

*Summary Report of the Independent Actuary on  
the proposed transfer of insurance business from*

*Medical Insurance Company  
Designated Activity Company*

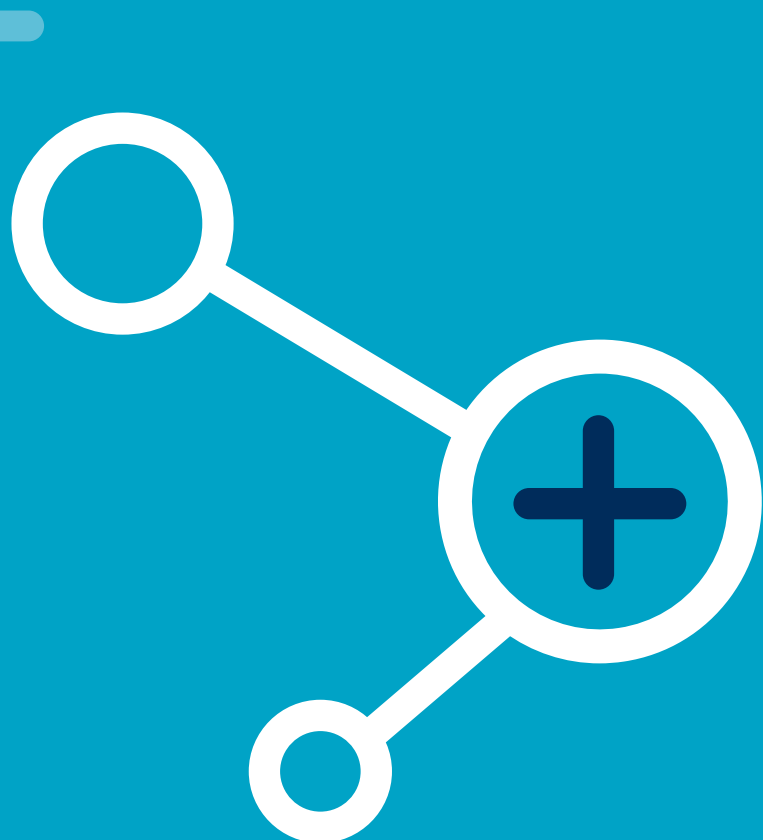
*to*

*Bothnia International Insurance Company  
Limited*

*in accordance with Section 13 of the Assurance  
Companies Act 1909*

14 March 2024

Stewart Mitchell FIA  
LCP



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

## Transfer of insurance business

### Summary of the Independent Actuary's Scheme Report for the High Court of Ireland

#### 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 of my Scheme Report.

##### Claims handling

There will be continuity of claims handling 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 of my Scheme Report for more details).

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

## 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.

## 3. The IA's Scheme Report

This is a summary of my full Scheme Report, "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".

A copy of the full Scheme Report will be available for download free of charge at <https://compre-group.com/notices/mic-dac/>.

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 on the Proposed Transfer, based on any new material or issues that arise including any objections raised by any interested parties.

## 4. 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.

## 5. Transferring MIC Policyholders

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

## Transferring MIC Policyholders following the Proposed Transfer.

The Transferring Business consists of 9,790 transferring policyholders. Of 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.

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.

## 6. Existing Bothnia Policyholders

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

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.

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.

## 7. Impact of COVID-19 on the Proposed Transfer

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.

## 8. 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.

## 9. 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 of my Scheme Report).

## 10. Further information and next steps

Further details on my conclusions, and other supporting information, are set out in my full Scheme Report.

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

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

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



*Stewart Mitchell FIA*  
14 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.

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