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

Medical Insurance Company Designated Activity Company to Bothnia International Insurance Company Limited

in accordance with Section 13 of the Assurance Companies Act 1909

13 March 2024

Prepared by

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LCP

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1. Executive summary

1.1. The Proposed Transfer

The firms involved

Medical Insurance Company Designated Activity Company (MIC or Transferor) is a non-life insurance company incorporated in Ireland in 2001 and registered under number 351120. The sole shareholder of MIC is Compre Holdings Limited.

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. The sole shareholder of Bothnia is also Compre Holdings Limited.

Pallas Reinsurance Company Ltd. (Pallas Re) is a reinsurance company incorporated in Bermuda and registered under number 55121. Pallas Re is part of the Compre group of companies. It participates on MIC's reinsurance panel for certain years and provides a 100% quota share reinsurance cover of MIC's net claims after application of its panel reinsurance and an 85% quota share reinsurance cover to Bothnia which will continue post-transfer and will include the Transferring Business.

The Transferring Business

MIC wrote medical malpractice risks mainly in France but also in Spain and Switzerland from 2002 until 2015 when underwriting ceased on 1 December 2015. The Swiss business was written through a branch in Switzerland which was released from Swiss regulatory supervision in December 2022 and closed in 2023. There is no remaining liability for the Swiss policies (there is an indemnity should any claim re-open or new claims arise). The Proposed Transfer (Scheme), in accordance with Section 13 of the Assurance Companies Act 1909, is to transfer all of the liabilities of MIC (Transferring Business) to Bothnia. All rights and obligations of MIC relating to the Transferring Business will also be transferred to Bothnia.

Bothnia is a specialist acquirer of run-off portfolios including medical malpractice business. It wishes to consolidate the MIC medical malpractice portfolio into Bothnia, also part of the Compre group of companies, as part of its plans to build a European centre of excellence in medical malpractice business.

Effective Date

The Effective Date is expected to be 30 June 2024, shortly after the Sanctions Hearing which is expected to be heard in Q2 2024.

Reinsurance

As at 30 June 2023 100% of MIC's gross booked reserves were reinsured by a reinsurance panel through quota share and excess of loss reinsurance, with the net retention after application of the panel reinsurance then being 100% reinsured with MMA IARD, part of the Covéa group.

Most of MIC's liabilities were reinsured to Pallas Re through the novation of MIC's previous key reinsurance arrangements as at 31 August 2023. As Pallas Re also reinsures any bad debt arising from MIC's remaining third party reinsurance, Pallas Re effectively reinsures 100% of MIC liabilities.

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.

F' Factor

Within the Solvency II rules there is a factor, F', which is part of the calculation to quantify the impact on capital of a reinsurer defaulting on its collateralised reinsurance obligations. MIC and Bothnia have taken a different approach to the value of this F' factor which has a material impact of the overall Solvency Capital Requirement. I have concluded that Bothnia's selection of 100% for the factor F' is appropriate for Bothnia. Further details are provided in section 6.6.

Claims handling

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

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

1.2. My role as Independent Actuary

Bothnia and MIC have 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 MIC 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 two sets of policyholders:

- Transferring MIC Policyholders, ie MIC 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.

As 100% of MIC’s business will transfer to Bothnia, there will be no policyholders remaining in MIC for me to consider.

Transferring MIC Policyholders

The Transferring Business consists of 9,790 transferring policyholders. Ot these, 107 have been identified as dead and 7 as retired or been imprisoned and can therefore not be contacted. The status of these policyholders has been confirmed by various search engines but there are likely to be more such policyholders whose location and status are unconfirmed. The balance of 9,676 policyholders is broken down geographically as follows: France 9,295, Spain 75 and elsewhere (including French overseas territories) 306.

A number of policyholders have relocated since the policies were written to other states/territories as follows: Belgium, Canada, Germany, Guyana, Kenya, Luxembourg, Mauritius, Oman, Switzerland and Tahiti.

The Transferring Business represents 100% of MIC’s business which will all transfer to Bothnia.

I have concluded that

- **the security provided to Transferring MIC Policyholders will not be materially adversely affected by the Proposed Transfer.**
- **there will be no material impact on service standards for Transferring MIC 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 MIC 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 MIC and Bothnia are within a reasonable range of best estimates.
- The Transferring Business will be reinsured by an 85% quota share arrangement with Pallas Re post-transfer and the reinsurance will be collateralised at 110% of liabilities until the fifth anniversary of the Proposed Transfer.
- The SCR coverage ratio for Transferring MIC Policyholders is expected to decrease from 179% (MIC pre-transfer) to 160% (Bothnia post-transfer) as a result of the Proposed Transfer. I do not consider the security provided to Transferring MIC Policyholders to be materially adversely affected as the SCR coverage ratio decreases but not materially and Bothnia will be well capitalised, as was MIC pre-transfer.
- Further, Bothnia's SCR coverage ratio is projected to be broadly maintained at the post-transfer level until at least June 2026. This includes the impact of another planned transfer into Bothnia during Q4 2024 and a potential dividend payment in Q4 2025. 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 MIC 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. In addition the Irish Consumer Protection Code does not apply to persons outside of Ireland and so Transferring MIC Policyholders are not disadvantaged by the Proposed Transfer as they are not covered by the code.
- As the claims handling and administration service to the MIC 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 MIC Policyholders.

Existing Bothnia Policyholders

At the Effective Date of the Proposed Transfer, Existing Bothnia Policyholders are projected to represent 61% and 65% 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 Bothnia and 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.
- MIC's gross of reinsurance GAAP reserves are around 60% of the size of Bothnia's gross of reinsurance GAAP reserves as at 31 December 2023, and 65% on a net of reinsurance basis. Post-transfer the MIC liabilities will be 85% reinsured (along with all of Bothnia's pre-transfer liabilities) with Pallas Re, who pre-transfer reinsures the MIC business after the application of reinsurance from a panel.

- The SCR coverage ratio for Existing Bothnia Policyholders is projected to decrease from 187% to 160% after the Proposed Transfer but Bothnia remains well capitalised.
- The decrease in SCR coverage ratio from 187% to 160% 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 160% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 160%, the difference in capital coverage ratios of 160% and 187% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Further, Bothnia's SCR coverage ratio is projected to be broadly maintained at the post-transfer level until at least June 2026. This includes the impact of another planned transfer into Bothnia during Q4 2024 and a potential dividend payment in Q4 2025. 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

MIC was not materially impacted by COVID-19. No allowance was made for any positive impact on reserves due to the increased mortality of claimants or for any delays in claims processing. There was no operational impact on the claims handling team.

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

MIC 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. Excess claims inflation

Claims inflation has been in excess of historical levels in recent years. MIC allows for this excess inflation by adding a load explicitly to the IBNR reserves (€1.8m as at Q4 2023). The inflation load was calculated by applying excess inflation assumptions (ie the extent to which future inflation is expected to be higher than the historical levels) to future cash flows and allowing for policy limits.

Bothnia uses the Compre group inflation cashflow model to calculate an allowance for excess claims inflation. A range of scenarios is considered and a judgementally weighted central best estimate of €3.9m is included in the Q4 2023 reserves.

I have considered the impact of the uncertainty in the level of assumed excess claims inflation in the stress and scenario tests that I asked MIC and Bothnia to prepare for me, for example by considering the impact of a deterioration in reserves (see section 6.11).

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 other 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 Irish regulation ie Section 13 of the Assurance Companies Act 1909 and Section 36 of the Insurance Act 1989, and also 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 (MIC) 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, it has become common practice for the petition to be 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

Bothnia and MIC have engaged me to perform the role of the IA for the Proposed Transfer. The CBI has been notified of my appointment. 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 Practising 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 Independent Expert (IE) for six Part VII transfers and the IA for two previous Section 13 transfers. 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 MIC 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 other entities in the Compre group of companies within the last five years:

- I acted as the Independent Actuary in a Section 13 transfer to Bothnia which was sanctioned in 2023 (Project Alma).

I do not consider that this engagement affects 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 MIC 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 Euro (€).

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 agreement with Bothnia and MIC. 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 MIC 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 MIC, Bothnia and their advisors.

Data

I have used data as at various dates eg 31 December 2022 and 31 December 2023, 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 be 30 June 2024 ie shortly after the Sanctions Hearing which is expected to be heard in Q2 2024.

MIC's and Bothnia's projected Solvency Capital Requirement (SCR) and SCR coverage ratios immediately before and after the Proposed Transfer are based on data as at 31 December 2023 and projected to 30 June 2024 ie the Effective Date of the Proposed Transfer.

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

- MIC and Bothnia have each provided a data accuracy statement confirming that the data provided to me regarding the Proposed Transfer is accurate and complete.
- MIC and Bothnia have each read this IA Scheme Report and each has confirmed 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. MIC and Bothnia have confirmed that they have received no other specific legal advice relevant to my role as IA for the Proposed Transfer beyond that which has been provided to me.

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 INS-2 (ASP INS-2) Transfer of an Insurance Portfolio – Role of the Independent Actuary;
- FRC: Technical Actuarial Standard 100: General Actuarial Standards (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 and Actuarial Practice Standard X2 (APS X2). 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 PA-2 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

Medical Insurance Company Designated Activity Company (MIC)

Compre Holdings Limited completed the acquisition of MIC from Covéa in September 2023.

MIC wrote professional medical malpractice risks and entered into run-off in 2015.

The sole shareholder of MIC is Compre Holdings Limited, registered in the UK, which is part of the Compre group of companies.

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.

Bothnia's portfolio consists of a wide range of business including general liability, medical malpractice, 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).
- a Section 13 transfer of a portfolio of French medical malpractice business (July 2023).

Compre is also in the process of considering a number of potential further business transfers into Bothnia as follows but only one of these is expected to complete by the end of 2024 ie after the Proposed Transfer. There are currently 100% reinsurance quota share arrangements in place for these portfolios with Pallas Re. These transfers will require regulatory approval; which regulator(s) will need to give approval depends on the jurisdiction of the business written and the transferor/transferee:

- A loss portfolio transfer of motor and marine business from a German insurer to Pallas Re (Project Detroit) is in place. A business transfer into Bothnia is being contemplated but will not take place until after 2024.
- A loss portfolio transfer of an Italian medical malpractice portfolio consisting of a mix of public and private hospitals from an Italian insurer to Pallas Re (Project River) was approved in November 2023. A business transfer into Bothnia is being contemplated but will not take place until after 2024.
- A loss portfolio transfer of a property and liability portfolio of business from a Belgian insurer to Pallas Re (Project Lara) was approved in December 2023. The process to transfer this portfolio into Bothnia is expected to commence in Q2 2024 and finalise in Q4 2024.

3.2. Description of the Proposed Transfer

The Transferring Business

It is proposed that all the liabilities from MIC (the Transferring Business) will transfer to Bothnia (the Proposed Transfer, the Scheme). All rights and obligations of MIC 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.

Effective Date

The Effective Date is expected to be 30 June 2024, shortly after the Sanctions Hearing which is scheduled to take place in Q2 2024 subject to the availability of the High Court.

Residual policies

If there are any MIC policies for which the Court determines shall not be transferred on the Effective Date of the Scheme, or for which any national regulators for the Transferring Business, has expressly not consented to the Proposed Transfer (Residual Policies), these policies will remain liabilities of MIC 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

The majority of MIC's liabilities were reinsured to Pallas Re as at 31 August 2023 through the novation of MIC's more material reinsurance arrangements. As Pallas Re also reinsures any bad debt arising from MIC's remaining reinsurance, Pallas Re effectively reinsures 100% of MIC's liabilities. Post-transfer, 85% of Bothnia's liabilities, including the transferring MIC liabilities, will be reinsured with Pallas Re via a quota share arrangement.

MIC's reinsurance recoveries from Pallas Re are collateralised at 102% of the undiscounted best estimate liabilities (UBEL) with further collateral triggers dependent on the Bermuda SCR (BSCR) coverage ratio of Pallas Re. The level of collateral will rise to 110% by the first-year anniversary of the acquisition of MIC by Compre ie by 4 September 2024 (assuming the Proposed Transfer does not occur).

Post-transfer the Pallas Re reinsurance recoveries due to Bothnia for the MIC liabilities will be collateralised and held in a separate account at 110% of the undiscounted best estimate value of the reinsured liabilities as, calculated under Solvency II due under the quota share agreement, until the fifth anniversary of the Proposed Transfer.

The assets backing the collateral will be held in line with guidelines as agreed within the quota share agreement.

Claims handling

The claims handling and claims administration for the MIC portfolio has been performed by Cabinet Branchet (CB), a French entity. Compliance with the service level agreement with CB is monitored quarterly. CB will continue to handle and administer the claims for the MIC portfolio post-transfer.

The claims handling and administration service to MIC 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 MIC Policyholders.

3.3. Purpose of the Proposed Transfer

MIC was acquired by the Compre group on 4 September 2023 as part of Compre group's plans to set up a European centre of excellence for medical malpractice business.

The intention of the Proposed Transfer is to consolidate MIC's liabilities into Bothnia, Compre group's European insurance carrier and recognise capital and operational efficiencies.

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 expected to take place in Q2 2024 and the Sanctions Hearing is expected to take place in Q2 2024. 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.
- Approval of relevant supervisory regulators including the Central Bank of Ireland, the Finnish Regulator (Finanssivalvonta Finansinspektionen Financial Supervisory Authority – FIN-FSA), the French regulator (Autorité de contrôle prudentiel et de résolution - ACPR) and the Spanish Insurance Supervisor (the Dirección General de Seguros y Fondos de Pensiones - DGSFP).

In the event of the Proposed Transfer not going ahead, policies would remain with MIC and the existing reinsurance arrangements 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 MIC 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 two key affected parties

To make these assessments, I have considered the effect of the Proposed Transfer on the following two sets of policyholders:

- Transferring MIC Policyholders, ie MIC 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.

As 100% of MIC's business will transfer to Bothnia, there will be no policyholders remaining in MIC for me to consider.

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 MIC and Bothnia to support the Proposed Transfer:

Step 1: Assessing the reserves and provisions of MIC and Bothnia

The first important form of security that an insurer provides to policyholders is the level of reserves and provisions. Reserves and 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 reserves and provisions included on MIC's and Bothnia's balance sheets and the approach to be used for the calculation of reserves and provisions for both MIC pre-transfer and Bothnia pre- and post-transfer. Details of this step are set out in section 5.

Step 2: Assessing the capital positions of MIC 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 MIC 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 MIC pre-transfer and Bothnia pre- and post-transfer. 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 MIC and Bothnia and other forms of security such as compensation schemes.

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

Step 4: Assessing policyholder communications

I have assessed the appropriateness of MIC'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 management margin for uncertainty, 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 MIC (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 MIC and Bothnia these are 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 MIC 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 Transferring MIC 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 MIC and Bothnia (sections 5.3 to 5.7);
- Key uncertainties when setting the provisions and other risks (sections 5.8 to 5.9);
- Current MIC 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 MIC 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 MIC and Bothnia as at 31 December 2023; and
- Solvency II technical provisions for MIC and Bothnia as at 31 December 2023.

I have reviewed a number of documents provided by MIC and Bothnia relating to the setting of provisions, including the reserving process and governance. I have also discussed the information provided by MIC 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 provisions 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 MIC

The following table shows the level of booked provisions (as at 31 December 2023, ie the latest available figures at the time of writing) for MIC, gross and net of reinsurance (RI).

Breakdown of gross GAAP booked provisions for MIC as at 31 December 2023

€m	Gross of reinsurance	Recoverable from QS and XL*	Recoverable from Pallas Re 100% reinsurance **	Net of reinsurance
Outstanding claims reserve	124.4	-	-	-
Incurred but not reported	25.3	-	-	-
Extra-Contractual Obligations	21.6	-	-	-
Unallocated loss adjustment expenses	4.8	-	-	-
Margin for uncertainty	4.1	-	-	-
Total	**180.2**	**63.5**	**111.9**	**4.8**

Source: MIC
*Notes: * includes c. €22m from Pallas Re, ** includes ECO reserves and reinstatement premium reserve*

As part of the acquisition of MIC by the Compre group on 4 September 2023, there were material changes to MIC's reinsurance arrangements.

MIC's reinsurance consisted of QS and XL covers, with a further QS with MMA IARD and a number of smaller reinsurances.

The main reinsurance arrangements with MMA IARD/Covéa were novated to Pallas Re (part of the Compre group) on 31 August 2023. As Pallas Re also reinsures any bad debt arising from the remaining reinsurance with other third-party reinsurers, MIC's liabilities are effectively 100% reinsured with Pallas Re.

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 31 December 2023

€m	Gross of reinsurance	Net of reinsurance
Outstanding claims reserve	201.8	28.5
Incurred but not reported	87.1	11.7
Unallocated loss adjustment expenses	8.7	1.2
Margin for uncertainty	0.0	0.0
Total	**297.5**	**41.3**

Source: Bothnia (excludes Finnish GAAP equalisation provision)

The transferring GAAP gross booked provisions represent c. 60% of Bothnia's GAAP gross booked provisions and 12% of net provisions as at 31 December 2023. The majority of Bothnia's reinsurance consists of an 85% quota share reinsurance with Pallas Re.

Bothnia's provisions are made up of earned claims reserves, there is no unearned premium reserve as the business is in run-off.

5.5. Reserving process for MIC

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

MIC outsources its actuarial function including the reserving process to an external consultancy. The Head of Actuarial Function is also outsourced to a different actuarial consultancy. I have reviewed MIC's reserving policy dated June 2020.

The outsourced actuarial function uses standard actuarial techniques and performs a quarterly reserving exercise. The main approach is driven by the nature of the liabilities and estimates the frequency and severity of claims in different bands or strata eg total claims cost less than €10k, €10k to €50k etc.

Reserves are also set for claims arising from Extra Contractual Obligations (ECO) claims ie where a judge can make an award above the limits of the insurance policy. These reserves are set by the claims teams rather than by actuarial techniques.

Other standard actuarial methods are used to cross-check the results of the frequency-severity approach eg paid and incurred claim development methods.

An additional allowance is made for excess claims inflation given the higher than expected levels of inflation in recent years compared to those seen historically.

A margin for uncertainty is also held by MIC, as at 31 December 2023 the amount held was €4.1m ie c. 2% of the gross best estimate reserves.

MIC's Head of Actuarial Function reviews and challenges the reserves produced by MIC's outsourced actuarial function and provides an annual opinion as at 31 December that the calculation of the technical provisions is reliable and adequate.

MIC's external auditors performed independent projections of MIC's liabilities as at 31 December 2022 (the latest audited figures available). Their gross of reinsurance estimate was 4% higher than MIC's which I consider to be within a range of reasonable best estimates. Net of reinsurance there was no difference due to the 100% reinsurance (with MMA IARD SA/Covéa Lux at that time).

Following my review and discussions, I am satisfied that MIC's 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, medical malpractice and professional indemnity. These claims are exposed to court judgements 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 monthly basis to determine if an additional full reserving analysis is required eg where there has been significant unexpected movement in the quarter.

The Bothnia portfolios are reviewed at least once annually. In 2022, these were all reviewed across Q3 2022 and Q4 2022. For Q1 2023, Bothnia's liabilities were calculated by rolling forward the Q4 2022 reserves for paid claims and exchange rate movements; and for Q2 2023 the APH liabilities within Bothnia were reviewed in full. In Q3 2023, Bothnia's French PI and Construction liabilities were reviewed in full, and in Q4 2023 Bothnia's existing French Medical malpractice business and UK employers' liability portfolios were reviewed. The vast majority of Bothnia's reserves were therefore subject to a detailed reserving review during 2023.

Reinsurance recoveries are allowed for by using reinsurance to gross ratios based on similar ratios for the recoveries on outstanding claims. Bothnia's main reinsurance is an 85% quota share arrangement with Pallas Re which covers all of Bothnia's liabilities.

Compre group commissioned an external reserve review as at Q4 2022 (the last such review available) by an external independent consultancy which included the Bothnia reserves. The estimate of the external consultancy was within 1% of Compre's best estimate reserves on a gross of reinsurance basis and 0.1% on a net of reinsurance basis, including an allowance for excess inflation. Compre has followed the same reserving approach since the external review including for the Bothnia portfolio.

As part of the due diligence exercise for the acquisition of MIC, Compre performed an independent review of the MIC portfolio and also commissioned their external actuarial advisers to perform a similar review as at Q3 2021. The results were rolled forward to Q4 2021. Compre's estimate was 1% lower than the external advisers but this is not materially different and well within a range of reasonable best estimates.

Compre re-performed their review of the MIC portfolio as at 31 December 2023. Experience has been favourable relative to Compre's expectations since Q3 2021 owing to a number of favourable settlements. Compre is therefore comfortable maintaining a best estimate of reserves within c.1% of MIC's best estimate for the transfer into Bothnia.

Bothnia has made an allowance for excess claims inflation (see section 1.6). I have also considered the impact of the uncertainty due to inflation within the reserving stress and scenario test I requested from Bothnia and I comment on this further in section 6.11.

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 MIC and Bothnia to convert the booked GAAP provisions into Solvency II technical provisions (SII TPs). I have not sought to re-perform the calculation of the TPs or to perform detailed checking of the calculations performed by MIC 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 eg Events Not in the Data (ENIDs).

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.

MIC

I have reviewed MIC's Actuarial Report on Technical Provisions (ARTPs) and the Actuarial Function Report (AFR) as at 31 December 2022 (the latest available) written by MIC's Head of Actuarial Function (HoAF). This function is performed by an actuary on secondment from an external consultancy, but a different consultancy to that which calculates the reserves for MIC.

The HoAF concluded that the MIC's GAAP reserves were a reasonable starting point for the estimation of the SII TPs and were within a range of reasonable estimates as at 31 December 2022.They also concluded that the Solvency II technical provisions complied in all material aspects with all SII requirements. A number of recommendations were made regarding the calculation of the SII TPs but were all categorised as low ie a minor finding/recommendation.

MIC's ENID load of c. 2% as at 31 December 2023 is the €4.1m margin for uncertainty held by MIC within the GAAP provisions, which is removed for the Solvency II technical provisions rules, but then applied as an ENID load within the technical provisions. This is a different approach to that used elsewhere eg a truncated distribution method but that method also includes the use of judgement. MIC's load is in line with the range of wider market benchmarks.

Bothnia

I have reviewed Bothnia's Actuarial Function Report dated July 2023 written by Bothnia's Actuarial Function Holder (AFH). The AFH concluded that the SII TPs were reliable and adequate and that they had been calculated in accordance with the SII directive.

Bothnia applies a judgemental load for ENIDs of 1% for all classes other than for professional indemnity and medical malpractice. This 1% load is towards the lower end of the range of wider market benchmarks. However, the load for professional liability and medical malpractice ie the business written by MIC is 3% ie higher than MIC's assumption.

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 for this purpose although this can be treated as tier 1 funds (see section 6.10).

Conclusion on Solvency II technical provisions

Based on review and discussions, I am satisfied that the approaches used by MIC 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. This is particularly true for medical malpractice claims. Therefore, there are uncertainties when setting the corresponding provisions.

Key uncertainties – Transferring Business

Long tail exposure:
MIC's reserves for the Transferring Business relate entirely to French (and Spanish) medical malpractice 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 MIC portfolio is not exposed to indemnity claims from the pandemic. The last Spanish policy expired in 2016 and there are no COVID-19 claims in the MIC portfolio from these policies.

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. MIC make an adjustment for increased future inflation within their reserves.

The exposure to these risks is mitigated by the effective 100% reinsurance pre-transfer and 85% quota share reinsurance 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 MIC, 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 MIC.

The uncertainties described above in the MIC 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 MIC 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 MIC or Bothnia has material exposure to natural catastrophe exposed business where the impact of climate change may lead to more frequent and severe weather events.

Russia/Ukraine war

MIC 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.

5.10. Current reserving process and governance

MIC – reserving process and governance

MIC's approach is set out in its Reserving Policy. The calculation of best estimate reserves (and SII technical provisions) is performed on a quarterly basis and is outsourced to MIC's external actuarial consultants and reviewed and validated at least annually by MIC's Head of Actuarial Function, also outsourced but to a different consultancy.

Reserves are recommended to the board by MIC's Chief Financial Officer, acting in collaboration with the General Manager and the external actuarial consultants. A margin for uncertainty on top of the estimate is governed by a separate policy.

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

I have concluded that MIC's reserving process and governance are reasonable and in line with market practice.

I have reviewed the Actuarial Function Report (AFR), the AOTPs and ARTPs as at 31 December 2022 prepared by MIC's HoAF and MIC's Reserving Policy dated June 2020.

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 which have now been addressed.

I have reviewed Bothnia's Actuarial Function Report (dated July 2023), the Bothnia Reserving Policy (dated August 2022) and an external reserve review of Compre Reserves including Bothnia as at 31 December 2022 (dated July 2023).

I have concluded that Bothnia/Compre's reserving process and governance are reasonable and in line with market practice.

5.11. Future reserving approach and governance

Bothnia has confirmed that the future reserving approach and governance for Bothnia will not change after the Proposed Transfer and that the Transferring Business will be subject to the same approach and governance after the Proposed Transfer.

For the Transferring Business, MIC's and Bothnia's reserve estimates are 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.

Transferring MIC Policyholders

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

- MIC's calculation of provisions for the Transferring Business has been performed using appropriate techniques and approaches.
- MIC and Bothnia's reserve estimates for the Transferring Business as at Q4 2023 are not materially different.
- Claims handling for MIC's business will continue to be performed by the same team ie Cabinet Branchet.
- Reinsurance with Pallas Re will remain in place following the Proposed Transfer, although this becomes an 85% quota share arrangement post-transfer, which includes Bothnia's non-MIC liabilities.

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 MIC and Bothnia (see section 6.11). 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%;
- **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 and coverage ratios have been calculated appropriately for both MIC 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:

- MIC and Bothnia's approach to calculating capital requirements (section 6.4);
- Components of capital requirements (section 6.5);

- MIC: Change in SCR coverage ratio due to changes in reinsurance (section 6.6)
- The capital policy for each of MIC and Bothnia (section 6.7);
- SCR appropriateness for MIC and Bothnia (section 6.8);
- Projected SCR coverage ratios as at the Effective Date (section 6.9);
- The planned capital structures for MIC and Bothnia (section 6.10; and
- The SCR under stressed scenarios (section 6.11).

6.3. Approach to my review

I have reviewed a number of documents provided by MIC 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 MIC 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 MIC 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 €4.0m or €2.7m 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 2023, both MIC and Bothnia were projected to be very well capitalised on this measure with MCR coverage ratios of 674% for MIC and 525% for Bothnia.

For both MIC 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 MIC 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.

MIC and Bothnia have provided actual SCR calculations as at 31 December 2023, and projected SCR calculations at the time of the Proposed Transfer. I have summarised the key risks as a percentage of the total SCR pre- and post-transfer ie as at the day before the Proposed Transfer (Day 0) and the day after the Proposed Transfer (Day 1).

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

Risk components €m	As at 31 December 2023		Day 0: Pre-transfer		Day 1: Post-transfer	
Underwriting risk	2.1	*7%*	1.8	*7%*	n/a	n/a
Market risk	1.8	*7%*	1.9	*7%*	n/a	n/a
Counterparty default risk	21.3	*77%*	20.5	*78%*	n/a	n/a
Diversification/Deferred Tax liability	(2.2)	*(8%)*	(2.2)	*(8%)*	n/a	n/a
Operational risk	4.6	*17%*	4.4	*17%*	n/a	n/a
SCR	**27.6**	***100%***	**26.5**	***100%***	**n/a**	**n/a**

Source: MIC

As at 31 December 2023, MIC's SCR was €27.6m, own funds were €46.5m and so the SCR coverage ratio was 168%.

For MIC, the most material component of the projected SCR is counterparty default risk, which represents 77% of the projected SCR. This is due to the 100% level of reinsurance including with Pallas Re, an unrated reinsurer, and the choice of F' factor (see section 6.6). Pre-transfer ie at Day 0, counterparty default risk at 78% is projected to remain the most material risk component of the SCR.

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

Risk components €m	As at 31 December 2023		Pre-transfer		Post-transfer	
Underwriting risk	10.9	*53%*	9.7	*47%*	15.5	*76%*
Market risk	6.2	*30%*	6.4	*31%*	7.7	*38%*
Counterparty default risk	3.9	*19%*	3.6	*17%*	3.7	*18%*
Diversification/Deferred Tax liability	(5.3)	*(26%)*	(4.7)	*(23%)*	(5.7)	*(28%)*
Operational risk	4.8	*24%*	4.5	*22%*	6.3	*31%*
SCR	**20.5**	***100%***	**19.4**	***100%***	**27.6**	***100%***

Source: Bothnia

As at 31 December 2023, Bothnia's own funds were €36.2m and, given the SCR of €20.5m, the SCR coverage ratio was 176%.

For Bothnia, the most material component of the SCR is underwriting risk, which represents 53% of the SCR as at 31 December 2023, 47% pre-transfer and increases post-transfer to 76% due to the Proposed Transfer. Market risk is also a material contributor to the SCR, representing 30% of the SCR as at 31 December 2023, and which increases pre- and post-transfer as a percentage of the overall SCR.

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

6.6. Approach to calculating counterparty default risk and impact on the SCR coverage ratio for MIC and Bothnia

During 2023, as part of the acquisition of MIC by Compre and the associated novation of various reinsurance arrangements to Pallas Re, MIC projected the expected SCR coverage ratio as at 1 July 2023 on an as-if basis in their ORSA dated April 2023. This is shown in the table below, together with the actual 31 December 2022 and 2023 positions.

SCR coverage ratio €m	As at 31 December 2022	Projected as at 1 July 2023	As at 31 December 2023
Own Funds	33.5	46.7	46.5
SCR	6.9	30.7	27.6
SCR coverage ratio	*488%*	*152%*	168%

The loss given default is the expected present value of the change in cash-flows underlying the recoverables, resulting from a default of the counterparty at a certain point in time.

Under Solvency II the loss given default is calculated differently if the counterparty has more than 60% of its assets in collateral arrangements, as is the case with Pallas Re.

Within the loss given default calculation, there is a factor, referred to as "F'", which is designed to take into account the economic effect of the collateral arrangement in relation to the reinsurance arrangement or securitisation in the case of a credit event related to the counterparty.

In this case the Solvency II rules state that the F' factor is either 100% or 18%, depending on whether any collateral received by the reinsured is taken into account in the event of the insolvency of the reinsurer when calculating the reinsured's share of the reinsurer's insolvency estate. This is determined by insolvency law in the relevant jurisdiction, Bermuda in Pallas Re's case. The difference in the use of the factors is very material, with 18% leading to a much higher SCR than use of the 100% factor.

MIC's approach

MIC's board assessed the appropriateness of the application of the 18% v 100% F' factor from an actuarial and managerial point of view and discussed the F' factor with their advisors and with other stakeholders and concluded that an F' of 18% should be applied to calculate the counterparty default risk for Pallas Re, as opposed to 100%.

The novation of MIC's main reinsurance treaties to Pallas Re and subsequent selection of an F' factor of 18% during 2023 had the effect of increasing the SCR for MIC materially (see previous table) and Compre provided €15m of additional capital which gave an SCR coverage ratio of 152% ie still well capitalised. As at 31 December 2023, the SCR coverage ratio increased to 168%.

The CBI requested in August 2023 that MIC's directors adopt a number of resolutions, including 'that the methodology as regards calculation of counterparty risk will not change'.

Compre subsequently agreed to provide support to maintain the SCR coverage ratio at a minimum of 150% once it became part of the Compre group and gave a commitment to that effect.

MIC's rationale for their selection of the F' factor of 18%

MIC's rationale for choosing 18% for the F' factor when calculating MIC's SCR was based on its managerial assessment and also in discussions with their financial advisers, counsel and other stakeholders.

Bothnia's approach

Bothnia has historically used an F' factor of 100% when considering the calculation of the loss given default for counterparty risk for Pallas Re and it has been determined by Bothnia's actuarial and management team that 100% is the appropriate F' factor to apply. From a Finnish legal perspective, Bothnia is entitled to apply an F' factor of 100%.

EIOPA have stated (in line with Article 197 (7) of the Delegated Regulation under Solvency II) that whether the F' factor can be 100% depends on the bankruptcy law and restructuring proceedings in the jurisdiction of the relevant reinsurer. Bothnia's Irish counsel sought legal advice on the correct interpretation of the Solvency II rules from counsel in Bermuda (where Pallas Re is based) and also from counsel in Finland (where Bothnia is based).

The key point to be considered is that for F' to be 100%, the receipt of collateral by the cedant (Bothnia) is not taken into account when determining the cedant's proportional share of Pallas Re's insolvency estate in excess of the collateral. Bermudan counsel has confirmed this point.

Having reviewed the legal advice received by Bothnia and their rationale for applying an F' factor of 100%, I have concluded that it is appropriate for Bothnia to use an F' factor of 100%. In additional I have asked Bothnia to perform some calculations as a cross check to illustrate the impact of the difference in using an F' factor of 100% and 18%.

For Bothnia post-transfer the impact on the SCR of using an F' factor of 18% rather than 100% is material (see section 6.11 on SCR scenario analysis).

Other scenarios which would drive a balance sheet loss of this size, and assuming to occur over one year, include a 100% increase in net TPs (excluding risk margin and without reinsurer default) or reinsurer default on all obligations (Pallas Re) combined with a 30% haircut on collateral. In my opinion these events are extremely unlikely and so I conclude that the use of the F' factor of 100% by Bothnia is appropriate.

Bothnia's rationale for their selection of the F' factor of 100%

Bothnia's rationale for choosing 100% for the F' factor when calculating Bothnia's SCR was supported by legal advice from counsel in Bermuda, Finland and Ireland.

6.7. Capital policy for each of MIC 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 MIC 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.

MIC's risk appetite is to maintain an SCR coverage ratio in excess of 150% and Compre has provided a commitment to MIC to provide support to maintain this level of coverage.

I would consider this to be well capitalised as described in section 6.1.

Bothnia's capital 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 level of capital to be sufficient as described in section 6.1.

I note that Bothnia's actual SCR coverage ratio has been significantly above its stated risk appetite of 120%.

Bothnia has provided SCR coverage ratio projections based on various scenarios out to June 2026 which show coverage ratios well in excess of the risk appetite of 120% and above 150% ie well-capitalised.

6.8. SCR appropriateness for MIC and Bothnia

For MIC and Bothnia, I have considered whether the SCR as calculated by MIC and Bothnia is appropriate 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.

MIC - appropriateness of the standard formula

MIC considered the appropriateness of the standard formula for the purpose of calculating its SCR in its 2022 ORSA and concluded that the standard formula is appropriate given MIC's risk profile. Given the book is in run-off, in my view it is reasonable to assume that the standard formula remains appropriate.

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

MIC - review of SCR calculation process

MIC's impact rating was reduced to Low under the CBI's risk-based framework and so no external review of the ARTP is required. Effectively, given the HoAF is performed by a secondee from a consultancy, there is a peer review of the technical provisions which are calculated by MIC's actuarial function which is outsourced to a different consultancy.

The HoAF's ARTP concluded the reserves were within a reasonable range and a reasonable starting point for the technical provisions. They also concluded the technical provisions complied with all relevant SII requirements and were reliably and adequately calculated.

I have reviewed MIC'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 MIC.

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 eg the assumed dependency structure and the lack of diversification between operational and other risks.

The actuarial function's view was that 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 given the scale and complexity of Bothnia and the process followed to calculate the SCR is reasonable for Bothnia as it follows general market practice.

6.9. Projected SCR coverage ratios for MIC and Bothnia

Projected SCR coverage ratios pre- and post-transfer

The table below sets out the projected SCR and coverage ratios, as prepared by MIC 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					
MIC	47.3	26.5	20.8	179%	
Bothnia	36.3	19.4	16.9	187%	
Day 1 – after-Transfer					
MIC	n/a	n/a	n/a	n/a	
Bothnia	44.2	27.6	16.6	160%	(27%)

Source: MIC and Bothnia

In summary:

- Transferring MIC Policyholders: the SCR coverage ratio for liabilities transferring from MIC to Bothnia is projected to decrease from 179% to 160% 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 187% to 160% after the Proposed Transfer but remains well capitalised.
- The decrease in SCR coverage ratio from 187% to 160% 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 160% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 160%, the difference in capital coverage ratios of 160% and 187% 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.

Note Bothnia's projections, stress tests (section 6.11) and balance sheet (section 7.2) are based on a collateralised level of reinsurance of 100% post-transfer for the MIC liabilities ie before the final agreed level of 110%. Bothnia have confirmed this would increase the SCR coverage ratio by less than 1% and have no material impact on the balance sheet and so this does not change the conclusions I have reached.

Projected SCR coverage ratios post-transfer

Bothnia has provided SCR coverage ratio projections based on various scenarios out to June 2026 which show coverage ratios well in excess of the risk appetite of 120% and above 150% ie well-capitalised.

Compre group's CFO has confirmed that if the Proposed Transfer did not take place, then Compre would seek to extract capital from MIC to bring the SCR coverage ratio down closer to 150% ie in line with the risk appetite in the group's capital management plan and so would remain well capitalised.

The actual SCR coverage ratio for Bothnia going forward will depend on any future transfers, the key current potential transfers were described earlier in this report and would be subject to regulatory approval.

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

In practice, MIC'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 6.7). This could also lead to the coverage ratios being higher or lower than projected.

6.10. The planned capital structures for MIC 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.

MIC

Based on data as at 31 December 2023, MIC's own funds of €46.5m consist of €41.5m unrestricted tier 1 capital and €5.0m of restricted tier 1 capital (representing €5.0m subordinated debt from MIC's parent company). All of MIC's own funds are eligible, in full, to meet the SCR and MCR.

Bothnia

Based on data as at 31 December 2023, 51% of Bothnia's own funds were classified as tier 1, 47% as tier 2 and 2% tier 3 funds. The tier 2 funds represent subordinated debt and only 50% of these are eligible to cover the SCR. Subordinated debt is €24.0m but only €10.2m is eligible (ie 50% of the SCR of €20.5m). All of the tier 1 capital and a small proportion of the tier 2 capital is available to meet the MCR. The tier 3 capital relates to a net deferred tax asset.

6.11. SCR scenario analysis

I have reviewed MIC's and Bothnia's 2023 Own Risk and Solvency Assessment (ORSA) reports (the latest available). The ORSA reports contain stress and scenario tests but I requested MIC 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 MIC 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 MIC and Bothnia.

MIC – impact of adverse scenarios on SCR coverage ratios

MIC has provided stress and scenario tests as at Day 0 ie the day before the Proposed Transfer.

These scenarios are based on an earlier dataset which gave an SCR coverage ratio of 182% as at Day 0, compared to the 179% coverage ratio based on the updated data as at 31 December 2023. MIC have confirmed that if the scenarios were re-run on 31 December 2023 data, the results would not be materially different.

The first three scenarios look at increasingly severe reserve deterioration and a fall in the value of investments, with the final scenario being a reverse stress test ie designed to target the circumstances that would make the company unviable and cause insolvency. A reverse stress test is by design highly extreme and unlikely.

Projected as at Day 0 and Day 1	Day 0: Pre-Transfer		Day 1: Post-Transfer	
SCR coverage ratio – MIC	SCR coverage ratio	Impact on SCR coverage ratio	SCR coverage ratio	Impact on SCR coverage ratio
Base (run on earlier data set)	**182%**		**n/a**	
1. Reserve stress: deterioration of 20% in net of reinsurance TPs (collateral fixed)	144%	(38%)	n/a	n/a
2. Reserve stress and bond stress: 50% increase in gross reserves, 50% fall in value of bonds, including (pre-reserve stress) collateral	46%	(136%)	n/a	n/a
3. Reserve stress and bond stress: 60% increase in gross reserves, 60% fall in value of bonds, including (pre-reserve stress) collateral	30%	(152%)	n/a	n/a
4. Reverse stress test: Reserve stress and bond stress and reinsurer stress: 60% increase in gross reserves, 60% fall in value of bonds, including (pre-reserve stress) collateral and 60% default of largest external reinsurer with no recovery from Pallas Re	4%	(178%)	n/a	n/a

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, MIC would be able to pay claims to policyholders.

MIC de-risked its balance sheet a few years ago and the board targeted a robust level of policyholder protection when the novation of reinsurance to Pallas Re occurred. Given this it needs extreme and unlikely scenarios to have a material impact on the SCR coverage ratios for MIC (scenarios 2 and 3).

These scenarios do not allow for the impact of any mitigating actions from MIC 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.

- 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 85% intra-group quota share reinsurance arrangement with Pallas Re. The balance of the reinsurance is mainly with an AA rated reinsurer. This scenario assumes a default of the internal reinsurer with a 14% haircut on collateral.
- The reverse stress test is a combination of variations of the three key risk scenarios ie 36% deterioration in net technical provisions, a 20% reduction in bond values held directly, a 12% haircut on the internal reinsurance and a 30% loss given default on reinsurance with the major external reinsurer.

Projected as at 30 June 2024 (Day 0) and 1 July 2024 (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	**187%**		**160%**	
1. Reserve stress: deterioration of 20% in net of reinsurance TPs	136%	(51%)	111%	(48%)
2. Investment stress: 20% reduction in the value of bonds, including those held as part of the reinsurance collateral	91%	(96%)	76%	(84%)
3. Reinsurer stress: 14% haircut on collateral on intra-group reinsurance with Pallas Re	107%	(80%)	100%	(60%)
4. Reverse stress test: 36% increase in net TPs, 20% drop in value of bonds held directly, 12% haircut on reinsurance collateral, default by largest external reinsurer (AA rated) with 30% loss given default	3%	(184%)	0%	(160%)

I also asked Bothnia to perform an earlier scenario ie using a F' factor of 18% rather than 100% (see section 6.6). This would reduce the coverage ratio to 77% pre-transfer and 46% post-transfer.

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, Bothnia would be able to pay claims to policyholders. The scenarios also have less impact post-transfer than pre-transfer.

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

Transferring MIC Policyholders

The impact of the reserve stress on the SCR coverage ratio is broadly similar for Transferring MIC Policyholders post-transfer (Bothnia) compared to pre-transfer (MIC). Extreme and unlikely scenarios are required to have a material impact pre-transfer for MIC but claims can still be paid under these scenarios. The position for the reverse stress test is similar pre- and post-transfer by design. I have concluded that Transferring MIC Policyholders are not materially adversely affected by the Proposed Transfer based on these scenarios.

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 based on these scenarios.

6.12. 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 MIC 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 Transferring MIC 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 MIC and Bothnia (section 7.2)
- Impact on the solvency positions of MIC 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 MIC 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 MIC and Bothnia pre- and post-transfer.

Solvency II balance sheets of MIC and Bothnia

€m	Pre-Transfer		Post-Transfer		Movement due to Proposed Transfer	
	MIC	Bothnia	MIC	Bothnia	MIC	Bothnia
Reinsurer's share of TPs	141.8	196.6	0.0	328.1	(141.8)	131.4
Investments	41.7	119.5	41.7	142.9	0.0	23.4
Cash	9.0	4.5	9.0	4.9	0.0	0.5
Debtors	5.6	34.9	5.6	34.9	0.0	0.0
Other	0.3	1.8	0.3	1.8	0.0	0.0
Total assets	**198.4**	**357.3**	**56.6**	**512.6**	**(141.8)**	**155.3**
Technical provisions	150.6	234.2	0.0	385.8	(150.6)	151.6
Creditors	0.5	71.1	0.5	71.1	0.0	0.0
Other	5.0	24.0	5.0	24.0	0.0	0.0
Total liabilities	**156.1**	**329.3**	**5.5**	**480.9**	**(150.6)**	**151.6**
Adjustment to own funds	5.0	8.4		12.5	(5.0)	4.1
Own funds	47.3	36.3		44.2	(47.3)	7.8
SCR	26.5	19.4		27.6	(26.5)	8.2
SCR coverage ratio	179%	187%		160%	(179%)	(27%)

Source: MIC, Bothnia

Key movements – MIC

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

Assets transferred

- €141.8m decrease in total assets due to the reinsurer's share of technical provisions transferring to Bothnia

Liabilities transferred

- €150.6m decrease in total liabilities due to the technical provisions transferring to Bothnia

It is proposed that the remaining assets and liabilities in MIC post-transfer will be part of a members voluntary liquidation.

Key movements – Bothnia

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

Assets transferred

- €155.3m increase in total assets driven mainly by the reinsurer's share of technical provisions (€131.4m) and investments (€23.4m)

Liabilities transferred

- €151.6m increase in total liabilities all due to technical provisions (€151.6m)

Therefore, Bothnia's own funds increase by €3.7m due to the change in assets/liabilities, together with an increase of €4.1m due to the adjustment to own funds (due to subordinated debt, see section 6.10) ie €7.8m in total.

The difference in the fall in value of MIC's liabilities and the increase in value of Bothnia's liabilities of €1.0m due to the TPs is due to differences in the projected value of the TPs for the MIC liabilities at the point of transfer. The total TPs of MIC and Bothnia are broadly similar (€150.6m vs €151.6m), Bothnia's estimate is less than 1% higher.

There are differences in the valuation of the elements of the technical provisions, in particular Bothnia's best estimate of TPs is €5.2m higher than MIC's but this is broadly offset by the bigger credit assumed for discounting by MIC compared to Bothnia, due to a difference in assumed payout patterns. Other differences are not material in value.

The difference in the fall in value of MIC'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.

The table below shows a breakdown of the projected gross of reinsurance SII TPs pre- and post-transfer based on data as at 31 December 2023.

SII TPs (€m)	MIC pre-transfer	MIC post-transfer	Increase / Decrease	Bothnia pre-transfer	Bothnia post-transfer	Increase / (Decrease)	Difference
Best Estimate TPs	160.9	n/a	(160.9)	260.4	426.5	166.1	5.2
ENIDs	4.1	n/a	(4.1)	5.6	10.5	4.9	0.8
Expenses	4.2	n/a	(4.2)	1.1	4.9	3.8	(0.4)
Discounting	(22.0)	n/a	22.0	(37.9)	(64.2)	(26.3)	(4.3)
Total TPs	147.2	n/a	(147.2)	229.2	377.8	148.6	1.4
Risk margin (RM)	3.4	n/a	(3.4)	5.0	8.0	3.0	(0.4)
Total TPs incl. RM	150.6	n/a	(150.6)	234.2	385.8	151.6	1.0

7.3. Impact on the solvency positions of MIC and Bothnia

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

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

	MIC	Bothnia
Pre-transfer		
Total own funds eligible to meet SCR	47.3	36.3
SCR	26.5	19.4
SCR coverage ratio	**179%**	**187%**
Post-transfer		
Total own funds eligible to meet SCR		44.2
SCR		27.6
SCR coverage ratio	**n/a**	**160%**

MIC is well capitalised immediately before the Proposed Transfer, Bothnia is also well capitalised before and after the Proposed Transfer (as described in section 6.9).

7.4. Reinsurance arrangements

Two of MIC's reinsurance treaties (with Covéa Lux and one of the MMA IARD S.A treaties) were novated to Pallas Re, effective 31 August 2023. In addition, Pallas Re reinsures any bad debt on the remaining reinsurance.

MIC's reinsurance recoveries from Pallas Re are collateralised at 102% of the undiscounted best estimate liabilities (UBEL) with further collateral triggers dependent on the Bermuda SCR (BSCR) coverage ratio of Pallas Re. The level of collateral will rise to 110% by the first-year anniversary of the acquisition of MIC by Compre ie by 4 September 2024 (assuming the Proposed Transfer does not occur).

As Pallas Re responds in the event of a panel reinsurer defaulting and covers any bad debt arising, effectively Pallas Re reinsurers 100% of MIC's liabilities. However, the panel reinsurers are rated and so any default is not expected to be material.

Post-transfer, the MIC portfolio is 85% reinsured by Pallas Re after the Proposed Transfer (along with the rest of Bothnia's business).

Pallas Re's draft Bermuda SCR coverage ratio was 181% as at 31 December 2023 ($742.5m available economic capital and surplus, $410.6m enhanced capital requirement), which is well capitalised.

As at 31 December 2023, Pallas Re's investments of $1,314.8m were in quoted bonds 82%, unquoted mutual funds 4% (private credit investments), and cash & equivalents 14%.

I am therefore satisfied that neither the Transferring MIC 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

The location of the risk for all Transferring MIC Policyholders is France and Spain 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 MIC Policyholders as it is designed to facilitate compensation only in relation to risks situated in Ireland and the Transferring Business is medical insurance cover for professionals operating in France and Spain.

In France, there is a guarantee scheme, the Fonds de Garantie des dommages consécutifs à des Actes de Prévention, de Diagnostic ou de Soins dispensés par des professionnels de santé (FGAPDS), which covers damages resulting from medical tasks performed in France by self-employed medical professionals (e.g. doctors, surgeons), excluding those employed by an hospital.

There is an Insurance Compensation Consortium in Spain but this only provides compensation in relation to Spanish insurance companies.

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.

As the protection under these schemes will not change as a result of the Proposed Transfer, the Transferring Policyholders are not disadvantaged by any loss of access to these schemes.

I have therefore concluded the Transferring MIC 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 Transferring MIC 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 Transferring MIC Policyholders would have access to this scheme.

I have therefore concluded that none of the Transferring MIC 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 MIC Policyholders will not be materially adversely affected by the Proposed Transfer with respect to prudential insurance regulation as both MIC 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 MIC ie France and Spain will not change as a result of the Proposed Transfer and so the Transferring MIC 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 MIC 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 MIC 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 MIC pre-transfer, Transferring MIC Policyholders would be subject to Irish winding up regulations. Post-transfer, Transferring MIC 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 MIC and Bothnia unlikely, I have concluded that the Transferring MIC Policyholders are not adversely affected in this respect. Existing Bothnia Policyholders are subject to the same winding up regulations pre- and post-transfer.

Conclusion on regulation

As MIC 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 no 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 MIC and Bothnia's joint 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

MIC 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 relates to the medical malpractice insurance of mainly French medical professionals written between 2002 and 2015. The coverage was for general practitioners and small practices, surgeons, anaesthetists and plastic surgeons.

The Transferring Business consists of 9,790 transferring policyholders. Ot these, 107 have been identified as dead and 7 as retired or imprisoned, and can therefore not be contacted. The status of these policyholders has been confirmed by various search engines but there are likely to be more such policyholders whose location and status are unconfirmed. The balance of 9,676 policyholders is broken down geographically as follows: France 9,295, Spain 75 and elsewhere (including French overseas territories) 306.

A number of policyholders have relocated since the policies were written to other states/territories as follows: Belgium, Canada, Germany, Guyana, Kenya, Luxembourg, Mauritius, Oman, Switzerland and Tahiti.

MIC communications strategy

There is no legal requirement for MIC to notify the Transferring MIC Policyholders.

Notwithstanding this, MIC plans to write to as many of the Transferring MIC Policyholders as possible in French or Spanish (ie the language in which MIC ordinarily communicates with the Transferring MIC Policyholders). English translations are available and can be provided upon request.

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

MIC will also notify reinsurers including Pallas Re of the Proposed Transfer for completeness.

MIC will also notify the claims handlers Cabinet Branchet and the Fédération hospitalière de France (the French Hospital Federation)

MIC 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, and as directed by the High Court following the Directions Hearing.

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

The following information regarding the Proposed Transfer will be placed on the MIC webpage of Compre group's website https://compre-group.com/notices/mic-dac/ 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 MIC's and their solicitor's office.

Bothnia communication strategy

There is no legal requirement for Bothnia to notify Transferring MIC Policyholders before the Proposed Transfer.

The French regulator, ACPR, is responsible for placing two notices in the French Official Journal and the Spanish regulator, DGSFP, is also expected to publish the authorisation of the transfer in the Spanish Official State Gazette.

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 MIC Policyholders following the Effective Date.

Compre group will place the information outlined above on the Bothnia and MIC webpage of their website https://compre-group.com/notices/mic-dac/ following the Directions Hearing.

These documents will be available for inspection in MIC and Bothnia's offices.

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 drafts of MIC's letters (in English) to Transferring MIC Policyholders and reinsurers and am satisfied that it is sufficiently clear for the intended purpose. I have also reviewed a draft of Bothnia's confirmation letter (in English) to Transferring MIC Policyholders to be sent post-transfer. This included notification of the right of policyholders to cancel their policies.

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

8.5. Translation of IA reports

MIC/Bothnia plan to make available online translations (into French and Spanish) of my Scheme Report, Summary Report and Supplementary Report (when available) to Transferring MIC Policyholders. MIC/Bothnia are responsible for the translation of these documents into French and Spanish. I am relying on MIC/Bothnia to ensure that the translations into French and Spanish 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 MIC 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 MIC portfolio has been performed pre-transfer by Cabinet Branchet, the original broker of the medical malpractice business. Bothnia has confirmed that, post-transfer, Cabinet Branchet will remain responsible for claims handling and claims administration.

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

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. This 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 MIC'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 the Transferring MIC Policyholders or Existing Bothnia Policyholders.

9.3. Investment management implications

MIC invests predominantly in cash equivalents, short term deposits with EU regulated credit institutions and investment-grade government and corporate bonds. As at 31 December 2023 no non-standard asset classes, equities or securitised investments were held.

As at 31 December 2023, MIC's investments were in Government bonds 72%, Corporate bonds 24% and Cash & equivalents 4%.

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 2023, Bothnia's investments were in Government bonds 51%, Corporate bonds 32%, Investments in Funds (private credit funds) 14% and Cash & equivalents 3%.

Since MIC's acquisition by Compre in September 2023 it has been subject to the Compre group's investment guidelines, as is Bothnia.

Given the similarities in the asset mix of MIC and Bothnia, and that they are both subject to the same investment guidelines, 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

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 MIC 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. MIC 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.

MIC and Bothnia maintain a large proportion of their assets in liquid asset classes, including government bonds and corporate bonds. As such, MIC 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

The other transfers that Bothnia is currently considering in the near future are described in Section 3.1.

Bothnia has confirmed that it is 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 MIC 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.

MIC 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 the Transferring MIC 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:

- SAI: Actuarial Standard of Practice PA-2 (ASP PA-2) General Actuarial Practice;
- SAI: Actuarial Standard of Practice INS-2 (ASP INS-2) Transfer of an Insurance Portfolio – Role of the Independent Actuary;
- FRC: Technical Actuarial Standard 100: General Actuarial Standards (TAS 100); and
- FRC: Technical Actuarial Standard 200: Insurance (TAS 200).

I have concluded that:

- The security provided to Transferring MIC Policyholders will not be materially adversely affected by the Proposed Transfer. There will be no material impact on service standards for Transferring MIC 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 this year, before confirming my opinion and conclusions.

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

- Any other 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.

Stewart Mitchell FIA
Partner

13 March 2024

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 INS-2 Transfer of an Insurance Portfolio – Role of the Independent Actuary.

Issued by the Financial Reporting Council: Technical Actuarial Standard 100: General Actuarial Standards, 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 Medical Insurance Company 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.
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	30 June 2024, the date when the Proposed Transfer is expected to occur, shortly after the Sanctions Hearing which is expected to be heard in Q2 2024.
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 Finansinspektionen Financial Supervisory Authority (FIN-FSA)	Finanssivalvonta Finansinspektionen 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.
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.

Term	Definition
Independent Actuary (IA)	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.
Independent Expert (IE)	A similar role to the IA but for insurance business transfers in the United Kingdom under Part VII of the Financial Services & Markets Act 2000.
Loss Portfolio Transfer (LPT)	A loss portfolio transfer is a reinsurance contract or agreement in which an insurer cedes policies, often ones that have already incurred losses, to a reinsurer. In a loss portfolio transfer, a reinsurer assumes and accepts an insurer's existing open and future claim liabilities through the transfer of the insurer's loss reserves.
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 MIC 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, MIC 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 MIC Policyholders	There are expected to be no Remaining MIC Policyholders as all policyholders of MIC (Transferring MIC Policyholders) are expected to transfer to Bothnia as part of 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 Financial Reporting Council (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, Medical Insurance Company Designated Activity Company (MIC).
Transferring MIC Policyholders	MIC 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 Proposed Transfer. Stewart Mitchell will act as the IA and will be supported by a team from LCP.

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 Independent Expert (IE) for six Part VII transfers and the IA for two Section 13 transfers. 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 more material 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

- MIC and Bothnia have each provided a data accuracy statement confirming that the data provided to me regarding the Proposed Transfer is accurate and complete.
- MIC and Bothnia have each 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 MIC

- ORSA report dated April 2023
- Q1 2021, Q3 2022, Q4 2022, Q1 2023, Q2 2023 and Q4 2023 quarterly reserving reports
- SFCR report as at 31 December 2022
- AFR, AOTP and ARTP as at 31 December 2022
- Claims handling agreement
- Capital Management Policy
- Reserving Policy (incorporating Reserve Risk policy)
- Details of MIC's reinsurance programme
- Balance sheet and capital projections including SCR coverage ratios
- Stress and scenario tests

Documents relating to Bothnia

- Intra-group reinsurance contract with Pallas Re and investment guidelines for collateral
- SFCR report as at 31 December 2022
- Q2 2023 reserve review
- Reserving policy
- Q2 2023 Board pack
- Investment policy and guidelines
- ORSA (reflects reported results as at December 2022)
- Actuarial Function Report (dated July 2023)
- Compre group documents including claims handling guidelines, capital management policy, actuarial paper
- Bothnia capital management plan
- External review reserve report as at 30 Dec 2022
- Balance sheet and capital projections including SCR coverage ratios
- Stress and scenario tests
- Pallas Re financial information (as at 30 June 2022)
- Risk appetite statements (dated May 2022)
- Business plan 2022-2024
- Regular Supervisory Report as at 31 December 2022
- Correspondence regarding the F' factor
- Inflation paper

Documents relating to the Communications Plan

- Draft Communications Plan (jointly on behalf of MIC and Bothnia) dated 21 February 2024 including:
    - Letter to Transferring MIC Policyholders (from MIC)
    - Legal notice
    - Letter to Transferring MIC Policyholders (from Bothnia post-transfer)

Documents relating to Court

- Drafts of Notice of Motion, Petition to the High Court, affidavits, Direction Hearing Order
- Draft Scheme document from Matheson LLP (dated 23 October 2023)

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 INS-2.

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 10)
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; if the Independent Actuary has an interest, it should be disclosed	2.2 (page 10)
ASP 4.6(iv)	The scope of the Report in accordance with paragraph 4.5 above	2.3 (page 11)
ASP 4.6(v)	The purpose of the scheme	3.3 (page 15)
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 55)
ASP 4.6 (viii)	The cost and tax consequences of the scheme, in so far as these will affect policyholders' benefits	9.4 (page 46) 9.2 (page 46)
ASP 4.6 (ix)	The effect of the scheme on the security of policyholders' contractual benefits	1.3 (page 6) 10 (page 48)
ASP 4.6 (xii)	The likely effects of the scheme on matters such as investment management, claims 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, in so far 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	9.1 (page 46) 9.3 (page 46)
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 8)

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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