

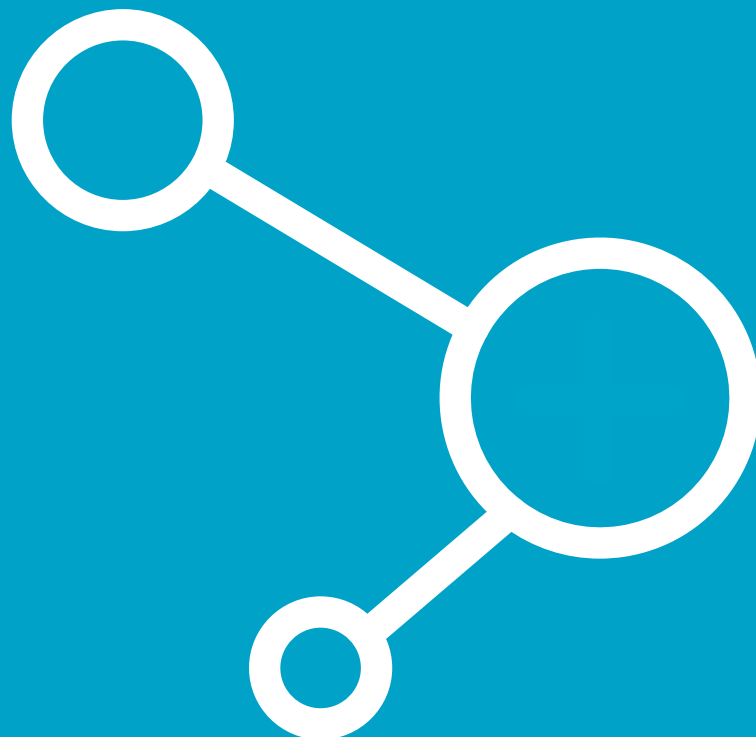
*Supplementary Report of the  
Independent Expert on the proposed  
transfer of insurance business from AMT  
Mortgage Insurance Limited to AmTrust  
International Underwriters DAC in  
accordance with Part VII of the Financial  
Services and Markets Act 2000*

9 October 2020

Prepared by:

Stewart Mitchell FIA

LCP



**Table of Contents**

- 1. Executive summary ..... 3
  - 1.1. The Proposed Transfer..... 3
  - 1.2. My role as Independent Expert..... 4
  - 1.3. Summary of developments since the Scheme Report..... 5
  - 1.4. Potential impact of COVID-19 on the Proposed Transfer..... 6
  - 1.5. Additional considerations for the Supplementary Report..... 7
  - 1.6. Summary of my conclusions..... 7
- 2. Introduction ..... 12
  - 2.1. Background..... 12
  - 2.2. Scope of this Supplementary Report..... 12
  - 2.3. Use of this Supplementary Report..... 13
  - 2.4. Reliances..... 13
  - 2.5. Professional standards..... 14
  - 2.6. Materiality..... 15
  - 2.7. Definition of “materially adverse”..... 15
- 3. My approach as IE and conclusions ..... 16
  - 3.1. Step 1: Assessing the provisions of AMIL and AIU ..... 16
    - 3.1.1. Updated independent projections..... 19
    - 3.1.2. Findings from finalised external regulatory reviews for AIU ..... 21
  - 3.2. Step 2: Assessing the capital positions of AMIL and AIU ..... 22
    - 3.2.1. Projected SCR coverage ratios..... 22
    - 3.2.2. Movement in Solvency II balance sheets..... 24
    - 3.2.3. Net Worth Maintenance Agreement..... 25
    - 3.2.4. Scenario analysis..... 26
    - 3.2.5. Summary of capital movements ..... 30
    - 3.2.6. AIU Capital Policy..... 31
    - 3.2.7. Conclusion ..... 31
  - 3.3. Step 3: Assessing overall policyholder security..... 32
  - 3.4. Step 4: Assessing policyholder communications ..... 34
  - 3.5. Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders..... 35
- 4. Conclusions and Statement of Truth..... 36
  - 4.1. IE duty and declaration ..... 36

**Appendices**

- Appendix 1 – Summary of data provided ..... 38

3724983

## 1. Executive summary

Page 3 of 38

### 1.1. The Proposed Transfer

AMT Mortgage Insurance Limited (AMIL) currently operates across the European Economic Area (EEA) utilising the EEA's Freedom of Services (FoS) and Freedom of Establishment (FoE) arrangements.

The UK left the European Union (EU) on 31 January 2020. There is a transition period until 31 December 2020 during which the UK and EU will conduct trade negotiations. The outcome of these negotiations, including any decisions about regulatory equivalence between the UK and EU, remains highly uncertain. Until 31 December 2020 the current rules remain in place. The Proposed Transfer described in this report is due to complete on 31 October 2020 ie before 31 December 2020.

In the event of a so called "Hard Brexit" at 31 December 2020 (eg as a consequence of no agreement over trade negotiations) where AMIL no longer has FoS or FoE rights, AMIL would not legally be able to carry on its non-UK EEA business. For example, AMIL would not be able to issue new insurance policies across the EEA and might not legally be able to pay valid claims to existing non-UK EEA policyholders unless AMIL obtains appropriate authorisation in all relevant EEA member states.

As part of a wider AmTrust Group strategy to provide certainty that the Group can continue to carry on EEA business post-Brexit with minimum disruption and to improve efficiencies within the Group, AMIL is proposing to transfer (the Proposed Transfer) all of its business (comprising non-UK EEA business) to AmTrust International Underwriters DAC (AIU).

The policyholders are all regulated financial institutions.

Following the Proposed Transfer, the intention is to dissolve AMIL under section 112(8) FSMA following its de-authorisation.

The Effective Date of the Proposed Transfer is 31 October 2020.

The Proposed Transfer follows the earlier transfer in 2019 of all of AMIL's UK business to AmTrust Europe Limited (AEL). There have been no other changes to the Proposed Transfer.

**3724983 Other AmTrust transfers**

Page 4 of 38 In addition to the Proposed Transfer, AmTrust completed the following transfers as part of their response to Brexit and other strategic changes and transactions. These are summarised below:

- The Part VII transfer of all Italian medical malpractice risks (including a non-material amount of related accident and health and legal expenses business) from AEL to AmTrust Assicurazioni SpA (AA) and other non-UK EEA risks (excluding Italian medical malpractice) from AEL to AIU. This transfer completed on 31 July 2020.
- A Section 13 transfer of AIU's Italian medical malpractice business to AA. This transfer completed on 31 July 2020.
- A Section 13 transfer of surety business from AIU to Liberty Mutual Insurance Europe SE (LMIE), a third-party outside of the AmTrust Group. This transfer completed on 31 March 2020.

**1.2. My role as Independent Expert**

AmTrust has appointed me to act as the Independent Expert (IE) for the Proposed Transfer. The Prudential Regulation Authority (PRA), in consultation with the Financial Conduct Authority (FCA), has approved my appointment.

As IE, my overall role is to assess whether:

- The security provided to policyholders of AMIL moving to AIU will be materially adversely affected by the implementation of the Proposed Transfer.
- The security provided to AIU Policyholders 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.
- Any reinsurer of AMIL providing cover for the transferring business will be materially adversely affected.

I provided my Scheme Report for the Proposed Transfer (dated 3 July 2020) ahead of the Directions Hearing, which was held on 8 July 2020.

The purpose of this Supplementary Report is to confirm and/or update the conclusions of my Scheme Report, based on any material new developments in the intervening period, ahead of the Sanctions Hearing. This Supplementary Report should be read in conjunction with my Scheme Report.

### 1.3. Summary of developments since the Scheme Report

#### Activities since the Scheme Report

The main activities in relation to the Proposed Transfer since the Scheme Report was issued on 3 July 2020 have been as follows:

#### Other transfers

- The completion of the AEL to AA and AEL to AIU, and AIU to AA transfers as detailed in section 1.1.

#### Proposed Transfer

- Given the ongoing developments around COVID-19 and its impact on the Proposed Transfer, AmTrust has updated their SCR coverage ratio and balance sheet analyses to reflect this uncertainty. This is discussed further in later sections of this report.
- The Scheme Report and other associated scheme documents were presented to the Court at the Directions Hearing on 8 July 2020, where approval was received to start notifications in line with the communications plan.

#### Reserving

- AMIL's Solvency II best estimate technical provisions increased on a gross of reinsurance basis between 31 December 2019 and 30 June 2020 and remained broadly flat on a net of reinsurance basis. This is discussed in more detail in section 3.1.

#### Capital

- Amtrust has updated their projections since my Scheme Report was issued to allow for the impact of the COVID-19 pandemic. The updated projected post-transfer AIU SCR coverage ratio is now 160%, in excess of AIU's risk appetite of 140%.
- The coverage ratio for AIU will be guaranteed to be at least the level of AIU's risk appetite of 140% until 30 June 2021 by a Net Worth Maintenance Agreement (NWMA) with AmTrust Financial Services Inc. (AFSI), the parent company of the Amtrust entities (see section 3.2.3 for more details).
- Under the terms of the NWMA AFSI is committed to contribute capital to AIU during the period from 1 July 2020 to 30 June 2021 if either the coverage ratio falls below 140% or is forecast to fall below 140% any time before 31 March 2022. Therefore, the capital support is callable for 12 months in relation to a period of up to 21 months.

3724983

Page 6 of 38

- This commitment ultimately depends on the financial strength of AFSI and the AmTrust Group. Following privatisation, AFSI no longer discloses its consolidated financial information publicly and is not rated. However, it has total assets of \$22.6bn and equity of \$3.6bn. In addition, members of the AmTrust Group have an A. M. Best Financial Strength Rating, as of 27 August 2020, of "A-" (Excellent) reflecting its balance sheet strength (categorized by A. M. Best as very strong) and level of free assets.
- In the event of AIU's SCR coverage ratio falling below the risk appetite level of 140%, AmTrust would look to implement management actions to restore the SCR coverage ratio to at least the risk appetite level, as would be the case without the NWMA agreement in place. Given this, I have placed limited reliance on the NWMA, although the fact that AmTrust's support has been formalised does increase policyholder security potentially up to March 2022.

#### Policyholder communications and other

- AMIL and AIU have communicated with policyholders and placed notices in various publications in line with the communication plan outlined in my Scheme Report. No changes to the plan were required due to the COVID-19 pandemic.
- There have been no objections to the Proposed Transfer, as at 9 October 2020.
- The number of Transferring Policyholders reduced from 29 to 27, and transferring policies from 64 to 61, following the commutation of a Swedish policy and the termination of an Italian policyholder with two policies.

#### 1.4. Potential impact of COVID-19 on the Proposed Transfer

The uncertainty around the impact of COVID-19 is expected to continue until the Effective Date of the Proposed Transfer and beyond. AmTrust has considered the potential impact of COVID-19 on AMIL's and AIU's portfolios through an extreme recession scenario. Further details of this and other scenarios are provided in section 3. In addition, AmTrust has updated their capital and balance sheet projections as at Day 0 and Day 1 of the Proposed Transfer to reflect the updated expected impact of COVID-19. This is discussed in sections 3.2 and 3.3.

For AMIL, given that claims are based on crystallised losses and that this would be post-foreclosure and sale, it is still early to gauge the impact of COVID-19. There has been a gradual increase in delinquent loans in Italy since the end of March of approximately 15%, although this is partly due to certain mortgages being incorrectly flagged as delinquencies. However, AmTrust has not seen any increase in actual claim activity as a result of the pandemic.

3724983

Page 7 of 38

Currently, AmTrust's Mortgage/Credit division handles mortgage claims for all entities in the AmTrust group, including AMIL, and this will continue after the Proposed Transfer. As such the Transferring Policyholders will not be affected operationally as a result of the Proposed Transfer, including any impact from the COVID-19 pandemic. AmTrust has confirmed that there are no other operational issues arising from COVID-19 that will impact any policyholders, and that the current team will be able to service any foreseeable increase in claims activity.

For AIU, certain classes of business are impacted by the pandemic through a reduction in exposure and/or increase in claims activity. As such, explicit adjustments have been applied to AIU's local GAAP provisions as at 30 June 2020 but these adjustments are small in the context of AIU's overall provisions.

#### 1.5. Additional considerations for the Supplementary Report

In reaching my conclusions in this Supplementary Report, I have considered the following new information that has become available since the Scheme Report was issued on 3 July 2020:

- Booked US and local GAAP provisions as at 31 December 2019 and 30 June 2020;
- Solvency II technical provisions as at 31 December 2019 and 30 June 2020;
- Recent claims experience and claim reserve movements;
- Updated SCR coverage ratio and balance sheet projections reflecting AmTrust's latest assumptions regarding the impact of COVID-19 and additional reinsurance for AIU (described on page 29);
- Discussions with AmTrust on the impact of COVID-19 on the Proposed Transfer, including operational challenges; and
- Any communications and/or objections related to the Proposed Transfer raised by stakeholders.

#### 1.6. Summary of my conclusions

I have set out below my summary conclusions, considering the effect of the Proposed Transfer from three perspectives:

- A: "Transferring Policyholders", who will transfer from AMIL to AIU as a result of the Proposed Transfer.
- B: "AIU Policyholders", ie any policyholders of AIU at the time of the Proposed Transfer who will remain with AIU.
- C: Reinsurers whose contracts with AMIL are transferring to AIU as part of the Proposed Transfer.

3724983

All AMIL policies are being transferred and so there will be no remaining AMIL policyholders post-transfer to consider.

Page 8 of 38

My overall conclusions are unchanged from those set out in the Scheme Report.

#### **A: Transferring Policyholders**

**I have concluded that the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.**

Summary rationale:

- The Transferring Policyholders will benefit from the removal of the uncertainty of not having claims paid due to unsuccessful trade negotiations by the end of the Brexit transitional period. They will also benefit from being part of a larger, rated entity in AIU (AMIL is unrated). I consider these to be the key benefits for Transferring Policyholders of the Proposed Transfer.
- The Transferring Policyholders will remain within the AmTrust Group. AIU is subject to the same group-wide policies as AMIL.
- The SCR coverage ratio for Transferring Policyholders is expected to decrease from 185% to 160% as a result of the Proposed Transfer. Whilst this increases the risk of their claims not being paid, I do not consider the security provided to these policyholders to be materially adversely affected by this decrease. The 160% coverage ratio is still within the "well-capitalised" band (as described in section 6.1) and the coverage ratio remains in excess of AIU's risk appetite. In addition, they will benefit from being part of a larger rated entity with an A- financial strength rating and a more diversified balance sheet.
- AmTrust has committed to maintaining a minimum 140% SCR coverage ratio for AIU through a NWMA with AFSI, the parent company of the Amtrust entities. This commitment ultimately depends on the financial strength of AFSI and the Amtrust Group.
- The level of regulatory capital held by AIU on the 1-year standard formula basis is supported by consideration of suitably severe stress scenarios.
- Under an extreme recession scenario, the risk to Transferring Policyholders of claims not being paid is the same before and after the Proposed Transfer, with an SCR coverage ratio of 94% for both AMIL (pre-Transfer) and AIU's (post-Transfer). However, given the relative size of the AIU compared to AMIL, Transferring Policyholders benefit from being part of a larger, more diversified and rated entity.
- AmTrust has confirmed that the transferring policies will continue to be reserved for in the same way post-transfer as pre-transfer and by the same reserving team.



3724983

Page 9 of 38

- The calculation of the transferring provisions has been performed using an appropriate and consistent methodology for a number of years.
- It is very unlikely that Transferring Policyholders are eligible for access to the FSCS as they are all mortgage lenders, with the exception of one reinsurer, rather than consumers or small businesses. It is also very unlikely that they are eligible to refer complaints to the FOS. Therefore, their position in relation to the FSCS and FOS remains the same pre- and post-transfer.

**I have concluded that no material impact on service standards is expected for Transferring policyholders following the Proposed Transfer.**

Summary rationale:

- AMIL and AIU, through the AmTrust Group, are planning to minimise any changes as to how the transferring business is carried out, to avoid disruption to its operating model or its customers.
- The AmTrust Group is not planning any material changes to how Transferring Policyholders are serviced following the Proposed Transfer.

#### **B: AIU Policyholders**

**I have concluded that the security provided to AIU Policyholders will not be materially adversely affected by the Proposed Transfer.**

Summary rationale:

- The SCR coverage ratio for AIU Policyholders is expected to decrease from 175% to 160% as a result of the Proposed Transfer. Whilst this increases the risk of their claims not being paid, I do not consider the security provided to these policyholders to be materially adversely affected by this decrease. The 160% coverage ratio is still within the "well-capitalised" band (as described in section 6.1) and the coverage ratio remains in excess of AIU's risk appetite. In addition, following the transfer, they will be part of a larger entity.
- The SCR coverage ratio of AIU is projected to be in excess of AIU's risk appetite for the next two years. In addition, as described earlier AmTrust has committed to maintaining a minimum of 140% SCR coverage ratio through a NWMA with AFSI, a parent company of AIU.
- The level of regulatory capital held on the 1-year standard formula basis is supported by consideration of stress scenarios including the impact of an extreme recession and reinsurer default.
- In the event of an extreme recession scenario, AIU Policyholders would be worse-off following the Proposed Transfer as demonstrated by Amtrust's

3724983

Page 10 of 38

calculation of a lower Day 1 SCR coverage ratio post-transfer compared to pre-transfer. This reflects the increased exposure to economic risks through the Italian economy and housing market in the AMIL portfolio. However, in the event of such a scenario, AIU would take management action as outlined in its recovery plan, eg the use of capital injections from within the AmTrust Group or reinsurance, to restore AIU's SCR coverage to the risk appetite level of 140%. In addition, AMIL's liabilities are relatively small compared to AIU's liabilities and so the reduction in SCR coverage ratio is not material enough to threaten the solvency of AIU. I therefore conclude that AIU Policyholders are not materially disadvantaged in this respect.

- AIU is already exposed to similar risks to those that AMIL faces, having written all new EEA policies since AEL's acquisition of AMIL in 2016 and re-signing new AIU policies with AMIL's live policyholders throughout 2019 in preparation for Brexit.
- The approach and methodology used to calculate insurance provisions and the level of reserves held by AIU are supported by my own independent projections.
- Further support is provided by the results of an independent external reserve review and a further independent external regulatory review in 2018 and 2019.
- AIU has confirmed that policies will continue to be reserved for in the same way post-transfer as pre-transfer and by the same reserving team. In addition, the reserving process, team and governance for AIU will be materially unchanged post-transfer.

**I have concluded that no material impact on service standards is expected for Transferring AEL to AIU Policyholders following the Proposed Transfer.**

Summary rationale:

- AIU is not planning any material changes to how the business is carried out. In particular, there are no plans to change how AIU Policyholders are serviced following the Proposed Transfer.

### **C: Reinsurers**

**I have concluded that reinsurers of AMIL who provide cover for the transferring business will not be materially adversely affected by the Proposed Transfer.**

The transferring policies primarily benefit from AMIL's quota share arrangement with a panel of highly rated reinsurers. For 2011 to 2018 the cession was 33% and this increased to 50% in 2019. AMIL ceased writing UK business following the Part VII transfer of AMIL's UK book into AEL on 30 June 2019, and ceased writing new EU

**3724983** mortgage loans on 1 April 2019, after which all new EU policies were written by AIU.  
This is a clarification of the wording in my Scheme Report.

Page 11 of 38

The reinsurance panel has remained broadly consistent over time, the 2019 panel consists of 6 reinsurers mainly rated A+, the minimum rating is A-.

The reinsurance protection provided to the Transferring Policyholders from this reinsurance will transfer across to AIU.

Summary rationale:

- Exposure to claims faced by AMIL's reinsurers will not change following the Proposed Transfer and the reinsurers will continue to be required to pay out the same claim amounts in respect of the same events as before the Proposed Transfer.

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

#### **Permutations of other AmTrust transfers**

All other planned AmTrust transfers have now completed.

#### **Confirmation of factual correctness**

This report has been reviewed by AMIL and AIU and each has agreed the report is correct in terms of all factual elements of the Proposed Transfer.

3724983

## 2. Introduction

Page 12 of 38

### 2.1. Background

Part VII - Section 109 of the Financial Services and Markets Act 2000 (FSMA) requires that a scheme report (the Scheme Report) must accompany an application to the High Court of Justice of England and Wales (the Court) to approve an insurance business transfer scheme (Part VII transfer).

The Scheme Report should be produced by a suitably qualified independent person, the Independent Expert (IE), who has been nominated or approved by the Prudential Regulation Authority (PRA) having consulted with the Financial Conduct Authority (FCA). The Scheme Report should address the question of whether any policyholders or reinsurers impacted by the insurance business transfer are adversely affected to a material extent.

AmTrust nominated Stewart Mitchell (I or me) of Lane Clark & Peacock LLP (LCP, we, or us) to act as the IE for the Proposed Transfer of the mortgage and credit business of AMIL to AIU under Section 105 of the FSMA. The Proposed Transfer is intended to be effected on 31 October 2020 (the Effective Date).

The Scheme Report was issued on 3 July 2020 and was presented to the Court on 8 July 2020. In the Scheme Report I stated that, before the date of the Sanctions Hearing, I would prepare a Supplementary Report (this report), covering any relevant matters which have arisen since the date of the Scheme Report.

In particular, I have considered whether any developments since the Scheme Report cause my conclusions in the Scheme Report to change.

### 2.2. Scope of this Supplementary Report

This Supplementary Report must be read in conjunction with the Scheme Report as the Supplementary Report does not contain the full details of the work I have performed in considering the Proposed Transfer. Reading the Supplementary Report in isolation may be misleading.

All terms used in the Supplementary Report are as defined in the Scheme Report. In combination with the Scheme Report, it complies with the professional actuarial guidance and standards set out in section 2.5 of this report.

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.

3724983

### 2.3. Use of this Supplementary Report

Page 13 of 38

This Supplementary Report has been produced by Stewart Mitchell FIA of Lane Clark & Peacock LLP under the terms of our written agreement with AmTrust Management Services Limited. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Supplementary 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 109 of the Financial Services and Markets Act 2000. The Supplementary Report is not suitable for any other purpose. The Supplementary Report must be read in conjunction with the Scheme Report of 3 July 2020.

A copy of the Supplementary Report will be sent to the Prudential Regulation Authority, the Financial Conduct Authority and will accompany the evidence filed in Court at the Sanctions Hearing.

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

### 2.4. Reliances

I have based my work on the data and other information made available to me by AmTrust, AMIL and AIU. Appendix 1 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of AMIL, AIU and their advisors.

I have used a combination of data as at 31 October and 31 December 2018, 30 June and 31 December 2019, 30 April and 30 June 2020 for my analysis. I have also considered AmTrust's most up-to-date view of projected SCR coverage ratios which include the impact of the COVID-19 pandemic. AmTrust has confirmed that it has made me aware of all material developments that would affect my conclusions.

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

- AMIL and AIU will submit witness statements to the Court stating that all information provided to me is correct and complete in all material aspects.
- Each of AMIL and AIU have provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.
- AMIL and AIU have confirmed to me that there have been no material adverse changes to the financial position of AMIL or AIU since that information was provided to me.

3724983

Page 14 of 38

- AMIL and AIU have read this IE Supplementary Report, and each has agreed that it is correct in terms of all factual elements of the Proposed Transfer.
- I have conducted basic checks on the data provided to me for internal consistency and reasonableness.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the integrity of the information provided for 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. AmTrust has confirmed that it has received no specific legal advice relevant to my role as IE for the Proposed Transfer that I have not been provided with.

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

## 2.5. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for Scheme Reports set out by the PRA in their Statement of Policy, the FCA guidance to their approach to review of Part VII transfers issued in May 2018 and by the PRA Rulebook and the FCA Handbook.

This report complies with the following Technical Actuarial Standards issued by the Financial Reporting Council (FRC) in the UK:

- Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100); and
- Technical Actuarial Standard 200: Insurance (TAS 200).

I have considered The Actuaries' Code as issued by the IFoA when producing this report.

This report has been subject to independent peer review prior to its publication, in line with Actuarial Professional Standard X2: Review of Actuarial Work (APS X2) as issued by the IFoA. 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 the appropriate experience and expertise to act as peer reviewer of this report and have acted as the Independent Expert and peer reviewer for other Part VII transfers.

3724983

## 2.6. Materiality

Page 15 of 38

The FRC considers that matters are material if they could, individually or collectively, influence the decisions to be taken by users of the actuarial information. It accepts that an assessment of the materiality is a matter of reasonable judgement that requires consideration of the users and the context.

I have applied this concept of materiality in planning, performing and reporting the work described in this Supplementary 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 TAS 100, I have made judgements on the level of information to include in this Supplementary 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.

## 2.7. Definition of “materially adverse”

In order to determine whether the Proposed Transfer will have a “materially adverse” impact on any group of policyholders or on any reinsurers covering transferring business, 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 and on reinsurers.

In this report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether or not policyholders and reinsurers are materially adversely affected.

3724983

### 3. My approach as IE and conclusions

Page 16 of 38

My approach to assessing the Proposed Transfer, as set out in the Scheme Report, has been to perform five steps analysing evidence provided by AmTrust to support the Proposed Transfer.

My approach for the Supplementary Report has been to revisit each of these five steps and to consider whether any of the updated analysis or information available now would cause me to change my conclusions in that report. The five steps and my considerations are detailed in the sections that follow.

A list of additional information considered is included in Appendix 1. Further details on my approach as IE are set out in section 4 of the Scheme Report.

#### 3.1. Step 1: Assessing the provisions of AMIL and AIU

As IE, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for Transferring Policyholders and AIU Policyholders; and
- whether any aspects of the reserving may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 5 of the Scheme Report. I have been provided with Solvency II technical provisions as at 31 December 2019 and 30 June 2020 and a description of the material changes to the provisions over that period.

#### Summary of Solvency II best estimate technical provisions for AMIL and AIU as at 30 June 2020

£m	Gross of reinsurance	Net of reinsurance
Transferring to AIU	39.3	37.5
AIU	766.7	190.0
<b>Transferring provisions as % of AIU</b>	<b>5%</b>	<b>20%</b>

Source: AMIL and AIU

Converted at £1 = €1.18



3724983

**Summary of Solvency II best estimate technical provisions for AMIL and AIU as at 31 December 2019**

Page 17 of 38

£m	Gross of reinsurance	Net of reinsurance
Transferring to AIU	38.2	37.4
AIU	739.1	142.1
<b>Transferring provisions as % of AIU</b>	<b>5%</b>	<b>26%</b>

Source: AMIL and AIU

Converted at £1 = €1.18

The transferring provisions as a proportion of AIU's total pre-transfer provisions, gross of reinsurance, is broadly unchanged between 31 December 2019 and 30 June 2020. On a net of reinsurance basis, the proportion has reduced from 26% to 20%, driven by the increase in AIU's net provisions due to a planned reduction in reinsurance cessions over the period.

**Allowance for COVID-19**

Overall, there has been a c. £1m increase in AMIL's Solvency II best estimate gross technical provisions over the six months. This was driven by an increase in provisions in respect of unexpired risks relating to potential COVID-19 related claims. On a net basis, the level of provisions remained broadly flat.

The claims provisions, which account for the majority of the technical provisions, include an allowance for all known COVID-19 claims based on reported delinquencies and will not be affected by future delinquencies. The expense provisions will also be materially unaffected by future COVID-19 claims.

The premium provisions have reduced since 31 December 2019 as the unearned premiums have decreased as the book runs off. An allowance of £1.7m (€2m) has been made in the gross premium provisions for COVID-17 losses. This is based on an assumed number of delinquencies, the number of delinquencies that will become claims and an average cost per claim. This allowance equates to a 19% load on the gross premium provisions.

I have reviewed AmTrust's analysis to derive the assumptions behind the explicit COVID-19 allowance in the premium provisions.

I concluded that these were reasonable based on AMIL's historical experience, including previous recessionary periods. I note that the resulting loss ratios for the unearned business are comparable to the worst recessionary affected years since underwriting criteria were strengthened.

**3724983** Although there has been a gradual increase in delinquent loans in Italy since the end of March, AmTrust has not seen any increase in actual claim activity as a result of the pandemic.

Page 18 of 38

Within the technical provisions, the allowance of £1.7m (€2m) gross and £0.8m (€1m) net of reinsurance for downside risk relates to the impact of increased delinquencies and assumed probability that these become claims, notwithstanding there have been no claims to date. Reinsurance of 50% limits the downside risk of claims arising to AMIL.

My Scheme Report included the impact on provisions of more pessimistic assumptions regarding claims activity.

For AIU, best estimate gross technical provisions increased by **c. £28m**. The main movements were:

- GAAP provisions fell by £11m. A reduction in the margin for uncertainty and the sale of the surety portfolio contributed to the reduction, offsetting increased reserves in some classes.
- Solvency II adjustments to the GAAP provisions increased by £39m. The main contributors were:
  - £21m increase due to a reduction in the benefit from discounting due to changes in the Euro and US Dollar discount rates;
  - £10m increase due to a reduction in the level of future premiums and the profitability of future business;
  - £7m increase due to a reduction in the credit for the margin for uncertainty which is not allowed under Solvency II.

AIU's best estimate net technical provisions increased by **c. £47m**. The main movements were:

- GAAP provisions increased by £38m as the reliance on reinsurance reduced between December 2019 and June 2020.
- Solvency II adjustments to the GAAP provisions increased by £10m. The main contributors were:
  - £11m increase in expenses as the ability to cede expense reserves to external reinsurers has reduced;
  - £5m increase due to a reduction in the benefit from discounting; and
  - £8m decrease in provisions due to additional profit on the UPR and higher future premiums due to retaining more business.

The majority of AIU's business is not expected to be materially impacted by the COVID-19 pandemic. However, it is sensitive to the secondary recessionary impact of

**3724983** the pandemic as demonstrated by the scenario analysis in section 3.2.4. Where classes are expected to be impacted, increases in reserves for certain classes eg Travel and US Commercial Credit (which is 100% reinsured) are mostly offset by decreases elsewhere eg Auto Warranty where exposure has decreased.

Page 19 of 38

AIU has reflected the impact of COVID-19 and a future recession in the SII technical provisions through reduced assumed profitability (through an increase in claims) and lower future levels of expected premium for those classes expected to be impacted.

### **3.1.1. Updated independent projections**

I have performed my own updated independent projections on AIU's French Medical Malpractice, US General Liability and US Commercial Credit portfolios since my Scheme Report. This is based on data as at 30 April 2020 whilst the analysis in the Scheme Report was based on data as at 31 October 2018. The analysis was performed on a gross of reinsurance basis. The US lines of business written by AIU are 100% reinsured (as described on page 29).

This review was a limited review of triangular data provided for the classes above. I derived my own development patterns based on the data and supplemented this with wider benchmark data to inform my tail selections. I used a number of widely accepted actuarial methods and derived expected loss ratios for the more recent underwriting years based on averages across the more developed prior underwriting years. For US Commercial Credit, I also performed a review of the detailed accident month analysis performed by the US team to gain comfort with the selected loss ratio picks.

Clearly, given the unprecedented nature of COVID-19, the actual future claims are very uncertain and will differ from any estimates. In section 3.2 we discuss the uncertainty scenarios that AmTrust have performed.

3724983 A comparison between my and AIU's gross earned estimates is set out below:

Page 20 of 38

	IE estimate €m	AmTrust estimate €m	Difference €m	% difference
French Medical Malpractice	14.5			
US Commercial Credit	14.3			
US General Liability	140.0			
<b>Total IBNR</b>	<b>168.8</b>	<b>171.8</b>	<b>(3.0)</b>	<b>(1%)</b>
<b>Total reported outstanding claims</b>	<b>119.7</b>	<b>119.7</b>	<b>-</b>	<b>-</b>
<b>Total reserves</b>	<b>288.5</b>	<b>291.5</b>	<b>(3.0)</b>	<b>(1%)</b>

The French Medical Malpractice class has had poor experience on more recent years with a higher than expected number of large losses reported. I considered this experience when deriving my development pattern and setting my initial expected loss ratio assumptions for this class. I also considered the impact of more pessimistic assumptions, noting that this class is small relative to the total AIU portfolio.

There is considerable uncertainty in modelling the US General Liability account given the generally long-tailed development, particularly for more recent underwriting years. Given this uncertainty, I gave more weight to the claims experience on the poorer performing older years in deriving my estimates for the more recent years. I also note that this class is reinsured 100%.

In aggregate, across these three accounts, my independent projections were c. 1% lower than AIU's gross actuarial best estimates. I consider this to be well within a range of reasonable best estimates given the large amount of subjectivity around the selection of assumptions, historical reserve deteriorations observed on the accounts and my wider experience of insurers' writing similar business. The differences at the individual class level were greater but broadly offset each other in aggregate.

The robustness of AIU's processes is discussed in the next section.

### 3.1.2. Findings from finalised external regulatory reviews for AIU

AIU's responses and progress in addressing the key findings from the review requested by the CBI are summarised below:

- **Case estimation and pricing:** the review of the case estimation and pricing methodologies and processes for the Italian Medical Malpractice business (which has since transferred to AA) concluded that they were broadly fit for purpose. Some of the recommendations made in the review revolved around making more use of available information to update case reserves. AIU has addressed this and, in supporting documentation, will explain why in some cases intermediary information has not been used. Other lower materiality recommendations have already been addressed by AIU.
- **Governance:** the report identified a shortage of resource in AIU's Actuarial Function, which affects its ability to deliver on its wider responsibilities, beyond core actuarial reserving. The report made a number of high and medium level recommendations arising from this. AIU has employed two additional staff in the Dublin office in 2019 to help address these recommendations. In addition, AIU will be improving its overall documentation as a priority during 2020.

The external report provides sufficient detail on both the review process and findings for me to assess its conclusions. I agree with the findings and conclusions and believe that they provide evidence, supplementing my own independent projections, of the appropriateness of AIU's booked provisions.

#### Conclusion

I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

**I have concluded that an appropriate level of provisions will be maintained for the Transferring and AIU Policyholders and that they will not be materially adversely affected by the reserving aspects of the Proposed Transfer.**

3724983

### 3.2. Step 2: Assessing the capital positions of AMIL and AIU

Page 22 of 38

As IE, my overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for Transferring Policyholders and AIU Policyholders;
- whether there are expected to be any material adverse changes in the strength of capital protection for either 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.

These assessments were considered in section 6 of the Scheme Report.

#### 3.2.1. Projected SCR coverage ratios

The following tables set out the SCR and coverage ratios for AMIL and AIU pre- and post- the Proposed Transfer. Note that since providing my Scheme Report, AmTrust has updated its analysis of projected SCR coverage ratios to reflect changes in its business plan, particularly in the light of the COVID-19 pandemic, and changes in the dividends to be paid and re-distributed around the AmTrust Group. As such, the coverage ratios quoted in this report have changed since those included in my Scheme Report. I have included last time's figures in brackets in the tables below.

#### AMIL – SCR and coverage ratio pre- and post- the Proposed Transfer

£m	Pre-Transfer Day 0	Post-Transfer Day 1
Total own funds eligible to meet SCR	53.5 (52.7)	3.5 (3.4)
SCR	28.9 (28.8)	n/a (n/a)
<b>SCR coverage ratio</b>	<b>185% (183%)</b>	<b>n/a (n/a)</b>

Source: AMIL (converted assuming £1 = €1.16)

Corresponding table in the Scheme Report is within section 6.10

Since the projections in my Scheme Report, the Day 0 projected SCR coverage ratio for AMIL has increased from 183% to 185%, driven by an increase in own funds from £52.7m to £53.5m, offsetting the small increase in SCR from £28.8m to £28.9m.

Post transfer, AMIL will be left with own funds of £3.5m. I understand that these funds will remain until AMIL is deregistered and will be used to support the MCR in the meantime.

**AIU – SCR and coverage ratio pre- and post- the Proposed Transfer**

£m	Pre-Transfer Day 0	Post-Transfer Day 1
Total own funds eligible to meet SCR	197.0 (166.3)	201.0 (188.4)
SCR	112.3 (119.1)	125.5 (134.4)
<b>SCR coverage ratio</b>	<b>175% (140%)</b>	<b>160% (140%)</b>

Source: AIU (converted at £1=€1.16)

Corresponding table in the Scheme Report is within section 6.10

Since the projections in my Scheme Report, the Day 0 projected SCR coverage ratio for AIU has increased from 140% to 175%. The increase in coverage ratio to 175% is due to pre-funding of capital for the Proposed Transfer in light of changes in AIU's business plan, and other changes in respect of the AEL to AIU, AEL to AA and AIU to AA transfers, as a result of the COVID-19 pandemic. In the event the Proposed Transfer is not executed, I understand AmTrust will consider returning this excess capital to shareholders.

At Day 0, AIU's SCR coverage ratio is projected to be above AIU's risk appetite level and at the middle of the range of the "well-capitalised" band described in the Scheme Report.

AIU's Day 1 SCR coverage ratio has increased from 140% to 160% since my Scheme Report and is now towards the lower end of the "well-capitalised" band compared to the upper end of the sufficiently capitalised band previously. This followed the updated dividend arrangements within the AmTrust Group in response to the COVID-19 pandemic in respect of the AEL to AIU and AEL to AA, and AIU to AA transfers.

Overall, AIU's SCR coverage ratio is projected to decrease from 175% to 160% post-transfer. The key drivers of the reduction in the SCR coverage ratio are as follows:

- Transfer of AMIL's business to AIU leading to a greater proportional increase in SCR than own funds;
- Increase in premium and catastrophe risk following an increase in net earned premiums over the next 12 months as a result of the Proposed Transfer; and
- A reduction in the level of diversification between other risks following the increase in in non-life underwriting risk.

AIU's SCR coverage ratio is projected to remain above AIU's risk appetite of 140% following the transfer in of the AMIL business. As described earlier, Amtrust has committed to maintain AIU's SCR coverage ratio at a minimum of 140% for a period after the Effective Date of the Proposed Transfer.

**3724983** A capital injection of €30m into AIU is expected in 2022 based on current assumptions. This is discussed further on pages 29 and 30.

Page 24 of 38

### 3.2.2. Movement in Solvency II balance sheets

The following tables summarise the movements in AMIL and AIU's assets and liabilities on their Solvency II balance sheets between Day 0 and Day 1. It shows the movement due to each part of the transfer and the re-distribution of funds through dividend payments.

#### AMIL

		Movement due to:		
£m	Day 0	AMIL to AIU transfer	Dividend	Day 1
Total Assets	101.4	(41.3)	(50.1)	10.0
Total Liabilities	47.8	(41.3)	0.0	6.5
Own Funds	53.5	0.0	(50.1)	3.5
SCR	28.9			0.0
<b>SCR coverage ratio</b>	<b>185%</b>			<b>n/a</b>

The SCR coverage ratio of AMIL resulting prior to the transfer is 185%. Post transfer, AMIL will have remaining own funds of £3.5m following payments to AEL of £50.1m (€58.2m), of which £21.6m (€25m) is then paid as a dividend to AmTrust International Limited (AIL).



3724983

**AIU**

Page 25 of 38

£m	Day 0	Movement due to:		
		AMIL to AIU transfer	Dividend	Day 1
Total Assets	881.0	43.2	0.0	924.2
Total Liabilities	683.9	39.2	0.0	723.1
Own Funds	197.0	4.0	0.0	201.0
SCR	112.3			125.5
<b>SCR coverage ratio</b>	<b>175%</b>			<b>160%</b>

The SCR coverage ratio of AIU decreases from 175% to 160% post-transfer. The £4.0m (€4.6m) transferring in from AMIL to AIU arises from the change in own funds following the Proposed Transfer. Due to changes in the valuation on arrival of the own funds in AIU, the business and assets transferring in have a positive own funds impact on AIU. The main driver of this is the difference in the valuation of expenses in AMIL compared to AIU.

Further detail around the capital movements are set out in the 'Summary of capital movements' section on page 29.

### 3.2.3. Net Worth Maintenance Agreement

Following the Directions Hearing, a NWMA was entered into between AFSI and AIU, and also between AFSI and AEL and AFSI and AA. The NWMAs were primarily put in place in relation to the transfer by AEL and AIU of their Italian medical malpractice business to AA and the transfer by AEL of its non-UK EEA business to AIU. These transfers each took effect on 31 July 2020.

Under the terms of the NWMA AFSI is committed to contribute capital to AIU during the period from 1 July 2020 to 30 June 2021 where:

- AIU's SCR coverage ratio falls below the risk appetite level of 140%; or
- AIU's Board believe the SCR coverage ratio will fall below 140% at any time during the next nine months.

AIU could request capital support up until 30 June 2021 if either the SCR coverage ratio falls below 140%, or if it is projected to fall below 140% at any time before 31 March 2022. As a result, the capital support is callable for a period of 12 months in relation to a period of up to 21 months.

3724983

Page 26 of 38

In the event that AIU's SCR coverage ratio is projected to fall below 140%, AIU will first consider what management actions to take to restore coverage, in line with AIU's recovery and resolution plan, before requesting additional capital from AFSI as needed. Given this, I have placed limited reliance on the NWMA in deriving my conclusions although I note that the agreement does increase policyholder security potentially up to March 2022.

AmTrust has confirmed that neither the PRA nor the CBI requested that the NWMA be entered into nor was it indicated by the PRA or the CBI that something like the NWMA should be considered by AmTrust.

The NWMA is covered by Irish law and was drafted with the help of AmTrust's lawyers. AmTrust took legal advice that the NWMA should be structured as a deed to enhance enforceability but have not sought a formal legal opinion on this matter.

### 3.2.4. Scenario analysis

I asked AmTrust to re-perform the same scenarios that were considered for the Scheme Report to reflect AmTrust's updated analysis of projected SCR coverage ratios.

The impact of these scenarios on the Day 0 and Day 1 SCR coverage positions of AMIL and AIU, assuming no management actions, is set out below.

#### Extreme recession scenario

Neither AMIL nor AIU have experienced a material increase in claims since the same scenario was performed for the Scheme Report. In addition, asset values have partially recovered over this period. Therefore, I believe this scenario is still suitably extreme for assessing the impact of a future recession on AMIL and AIU.

#### AMIL

£m	AMIL Day 0 - Base	AMIL Day 1 - Base	AMIL Day 0 - Extreme	AMIL Day 1 - Extreme
Total own funds eligible to meet SCR	53.5	n/a	28.3	n/a
SCR	28.9	n/a	29.9	n/a
<b>SCR coverage ratio</b>	<b>185%</b>	n/a	<b>94%</b>	n/a

The extreme recession scenario for AMIL allows for an increase in future delinquencies and the experience is based on the following Italian economic indicators:

- 25% fall in Italian house prices;
- Increase in unemployment rate from 6.7% to 12.7%;

3724983

- Decrease in GDP of 9%.

Page 27 of 38 Under this scenario, AMIL's Day 0 SCR coverage ratio is projected to decrease from 185% to 94% following a reduction in the level of own funds. The increase in SCR is relatively small given the increase in premium provisions, which drives the decrease in own funds, impacts operational risk which is a relatively small driver of the SCR. Even in this scenario, AMIL would still have sufficient funds to pay claims.

#### AIU

£m	AIU Day 0 - Base	AIU Day 1 – Base	AIU Day 0 – Extreme	AIU Day 1 - Extreme
Total own funds eligible to meet SCR	197.0	201.0	143.7	134.2
SCR	112.3	125.5	121.7	142.4
<b>SCR coverage ratio</b>	<b>175%</b>	<b>160%</b>	<b>118%</b>	<b>94%</b>

The extreme recession scenario for AIU considers a reduction in own funds of four times of that included within the base case, reflecting a more severe deterioration in investment performance, lower business volumes and increased in bad debt and reserves.

Whilst the majority of AIU's business is not expected to be materially impacted by COVID-19, it is sensitive to the secondary recessionary impact caused by the pandemic. In the extreme recession scenario above, AIU's Day 0 SCR coverage ratio is projected to decrease from 175% to 118% following a reduction in the level of own funds and an increase in the SCR.

On Day 1, following the transfer, it falls further to 94% following a further reduction in level of own funds and an increase in SCR. In this scenario AIU Policyholders are worse off following the Proposed Transfer. However, AIU would still be able to pay claims as they arise. In addition, AmTrust has committed to maintaining a minimum of 140% SCR coverage ratio as described earlier through a Net Worth Maintenance Agreement with AFSI, a parent company of AIU.

Before any consideration of AIU's NWMA with AFSI, Transferring Policyholders are no better or worse off in this scenario. Whether they remain with AMIL or move to AIU, the SCR coverage ratio of each entity under this scenario is 94%. However, the Transferring Policyholders would be better off in this scenario due to the NWMA, as AMIL does not have a similar agreement.

**3724983 Reinsurer default scenarios**

Page 28 of 38

Given the level of reinsurance protection that AMIL and AIU have, the risk of reinsurer default is a key uncertainty facing policyholders. I asked AmTrust to re-run the same reinsurance default scenarios as considered in my Scheme Report:

- AMIL: the default of all of its reinsurers
- AIU: default of All, a key reinsurer, but no haircut on the collateral backing the reinsurance.

**AMIL**

£m	AMIL Day 0 - Base	AMIL Day 1 - Base	AMIL Day 0 – RI default	AMIL Day 1 – RI default
Total own funds eligible to meet SCR	53.5	n/a	51.8	n/a
SCR	28.9	n/a	31.5	n/a
<b>SCR coverage ratio</b>	<b>185%</b>	n/a	<b>164%</b>	n/a

In this scenario, AMIL's Day 0 SCR coverage ratio is projected to decrease from 185% to 164% following a reduction in the level of own funds and an increase in the SCR. I consider the default of all of AMIL's reinsurers to be unlikely given that they are all rated A or above.

**AIU**

£m	AIU Day 0 - Base	AIU Day 1 - Base	AIU Day 0 – RI default	AIU Day 1 – RI default
Total own funds eligible to meet SCR	197.0	201.0	92.0	96.0
SCR	112.3	125.5	115.4	129.0
<b>SCR coverage ratio</b>	<b>175%</b>	<b>160%</b>	<b>80%</b>	<b>74%</b>

The SCR coverage ratio for AIU under the reinsurer default scenario is much improved compared to that presented in the Scheme Report. The two scenarios have different starting points given that a higher base SCR coverage ratio (175% compared to 140%) is now being targeted based on the revised dividend structure.

In addition, the scenario in the Scheme Report was based on an earlier iteration of AmTrust's model which has now been improved. In particular, additional collateral has been identified that transferred into AIU from AEL following the Part VII transfer between the two companies, and also some non-All defaulting reinsurance had been included in the position reported in the Scheme Report.

**3724983** Given AIU's significant reinsurance protection arrangement with All, this scenario leads to a material reduction in AIU's SCR coverage ratio from 175% to 80%. Post-transfer the SCR coverage ratio reduces further to 74%. Therefore, under this scenario, AIU Policyholders are worse off following the Proposed Transfer but not materially so. AIU still remains solvent and claims can still be paid.

Page 29 of 38

I consider the default of All to be an unlikely event given its current A. M. Best Financial Strength Rating as of 27 August 2020 of "A-" (Excellent) reflecting its balance sheet strength and the level of free assets.

Under the reinsurer default scenario analysis, both Transferring Policyholders and AIU Policyholders are worse off. For Transferring Policyholders, this is through their new exposure to All and therefore the risk of its default.

However, I note that under these scenarios, claims can still be paid as own funds remain positive. Further, these scenarios do not include any management actions and, as described earlier, the NWMA guarantees the SCR coverage ratios at the risk appetite level for a period after the Proposed Transfer. Therefore, I have concluded that policyholders are not materially disadvantaged under these scenarios.

3724983

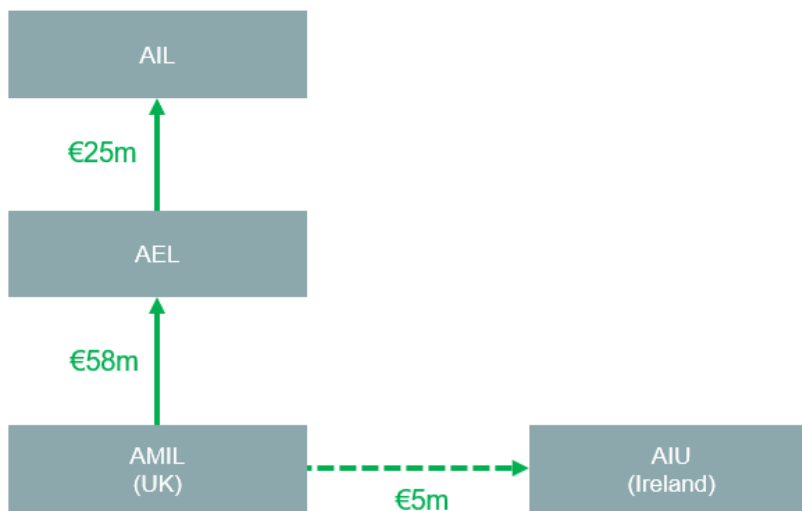
**3.2.5. Summary of capital movements**

Page 30 of 38

To support the Proposed Transfer and wider capital needs in the International Group, excess capital within AEL and AMIL will be paid out as a dividend to AmTrust International Limited (AIL), subject to regulatory approvals.

The capital funding requirements have been calculated on AmTrust’s latest assumptions regarding the impact of COVID-19 and also include the impact of additional reinsurance for AIU, reinsuring US sourced lines of business through a quota share arrangement with an AmTrust US company.

This is set out in the simplified diagram below showing the size of the dividends to be paid to AIL, assuming the COVID-19 assumptions used in AmTrust’s analysis are realised:



As noted above, the €5m (£4m) capital contribution to AIU arises from the change in own funds following the Proposed Transfer. Due to changes in the valuation on arrival of the own funds in AIU, the business and assets transferring in have a positive own funds impact on AIU. The main driver of this is the difference in the valuation of expenses in AMIL compared to AIU.

In addition to this, there is a capital release of €58m from AMIL following the Proposed Transfer. These numbers broadly reconcile to the change in own funds and change in equity in the GAAP balance sheets for AMIL and AIU pre- and post-transfer, allowing for currency conversion and differences in GAAP and Solvency II valuations.

AmTrust’s projections indicate that additional capital will be required to support AIU in 2022 of the order of €30m. This will be primarily funded through dividends from AEL to

3724983

All and then a capital injection from All to AIU. AIU will therefore be dependent on AEL/All for capital in 2022.

Page 31 of 38

This commitment ultimately depends on the financial strength of the AmTrust Group, in particular All. All's current A. M. Best Financial Strength Rating as of 13 August 2019 is "A-" (Excellent) reflecting their balance sheet strength and level of free assets.

#### SCR coverage ratios for Policyholders

- **Transferring Policyholders** – these policyholders will move from AMIL, with a coverage ratio of 185%, to AIU, with a coverage ratio of 160%. They are transferring from one "well-capitalised" insurer to another, albeit towards the lower end of the "well-capitalised" range. I do not believe these policyholders will be materially adversely affected by the Proposed Transfer.
- **Existing AIU Policyholders** – AIU's SCR coverage ratio decreases from 175% to 160% post-transfer. Again, AIU remains a "well-capitalised" insurer. Therefore, I do not believe these policyholders will be materially adversely affected by the Proposed Transfer.

I conclude that the security provided to all groups of policyholders will not be materially adversely affected by the Proposed Transfer.

#### 3.2.6. AIU Capital Policy

I have reviewed the draft capital policy and, previously, the Risk Appetite Statement for AIU. The capital policy is currently draft and expected to be finalised by the end of August. There are no material differences between the two.

In addition, there are no material difference between AIU and AMIL's capital policies, other than AIU's risk appetite for the solvency coverage ratio is 140%, whereas AMIL targets a solvency coverage ratio of 120%. For both entities, if the coverage ratio falls below the targeted level, an escalation process is triggered, and a capital injection would be sought.

As noted earlier, under the NWMA, AIU can request capital support up until 30 June 2021 if either the coverage ratio falls below 140% or is forecast to fall below 140% any time before 31 March 2022.

#### 3.2.7. Conclusion

Therefore, I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

- **The projected capital requirements have been calculated appropriately for Transferring and AIU Policyholders.**

3724983

- **Following the Proposed Transfer, I do not expect there to be any materially adverse changes in the strength of capital protection for any group of policyholders.**

Page 32 of 38

### 3.3. Step 3: Assessing overall policyholder security

As IE, 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 and AIU Policyholders; and
- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 7 of the Scheme Report.

#### Access to a Compensation Scheme

The assessments related to access to a Compensation Scheme were considered in section 7.4 of the Scheme Report. There have been no new developments since my Scheme Report and my conclusions remain the same.

#### Access to an Insurance Ombudsman Service

The assessments related to access to an Insurance Ombudsman Service were considered in section 7.5 of the Scheme Report. There have been no new developments since my Scheme Report and my conclusions remain the same.



**3724983 GAAP balance sheet projections**

Page 33 of 38

The table below shows simplified balance sheets for AMIL and AIU pre- and post- the Proposed Transfer. Figures have been shown on a GAAP basis, consistent with my Scheme Report.

**GAAP balance sheets of AMIL and AIU pre- and post- the Proposed Transfer (£m)**

	AMIL £m Day 0	AIU £m Day 0	AMIL £m Day 1	AIU £m Day 1
Investments and cash	91	247	10	285
Deferred acquisition costs	0	32	0	32
Reinsurers recoverables	9	543	0	552
Insurance and int. receivables	0	66	0	66
Other assets	7	257	0	259
<b>Total Assets</b>	<b>107</b>	<b>1,145</b>	<b>10</b>	<b>1,194</b>
Technical provisions	43	711	0	754
Technical creditors	1	154	0	155
Other liabilities	8	66	7	69
<b>Total Liabilities</b>	<b>52</b>	<b>931</b>	<b>7</b>	<b>978</b>
<b>Total Equity</b>	<b>55</b>	<b>214</b>	<b>3</b>	<b>216</b>

Source: AmTrust, figures converted assuming £1 = €1.16

Corresponding table in the Scheme Report is within section 7.2

Following the Proposed Transfer, the key movements in the balance sheet for AMIL and AIU are as expected:

- AMIL sees a reduction in its technical provisions, together with a corresponding reduction in reinsurer recoverables and investments and cash. The remaining assets in AMIL are there to support the MCR.
- AIU sees an increase in technical provisions together with an increase in investments and cash.

Overall, the total equity of AMIL reduces by £52m following the transfer. For AIU, it increases by £2m. This reflects the £4m (€5m) transferring in from AMIL to AIU arising from the change in own funds following the Proposed Transfer as highlighted on page 29 less £2m arising from differences between the GAAP and Solvency II valuation of the transferring liabilities.

3724983

## Conclusion

Page 34 of 38

There have been no changes to the Proposed Transfer that affect the likelihood of policyholders receiving payments due on their claims or reduce the security provided to the policyholders since the Scheme Report. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

**I have concluded that the security provided to the Transferring and AIU Policyholders will not be materially adversely affected by the Proposed Transfer.**

### 3.4. Step 4: Assessing policyholder communications

The assessments related to the communication plan were considered in section 8 of the Scheme Report.

#### Communications plan

AmTrust has communicated with policyholders in line with the original communications plan. AmTrust received a 'bounce-back' from two policyholders but are looking for an alternative address to which to send the communications pack.

Taking into account the above changes, I still believe the communication strategy to be appropriate in ensuring the relevant parties are adequately notified of the Proposed Transfer.

As of 9 October 2020, there was only one policyholder query. The query related to the policy itself and not the Proposed Transfer. No other communications from either customers or cedants had been received.

#### Objections

The key aspect of the update on policyholder communications is for me to consider any objections to the Proposed Transfer. As of 9 October 2020, no objections to the Proposed Transfer had been received.

AmTrust has notified all reinsurers whose contracts of reinsurance will be transferring to AIU. No objections have been raised by any of these parties.

#### Conclusion

The communications plan has been executed as set out in the Scheme Report and no objections to the Proposed Transfer have been received. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report.

The COVID-19 pandemic has had no material impact on the implementation of the communications strategy. There are only 27 Transferring Policyholders and no issues are expected in identifying from whom the responses have come from. Also, no resource constraints are expected in dealing with queries from policyholders.

**3724983** Based on my review of the communication strategy, I have concluded the planned communications strategy will ensure adequate coverage of affected parties.

Page 35 of 38

**I have also concluded that the planned communication is sufficiently clear for policyholders to understand the effects of the Proposed Transfer.**

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

The assessments related to the customer service and other considerations were considered in section 9 of the Scheme Report.

#### **Operational issues arising from COVID-19**

Whilst the uncertainty related to the evolving nature of the pandemic continues, any operational issues are likely to emerge over the short term as AmTrust's claims teams adjust to the new conditions. AmTrust do not expect any operational difficulties which may arise over the short term to have a material impact on policyholders.

#### **Conclusion**

Since the Scheme Report, there have been no changes to the Proposed Transfer that affect my analysis on customer service and other aspects of the Proposed Transfer. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

**I have concluded that no material impact on service standards (or any other considerations within this section of the report) is expected following the Proposed Transfer.**

#### 4. Conclusions and Statement of Truth

I have considered the Proposed Transfer and its likely effects on the Transferring and AIU Policyholders and the transferring reinsurers.

In reaching the conclusions set out below, I have applied the principles as set out in relevant professional guidance, being the Technical Actuarial Standards (TASs) TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance.

**I have concluded that:**

- **The security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.**
- **The security provided to AIU Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for AIU Policyholders.**
- **Reinsurers whose contracts with AMIL are transferring to AIU as part of the Proposed Transfer will not be materially adversely affected by the Proposed Transfer.**

##### 4.1. IE 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 understand my duty to the Court and 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.

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I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules,  
Practice Direction 35 and the Guidance for the Instruction of Experts in Civil Claims

Page 37 of 38 2014.



*Stewart Mitchell FIA*

Partner

9 October 2020

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London W1U 1DQ  
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#### **The use of our work**

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with AmTrust Management Services Limited. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Scheme Report, which is our work, has been prepared for the purpose of accompanying the application to the Court in respect of the insurance business transfer scheme described in this report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Scheme Report is not suitable for any other purpose.

A copy of the Scheme Report will be sent to the Prudential Regulatory Authority, the Financial Conduct Authority and will accompany the Scheme application to the Court.

This work is only appropriate 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.

#### **Professional Standards**

Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 200: Insurance.

The following is a list of the key data items I have requested and received, or accessed directly, in assessing the Proposed Transfer. I continue to also rely on all data items received that are listed in Appendix 4 of the Scheme Report. All data I have requested has been provided to me. AMIL and AIU have provided Data Accuracy Statements confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

**1. Draft Court and regulatory documents prepared by AMIL and AIU for the Proposed Transfer, including:**

- Draft second witness statement - AMIL
- Draft second witness statement – AIU
- Draft sanctions order

**2. Responses and objections from stakeholders to the Proposed Transfer**

- Update on number of objections received

**3. Documents relating to provisions and reserving processes, including:**

- Summary of GAAP and Solvency II provisions as at 31 December 2019 and 30 June 2020
- Updated projected GAAP balance sheet and SCR coverage ratio projections at Day 0 and Day 1 for AMIL and AIU (July 2020)
- Updated scenarios on the impact of the COVID-19 pandemic

**4. Documents relating to capital and related processes, including:**

- SCR coverage ratio calculation files for AMIL and AIU (July 2020)
- Paper describing capital projections to support the AmTrust transfers (July 2020)
- Net Worth Maintenance Agreement (July 2020)

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