheme, or for which the French national regulator, Autorité de contrôle prudentiel et de resolution (ACPR), has expressly not consented to the Proposed Transfer (Residual Policies), these policies will remain liabilities of AIUD pending their transfer. I understand that as at and from the Effective Date:

- all liabilities in relation to any Residual Policies will be 100% reinsured by Pallas Re; and
- Bothnia will assume responsibility for all aspects of administration of any Residual Policies.

At a later date, these Residual Policies will transfer to Bothnia when the necessary regulatory consents have been received. I note that although the Scheme provides for Residual Policies for the reasons outlined above, no such Residual Policies are anticipated.

Reinsurance

In anticipation of the Proposed Transfer, AIUD's FMM liabilities were reinsured through a 100% quota share arrangement with Pallas Re, effective 1 January 2022.

The reinsurance recoveries are collateralised at 102% of the best estimate liabilities with further collateral triggers dependent on the Bermuda SCR (BSCR) coverage ratio.

Bothnia's reinsurance arrangements changed with effect from 1 October 2022. The existing London & Leith intragroup reinsurance arrangement was commuted and replaced with a new intragroup quota share reinsurance agreement with Pallas Re. The cession to Pallas Re is 85% and includes Bothnia's entire book of business, and covers the FMM liabilities, the Medicus portfolio if the transfer is approved, and the portfolios previously reinsured by London & Leith.

The reinsurance with Pallas Re is collateralised with collateral triggers dependent on the BSCR coverage ratio.

Collateral will be held in a separate account to the level of the undiscounted best estimate value of the reinsured liabilities as calculated under Solvency II due under the quota share agreement. The assets backing the collateral will be held in line with guidelines as agreed within the agreement.

Claims handling

The claims handling and claims administration for the FMM portfolio has been performed by AmTrust France SAS (AFSAS), an AmTrust subsidiary based in Lyon, France. In advance of the Proposed Transfer, responsibility for the handling of the claims passed from AIUD to Pallas Re on 9 September 2022, with Pallas Re outsourcing the claims handling to AFSAS.

On 3 November 2022, AmTrust sold AFSAS to LECARAVAGE. LECARAVAGE is a simplified joint-stock company and is owned by the chief executive officer of AFSAS.

As the claims handling and administration service to FMM policyholders will be performed by the same team and entity pre-and post-transfer, Compre group has confirmed that there will be no change to the level of service received by the Transferring AIUD Policyholders.

3.3. Purpose of the Proposed Transfer

Following a review to identify opportunities to improve its capital position within its international operations, AmTrust decided to cease writing FMM business and seek a transfer of this business.

AIUD wishes to transfer its FMM portfolio which was written from 2009 to 2021 as part of its European restructuring plan. Agreements regarding the Proposed Transfer were signed with Bothnia and Pallas Re in July 2022.

Bothnia is a specialist provider of run-off solutions for legacy books of business. It is part of the Compre group which has significant experience in managing run-off liabilities. Through the Proposed Transfer, Bothnia aims to add to its liabilities under management and in particular medical malpractice.

3.4. Alternative options considered

This report considers the effects on the relevant sets of policyholders of the Proposed Transfer being presented to the Court being implemented. The responsibility to consider alternative schemes rests with the directors and managers of the companies involved. I understand that no alternative schemes of transfer were considered in this case.

3.5. Key dependencies

The key dependencies of the Proposed Transfer are as follows:

- Irish High Court approval is required for the Proposed Transfer – the Directions Hearing is scheduled for 12 December 2022 and the Sanctions Hearing is scheduled for 14 March 2023. The High Court will take into account whether the CBI has any objections to the Proposed Transfer.
- Any objections raised by policyholders after the Directions Hearing – I will comment on these (if any exist) in my Supplementary Report.

In the event of the Proposed Transfer not going ahead, policies would remain with AIUD and the existing 100% quota share reinsurance arrangement with Pallas Re would stay in place.

4. My approach as IA

Overall role

As IA, my overall role is to assess whether:

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

The three key affected parties

To make these assessments, I have considered the effect of the Proposed Transfer on the following three parties:

- Remaining AIUD Policyholders, ie AIUD policyholders whose liabilities will remain with AIUD after the Proposed Transfer.
- Transferring AIUD Policyholders, ie AIUD policyholders whose liabilities will transfer to Bothnia as a result of the Proposed Transfer.
- Existing Bothnia Policyholders, ie policyholders of Bothnia immediately prior to the Proposed Transfer, who will remain with Bothnia after the Proposed Transfer.

In addition to the policyholders described above, in drawing my conclusions, I have considered the impact of the Proposed Transfer on any potential Beneficiaries and Claimants.

Five-step approach to analysing the Proposed Transfer

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

Step 1: Assessing the provisions of AIUD and Bothnia

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

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

Step 2: Assessing the capital positions of AIUD and Bothnia

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

For both AIUD and Bothnia, the level of capital required is set under the European Solvency II standard. A key regulatory solvency metric is the SCR. This is an estimate of the capital required to cover the losses that an insurer could experience over the next 12 months with a probability of 99.5% (ie a 1 in 200 probability adverse outcome).

I have assessed the appropriateness of the projected capital requirements of AIUD and Bothnia. Details of this step are set out in section 6.

Step 3: Assessing overall policyholder security

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

For this analysis, I have considered the current balance sheets of AIUD and Bothnia as well as the post-transfer pro-forma balance sheets for each of AIUD and Bothnia. Details of this step are set out in section 7.

Step 4: Assessing policyholder communications

I have assessed the appropriateness of AIUD's and Bothnia's joint communication strategy to inform policyholders and other stakeholders of the Proposed Transfer. The key focus of my assessment was whether the policyholders and other stakeholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them. Details of this step are set out in section 8.

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

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

5. Reserving considerations

5.1. Introduction to insurance reserving

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

Depending on how they are set, the provisions may be on a best estimate basis (with no deliberate optimism or pessimism) or include a margin for uncertainty (additional provisions to cover higher than expected claims). This is sometimes referred to as a management margin. Where the provisions include a margin for prudence, this is typically designed to cover claims that are moderately higher than expected rather than more extreme levels of claims. A best estimate basis is intended to indicate a single point-estimate of the provisions, but practically there often exists a range of estimates that could be justified as a best estimate.

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

Introduction to reserving bases

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

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

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

- Generally Accepted Accounting Principles (GAAP) - these are the accounting standards used to set the booked provisions underlying the published financial accounts of AIUD (Irish GAAP) and Bothnia (Finnish GAAP). GAAP provisions are relevant for policyholders as they are used as a reference point when setting provisions to cover future claims and other costs.
- Regulatory technical provisions – for AIUD and Bothnia this is Solvency II technical provisions which are calculated in line with the European Solvency II regulations. These provisions are relevant for policyholders as they are the basis for calculating the capital required and assessing solvency for both AIUD and Bothnia.

5.2. My considerations relating to reserving

As IA, my overall assessments related to reserving are:

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

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

- Appropriateness of booked and regulatory provisions for AIUD and Bothnia (sections 5.3 to 5.7);
- Key uncertainties when setting the provisions and other risks (sections 5.8 to 5.9);
- Current AIUD and Bothnia reserving process and governance (section 5.10); and
- Future reserving approach and governance (section 5.11).

Within these areas, I have also considered any differences in the reserving approach between AIUD and Bothnia to understand how this may affect policyholders.

Further details on each of these considerations are set out below, and I have stated my overall conclusion related to reserving in section 5.12.

Approach to my review

I have considered the appropriateness of the following:

- GAAP booked provisions for AIUD and Bothnia as at 30 June 2022; and
- Solvency II technical provisions for AIUD and Bothnia as at 31 March 2023 and 1 April 2023.

I have reviewed a number of documents provided by AIUD and Bothnia relating to the setting of provisions, including the reserving process and governance. I have also discussed the information provided by AIUD and Bothnia with them, to answer any questions I have had on the reserving approach.

I have reviewed the approach used to set the GAAP claims reserves and the conversion to Solvency II technical provisions. While I have not sought to re-perform the calculations, my review has allowed me to assess the appropriateness of the actuarial estimates and the uncertainties regarding the underlying business.

A list of the key data and documentation is provided in Appendix 4.

5.3. Summary of GAAP booked provisions for AIUD

The following table shows the level of booked provisions (as per the latest available figures at the time of writing) for AIUD, showing the Transferring Business separately.

Summary of GAAP booked provisions for AIUD as at 30 June 2022

€m	Gross of reinsurance	Net of reinsurance	
AIUD ex-FMM	843.1	290.4	
FMM	165.9	37.8	
Total	1,009.0	328.1	

Source: AIUD

AIUD's FMM gross provisions are 16% of AIUD's total gross provisions as at 30 June 2022, and 12% of net provisions. There are net provisions for FMM as the 100% quota share reinsurance with Pallas Re had not been effected as at 30 June 2022. The gross written premium for the FMM business was €175.1m, net written premium was €42.4m.

Breakdown of gross GAAP booked provisions for AIUD as at 30 June 2022

€m	Gross of reinsurance	Net of reinsurance
Outstanding claims reserve	286.8	77.1
Incurred but not reported	365.7	99.0
Unearned premium reserve	310.5	137.5
Unallocated loss adjustment expenses	3.9	3.5
Margin for uncertainty	42.1	11.0
Total	**1,009.0**	**328.1**

Source: AIUD

AIUD's provisions are made up of earned claims reserves and unearned premium reserves for business that has not yet been earned.

5.4. Summary of GAAP booked provisions for Bothnia

The following table shows the level of booked provisions (as per the latest available figures at the time of writing) for Bothnia.

Summary of GAAP booked provisions for Bothnia at 30 June 2022

€m	Gross of reinsurance	Net of reinsurance
Outstanding claims reserve	109.1	51.8
Incurred but not reported	81.6	32.1
Unearned premium reserve	0.1	0.0
Unallocated loss adjustment expenses	5.4	5.4
Margin for uncertainty	0.0	0.0
Total	**196.1**	**89.2**

Source: Bothnia (excludes Finnish GAAP equalisation provision)

The transferring FMM liabilities represent 85% of Bothnia's gross liabilities and 42% of net liabilities as at 30 June 2022. Note the 85% quota share reinsurance was not in place as at 30 June 2022.

Bothnia's provisions are made up of earned claims reserves and a small unearned premium reserve as the business is almost all in run-off.

5.5. Reserving process for AIUD

In this section I describe the reserving approach used by AIUD's actuarial function in estimating the claims reserves shown in section 5.3.

The AIUD actuarial function uses standard actuarial techniques eg paid and incurred claim development methods, the expected loss ratio method and the Bornhuetter-Ferguson method for more recent years of account. They also use a frequency/severity approach for some classes eg FMM.

AIUD performs a quarterly reserve review with a mixture of full reviews, roll forward reviews and ad hoc deep dives for specific issues.

As an example, the June 2022 actuarial report is based on assumptions derived from March 2022 data. These assumptions are then applied to data as at April 2022 to estimate ultimate loss ratios which are provided to finance. A review of actual vs expected experience is then performed based on May data before finalising results.

Projections are performed on gross of reinsurance data and the gross of reinsurance ultimate loss ratios for each class/underwriting year are approved by the AIUD reserve committee. AIUD's finance team make an allowance for reinsurance by applying cession rates for quota share reinsurance and also for recoveries from a small number of excess of loss contracts.

AIUD introduced a margin on top of the best estimate reserves in Q2 2021 which consists of two elements. The core margin allows for uncertainty within the reserves and is typically a load of 1% to 5% depending on the class, for the FMM business this load is 10% to reflect recent poor claims experience. The dynamic margin allows for other more specific and less persistent drivers of uncertainty. Currently as the global economy is experiencing higher inflation than has been seen historically an allowance for the risk of potentially higher inflation has been considered on a class by class basis. For some classes, no margin is deemed necessary but for others a margin of 2% to 6% of the IBNR is added.

Following my review and discussions, I am satisfied that AIUD actuarial function's reserving approach is reasonable and in line with market practice.

5.6. Reserving process for Bothnia

Bothnia outsources its actuarial function to a Compre group company in the UK and has an Appointed Actuary as required under the Finnish Insurance Companies Act.

The underlying legacy books within Bothnia contain a variety of exposures including long tail claims which will not settle for a number of years eg UK asbestos, US asbestos, pollution & health claims and professional indemnity. These claims are exposed to court judgments and changes/trends in litigation.

Bothnia uses a number of standard actuarial techniques for reserving (eg claim development methods, expected loss ratio method and the Bornhuetter-Ferguson method) together with methods that are more appropriate for run-off portfolios, eg survival ratios, benchmark IBNR/outstanding reserve ratios, redundancy analysis and average cost per claim analysis.

Each portfolio within Bothnia is reviewed in full once a year and a roll forward is performed for the remaining quarters. An analysis of actual versus expected experience is performed on a quarterly basis to determine if an additional full reserving analysis is required eg where there has been significant unexpected movement in the quarter.

Bothnia's Q4 2021 estimates were based on a roll forward of the Q3 2021 best estimates, adjusting for material movements compared to expectations, including the release of a net surplus held at Q3 2021. For Q1 2022, Bothnia performed a simple paid roll forward approach ie ultimates were held and adjusted for payments in the quarter.

Reinsurance recoveries are allowed for by using reinsurance to gross ratios based on similar ratios for the recoveries on outstanding claims.

Compre group commissioned an external reserve review as at Q2 2019 by an external independent consultancy which included the Bothnia reserves. The estimate of the external consultancy was within 1% of Bothnia's best estimate reserves. Although this was some time ago, Bothnia still follows the same reserving approach.

Bothnia considers inflation within its stress and scenario tests. I have also considered the impact of inflation within the reserving stress and scenario test I requested from Bothnia and I comment on this further in section 6.10.

In my opinion, Bothnia's reserving approach is reasonable and in line with market practice.

5.7. Approach for setting Solvency II technical provisions

I have reviewed the approach taken by AIUD and Bothnia to convert the booked GAAP provisions into Solvency II technical provisions (TPs). I have not sought to re-perform the calculation of the TPs or to perform detailed checking of the calculations performed by AIUD and Bothnia. Instead, I have focused on the appropriateness of the approach and the reasonableness of the results.

I have focused my review on the areas which, in my experience, are of greatest relevance to an independent reviewer. These include Events Not in the Data (ENIDs) and the risk margin.

Insurers typically make an allowance for ENIDs within the TPs as the data used to calculate the best estimate does not typically include experience from rare events.

The risk margin within the TPs under Solvency II represents the amount in addition to the best estimate that a third-party insurer would require to take over the insurance obligations.

There are a number of ways to calculate the risk margin including using a simplified cost of capital approach in line with regulatory guidance. These approaches involve projecting capital requirements over the remaining lifetime of the liabilities.

AIUD

I have reviewed AIUD's Actuarial Report on Technical Provisions (ARTPs) as at 31 December 2021 written by AIUD's Head of Actuarial Function (HoAF) and AIUD's Technical Provisions Calculation Policy dated October 2021.

In line with the CBI's requirements, a peer review of AIUD's Solvency II technical provisions was performed by an external consultancy as at 31 December 2020 (the last time a peer review was required) and dated June 2021.

The external consultancy concluded that the undiscounted best estimate GAAP reserves were within a range of reasonable estimates on a gross and net of reinsurance basis, although there were differences at a segment level. They also concluded that the Solvency II technical provisions were within a reasonable range, their net estimate was 6% lower than AIUD's. A number of recommendations were made but were described as either operational or which may not have a material impact.

AIUD's ENID load is based on a standard actuarial method, the truncated distribution method, and the load is consistent with those elsewhere in the market.

AIUD calculates its risk margin in line with EIOPA guidelines including for earned premiums following a clarification from EIOPA.

Bothnia

I have reviewed Bothnia's Regular Supervisory Report as at 31 December 2021.

Bothnia's load for ENIDs is lower than that of a typical insurer. However, this is reasonable given the age of the run-off liabilities.

Bothnia has used a simplified approach to calculate the risk margin by weighting this in proportion to the run-off of reserves which is reasonable for a portfolio of run-off liabilities.

Finnish GAAP requires a prudent equalisation reserve under Finnish law. This is not allowed under Solvency II technical provisions and is removed by Bothnia although this can be treated as tier 1 funds (see section 6.9).

Conclusion on Solvency II technical provisions

Based on review and discussions, I am satisfied that the approaches used by AIUD and Bothnia to calculate the Solvency II TPs are appropriate and in line with common market practice.

5.8. Key uncertainties when setting provisions

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

Key uncertainties – Remaining AIUD business

Long tail exposure:
AIUD is exposed to long tail claims ie claims that may not occur or be reported and settled for many years. Potential adverse claim development and uncertainty over the future economic environment means that there is uncertainty over the value of ultimate claims.

Inflation:
The standard actuarial methodology used by general insurance actuaries to calculate reserves assumes that future inflation will be the same as historical inflation. This is unlikely to be appropriate in the current high inflationary environment. I consider the potential impact of inflation in the stress and scenario tests in section 6.10. AIUD recognise this additional potential risk through holding a management margin.

COVID-19:
AIUD suffered no significant adverse effect to its operational capabilities as a result of COVID-19. The pandemic has impacted the underwriting performance in some lines but there has been no material adverse effect on its financial position.

Key uncertainties – Transferring Business

Long tail exposure:
AIUD's reserves for the Transferring Business relate entirely to FMM liability business. Such business has the potential for late and material developments and so the tail on these reserves can be long and subject to a large degree of uncertainty.

COVID-19:
There is a government scheme in France so the FMM portfolio is not exposed to indemnity claims from the pandemic. One claim has been received due to treatment being delayed due to COVID-19 but this is not material.

Inflation:
The FMM business is exposed to inflation uncertainty as described for AIUD.

The exposure to these risks is mitigated by the 100% quota share reinsurance pre-transfer and 85% post-transfer with Pallas Re.

Key uncertainties – Existing Bothnia business

Long tail exposure
The Bothnia business is exposed to long tail exposure uncertainty, as described for AIUD, including liability, asbestos and professional indemnity risks.

COVID-19
Given the run-off nature of the portfolio, COVID-19 is not a material risk for Bothnia.

Inflation
The existing Bothnia business is exposed to inflation uncertainty as described for AIUD.

The uncertainties described above in the AIUD and Bothnia portfolios are typical of the risks written within a general insurance portfolio. Reinsurance is used to mitigate the impact of these key uncertainties and also a risk margin is held within the Solvency II technical provisions.

5.9. Other risks

Climate change

In my view, the potential impact of climate change on the business written by AIUD and Bothnia is less significant than other risks considered in this report and therefore does not materially affect my conclusions.

It is possible that the reserves could be impacted by climate change given the uncertainty and far-reaching impacts it may continue to have. Examples of areas that could be impacted include latent liability claims and changes in social behaviour, which in turn could drive an increase in claims frequency or severity.

Neither AIUD or Bothnia have material exposure to natural catastrophe exposed business where the impact of climate change may lead to more frequent and severe weather events.

5.10. Current reserving process and governance

AIUD – reserving process and governance

Projections of ultimate claims are presented by the actuarial function to the reserving committee, with adjustments made based on a review of movements for the final booked position as at the quarter end. Reserves are calculated on an underwriting year basis and then converted to an earned basis.

The reserve committee decides on the loss ratios to be booked by finance as authorised by the audit committee.

I have reviewed the Actuarial Function Report (AFR) as at 31 December 2021 prepared by AIUD's HoAF, the Reserving Committee Terms of Reference dated August 2021 and AIUD's Reserving Policy dated October 2021.

I have also reviewed a co-sourced (with an external consultancy) internal audit report on reserving governance dated 2021. There was only one 'high' rating related to enhanced oversight required over the process for processing data for one-off portfolios. An action plan was agreed with management which has now been substantially closed, I will provide an update on this in my Supplementary Report.

The actuarial function applies its own internal control and quality control procedures, including a peer review in accordance with the relevant actuarial standards.

In accordance with the CBI's domestic actuarial regime, the actuarial function provides an annual Actuarial Opinion on Technical Provisions, supported by an Actuarial Report on Technical Provisions to the board.

Bothnia – reserving process and governance

The Bothnia reserves are calculated by Compre group's actuarial team.

In 2021, a group and company level internal audit of actuarial found no high priority observations, but a small number of medium and low priority observations.

I have reviewed Bothnia's Actuarial Function Report (dated September 2021), the Q4 2021 reserve review (dated 4 February 2022) and the updated reserve review as at Q1 2022.

5.11. Future reserving approach and governance

AIUD and Bothnia have confirmed that the future reserving approach and governance for AIUD and Bothnia will not change after the Proposed Transfer.

For the Transferring Business, AIUD and Bothnia's reserve estimates were not materially different and there will be continuity in the claims handling process pre- and post-transfer.

5.12. Overall conclusion: reserving considerations

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

Remaining AIUD Policyholders

I have concluded that the Remaining AIUD Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- AIUD's calculation of provisions for the Transferring Business has been performed using appropriate techniques and approaches.
- As the FMM business is currently 100% reinsured, there will be no change, for the Remaining AIUD Policyholders, to the net of reinsurance exposure as a result of the Proposed Transfer.

Transferring AIUD Policyholders

I have concluded that the Transferring AIUD Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- AIUD and Bothnia's reserve estimates for the Transferring Business were not materially different.
- Claims handling for AIUD's business will continue to be performed by the same French team.
- The quota share reinsurance arrangement with Pallas Re will remain in place following the Proposed Transfer, although the ceded percentage reduces from 100% to 85%.

Existing Bothnia Policyholders

I have concluded that the Existing Bothnia Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- The calculation of provisions for Bothnia has been performed using appropriate techniques and approaches.
- Bothnia has confirmed that the reserving process and governance following the Proposed Transfer will be unchanged post-transfer.
- The Transferring Business will be materially reinsured through the 85% quota share arrangement with Pallas Re.

6. Capital considerations

6.1. Introduction to insurance capital setting

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

A key metric under solvency regulations is the Solvency Capital Requirement (SCR). This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie, a 1 in 200 probability adverse outcome). Under Solvency II, firms are required to hold capital equal to at least 100% of the SCR.

An insurer's SCR coverage ratio is calculated as the available capital, in excess of provisions, divided by the SCR. This is a measure of capital strength, with a higher ratio indicating there is more capital available per €1 of capital required. The SCR coverage ratio does not capture all aspects of policyholder protection, but a higher coverage ratio indicates more protection, all else being equal. Under Solvency II, the level of available capital is referred to as "own funds".

I consider the SCR coverage ratio an appropriate measure to consider as part of my assessment of policyholder security pre- and post-transfer for the following reasons:

- The SCR coverage ratio is an objective measure of the financial strength of an insurer that can be compared on a consistent basis at two points in time;
- Both companies use the Solvency II standard formula to calculate their SCRs, so that it is possible to compare their financial strengths on a consistent basis; and
- The SCR is a risk-based metric that is disclosed to both regulators and the public.

My assessment of the capital considerations regarding policyholder security is also supported by a review of the impact of a range of adverse scenarios on each of AIUD and Bothnia (see section 6.10). The adverse scenarios applied to claim reserves consider risks on an ultimate basis, ie beyond the one-year horizon captured by the SCR.

Definition of well capitalised and very well capitalised

For the purposes of this report, I describe a company as having sufficient capital if the SCR coverage ratio is between 100% and 150%. I describe a company as well capitalised if the SCR coverage ratio is between 150% and 200% and very well capitalised if the SCR coverage ratio is in excess of 200%.

6.2. My considerations related to capital

As IA, my overall assessments related to capital are:

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

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

- AIUD and Bothnia's approach to calculating capital requirements (section 6.4);
- The capital policy for each of AIUD and Bothnia (section 6.6);
- SCR appropriateness for AIUD and Bothnia (section 6.7);
- Projected SCR coverage ratios as at the Effective Date (section 6.8);
- The planned capital structures for AIUD and Bothnia (section 6.9); and
- The SCR under stressed scenarios (section 6.10).

6.3. Approach to my review

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

6.4. Calculating capital requirements

Solvency Capital Requirement

For both AIUD and Bothnia, the level of regulatory capital required is set under the European Solvency II directive.

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

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

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

Both AIUD and Bothnia use the standard formula without USPs to calculate their SCRs.

Minimum Capital Requirement

In addition to the SCR, another key measure of capital under Solvency II is the Minimum Capital Requirement (MCR).

The MCR is a simpler calculation than the SCR, using a formula based on volumes of premiums and Solvency II technical provisions.

For non-life insurers, the MCR is between 25% and 45% of the SCR, subject to a minimum of €3.7m or €2.5m depending on the business written. This minimum typically only bites for the smallest insurers.

Firms need to hold capital equal to at least the greater of the SCR and the MCR. The purpose of the MCR is to ensure that firms are holding at least a minimum level of capital. Breaching the MCR will result in more intensive regulatory intervention than would be the case for a breach of the SCR.

The MCR coverage ratio is calculated as the available capital in excess of provisions divided by the MCR.

As at 31 December 2021, both AIUD and Bothnia were projected to be very well capitalised on this measure with MCR coverage ratios of 435% for AIUD and 454% for Bothnia.

For both AIUD and Bothnia, both Pre-Transfer and Post-Transfer, the SCR is higher than the MCR. Therefore, I have not considered the MCR further as part of my assessment of capital considerations, and my primary focus is on the SCR.

6.5. Components of capital requirements

The key components of the SCR for both AIUD and Bothnia are:

- Underwriting risk: the risk that the value of insurance claims proves to be higher than expected. This includes the risk of an increase in claims and uncertainties related to existing liabilities included on the balance sheet (reserving risk). Underwriting risk also includes the risk of experience being worse than planned for business that will be earned or written over the following year (premium risk).

- Market risk: the risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this includes the risk of falls in the value of investment assets that are being held to make future claims payments.
- Counterparty default risk: the risk of defaults or downgrades by counterparties that either owe the insurer money or hold money on its behalf. For example, this includes the risk of the failure of a reinsurer.
- Operational risk: the risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would include the risk of fraud or IT failure.

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

AIUD and Bothnia have provided actual SCR calculations as at 31 December 2021, and projected SCR calculations at the time of the Proposed Transfer. I have summarised the key risks as a percentage of the total SCR, both pre- and post-transfer, below.

AIUD: Projected breakdown of SCR risk components pre- and post-transfer

Risk components €m	As at 31 December 2021		Pre-transfer		Post-transfer	
Underwriting risk	146.4	*78%*	115.5	*73%*	114.6	*76%*
Market risk	25.7	*14%*	30.6	*19%*	30.9	*21%*
Counterparty default risk	24.1	*13%*	22.4	*14%*	17.0	*11%*
Diversification/Deferred Tax liability	(34.3)	*(18%)*	(32.0)	*(20%)*	(30.1)	*(20%)*
Operational risk	25.7	*14%*	22.0	*14%*	17.5	*12%*
SCR	**187.6**	***100%***	**158.6**	***100%***	**150.0**	***100%***

Source: AIUD

For AIUD, the most material component of the projected SCR is underwriting risk, which represents around 78% of the projected SCR as at 31 December 2021, which is typical for most insurers. The profile of the key risks is similar pre- and post-transfer.

As at 31 December 2021, AIUD's own funds were €255.1m and so the SCR coverage ratio was 136%.

Bothnia: Projected breakdown of SCR risk components pre- and post-transfer

Risk components €m	As at 31 December 2021		Pre-transfer		Post-transfer	
Underwriting risk	25.9	*74%*	10.8	*64%*	17.1	*66%*
Market risk	7.8	*22%*	7.6	*45%*	8.8	*34%*
Counterparty default risk	3.4	*10%*	0.7	*4%*	0.7	*3%*
Diversification/Deferred Tax liability	(7.0)	*(20%)*	(6.8)	*(40%)*	(7.2)	*(28%)*
Operational risk	4.9	*14%*	4.5	*27%*	6.5	*25%*
SCR	**35.0**	***100%***	**16.8**	***100%***	**25.8**	***100%***

Source: Bothnia

For Bothnia, the most material component of the SCR is underwriting risk, which represents 74% of the SCR as at 31 December 2021. Market risk is also a material contributor to the SCR, representing 22% of the SCR as at 31 December 2021, and which increases pre- and post-transfer.

For Bothnia, there is reduced exposure to premium risk as the business written is in run-off. Underwriting risk remains the key risk component post-transfer.

As at 31 December 2021, Bothnia's own funds were €63.4m and so the SCR coverage ratio was 181%.

6.6. Capital policy for each of AIUD and Bothnia

I have reviewed the companies' Risk Appetite Statements and Capital Management Plans to assess their capital policy in terms of minimum acceptable solvency coverage. Both AIUD and Bothnia target a minimum buffer above the regulatory SCR as part of their Risk Appetite Statements. These buffers are set by the companies' respective boards to reflect the nature, scope and complexity of their risk profiles.

AIUD's risk appetite is to maintain an SCR coverage ratio in excess of 140%. In practice AIUD aims to maintain a coverage ratio of 150% and plans to pay out dividends to maintain this level of coverage if the coverage ratio rises above this level. I would consider this to be well capitalised as described in section 6.1.

Bothnia's policy is to take action if the SCR coverage ratio drops below 120%. If it drops below this there are certain trigger levels to agree and determine what mitigating actions need to be taken to restore the coverage ratio. I would consider this to be sufficient capital as described in section 6.1. In addition, Bothnia's coverage ratio has been in excess of its risk appetite of 120%.

6.7. SCR appropriateness for AIUD and Bothnia

For AIUD and Bothnia, I have considered SCR appropriateness by considering two aspects:

- reviewing each company's assessment of the appropriateness of using the standard formula for the purposes of setting the SCR; and
- reviewing each company's documentation of its standard formula SCR calculations and process to satisfy myself that the calculations are being performed in line with the Solvency II Delegated Regulations.

AIUD - appropriateness of the standard formula

AIUD considered the appropriateness of the standard formula for the purpose of calculating its SCR in its 2021 ORSA and concluded that the standard formula is appropriate given AIUD's risk profile.

AIUD also commissioned an independent report from an external consultancy to assess the appropriateness of the standard formula for AIUD during 2021, as required by AIUD's ORSA.

The report concluded that the standard formula does not deviate significantly from AIUD's risk profile and also that for underwriting risk (the most material component of capital) the use of USPs would lead to lower or equal factors to those of the standard formula, and so lead to a lower SCR. The report also concluded that the standard formula provides a suitable quantification of the risks to which AIUD is exposed based on the Solvency II requirements.

I am satisfied that, allowing for the nature, scale and complexity of the company, with the conclusion that the standard formula is appropriate for AIUD.

AIUD - review of SCR calculation process

I have reviewed AIUD's SFCR report which describes the approach to calculating the SCR using the standard formula.

AIUD is planning improvements to the documentation of the SCR process and calculation including a new Basis of Preparation document. This includes improvements to governance controls and the review of the inputs into the SCR calculation.

Based on my review and discussions I am satisfied that the standard formula is appropriate and the process followed to calculate the SCR is reasonable for AIUD.

Bothnia - appropriateness of the standard formula

Bothnia's actuarial function has performed a validation of the standard formula compared to Bothnia's risk profile. This concluded that the standard formula could overstate the SCR for a number of factors ie reserve risk, the assumed dependency structure and the lack of diversification between operational and other risks.

The standard formula can understate the reserve risk capital requirements for Bothnia's longer tail exposures eg asbestos, but this is balanced by the standard formula not allowing for enough diversification through the correlations in the dependency structure.

I have reviewed the standard formula assessment provided by Bothnia and I am satisfied that it supports the conclusion that the standard formula is appropriate for Bothnia.

Bothnia - review of SCR calculation process

I have reviewed Bothnia's SFCR report which describes the approach to calculating the SCR using the standard formula.

Based on my review and discussions I am satisfied that the standard formula is appropriate and the process followed to calculate the SCR is reasonable for Bothnia.

6.8. Projected SCR coverage ratios for AIUD and Bothnia

Projected SCR coverage ratios pre- and post-transfer

The table below sets out the projected SCR and coverage ratios, as prepared by AIUD and Bothnia, immediately before and after the Proposed Transfer.

Projections before and after the Proposed Transfer €m	Own Funds	SCR	Own Funds less SCR	SCR coverage ratio	Movement in coverage ratio
Day 0 – before Transfer					
AIUD	237.2	157.1	80.1	151%	
Bothnia	36.9	16.8	20.1	219%	
Day 1 – after-Transfer					
AIUD	241.8	148.5	93.3	163%	+12%
Bothnia	43.5	25.8	17.7	169%	(50%)

Source: AIUD and Bothnia

In summary:

- Remaining AIUD Policyholders: the SCR coverage ratio for liabilities remaining in AIUD is projected to increase from 151% to 163% and AIUD remains well capitalised. Therefore, I have concluded that the changes in SCR coverage ratios as a result of the Proposed Transfer will not lead to any material adverse changes in the strength of capital protection for this group of policyholders.
- Transferring AIUD Policyholders: the SCR coverage ratio for liabilities transferring from AIUD to Bothnia is projected to increase from 151% to 169% and so the policyholders are still in a well capitalised company. Therefore, I have concluded that the changes in SCR coverage ratios as a result of the Proposed Transfer will not lead to any material adverse changes in the strength of capital protection for this group of policyholders.

- Existing Bothnia Policyholders: the SCR coverage ratio for these policyholders is projected to decrease from 219% to 169% after the Proposed Transfer but remains well capitalised.
- The decrease in SCR coverage ratio from 219% to 169% would appear to be a significant reduction. 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 169% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 169%, the difference in capital coverage ratios of 169% and 219% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Therefore, I have concluded that the changes in SCR coverage ratios as a result of the Proposed Transfer will not lead to any material adverse changes in the strength of capital protection for the Existing Bothnia Policyholders.

Projected SCR coverage ratios post-transfer

AIUD has provided projections for the SCR coverage ratio for a number of years after the Proposed Transfer. The SCR coverage is expected to remain above 150% ie well capitalised until the end of 2024, including after planned dividends at the end of 2023 and 2024.

Any future portfolio transfers in or out of AIUD would require a report from an Independent Actuary and approval of the High Court as part of a separate Section 13 transfer.

Bothnia has provided projections for the SCR coverage ratio for a number of years after the Proposed Transfer. The SCR coverage is expected to increase from 169% after the Proposed Transfer and become very well capitalised by the end of 2024.

Bothnia has confirmed that they are not currently contemplating any other material transfers into Bothnia which do not require regulatory approval.

In practice, AIUD's and Bothnia's average coverage ratios may be higher or lower than these projections depending on the claims and other experience, and any dividend payments. Both companies will regularly monitor the capital, and projected capital, position in line with their capital management policy (see section 6.6). This could also lead to the coverage ratios being higher or lower than projected.

6.9. The planned capital structures for AIUD and Bothnia

Own funds under Solvency II are divided into 3 'tiers' with tier 1 being the highest quality. The Solvency II rules impose limits on the amount of each tier that can be held to cover capital requirements with the aim of ensuring that the items will be available if needed to absorb any losses that might arise.

Therefore, not all of the available own funds are necessarily eligible to cover capital requirements, ie some own fund items may not be counted towards fulfilling the SCR and the MCR.

AIUD

Based on data as at 31 December 2021, AIUD's own funds consist almost exclusively of tier 1 capital with a small amount (less than 5%) of tier 3 funds representing deferred tax assets. All of AIUD's own funds are eligible, in full, to meet the SCR and all tier 1 capital is eligible to meet the MCR.

Bothnia

Based on data as at 31 December 2021, 72% of Bothnia's own funds were classified as tier 1, 28% as tier 2, and no tier 3 funds. The tier 2 funds represent subordinated debt and only 50% of these are eligible to cover the SCR. Subordinated debt is of €24.0m but only €17.5m is eligible (ie 50% of the SCR of €35.0m). All of the tier 1 capital and a small proportion of the tier 2 capital is available to meet the MCR.

6.10. SCR scenario analysis

I have reviewed AIUD's and Bothnia's 2021 Own Risk and Solvency Assessment (ORSA) reports. The ORSA reports contain stress and scenario tests but I requested AIUD and Bothnia to provide more severe stress and scenario tests to assess the impact of the Proposed Transfer on the various sets of policyholders.

Stresses are single events that impact one key driver of the business, whereas scenarios are combinations of events that impact the business at the same time or across a time period. By their nature, scenarios are more adverse than single event stresses.

I have considered the impact of a range of adverse scenarios based on projections prepared by AIUD and Bothnia. The purpose of such scenario analysis is to assess whether the companies can withstand plausible adverse experience and whether, under these circumstances, they can still provide appropriate security to all policyholders. The scenarios include a reverse stress test which is a scenario that, by design, considers potential events that could lead to insolvency of an insurer.

It is also possible that there could be favourable scenarios, eg a shorter tail of future claims than expected. However, I have not considered such scenarios in detail as these have not been necessary in order to form my opinion regarding the Proposed Transfer.

The following discussion summarises the adverse scenarios that I have considered. These scenarios are intended to represent a range of possible deteriorations that may occur over the ultimate time horizon, including both plausible, but relatively extreme and extreme scenarios, but do not represent the full range of all possible outcomes. All of the scenarios were reviewed for reasonableness by me, but the calculations have been performed by AIUD and Bothnia.

AIUD – impact of adverse scenarios on SCR coverage ratios

AIUD has provided stress and scenario tests as at Day 0 and Day 1 ie immediately before and after the Proposed Transfer. The tests are provided assuming a projected €38m dividend in Q4 2022 or Q1 2023 which is aimed at targeting a SCR coverage ratio of 150%. The dividend could be higher or lower than €38m depending on what is required to target 150%.

AIUD has provided the following scenarios requested by me which I consider provide an appropriate view of plausible, but relatively extreme, outcomes:

- The scenarios focus on the key risks that drive AIUD's capital position ie reserve risk, investment risk and counterparty default risk.
- The reserve stress assumes loss ratios for all classes in line with the 95th percentile from AIUD's capital model ie a 1 in 20 year event. This leads to an increase in reserves of c.30%.
- The investment stress is the equivalent of a 30% drop in the value of investments.
- The reinsurance stress looks at the default of all intra-group reinsurance (with AFSI) and a reduction applied to the collateralised reinsurance recoveries (ie a "haircut") due under this reinsurance of 10%. A haircut of 30% is assumed on all other reinsurance balances after collateral.
- The reverse stress test ie the scenario which is designed to cause insolvency, is a combination of stresses. This extreme market crisis scenario assumes loss ratios at the 90th percentile, the default of AFSI (with a 10% haircut on collateral) and Swiss Re, and a 40% haircut on the remaining reinsurance balances. A reverse stress test is by design highly extreme and unlikely.

Projected as at 31 March 2023 (Day 0) and 1 April 2023 (Day 1)	Day 0: Pre-Transfer		Day 1: Post-Transfer	
SCR coverage ratio - AIUD	SCR coverage ratio	Impact on SCR coverage ratio	SCR coverage ratio	Impact on SCR coverage ratio
Base	**151%**		**163%**	
1. Reserve stress: 1 in 20 year loss ratios	90%	(61%)	99%	(64%)
2. Investment stress: 30% fall in the value of investments	77%	(74%)	85%	(78%)
3. Reinsurance stress: AFSI default	75%	(76%)	80%	(83%)
4. Reverse stress test: Extreme market crisis	9%	(142%)	11%	(152%)

The table above shows the impact of the stress and scenario tests immediately before and after the transfer. The scenarios demonstrate that in all cases, even for the reverse stress test, AIUD would be able to pay claims to policyholders. Also, the Remaining AIUD policyholders are slightly better off post-transfer compared to pre-transfer.

These scenarios do not allow for the impact of any mitigating actions from AIUD eg securing additional capital support from the wider group, considering external sources of capital or strategic reinsurance protections or not paying out dividends.

Bothnia – impact of adverse scenarios on SCR coverage ratios

Bothnia has provided the following scenarios requested by me which I consider provide an appropriate view of plausible, but relatively extreme, outcomes:

- The scenarios focus on the key risks that drive Bothnia's capital position ie reserve risk, investment risk and counterparty default risk.
- The reserve stress assumes a deterioration of 20% in the net of reinsurance technical provisions which Bothnia consider to be a 1 in 35 year event.
- The investment stress considers a 20% reduction in the value of bonds. For context asset values fell c. 10% in 2022 and no account has been taken for any reduction in liabilities. This is considered a 1 in 25 year scenario by Bothnia.
- Reinsurer default: Bothnia has a material intra-group quota share reinsurance arrangement with Pallas Re. The balance of the reinsurance is mainly with an AA+ (Superior) A.M. Best rated reinsurer. This scenario assumes a default of the internal reinsurer with a 10% haircut on collateral and a 30% haircut on the external reinsurer.
- The reverse stress test is a combination of variations of the three key risk scenarios ie 15% deterioration in technical provisions, a 12% reduction in bond values, a 7% haircut on the internal reinsurance and a 30% haircut on reinsurance with the major external reinsurer.

Projected as at 31 March 2023 (Day 0) and 1 April 2023 (Day 1)	Day 0: Pre-Transfer		Day 1: Post-Transfer	
SCR coverage ratio - Bothnia	SCR coverage ratio	Impact on SCR coverage ratio	SCR coverage ratio	Impact on SCR coverage ratio
Base	**219%**		**169%**	
1. Reserve stress: deterioration of 20% in net of reinsurance TPs (1 in 35 year event)	156%	(63%)	110%	(59%)
2. Investment stress: 20% reduction in the value of bonds	119%	(100%)	84%	(85%)
3. Reinsurer stress: 10% haircut on collateral, 30% haircut on largest external reinsurer	99%	(120%)	46%	(123%)
4. Reverse stress test: 15% increase in net TPs, 12% drop in bond values, 7%/30% haircut	46%	(173%)	1%	(168%)

The table above shows the impact of the stress and scenario tests immediately before and after the transfer. The scenarios demonstrate that in all cases, including the reverse stress test, and even though the scenarios have more impact post-transfer, Bothnia would be able to pay claims to policyholders.

These scenarios do not allow for the impact of any mitigating actions from Bothnia eg securing additional capital support from the wider group or considering external sources of capital or strategic reinsurance protections.

Impact of stress and scenario tests on policyholders

Remaining AIUD Policyholders

The scenarios demonstrate that in all cases, even for the reverse stress test, AIUD would be able to pay claims to policyholders. The SCR coverage ratio for Remaining AIUD policyholders is higher post-transfer compared to pre-transfer and so are not materially adversely affected by the Proposed Transfer.

Transferring AIUD Policyholders

The SCR coverage ratio is higher for the reserve and investment stresses for Transferring AIUD Policyholders post-transfer (Bothnia) compared to pre-transfer (AIUD). The coverage ratio for the reinsurance scenario is lower due to the increased level of reinsurance recoveries post-transfer, but the exposure is mainly due to the same reinsurer Pallas Re for these policyholders. The position for the reverse stress test is similar pre- and post-transfer by design. I have concluded that Transferring AIUD Policyholders are not materially adversely affected by the Proposed Transfer.

Existing Bothnia Policyholders

The SCR coverage ratio in all scenarios is lower for Existing Bothnia Policyholders post-transfer compared to pre-transfer. However, the scenarios considered are plausible, but extreme and do not allow for any mitigating management actions. I note that in all cases, even for the reverse stress test, Bothnia would be able to pay claims to policyholders. I have concluded that Existing Bothnia Policyholders are not materially adversely affected by the Proposed Transfer.

6.11. Overall conclusion: Capital considerations

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

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

- The standard formula is appropriate and the process followed to calculate the SCR is reasonable for both AIUD and Bothnia.
- Following the Proposed Transfer, there will be no materially adverse changes in the strength of capital protection for any group of policyholders.

7. Policyholder security

7.1. My considerations relating to policyholder security

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

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

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

- Impact on the Solvency II balance sheets of AIUD and Bothnia (section 7.2)
- Impact on the solvency positions of AIUD and Bothnia (section 7.3)
- Reinsurance arrangements (section 7.4)
- Access to Insurance Compensation Schemes (section 7.5)
- Access to Insurance Ombudsman Services (section 7.6)
- Insurance regulation (section 7.7)
- Winding up regulations (section 7.8)

Further details on each of these considerations are set out below, and my overall conclusion related to policyholder security is set out in section 7.9.

7.2. Impact on the balance sheets of AIUD and Bothnia

I have based my analysis on projected balance sheets immediately pre- and post-transfer, ie the day before (Day 0) and the day after (Day 1) the Proposed Transfer. The table below shows simplified Solvency II balance sheets for AIUD and Bothnia pre- and post-transfer.

Solvency II balance sheets of AIUD and Bothnia

€m	Pre-Transfer		Post-Transfer		Movement due to Proposed Transfer	
	AIUD	Bothnia	AIUD	Bothnia	AIUD	Bothnia
Reinsurer's share of TPs	604.0	218.2	459.5	328.7	-144.5	+110.5
Investments	393.4	121.7	393.4	146.0	-	+24.3
Cash	49.7	13.9	46.1	13.7	-3.6	-0.2
Debtors	77.1	15.0	72.5	15.0	-4.6	-
Other	25.4	10.7	24.8	10.7	-0.7	-
Total assets	**1,149.5**	**379.6**	**996.1**	**514.1**	**-153.4**	**+134.5**
Technical provisions	748.9	260.9	599.1	394.1	-149.8	+133.2
Creditors	53.1	66.2	44.9	65.4	-8.2	-0.8
Other	110.3	24.0	110.4	24.0	-	-
Total liabilities	**912.3**	**351.1**	**754.3**	**483.5**	**-158.0**	**+132.4**
Adjustment to own funds		8.4		12.9		+4.5
Own funds	237.2	36.9	241.8	43.5	+4.6	+6.6
SCR	157.1	16.8	148.5	25.8	-8.6	+9.0
SCR coverage ratio	151%	219%	163%	169%	+12%	-50%

Source: AIUD, Bothnia

Key movements – AIUD

The key movements in the balance sheet for AIUD as a result of the Proposed Transfer are as follows:

Assets transferred

- €153.4m decrease in total assets driven mainly by the reinsurer's share of technical provisions (€144.5m) as a result of the assets backing the FMM portfolio transferring

Liabilities transferred

- €158.0m decrease in total liabilities driven mainly due to technical provisions (€149.8m) due to the transferring FMM liabilities

Therefore, AIUD's own funds increase by €4.6m.

Key movements – Bothnia

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

Assets transferred

- €134.5m increase in total assets driven mainly by the reinsurer's share of technical provisions (€110.5m)

Liabilities transferred

- €132.4m increase in total liabilities driven mainly due to technical provisions (€133.2m)

Therefore, Bothnia's own funds increase by €2.1m due to the change in assets/liabilities, together with an increase of €4.5m due to the adjustment to own funds (due to subordinated debt, see section 6.9) ie €6.6m in total.

The difference in the fall in value of AIUD's liabilities and the increase in value of Bothnia's liabilities is due to the differences in the projected value of the technical provisions for the FMM liabilities at the point of transfer. The best estimate reserves of AIUD and Bothnia are broadly similar, but there are differences in the valuation of ENID loads, expenses and in particular the discounting of the technical provisions.

The difference in the fall in value of AIUD's assets and the increase in value of Bothnia's assets is due in part to the level of reinsurance pre- (100%) and post-transfer (85%) and therefore the reinsurers' share of technical provisions.

7.3. Impact on the solvency positions of AIUD and Bothnia

The projected solvency positions of AIUD and Bothnia pre- and post-transfer are summarised in the following table.

Projected solvency positions of AIUD and Bothnia immediately before and after the Proposed Transfer

	AIUD	Bothnia
Pre-transfer		
Total own funds eligible to meet SCR	237.2	36.9
SCR	157.1	16.8
SCR coverage ratio	**151%**	**219%**
Post-transfer		
Total own funds eligible to meet SCR	241.8	43.5
SCR	148.5	25.8
SCR coverage ratio	**163%**	**169%**

AIUD is well capitalised immediately before and after the Proposed Transfer, Bothnia is very well capitalised before and well capitalised after the Proposed Transfer (as described in section 6.8).

7.4. Reinsurance arrangements

The FMM portfolio is 100% reinsured by Pallas Re before the Proposed Transfer and 85% reinsured by Pallas Re after the Proposed Transfer (along with the rest of Bothnia's business).

Pallas Re's Bermuda SCR coverage ratio was 258% as at 30 June 2022 ($294.9m available economic capital and surplus, $114.5m enhanced capital requirement), which is very well capitalised.

As at 30 June 2022, Pallas Re's investments of $713.1m were in Government/Corporate bonds 77%, Mortgage backed securities 4%, Other/equities 3% and Cash & equivalents 16%.

I am therefore satisfied that neither the Transferring AIUD Policyholders nor the Existing Bothnia Policyholders will be materially adversely affected by the reinsurance aspects of the Proposed Transfer.

7.5. Access to Insurance Compensation Schemes

All Transferring AIUD Policyholders are located in France ie within the EEA.

EEA Policyholders

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

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

As such, the Transferring Policyholders are not disadvantaged by any loss of access to the Irish Insurance Compensation Fund.

There is no general insurance compensation/guarantee fund in Finland other than certain statutory compensation schemes that cover specific lines of business, but not medical malpractice business.

Fonds de Garantie des dommages consécutifs à des Actes de Prévention, de Diagnostic ou de Soins dispensés par des professionnels de santé (FGAPDS) is a French guarantee scheme for damages resulting from medical tasks performed in France by self-employed medical professionals (e.g. doctors, surgeons), excluding those employed by an hospital. As all the Transferring Business relates to French hospitals, I have not considered this scheme further.

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

7.6. Access to the Insurance Ombudsman Services

EEA Policyholders

FIN-NET is a network of national ombudsman services organisations responsible for settling consumers' complaints in the area of financial services out of court. The network covers the countries of the EEA. However, these ombudsman services are applicable only to policyholders who fall within the definition of consumer which varies from EEA Member State to Member State.

For example, in Ireland, consumers are defined as personal customers and limited companies, charities, clubs, trusts and partnerships with turnover of less than €3m. It is unlikely that the FMM policyholders would have access to this service.

Finland has a Financial Ombudsman Service (FINE) which acts on behalf of consumers and small businesses. The service includes an Insurance Complaints Board but this does not examine issues related to patient insurance policies. Given this, it is unlikely that the FMM policyholders would have access to this scheme.

I have therefore concluded that none of the Transferring AIUD Policyholders will be disadvantaged by loss of access to an insurance ombudsman service.

7.7. Insurance regulation

Prudential regulation

Prudential regulation requires financial firms to control risks and hold adequate capital to ensure regulated firms are being run in a safe and sound way. Both Ireland and Finland are currently regulated under Solvency II. Solvency II covers the prudential regulation of insurers, including risk management and capital requirements.

The Solvency II framework sets out requirements around capital, governance and risk management in all EU authorised (re)insurance undertakings. Solvency II also introduced increased regulatory reporting requirements and public disclosure requirements. These requirements are intended to reduce the likelihood of an insurer failing and should also provide policyholders with increased protection.

In Ireland, insurance firms are authorised and supervised by the Central Bank of Ireland. In Finland, FIN-FSA has overall responsibility for prudential supervision of the insurance sector. The objective of supervision is to ensure that the entities have the financial means to fulfil their obligations, such as payment of insurance claims and pensions

Based on the above considerations, I have concluded that the Transferring AIUD Policyholders will not be materially adversely affected by the Proposed Transfer with respect to prudential insurance regulation as both AIUD and Bothnia are subject to prudential regulation under the Solvency II framework.

Conduct regulation

EEA Policyholders

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

The location of risks currently insured by AIUD ie France will not change as a result of the Proposed Transfer and so the Transferring AIUD Policyholders will not be materially adversely affected with respect to conduct regulation in this regard.

Therefore, the key relevant comparison is between the conduct regulations in Ireland and Finland. If these were materially different, this could potentially affect Transferring AIUD Policyholders where the business is currently carried out in Ireland and post-transfer will be carried out in Finland.

There is currently less harmonisation in conduct regulation across the EEA compared to prudential regulation. However, a number of existing EU Directives govern consumer regulation across the EEA, and so apply to both Ireland and Finland. For example, since October 2018, the Insurance Distribution Directive (IDD) strengthens and consolidates the rules covering the distribution of insurance and reinsurance, and also the administration and performance of an insurance policy once it has been written. Additionally, the IDD has been transposed under Irish and Finnish law through domestic legislation.

As a result, there is access to similar mechanisms in terms of conduct regulation in Ireland and Finland for the Transferring AIUD Policyholders based on EU Directives and they are not materially adversely affected in this regard.

7.8. Winding up regulations

In the event of the insolvency of AIUD pre-transfer, Transferring AIUD Policyholders would be subject to Irish winding up regulations. Post-transfer, Transferring AIUD Policyholders would be subject to Finnish winding up regulations in the event of the insolvency of Bothnia.

In Ireland, under the European Union (Insurance and Reinsurance) Regulations 2015, insurance claims are given absolute priority over other preferential creditors with respect to assets that represent the technical provisions. However, the costs of winding up the insurer take priority over insurance claims.

Similarly, in Finland under the Insurance Companies Act, insurance debts ie the payment of claims enjoy priority subject to certain restrictions such as the costs of winding up the insurance company.

As the winding rules in Ireland and Finland are similar, and I consider the insolvency of both AIUD and Bothnia unlikely, I have concluded that the Transferring AIUD Policyholders are not adversely affected in this respect. Remaining AIUD Policyholders and Existing Bothnia Policyholders are subject to the same winding up regulations pre- and post-transfer.

Conclusion on regulation

As AIUD and Bothnia are subject to the same EU based regulatory regimes, I have concluded that policyholders will not be adversely affected by the Proposed Transfer from a regulatory standpoint.

7.9. Overall conclusion: Policyholder security

Based on the work and rationale described above, I have concluded that it is unlikely that policyholders will be materially adversely affected by the Proposed Transfer from a policyholder security standpoint.

8. Policyholder communications

8.1. My considerations relating to policyholder communications

I have assessed the appropriateness of AIUD and Bothnia's proposed communication strategy to inform policyholders of the Proposed Transfer. The key focus of my assessment was whether the policyholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them.

8.2. Overview of communications strategy

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

Transferring business

The Transferring Business all relates to French medical malpractice insurance policies covering risks based in France (including one policy in Saint-Barthélemy which is deemed to be in the territory of France according to the French Insurance Code).

AIUD communications strategy

There is no legal requirement to notify either Transferring AIUD Policyholders or Remaining AIUD Policyholders.

Notwithstanding this, AIUD plans to write to each Transferring AIUD Policyholder in French (being the language in which AIUD ordinarily communicates with the Transferring AIUD Policyholders). English translations are available and can be provided upon request.

AIUD will also notify any brokers or intermediaries relating to the Transferring Business of the Proposed Transfer.

AIUD will also notify Pallas Re of the Proposed Transfer for completeness.

AIUD will publish details of the Proposed Transfer in Iris Oifigiuil and two Irish daily newspapers (the Irish Examiner and the Irish Independent), as required by Irish law, in January 2023.

AIUD will also comply with the requirements to publish notices in the relevant jurisdictions ie France and Finland.

AIUD will place the following information on their website (amtrustfinancial/amtrustinternational/legal/portfolio-transfers) following the Directions Hearing:

- Full Scheme document and a summary of the Scheme
- IA's Scheme Report, Summary Report and the Supplementary Report (once prepared)
- A copy of the Petition and Legal Notice of the Proposed Transfer.

These documents will be available for inspection in AIUD's and their solicitor's office.

Bothnia communication strategy

There is no legal requirement to notify Transferring AIUD Policyholders before the Proposed Transfer.

Under Finnish law, Bothnia must announce the Proposed Transfer in the Finnish Official Gazette (Virallinen Lehti) and in one newspaper in Ireland within one month of the Effective Date. This must include details of the Transferring Policyholder's right to terminate the policy within 3 months of the date of publication of the announcement.

Bothnia intends to go beyond the legal requirements and place announcements in periodicals in Finland, Ireland and France in the respective languages and also by issuing a welcome letter to Transferring AIUD Policyholders following the Effective Date.

Bothnia will place the information outlined above on their website (https://compre-group.com/notices/amtrust-international-underwriters-dac/) following the Directions Hearing.

These documents will be available for inspection in Bothnia's and their solicitor's office.

8.3. Requested waivers

I understand that the communication plan outlined above meets the requirements of Section 13 of the 1909 Act and that no waivers are requested or required.

8.4. Clarity of communication

I have reviewed a draft of AIUD's letter (in English) to Transferring AIUD Policyholders and am satisfied that it is sufficiently clear for the intended purpose. I have also reviewed a draft of Bothnia's draft confirmation letter (in English) to Transferring AIUD Policyholders to be sent post-transfer.

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

8.5. Translation of IA reports

AIUD/Bothnia plan to provide translations into French of my Scheme Report, Summary Report and Supplementary Report (when available) to Transferring AIUD Policyholders. AIUD/Bothnia are responsible for the translation of these documents into French. I am relying on AIUD/Bothnia to ensure that the translations into French are accurate.

8.6. Overall conclusion: Policyholder communications

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

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

9. Customer service and other considerations

9.1. Customer service

The claims handling and claims administration for the FMM portfolio has been performed by AmTrust France SAS (AFSAS), an AmTrust subsidiary based in Lyon, France. In advance of the Proposed Transfer, responsibility for the handling of the claims passed from AIUD to Pallas Re on 9 September 2022, with Pallas Re outsourcing the claims handling to AFSAS.

On 3 November 2022, AmTrust sold AFSAS to LECARAVAGE. LECARAVAGE is a simplified joint-stock company and is owned by the chief executive officer of AFSAS.

As the claims handling and administration service to FMM policyholders will be performed by the same team and entity pre-and post-transfer, Compre group has confirmed that there will be no change to the level of service received by the Transferring AIUD Policyholders.

Remaining AIUD Policyholders and Existing Bothnia Policyholders will be unaffected by the Proposed Transfer in terms of their claims experience and service standards.

Compre group operates a Treating Customers Fairly Policy which was last updated in September 2022 which covers the claims handling process given the run-off nature of its portfolio rather than eg mis-selling issues.

9.2. Tax implications

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

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

Therefore, there are no direct tax implications of the Proposed Transfer on Remaining AIUD Policyholders, Transferring AIUD Policyholders or Existing Bothnia Policyholders.

9.3. Investment management implications

AIUD invests predominantly in corporate and government bonds. Management is outsourced to an AmTrust group company with a set of investment management guidelines overseen by an Investment and Capital Management Committee. AIUD maintains a high-grade investment portfolio with a primary focus on capital preservation.

As at 31 December 2021, AIUD's investments were in Government bonds 37%, Corporate bonds 43% Collateralised securities 2%, Other 1% and Cash & equivalents 17%.

Bothnia's investment strategy is outlined in the Compre group Investment Policy. It outsources its investment management function to Goldman Sachs who manage investments in line with an Investment Management Agreement, overseen by Compre group's Treasury team. Quarterly reports are produced for Bothnia's board by Goldman Sachs and the Treasury function including Investment Compliance reports.

As at 31 December 2021, Bothnia's investments were in Government bonds 41%, Corporate bonds 36%, Deposits to cedants 6% and Cash & equivalents 17%.

Post-transfer, there will be some minor changes and allocation to certain sectors which are not currently represented in AIUD's investments. However, investments will remain subject to a minimum BBB grade so the average quality of the book will not change.

Given the similarities in the asset mix of AIUD and Bothnia, I do not anticipate any materially adverse impact for any group of policyholders in terms of investment management as a consequence of the Proposed Transfer.

9.4. Implications for ongoing expense levels

AIUD and Bothnia will jointly bear the costs associated with the production of my reports. I understand that no costs or expenses of the Proposed Transfer will be borne by policyholders.

One-off costs associated with the Proposed Transfer are expected to be modest relative to the combined size of the Transferring Business and existing portfolio of AIUD and Bothnia.

Therefore, there are no impacts for any group of policyholders as a result of any changes to ongoing expense levels.

9.5. Impact on liquidity position

The liquidity position of a company represents its ability to meet all claim payments and other obligations as and when they fall due. AIUD and Bothnia monitor liquidity risk as part of their ORSA processes to ensure that sufficient funds are available to settle claims and expenses as they fall due.

AIUD and Bothnia maintain a large proportion of their assets in liquid asset classes, including government bonds and corporate bonds. As such, AIUD and Bothnia do not expect any material cashflow risk.

Therefore, I do not anticipate any materially adverse impacts on the liquidity position for any group of policyholders as a consequence of the Proposed Transfer.

9.6. Impact of other transfers

Bothnia has confirmed that they are not currently contemplating any other material transfers into Bothnia which do not require regulatory approval.

9.7. Set-off

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

AIUD and Bothnia have confirmed that there are no changes in set-off rights as a result of the Proposed Transfer. I have also not identified any material set-off rights as part of my review.

Therefore, considerations around set-off do not impact my conclusions.

9.8. Overall conclusion: Customer service and other considerations

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

10. Conclusions and Statement of Truth

10.1. Conclusion

I have considered the Proposed Transfer and its likely effects on Remaining AIUD Policyholders, Transferring AIUD Policyholders and Existing Bothnia Policyholders.

- In reaching the conclusions set out below, I have applied the principles as set out in relevant professional guidance, being the Actuarial Standards of Practice (ASPs): ASP-PA-2 General Actuarial Practice and ASP-LA-6 Transfer of Long-Term Business of an Authorised Insurance Company and Technical Actuarial Standards (TASs) TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance.

I have concluded that:

- The security provided to Remaining AIUD Policyholders will not be materially adversely affected by the Proposed Transfer. There will be no material impact on service standards for Remaining AIUD Policyholders following the Proposed Transfer.
- The security provided to Transferring AIUD Policyholders will not be materially adversely affected by the Proposed Transfer. There will be no material impact on service standards for Transferring AIUD Policyholders following the Proposed Transfer.
- The security provided to Existing Bothnia Policyholders will not be materially adversely affected by the Proposed Transfer. There will be no material impact on service standards for Existing Bothnia Policyholders following the Proposed Transfer.

10.2. Issues to highlight

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

Specific issues that I have highlighted in this report which require further review include:

- Any others transfers that could affect the Proposed Transfer;
- Updated reserves and capital positions;
- Any policyholder objections received; and
- Any changes to the detail of the Scheme.

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

10.3. IA duty and declaration

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

S. M

Stewart Mitchell FIA
Partner

30 November 2022

Professional standards

Our work in preparing this document complies with the following actuarial professional standards.

Issued by the Society of Actuaries in Ireland: ASP PA-2 General Actuarial Practice and ASP LA-6 Transfer of Long-Term Business of an Authorised Insurance Company.

Issued by the Financial Reporting Council: Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 200: Insurance.

The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with AmTrust International Underwriters DAC and Bothnia International Insurance Company Limited (Our Clients).

This work is only appropriate for the purposes described and should not be used for anything else. It is subject to any stated limitations (e.g. regarding accuracy or completeness). Unless otherwise stated, it is confidential and is for your sole use. You may not provide this work, in whole or in part, to anyone else without first obtaining our permission in writing. We accept no liability to anyone who is not Our Client.

If the purpose of this work is to assist you in supplying information to someone else and you acknowledge our assistance in your communication to that person, please make it clear that we accept no liability towards them.

About Lane Clark & Peacock LLP

Appendix 1 – Glossary

Term	Definition
Actuarial Standard of Practice (ASP)	ASPs are professional actuarial standards issued by the Society of Actuaries in Ireland.
Best estimate	An estimate prepared with no margin for either prudence or optimism.
Bornhuetter-Ferguson method	A blend of development factor modelling and the Expected Loss Ratio Method (defined later in this glossary). The weighting given to each is dependent on how developed the claims are for a policy year.
Cede	When a company reinsures its liability with another. The insurance company that purchases reinsurance is the ceding company that cedes business to the reinsurer.
Central Bank of Ireland (CBI)	The regulator of the insurance sector in Ireland.
Counterparty default risk	The risk of defaults or downgrades by counterparties that either owe an insurer money or hold money on its behalf. For example, this covers the risk of the failure of a reinsurer or a broker.
Development Factor Modelling	An actuarial method for estimating future claims development using assumptions based on past patterns of claims development. Development could mean the reporting of claims, payment of claims or the progression of case reserves.
Effective Date	1 April 2023, the date when the Proposed Transfer is expected to occur, which will be after the Sanctions Hearing which is scheduled for 14 March 2023.
European Economic Area (EEA)	The EEA Agreement established the EEA on 1 January 1994. The EEA unites the 27 EU member states with Iceland, Liechtenstein, and Norway into an internal market governed by the same basic rules. These rules aim to enable goods, services, capital, and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms.
Events not in data (ENIDs)	An estimate of possible future events or developments that are not reflected in the insurer's historical data. Insurers need to make allowance for ENIDs in their Solvency II technical provisions.
Existing Bothnia Policyholders	Policyholders of Bothnia at the time of the Proposed Transfer, who will remain with Bothnia after the Proposed Transfer.
Expected Loss Ratio method	An actuarial method for estimating future claims development based on combining an exposure measure and an assumed rate per unit of exposure (the initial expected loss ratio).
Finanssivalvonta Financial Supervisory Authority (FIN-FSA)	Finanssivalvonta Financial Supervisory Authority, the regulator of the insurance sector in Finland.
GAAP accounting Standards	Generally Accepted Accounting Principles (GAAP) - these are the accounting standards used to set the booked provisions underlying the published financial accounts of insurers.
High Court / Court	The High Court of Ireland.
Incurred but not enough reported (IBNER)	See definition of IBNR.

Term	Definition
Incurred but not reported (IBNR)	The provision for claims that may be reported in the future but relate to events that have already occurred. This also includes provision for possible future development of existing open claims, ie those that have been reported but not fully settled. The provision possible development of open claims is called IBNER (Incurred But Not Enough Reported). Depending on the type of insurance being considered and the claims handling approach, both the IBNR and IBNER can be either positive or negative.
Independent Actuary	A suitably qualified person appointed to produce an independent report, for the Court, on an insurance business transfer scheme, in accordance with Section 13 of the Assurance Companies Act 1909. The Independent Actuary's primary duty lies with the Court, and the opinion of the actuary is independent of those of the sponsoring companies involved in the transfer and the CBI.
Market risk	The risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this covers the risk of falls in the value of assets that are being held to make future claims payments.
MCR coverage ratio	The MCR coverage ratio is the ratio of own funds to Required Capital (MCR). This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer.
Minimum Capital Requirement (MCR)	A formulaic calculation of the capital requirement as part of the European Solvency II regulations for insurers. Breaching the MCR defines the point of intensive regulatory intervention. The calibration of the MCR is to be the capital required to give an 85% confidence level of sufficient capital to last one year. The MCR is a simpler calculation than the SCR and is typically a less onerous requirement.
Operational risk	The risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would cover the risk of fraud or IT failure.
Own funds	The capital in excess of provisions available to meet the SCR capital requirements under Solvency II.
Proposed Transfer	The proposed insurance business transfer from AIUD to Bothnia under Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015
Quota share reinsurance	A reinsurance contract in which the insurer and reinsurer share both claims and premiums in the same proportion. The reinsurer usually pays a commission to the insurer to allow for their costs of selling and administering the policy.
Reinsurance	An arrangement with another insurer to share or pass on risks. For example, in the case of the Proposed Transfer, AIUD is transferring underwriting (insurance) risk to Pallas Re using a quota share reinsurance arrangement.
Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (ie the SCR).
Remaining AIUD Policyholders	AIUD policyholders whose policies will remain with AIUD after the Proposed Transfer.
Residual Policy	Any Transferring Policy in relation to which any competent regulator has not provided a necessary certificate as to consent (and such consent is not otherwise deemed to have been given) or which the Court for whatever reason determines shall not be transferred by virtue of the Scheme or the Order.
Scheme Document	A document submitted to the High Court setting out details of the Scheme or Proposed Transfer.
Scheme Report	This report prepared by me, as the Independent Actuary, for submission to the High Court.

Term	Definition
SCR coverage ratio	The ratio of an insurer's available capital to its Required Capital (SCR). This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer (all else being equal).
Solvency Capital Requirement (SCR)	The amount of capital an insurer is required to hold under Solvency II regulations. This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie, a 1 in 200 event). If an insurer's capital (ie the excess of its assets over its liabilities) falls below the SCR, it will trigger regulatory intervention, with the intention of remedying that position.
Solvency Financial Condition Report (SFCR)	Solvency II requires each insurer to publish an SFCR annually that contains certain qualitative and quantitative information.
Solvency II	The system for establishing (among other things) minimum capital requirements for EEA insurers under the Solvency II Directive 2009/138/EC.
Standard formula	A prescribed approach under Solvency II for the calculation of capital based on an insurer's financial information (eg premiums and claims provisions).
TAS	The FRC issued Technical Actuarial Standards which apply to all relevant actuarial work produced after 1 July 2017.
Technical provisions	Under Solvency II, the technical provisions cover the ultimate costs of settling all claims arising from events occurring up to the balance sheet date plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
Tier 1/2/3 capital	Under Solvency II, capital is categorised into 3 tiers based on the permanence and loss absorbency of the form of capital. Tier 1 capital is the highest quality.
Transferee	The insurer to which the business is being transferred, Bothnia International Insurance Company Limited (Bothnia).
Transferor	The insurer from which the business is being transferred, AmTrust International Underwriters Designated Activity Company (AIUD).
Transferring AIUD Policyholders	AIUD policyholders whose policies will be transferred to Bothnia as a result of the Proposed Transfer.
Unallocated Loss Adjustment Expenses (ULAE)	Unallocated Loss Adjustment Expenses are expenses relating to the handling of claims that are not allocated to specific claims, eg claim handlers' salaries and office space.
Underwriting risk	The risk that the value of insurance claims proves to be higher than expected.
Unearned Premium Reserve (UPR)	A provision for the unexpired portion of insurance policies. This appears as a liability on the insurer's balance sheet, since the premium would be paid back upon cancellation of the policy.

Appendix 2 – Extract from Terms of Reference

Summary of agreed scope of work

We will provide IA services in respect of the Transfer. Stewart Mitchell will act as the IA and will be supported by a team from LCP, including Declan Lavelle as peer reviewer.

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

The key deliverables from the work for the Scheme will be:

- The main IA report, including amendments required following the CBI's review, and a summary of this report to support policyholder communications for the initial court hearing;
- A supplementary IA report for the follow-up court hearing;
- Input as required to address any issues arising including addressing comments raised by the CBI from their review of the IA report;
- Presenting our findings as the IA to court, if required, and responding to any queries and additional court requests.

Appendix 3 – CV of Stewart Mitchell

Stewart is a Partner in LCP's Insurance Consulting practice and a Fellow of the Institute and Faculty of Actuaries in the UK since 2004.

Career history

Stewart joined LCP in 2016. He has almost 25 years' experience as a general insurance actuarial consultant, and a further 10 years' experience working in the insurance industry. His clients include Lloyd's syndicates and insurance companies in the London Market.

Prior to joining LCP, Stewart was a Director at Ernst & Young (EY).

Stewart began his career in the late 1980s at Sturge, a large Lloyd's managing agency before moving to SBW Insurance Research, who provided syndicate analysis of the Lloyd's market.

Section 13 and Part VII transfers

Stewart has been the IE for six Part VII transfers and the IA for one Section 13 transfer. He has been the peer reviewer on a number of further transfers and also has performed analysis to support the IE's conclusions.

Other

He has worked on reserving projects with many UK insurers.

He has signed Statements of Actuarial Opinion for Lloyd's syndicates and Bermuda, Liechtenstein and tax opinions.

He has an MBA, qualified as an ACII and has a degree in Chemistry from University College London.

Appendix 4 – Summary of data provided

The following is a list of the key data items I have requested and received in assessing the Proposed Transfer. All data I have requested has been provided to me.

Data accuracy statement

- AIUD and Bothnia have each provided a data accuracy statement confirming that the data provided to me regarding the Proposed Transfer is accurate and complete.
- AIUD and Bothnia have read this IA Scheme Report and each has confirmed that it is correct in terms of all factual elements of the Proposed Transfer.

Documents relating to AIUD

- Balance sheet and capital projections including SCR coverage ratios
- Stress and scenario tests
- External Solvency II validation review and recommendation report (dated February 2022)
- Extracts from external audit and Solvency II audit findings reports
- Q2 2022, Q1 2022 and Q4 2021 quarterly reserving and margin reports
- Actuarial Function Report as at 31 December 2021 (dated May 22)
- Actuarial Report on Technical Provisions (ARTPs) as at 31 December 2021 (dated April 2022)
- Various reserving documents including assumption and methodology changes, reserving committee terms of reference, reserving policy, TP policy
- External Peer review of Solvency II TPs as at 31 December 2020 (dated June 2021)
- Internal audit report on reserving governance (dated September 2021)
- Reserving committee packs dated April, June and July 2022
- Audit committee and board packs dated December 2021 and June/July 2022
- ORSA report 2021 (dated February 2022)
- Claims handling agreement (AGRM)
- Investment policy
- Capital management and stress testing risk policy including risk appetite
- External report on assessment of the appropriateness of the Standard Formula (dated January 2022)
- External Data Project Update (dated July 2022)
- SFCR report as at 31 December 2021
- Details of policyholder queries and objections (as at 26 October 2022)

Documents relating to Bothnia

- Balance sheet and capital projections including SCR coverage ratios
- Intra-group reinsurance contract with Pallas Re and investment guidelines for collateral
- Stress and scenario tests
- SFCR report as at 31 December 2021
- Q4 2021 reserve review (dated 4 February 2022)
- Q1 2022 reserve review update
- Regular Supervisory Report as at 31 December 2021
- Business plan 2022-2024

- Investment policy and guidelines
- ORSA (dated October 2021)
- Risk appetite statements (dated May 2022)
- Actuarial Function Report (dated September 2021)
- Compre Group documents including claims handling guidelines, capital management policy, TCF policy
- Pallas Re financial information (as at 30 June 2022)
- External review reserve report as at 30 June 2019

Documents relating to the Communications Plan

- Draft Communications Plan (jointly on behalf of AIUD and Bothnia) dated 30 September 2022 including:
  - Letter to Transferring AIUD Policyholders (from AIUD)
  - Legal notice
  - Letter to Transferring AIUD Policyholders (from Bothnia post-transfer)

Documents relating to Court

- Draft Scheme document from Matheson LLP (dated 30 September 2022)

Appendix 5 – Mapping to requirements

The table below shows the relevant section references in the Scheme Report where I have addressed each point in the guidance from ASP x.x: Actuarial Standard of Practice LA-6.

Guidance reference	Guidance	Scheme report reference
ASP 4.6(i)	The name of the party which has appointed the Independent Actuary and a statement of who is bearing the costs of that appointment	2.2 (page 10)
ASP 4.6(ii)	A statement of the Independent Actuary's professional qualification	2.2 (page 11) Appendix 3 (page 51)
ASP 4.6(iii)	Whether or not the Independent Actuary has a direct or indirect interest in any of the parties which might be thought to influence the Independent Actuary's independence, and details of any such interest	2.2 (page 10)
ASP 4.6(iv)	The scope of the report	2.3 (page 11) Appendix 2 (page 50)
ASP 4.6(v)	The purpose of the scheme	3.3 (page 16)
ASP 4.6(vi)	A summary of the terms of the scheme insofar as they are relevant to the contents of the Independent Actuary's report	3.2 (page 14)
ASP 4.6 (vii)	What documents and reports the Independent Actuary has considered in relation to each of the companies involved in the transfer and whether there was any additional information which was requested but not provided	Appendix 4 (page 52)
ASP 4.6 (viii)	The cost and tax consequences of the scheme, insofar as these will affect policyholders' funds	9.2 (page 43) 9.4 (page 44)
ASP 4.6 (ix)	The effect of the scheme on the security of policyholders' contractual benefits	1.3 (page 6) 10 (page 45)
ASP 4.6 (xii)	The likely effects of the scheme on matters such as investment management, fund choice, administration and fund management platforms, use of third-party administrators and custodians, new business strategy, administration, expense levels and assumptions used in the calculation of technical provisions, insofar as they may affect the ability of the companies to meet throughout the lifetime of existing policies the reasonable expectations of the holders of those policies	9.3 (page 43)
ASP 4.6 (xiv)	Which matters, if any, the Independent Actuary has not taken into account or evaluated in the report that might nevertheless be relevant to policyholders' consideration of the scheme.	1.4 (page 8) 1.5 (page 8) 1.6 (page 9)

The Proposed Transfer does not involve any mutual companies or long-term insurance business. As such, ASP 4.6(x), (xi), (xiii), and (xv) do not apply.

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At LCP, our experts provide clear, concise advice focussed on your needs. We use innovative technology to give you real time insight & control. Our experts work in pensions, investment, insurance, energy, financial wellbeing and business analytics.

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