

Scheme Report of the Independent Expert on the proposed transfer of insurance business from First Title Insurance plc to First European Title Insurance Company Ltd in accordance with Part VII of the Financial Services and Markets Act 2000

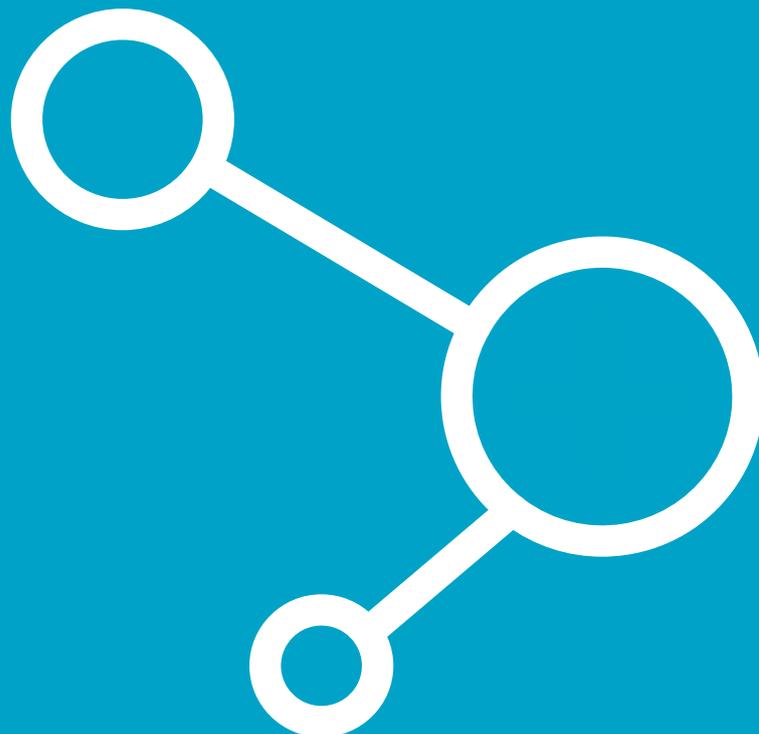
For the High Court of Justice of England and Wales

14 November 2019

Prepared by:

Stewart Mitchell FIA

LCP



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3499037 **1. Executive summary**

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1.1. The Proposed Transfer

First Title Insurance plc (FTI) currently operates across the European Economic Area (EEA) utilising the EEA's Freedom of Services (FoS) arrangement.

In the event of a so called "Hard Brexit" where FTI no longer has FoS rights, FTI may not legally be able to carry on the non-UK EEA business. For example, FTI 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.

FTI is proposing to transfer the relevant EEA business from FTI, a UK insurer, into First European Title Insurance Company Ltd (FETIC), a newly established insurer licensed in Malta, to provide certainty that claims can be paid to non-UK EEA policyholders.

First European Title Insurance Company Ltd (FETIC) has been established so that the First American Group can continue to carry on EEA business post-Brexit with minimum disruption to its operating model and its customers.

FTI and FETIC have the same common ownership and there will be no change in the ultimate parent company, First American Financial Corporation (FAFC).

1.2. My role as Independent Expert

FTI and FETIC have jointly 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 FTI or FETIC 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 FTI covering the transferring business will be materially adversely affected.

This 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 information or issues that arise.

3499037 **1.3. Summary of my conclusions**

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

- “Non-transferring Policyholders”, ie existing policyholders of FTI whose policies will remain with FTI after the Proposed Transfer.
- “Transferring Policyholders”, whose policies will transfer from FTI to FETIC as a result of the Proposed Transfer.
- “FETIC Policyholders”, ie any policyholders of FETIC at the time of the Proposed Transfer whose policies will remain with FETIC.
- Reinsurers whose contracts with FTI will cease and be replaced with similar contracts with FETIC as part of the Proposed Transfer.

The intention is for FETIC to write business only after the Effective Date of the Proposed Transfer. However, in the event of a Hard Brexit, non-UK EEA business may be written by FETIC before the Effective Date. Any such policyholders are described as FETIC policyholders in this report.

Non-transferring FTI policyholders

FTI has written c. 5.6m non-transferring policies since 2007. Policy numbers before 2007 are not readily available.

In my opinion, the security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary of rationale:

- The Non-transferring Policyholders represent c. 82% of FTI’s business based on booked provisions net of reinsurance as at 31 December 2018 and over 99.9% by number of policyholders. The overall risk profile of FTI will not be significantly affected by the Proposed Transfer.
- FTI has confirmed that the future reserving process and governance for FTI will be materially unchanged post-transfer.
- FTI has no current plans to change the approaches for providing policyholder security, including how insurance provisions and capital requirements are set.
- The SCR coverage ratio for Non-transferring Policyholders is expected to increase from 194% to 219% as a result of the Proposed Transfer.

3499037 In my opinion, no material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.

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Summary of rationale:

- FTI is not planning any material changes to how the non-transferring business is carried out.
- There are no plans to change how policyholders are serviced.

Transferring FTI policyholders

The Proposed Transfer involves c. 2,027 Transferring Policyholders, as follows:

- 697 residential property policyholders in the Republic of Ireland
- 32 residential policyholders in Spain
- 1,298 commercial property policyholders in various other EU countries, mainly the Republic of Ireland, Poland, Romania and the Czech Republic.

In my opinion, the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary of rationale:

- The Transferring Policyholders will remain within the First American Group and FETIC will be subject to the same group-wide policies as FTI.
- FTI has confirmed that the transferring policies will continue to be reserved in the same way post-transfer as pre-transfer. FETIC will also be supported by the same outsourced actuarial function as FTI.
- The calculation of the transferring provisions has been performed using an appropriate methodology.
- The SCR coverage ratio for the Transferring Policyholders is expected to reduce from 194% (FTI) to 188% (FETIC) as a result of the Proposed Transfer, which I do not consider makes policyholders materially worse-off as 188% is still well capitalised.
- FETIC is expected to remain very well-capitalised after 2020.
- The current intra-group reinsurance with FATIC will be replaced by a new treaty with FATIC but on the same terms.
- FETIC has been assigned the same Insurer Financial Strength rating of A as FTI by Fitch Ratings, Inc, based on the wider First American Group rating, and assigned a rating of A (Excellent) by A M Best.

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- The Transferring Policyholders will lose access to the Financial Services Compensation Scheme (FSCS) but overall, they are not materially disadvantaged by this.
- The Transferring Policyholders will still have access to an independent body which can investigate complaints filed against insurers.

In my opinion, no material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.

Summary of rationale:

- FTI is planning to minimise any changes as to how the transferring business is carried out, to avoid disruption to the operating model or its customers.
- For example, FETIC is not planning any changes to how the Transferring Policyholders are serviced following the Proposed Transfer and has signed service level agreements with providers.
- The Malta Financial Services Authority (MFSA) did not request any changes to FETIC's proposed service standards as a condition of FETIC becoming a licensed insurer.

FETIC policyholders

If the Proposed Transfer does not proceed then, under a Hard Brexit scenario, FTI might not legally be able to pay any claims to existing EEA policyholders, unless arrangements are agreed as part of the UK Government's Brexit negotiations with the European Union (EU).

In the event of a Hard Brexit, FETIC may begin writing insurance policies before the Effective Date of the Proposed Transfer. Any such new policyholders of FETIC will be made aware of the Proposed Transfer at the time they take out policies.

FETIC estimate that five or six policies will be written per month. This means by the Effective Date, there could be around 30-36 policies written by FETIC, based on a Hard Brexit on 31 October 2019.

For the purposes of my analysis, I have considered these policyholders as though they were Transferring Policyholders as they will benefit from the same level of security and service standards as the Transferring Policyholders.

I will provide an update on the Brexit situation and any FETIC policyholders in my Supplementary Report.

3499037 Reinsurers

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The main reinsurance currently protecting the Transferring Policyholders is the intra-group reinsurance provided by FATIC to FTI through a series of five treaties, which also reinsure the non-transferring policies. The cover provided to the transferring policies from this reinsurance will be replaced simultaneously with the Proposed Transfer by a new treaty underwritten by FATIC but on the same terms as the current reinsurance protection.

I will review the new reinsurance treaty when it is finalised and provide an update on my conclusions in my Supplementary Report.

One transferring policy has the benefit of specific external reinsurance. FTI plan to write to the two external reinsurers providing the reinsurance on this one policy with details of the Proposed Transfer and to novate the reinsurance policy before the Proposed Transfer. I will provide an update on this in my Supplementary Report.

In my opinion, reinsurers of FTI who provide cover for the transferring business will not be materially affected by the Proposed Transfer.

Summary of rationale:

- Exposure to claims faced by FTI's reinsurers will not change following the Proposed Transfer.
- 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.
- The main reinsurance will be provided through a new treaty on the same terms as the current treaties.

Further details on my conclusions, and other supporting information, are set out in this 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 information or issues that arise.

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2. Introduction

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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 or 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.

FTI and FETIC have jointly nominated Stewart Mitchell (I, me) of Lane Clark & Peacock LLP (LCP, we, or us) to act as the Independent Expert for the proposed insurance business transfer scheme (the Proposed Transfer) of the insurance business of FTI to FETIC under Section 105 of the FSMA. The Proposed Transfer is intended to become effective on 28 April 2020 (the Effective Date).

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 the Supplementary Report is to confirm and/or update my conclusions in this report, based on any new information or issues that arise.

2.2. The Proposed Transfer

FTI currently underwrites direct insurance policies in 16 countries across the EEA, including the UK. Direct insurance is defined to be insurance policies sold to the insured party, including through a broker or other intermediary.

In the event of a so-called Hard Brexit where FTI no longer has FofS rights, FTI's current operating model would no longer be viable. Under this scenario, FTI may not legally be able to carry on the non-UK EEA business. For example, FTI may not be able to issue new insurance policies across the EEA and might not legally be able to pay valid claims to existing EEA policyholders.

Proposed Transfer: it is proposed that the relevant EEA insurance business will transfer from FTI to FETIC, a newly established insurer based in Malta.

The purpose of the Proposed Transfer is to provide certainty that the First American Group can continue to carry on EEA business post-Brexit with minimum disruption to its operating model and its customers.

3499037 FTI's parent company is FAF International Holdings GmbH (FAFIH), a holding company incorporated in Switzerland.

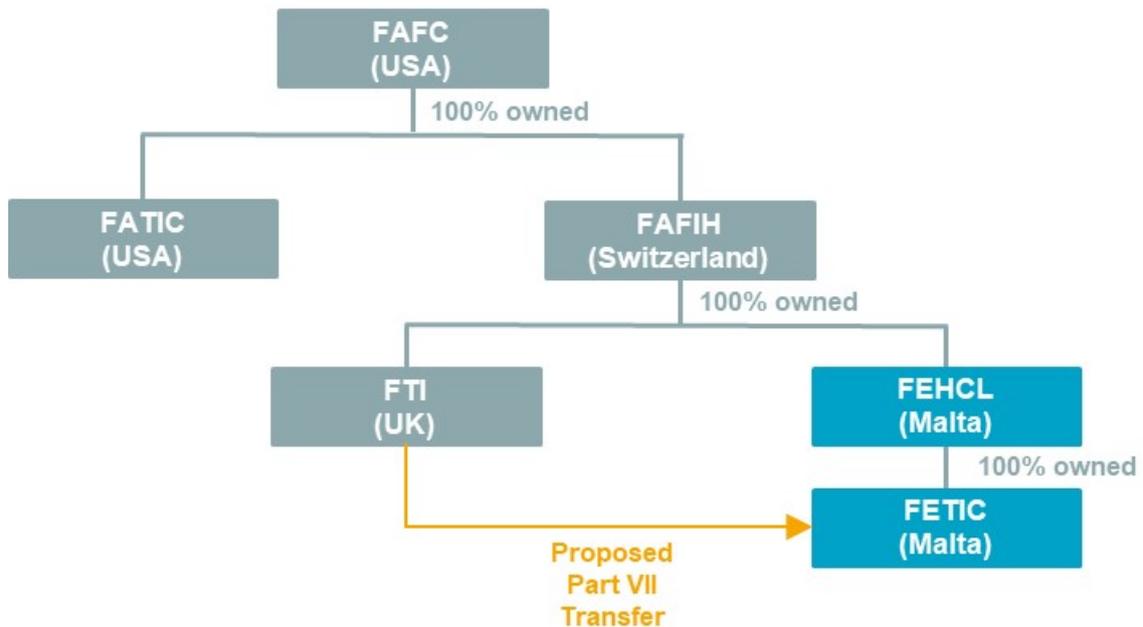
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FETIC has been established for the purposes of the Part VII transfer and will be a general insurer in Malta. FETIC is a wholly owned subsidiary of First European Holding Company Limited (FEHCL). FEHCL is a wholly owned subsidiary of FAFIH.

FAFIH's parent company is FAFC, a company incorporated in the United States of America (USA) and listed on the New York Stock Exchange (NYSE). In this report, I have used the term 'First American Group' to refer to FAFC and all subsidiary companies.

First American Title Insurance Company (FATIC) is an insurance company incorporated in the USA and is a wholly owned subsidiary of FAFC and provides reinsurance to FTI and FETIC.

The following diagram shows a simplified structure chart of the First American Group pre- and post- the Proposed Transfer.



3499037 **2.3. Independent Expert appointment**

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My appointment

FTI and FETIC have jointly appointed me to act as the IE for the Proposed Transfer. The PRA, in consultation with the FCA, has approved my appointment. FTI will bear the costs associated with the production of my report. I note 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 (IFoA) and am certified to act as a Signing Actuary for Statements of Actuarial Opinions for Lloyd's.

I am a Partner in the Insurance Consulting practice at LCP and have over 30 years' experience in general insurance.

I have skills in all areas of general insurance actuarial work (including reserving, capital, pricing and transactions), and have been the IE or supported or provided peer review to the IE for eight other insurance business transfer schemes. I have also led the work on Section 166 regulatory reports for the PRA.

Appendix 3 contains my CV with further details of my experience.

Independence statement

I confirm that I have no direct or indirect interests in FTI, either personally or via LCP. In particular:

- I am not, directly or indirectly, a shareholder in FTI or any other company within the First American Group and I am not a member of any pension scheme under the management of FTI;
- I do not hold any insurance policies issued by FTI.

This is the first piece of work LCP has carried out for any company within the First American Group. I also confirm that LCP does not hold any direct or indirect shareholding in FTI or any other company within the First American Group.

2.4. 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 on the policyholders of FTI and FETIC, and reinsurers whose contracts with FTI are transferring to FETIC. It contains a description of the Proposed Transfer, the methodology I have used to analyse

3499037 the Proposed Transfer, the opinions I have formed, and reasons why I have formed those opinions.

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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 alone.

The Proposed Transfer assumes a Hard Brexit where FTI no longer has FofS rights for existing or new policyholders. There are significant uncertainties as to how the UK Government’s Brexit negotiations and other Brexit arrangements will develop over the coming months and I have considered alternative options and contingencies in section 3.4 and 3.5.

2.5. Use of this Scheme Report

This Scheme Report has been produced by Stewart Mitchell FIA of LCP under the terms of LCP’s written agreement with FTI. It is subject to any stated limitations eg regarding accuracy or completeness of data.

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 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 PRA and the FCA and will accompany the Scheme application to the Court.

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 Scheme Report for any other purpose other than that set out above.

2.6. Reliances

I have based my work on the data and other information made available to me by FTI. 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 FTI and their advisors.

I have used data as at 31 December 2018 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 information or issues that arise.

3499037 I have received all of the information that I have requested for the purposes of the production of my report. In this respect:

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- FTI and FETIC will submit witness statements to the Court stating that all information provided to me by FTI and FETIC is correct and complete in all material aspects, and there have been no material adverse changes to the financial position of FTI and FETIC since that information was provided to me.
- I have conducted 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.

Legal advice

FTI has received legal advice relating to the impact of the Proposed Transfer on FSCS protection. I have reviewed this legal advice which confirms that FSCS protection will be lost by the Transferring Policyholders following the Proposed Transfer. I comment on this in section 7.4.

I have not needed to take any other third party legal advice on any aspects of the Proposed Transfer. FTI has confirmed that it has received no other specific legal advice relevant to my role as IE for the Proposed Transfer.

Data accuracy statement

FTI has provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

Both FTI and FETIC have read this IE report and each have agreed that it is correct in terms of all factual elements of the Proposed Transfer.

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

2.7. 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 the review of Part VII transfers issued in May 2018, the PRA Rulebook and the FCA Handbook.

3499037 This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 200: Insurance (TAS 200) issued by the Financial Reporting Council (FRC). The FRC is responsible for setting technical actuarial standards in the UK.

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I have considered The Actuaries' Code as issued by the IFoA whilst 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 Charl Cronje FIA. Charl is a Partner at LCP. He has appropriate experience and expertise to act as peer reviewer of this report and is the IE on two other Part VII transfers.

I have also been supported in my analysis and work by other LCP employees who have worked directly under my supervision. These include qualified UK actuaries and members of the IFoA.

2.8. Materiality

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 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 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.

2.9. 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

3499037 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.

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In this report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether policyholders and reinsurers are materially adversely affected or otherwise.

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3. Outline of Proposed Transfer

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3.1. The companies involved in the Proposed Transfer

First Title Insurance plc

FTI is an insurance company incorporated in England and Wales in May 1973, authorised by the PRA and regulated by the PRA and FCA. FAFIH is the parent company of FTI owning 100% of the issued share capital.

In November 2018 A.M. Best affirmed the Financial Strength rating of A (Excellent) for FTI with a stable outlook. This is based on the group rating.

In June 2018 Fitch Ratings, Inc affirmed the Insurer Financial Strength rating of A for FTI. This is based on the group rating.

FTI effects and carries out contracts of general insurance. FTI is permitted to carry out business in the UK and across other EEA countries on a FofS basis, having written business in 15 other EEA countries to date.

FTI underwrites a portfolio of title insurance. FTI has previously written Solicitors' Professional Indemnity insurance in England and Wales, however FTI ceased underwriting this line of insurance after policy year 1 October 2014 to 30 September 2015. FTI has also underwritten small amounts of environmental business. This is UK business only, is 100% reinsured and will not form part of the transferring business.

Title insurance insures property owners, and lenders whose loans are secured against property, against actual loss that may be suffered if a policyholder's title to their property turns out to be defective. For example, it may emerge that title is vested in a third party; that the property is subject to an encumbrance (eg a restrictive covenant); or that title is otherwise defective (eg due to fraud or invalid title documents).

The location of the risk in title insurance is the place where the property is located.

A one-off premium is paid for a title risk policy. The policies are not renewed. The cover is usually in perpetuity, ie for ever, unless claims exhaust the policy's stated limit of indemnity. The policies usually cover successors in title to the original insured, ie the insurance does not cease upon the property being sold.

FTI writes title insurance for both personal (residential) policyholders and commercial policyholders.

The Proposed Transfer involves c. 2,027 transferring FTI policyholders as follows:

- 697 residential property policyholders in the Republic of Ireland

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- 32 residential policyholders in Spain
 - 1,298 commercial property policyholders in various other EU countries, mainly the Republic of Ireland, Poland, Romania and the Czech Republic.
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FAF International Holdings GmbH

FAFIH was incorporated in Switzerland in 2017. FAFIH is a limited liability company and a subsidiary of FAFC.

First American Financial Corporation

FAFC was incorporated in the state of Delaware in January 2008 to hold the financial services businesses of the Company's prior parent. In June 2010, the Company's common stock was listed on the NYSE under the ticker symbol 'FAF'.

FAFC is a holding company (and the ultimate parent of the First American Group) and owns 100% of the issued share capital of FAFIH.

In November 2018 A.M. Best affirmed the Long-Term Issuer credit rating of bbb for FAFC with a stable outlook.

In June 2018 Fitch Ratings, Inc affirmed the Long-Term Issuer Default rating of BBB+ for FAFC with a stable outlook.

First American Title Insurance Company

FATIC is an insurance company incorporated in the state of California and was founded in 1889.

FAFC owns 100% of the issued share capital of FATIC.

In November 2018 A. M. Best affirmed the Financial Strength rating of A (Excellent) for FATIC with a stable outlook. This is based on the group rating.

In June 2018 Fitch Ratings, Inc affirmed the Insurer Financial Strength rating of A for FATIC. This is based on the group rating.

First European Holding Company Limited

FEHCL is a holding company incorporated in Malta in September 2018. FAFIH owns 100% of the issued share capital of FEHCL.

First European Title Insurance Company Limited

First European Title Limited was incorporated as a trading company in Malta in September 2018 and was renamed First European Title Insurance Company Limited on

3499037 12 June 2019 and licensed as an insurer by the MFSA on 13 June 2019. FETIC received an Insurer Financial Strength rating of A from Fitch Ratings, Inc on 13 September 2019 and of A (Excellent) from A M Best on 16 October 2019.

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FETIC has received permission to write business in 11 EEA states and anticipates permission for a further 6 EEA states by the end of November 2019, which will cover all transferring business. FEHCL is the parent company of FETIC owning 100% of the issued share capital. FETIC currently only plan to write commercial business ie policies where the insured owns a commercial (not residential) policy.

3.2. Description of the Proposed Transfer

Transferring policies

If sanctioned by the Court, the Proposed Transfer will move the direct insurance sold to insureds in respect of non-UK EEA located insurance risks by FTI to FETIC.

All rights and obligations of FTI relating to the transferring policies will also be transferred to FETIC. Following the Effective Date, any new direct insurance sold to insureds in respect of non-UK EEA located insurance risks will be insured by FETIC. As policies are not renewable, no renewal business will be written into FETIC.

FTI has written c. 5.6m non-transferring policies since 2007, policy numbers before 2007 are not readily available. As at 31 December 2018 there were 2,027 policyholders in scope to transfer to FETIC. The transferring policies represent booked provisions of £2.4m net of reinsurance ie c.18% of the total booked provisions for FTI of £13.6m.

FTI expect that all policies they plan to transfer to FETIC will be able to transfer at the Effective Date. Should this not be possible for any reason, there are provisions in the Scheme Document to allow for the transfer of such policies at a later date.

Reinsurance

Reinsurance is an arrangement with another insurer to share or pass on risks. Reinsurance contracts may be underwritten by an external reinsurer or by a reinsurance entity in the same group.

Excess of loss (XoL) reinsurance is a common type of reinsurance arrangement, where an insurer pays a premium to the reinsurer in return for the reinsurer being liable for losses in excess of a prescribed threshold (“retention”). There is typically an upper limit to the amount the reinsurer pays on each loss and a maximum number of losses covered on the policy.

Currently, the Transferring Policyholders of FTI benefit from the protection of intra-group XoL reinsurance through a series of five reinsurance treaties provided by FATIC.

3499037 It is intended that as part of the Proposed Transfer, this reinsurance cover for the transferring business will cease with effect from the Effective Date. Simultaneously, a new reinsurance treaty between FETIC and FATIC, which will provide reinsurance cover for all of the transferring business, will become effective.

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The new treaty will provide reinsurance cover on the same terms as the original reinsurance treaties. The new treaty is expected to be finalised by the time of the Directions Hearing and I will provide an update on this in my Supplementary Report.

FTI will provide additional reinsurance to FETIC so that the new business written into FETIC will benefit from the protection of a lower retention than that of the Non-transferring and Transferring Policyholders.

In the event of an insolvency of FATIC, FTI has confirmed to me that the Transferring Policyholders and FETIC Policyholders would be in no worse a position in terms of priority than the Non-transferring Policyholders.

There are external reinsurance arrangements in place for the non-transferring Solicitors' Professional Indemnity portfolio. The benefit of this reinsurance coverage relating to the Non-transferring Policies will remain with FTI.

FTI has confirmed there are no plans to transfer any other business portfolios into FETIC.

3.3. Purpose of the Proposed Transfer

The purpose of the Proposed Transfer is to provide certainty that the First American Group can continue to write and service EEA business post-Brexit with the minimum disruption to its operating model and its customers.

3.4. Alternative options considered

Novation

FTI considered novating non-UK EEA policies to FETIC as an alternative to a Part VII transfer. A novation is an agreement to replace a party in a contract with a third party. In this case, the novation would replace FTI as the insurer with FETIC. A novation requires the agreement of all parties in the insurance contract.

This was considered too complex given the number of policyholders involved.

Assumption of Hard Brexit

The Proposed Transfer assumes a Hard Brexit where FTI no longer has FofS rights for existing or new policyholders.

3499037 There are significant uncertainties as to how the UK Government's Brexit negotiations and other Brexit arrangements will develop over the coming months.

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For example, under a Hard Brexit, FTI may not legally be able to pay valid claims to existing EEA policyholders.

It is possible that a legal route for paying these claims may be agreed by the UK Government and the EU. However, discussions to date have focussed on short term arrangements up to say two years, which would not be appropriate for the title business written.

The Proposed Transfer is FTI's Brexit contingency plan to provide certainty that claims can be paid to non-UK EEA policyholders. FETIC has been established so that the First American Group can continue to carry on EEA business post-Brexit with minimum disruption to its operating model and its customers. Therefore, FTI has not considered any other alternatives.

3.5. Contingency plans

FETIC has been established to write policies after the UK leaves the EU on 31 October 2019.

In a Hard Brexit scenario with no transitional arrangements, FETIC will underwrite non-UK EEA risks from 31 October 2019, or from any such later exit date which may be agreed between the UK and the EU, before the Effective Date. In this scenario this additional group of policyholders who buy policies before the Effective Date would need to be considered.

I would need to consider whether this new group of FETIC policyholders were materially disadvantaged by the Proposed Transfer and the transferring of liabilities from FTI to FETIC.

FETIC will notify any such policyholders of the Proposed Transfer and the Effective Date and provide access via the FETIC website to this Scheme Report and other court documentation so that policyholders can take out policies with FETIC in full knowledge of the Proposed Transfer. Depending on the timing of any Brexit, I will consider this issue in my Supplementary Report before the Sanctions Hearing.

In a Hard Brexit scenario, FTI plans to seek approval from the relevant regulator should it need to make payment on a non-UK EEA claim prior to the Effective Date. Approval will be sought on a case-by-case basis after a claim has been made. Should this not be possible, FTI will seek to novate the insurance contract to FETIC to enable payment of the claim.

3499037 A majority of the transferring policies are for Irish risks. The Central Bank of Ireland (CBI), the regulator of insurance in Ireland, has indicated there will be a three-year transition period for UK firms with existing insurance liabilities. This will provide sufficient time for the Proposed Transfer to complete without the need for novation of Irish policies.

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The majority of the non-Irish transferring policies are for Polish, Romanian and Czech Republic risks. FTI has written to the regulators of all the non-Irish transferring policies.

Although the Polish regulator has not responded to FTI, it has been reported by UK law firms that the Polish regulator will allow claims to be serviced for up to one year after Brexit.

The Romania regulator has written to FTI and indicated that there is no provision to service claims post-transfer and that policyholders must be written to by FETIC and given the opportunity to cancel their policy and receive a refund of premium for the unexpired portion of the policy.

The Czech Republic regulator (CNB) has indicated that FTI can continue to handle and pay claims from the UK in respect of existing policies covering risks located in the Czech Republic indefinitely.

FTI and FETIC have considered the impact on the SCR coverage ratios, pre- and post-transfer, in the event of a Hard Brexit on 31 October 2019. This is discussed in section 6.10.

Key dependencies of the Proposed Transfer

The key dependencies of the Proposed Transfer, along with the current status, are as follows:

- Licence required by FETIC from the Maltese regulator – this was granted by the MFSA on 13 June 2019.
- Court approval required for the Proposed Transfer – the Directions Hearing is scheduled for 28 November 2019 and the Sanctions Hearing is anticipated for the w/c 21 April 2020. Court approval will also require that the PRA and FCA have no objections to the Proposed Transfer.
- Any objections raised by policyholders, reinsurers or non-UK EEA regulators after the Directions Hearing – I will comment on these (if any exist) in my Supplementary Report.
- FETIC anticipates permission to write in a further 6 EEA states by the end of November 2019. Two of these states are where FETIC simply want to write new business and so the Proposed Transfer is not dependent on permission being granted.

3499037 **4. My approach as IE**

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As IE, my overall role is to assess whether:

- The security provided to policyholders of FTI, and FETIC if applicable, 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 FTI covering the transferring business will be materially adversely affected.

To make these assessments, I have considered the effect of the Proposed Transfer from the perspectives of each of:

- Non-transferring Policyholders, whose policies will remain with FTI after the Proposed Transfer.
- Transferring Policyholders, whose policies will transfer from FTI to FETIC as a result of the Proposed Transfer.
- Any FETIC policyholders whose policies will remain with FETIC after the Proposed Transfer.
- Reinsurers whose contracts with FTI are transferring to FETIC.

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

Step 1: Assessing the provisions of FTI and FETIC

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

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

Step 2: Assessing the capital positions of FTI and FETIC

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 FTI and FETIC, the level of capital required is set under the European Solvency II standard. A key metric under Solvency II is the Solvency Capital

3499037 Requirement (SCR). This is an estimate of capital required to ensure that an insurer is able to meet its obligations over the next 12 months with a probability of at least 99.5%.

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I have assessed the appropriateness of the projected SCR for FTI and FETIC. 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 FTI and FETIC and other forms of security such as reinsurance.

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

Step 4: Assessing policyholder communications

I have assessed the appropriateness of FTI's 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 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.

3499037 **5. Reserving considerations**

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5.1. Introduction to insurance reserving

For an insurance company, the primary purpose of reserving is to assess the provisions for policyholders' claims and for the other costs associated with running an insurer.

Depending on how they are set, the provisions may be on a "best estimate" basis (ie with no deliberate optimism or pessimism) or include a "margin for prudence" (ie additional provisions to cover higher than expected claims). Where the provisions include a margin for prudence, this is typically designed to cover claims that are moderately higher than expected, rather than more extreme levels of claims.

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

5.2. 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 calculates the provisions 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:

- UK Generally Accepted Accounting Principles (GAAP) – these are the accounting standards used to set the provisions underlying the published financial accounts of FTI. GAAP provisions are relevant for policyholders as they are used as a reference point when setting provisions to cover future claims and other costs.
- Solvency II technical provisions – these are calculated in line with the European Solvency II regulations that came into effect in both the UK and Malta with effect from 1 January 2016. These provisions are relevant for policyholders as they are the basis for calculating the capital required and assessing solvency, for both FTI and FETIC.

3499037 **5.3. My considerations relating to reserving**

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As IE, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for both Non-transferring and Transferring 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 provisions (section 5.5);
- Key uncertainties when setting the provisions (section 5.6);
- Current FTI reserving process and governance (section 5.7);
- Future reserving approach and governance (section 5.8); and
- Setting of case estimates (section 5.9).

Within these areas, I have also considered any expected differences in the reserving approach between FTI and FETIC 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 5.10.

5.4. Approach to my review

I have reviewed a number of documents provided by FTI relating to the setting of provisions, including ones describing the reserving process and governance. In addition, I have had discussions regarding the information provided and any questions I have had on the approach with FTI and their actuarial advisors. A list of the key data and documentation is provided in Appendix 4.

5.5. Appropriateness of provisions

The following table shows the level of booked provisions as at 31 December 2018 for FTI, split between the non-transferring and the transferring provisions. The transferring provisions represent c. 18% of the total provisions, net of reinsurance.

Summary of GAAP booked provisions for FTI at 31 December 2018

£m	Gross of reinsurance	Net of reinsurance
Non-transferring	24.1	11.2
Transferring to FETIC	9.4	2.4
Total	33.5	13.6

Source: FTI, figures include ULAE (there is no UPR as all business is earned)

3499037 My assessment of the appropriateness of provisions

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I have considered the appropriateness of the following:

- Booked provisions for FTI as at 31 December 2018;
- Calculation approach for the transferring provisions;
- Solvency II technical provisions for FTI.

Booked provisions for FTI

The booked provisions are split into three components:

1. The estimate of claims that are reported to FTI and meet the requirements that enable an estimate to be set. For some claims where either insufficient information is available, or the probability of a claim being made is too low, no estimate is set.
2. An additional allowance for claims that have yet to be reported (commonly known as incurred but not reported or IBNR) using percentages applied to premiums for:
 - Amounts that are not recoverable from reinsurers; and
 - Amounts recoverable from reinsurers.
3. An allowance for material claims that do not meet the requirements to enable an estimate to be set. This allowance is set as the probability of a successful claim multiplied by the expected claim size.
4. Typically, insurers of general insurance would hold an unearned premium provision within the booked provisions to allow for claims on premiums that are yet to be earned. FTI's approach is to recognise 100% of premium and 100% of expected claims on day 1 of inception of a policy, since any claims must arise from known risks that were in place at the point of inception. I have satisfied myself this approach is appropriate as it is used by a number of other underwriters of title insurance, although some earn premium over a period after the inception of the policy (eg 5 years).

Independent reserve review and actuarial support

FTI has outsourced their actuarial function to an external consultancy (Milliman LLP), who provide actuarial support to the Chief Actuary of FTI.

The consultancy also performs a quarterly independent reserve review, and I have been provided with the results and reports for the most recent review. The reserve review is performed by a different team within the consultancy from that which performs the actuarial function, to maintain independence.

The main focus of my assessment of the provisions was a review of the documents provided to me by FTI relating to the calculated provisions as at 31 December 2018, and my discussions with FTI's outsourced actuarial function.

3499037 The estimates of the provisions in the independent actuarial reserve review are calculated on an 'expected value' or 'best estimate' basis. This means that they contain no margin for prudence or optimism.

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The independent actuarial review used common actuarial techniques such as the chain ladder method and Bornhuetter-Ferguson methods. FTI's historical data was relied on, supported by benchmark development patterns where appropriate. Other methods such as estimating the frequency and severity of claims were also used.

I have concluded that the methods used for the calculation of reserves were appropriate. The methods used are those typical of estimating general insurance reserves and a number of different methods were used to allow the level of reserves to be validated and cross-checked.

The independent actuarial review was also peer reviewed by another actuary with experience of title insurance business.

FTI's booked provisions include a significant margin above the independent actuarial provisions on both a gross and net of reinsurance basis and so the booked provisions are regarded as prudent. I concluded that including a margin in the booked reserves to allow for the additional uncertainty of title insurance was appropriate as it allows for worse than expected claims' experience.

On a net of reinsurance basis, the independent actuarial estimate of ultimate claims as at 31 December 2018 reduced slightly compared to 31 December 2017. Separately, there was a large deterioration in a specific loss gross of reinsurance, but the impact was fully absorbed by reinsurance.

The booked provisions are not discounted for the "time value of money". To the extent that claims will be paid out some time in the future, there is an argument that having no discounting provides an additional element of prudence in the provisions. This is due to the ability to earn investment income up to the point that the claims are paid.

Calculation of the transferring provisions

The current reserving process has different reserving classes for each underlying currency. The transferring business represents all the Euro denominated reserving classes, so an accurate estimate of the transferring provisions is readily available within the current reserving process.

Solvency II technical provisions for FTI

I have reviewed the approach taken by FTI to convert the booked GAAP provisions into Solvency II technical provisions (TPs). FTI calculate the TPs which are then reviewed by

3499037 the outsourced actuarial function, which concluded that the TPs were reasonable and that the methods and assumptions used were compliant with Solvency II.

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I have focussed my review on the areas which, in my experience, are the areas of greatest interest to an independent reviewer. This included the treatment of contract boundaries, Events Not in the Data (ENIDs) and the Risk Margin.

As FTI had no contracts that they were legally obliged to write but had not incepted as at 31 December 2018, the issue of contract boundaries did not arise.

An allowance for ENIDs is made within the TPs as the data set used to estimate GAAP provisions does not typically include experience from rare events. The use of a truncated distribution is a common approach where an assumption is made as to the level of claims from such rare events.

An ENID load has been calculated by the outsourced actuarial function for FTI using this approach and is in line with the loads typically held by other insurers.

The risk margin within the TPs under Solvency II represents the potential costs of transferring insurance obligations to a third party should an insurer fail. The Solvency II guidelines allow four simplifications to the calculation of the risk margin. FTI use 'Method 2' where the total SCR runs off in line with the best estimate TPs ie excluding the risk margin.

FTI have followed the Solvency II guidelines for calculating TPs from GAAP reserves and my conclusion having reviewed FTI's approach to calculating the TPs is that the approach is appropriate. I have not sought to re-perform the calculation of the TPs or verify the calculations performed by FTI.

5.6. Key uncertainties when setting provisions

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

The key uncertainties for FTI's portfolio include the following:

- Title insurance is written in perpetuity and as such is very long tailed ie it can take several years for a claim to arise and to then be settled and paid.
- FTI also write a number of smaller associated classes of business eg Right to Light where, although premium volumes are small, there is exposure to large claims. The lack of sufficiently credible data also increases the uncertainty for these smaller classes.

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- Title insurance can be impacted by underlying economic conditions and is susceptible to changes in the economic environment such as interest rates and unemployment levels.
- FTI wrote Solicitors' Professional Indemnity business in England and Wales which is also susceptible to economic conditions, although this book was only written in policy years 1 October 2011 – 30 September 2012 and through to and including 1 October 2014 – 30 September 2015. As this book has been in run-off for a number of years, the uncertainty has reduced over time.

The uncertainties in the FTI portfolio in terms of unknown frequency and size of claims are typical of a general insurance portfolio. However, the risk profile for title business is unusual, and the uncertainties are increased, since title insurance provides cover in perpetuity, ie claims may potentially be reported many years after the policy is written. Title claims generally have a low frequency of occurrence. However, the amounts can be large, particularly where property values are large or have increased significantly over time.

Generally, FTI's actuarial function assume that all claims will be made within 10 years of policy inception and FTI's historical data supports this view. Only one claim has been received more than 10 years after inception, but the unique circumstances of this claim are not expected to be repeated.

Experience from title insurance business written in other jurisdictions under different legal systems has seen more instances of claims being reported later than 10 years.

FTI hold booked reserves materially above those estimated by the independent external review and this provides some protection against the small risk of claims being reported later than 10 years from inception.

To mitigate the uncertainties regarding title insurance, FTI:

- purchase significant reinsurance above a certain retention to protect against large losses
- commission an independent third-party actuarial review of their reserves
- hold a material level of prudence in their booked provisions above that of the independent actuarial review.

Given the steps FTI have taken to mitigate the uncertainties of the risk profile of the title business written, I have concluded that their approach to setting provisions is appropriate.

3499037 **5.7. Current FTI reserving process and governance**

FTI reserving process

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FTI review the results of the quarterly reserve review performed by the outsourced actuarial function. They use this as an input into their consideration of the reserves to be held, and typically hold a margin for prudence in excess of the actuarial function's estimates.

Wider stakeholder involvement in the reserving process

The FTI Reserving Committee is attended by FTI board members with actuarial, claims, finance and underwriting represented in the meeting. Where relevant, material is presented by external auditors and the actuarial function to allow decisions to be made on the appropriate level of reserves. I have reviewed the papers circulated to the Reserving Committee and have concluded they provide sufficient detail for decisions to be taken.

Actions from the Reserving Committee and any changes recommended are recorded in the minutes and circulated to attendees.

Reserving process governance

I have seen evidence of clear minutes from committees involved in the reserving process. There are terms of reference in place for the various committees involved in the reserving process.

I have concluded that the governance around the reserving process is appropriate.

5.8. Future reserving approach and governance

FTI has provided a paper outlining the reserving approach and governance together with various documents submitted to the MFSA as part of the authorisation process eg terms of reference for committees.

FTI will not change the approach to reserving for non-transferring policies, other than to no longer have Euro denominated reserving classes.

Once transferred to FETIC, the transferring policies will be reserved in the same way after the transfer as they were before.

FETIC will outsource the actuarial function to the same actuarial consultancy, who will continue to reserve the claims in the same way for FETIC as they have for FTI in the past.

FETIC will reserve claims on a similar basis to FTI ie on a best estimate basis with a margin for prudence by applying a load on gross written premium.

3499037 Claims will be handled by FETIC's General Manager overseen by an Executive Director of FETIC, who has been the co-head of FTI's claims team. External legal advisors will continue to be used as is currently the case.

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FETIC will increase the reserving parameters used to set booked provisions for the new non-UK EEA business written following the Proposed Transfer. This is to reflect that FETIC is a smaller company and expect to see greater volatility in reserves due to its smaller size which is reasonable.

5.9. Setting of case estimates

Claims handlers assess claims as they are notified to an insurer and use their judgement and experience to estimate the likely cost of each claim. This is known as setting a "case estimate".

Typically, these case estimates would be a key input into the reserving process as a basis for projecting the estimated costs of future claims, ie those that have not yet been reported and the additional cost of settling those that have been reported.

The provision for these future claims is known as IBNR (incurred but not reported). The IBNR includes estimated developments to existing open claims, ie those that have been reported but not fully settled. The provision for these 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.

Claims handlers set case estimates based on their view of the cost of settling the claim, ie with no intended pessimism or optimism. Depending on the size of the claim, approval may be required to set the case estimate and will be reviewed prior to setting it.

As described in the previous section, the case estimation process for FETIC will be consistent with that of FTI with external legal advisors used with experience of the applicable law in the location of each risk.

5.10. Overall conclusion: Reserving considerations

I have 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.

3499037 Non-transferring Policyholders

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Based on the work described above, I have concluded that an appropriate level of provisions will be maintained for the Non-transferring Policyholders and that they will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

The key reasons for reaching my conclusions for Non-transferring Policyholders are as follows:

- The Non-transferring Policyholders represent c. 82% of FTI's business based on booked provisions net of reinsurance as at 31 December 2018 and over 99.9% by number of policyholders. The overall risk profile of FTI will not be significantly affected by the Proposed Transfer.
- FTI has confirmed that the future reserving process and governance for FTI will be materially unchanged post-transfer.

Transferring Policyholders

Based on the work described above, I have concluded that an appropriate level of provisions will be maintained for the Transferring Policyholders and that they will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

The key reasons for reaching my conclusions for Transferring Policyholders are as follows:

- FTI has confirmed that the transferring policies will continue to be reserved in the same way post-transfer as pre-transfer. FETIC will also be supported by the same outsourced actuarial function as FTI.
- The calculation of the transferring provisions has been performed using an appropriate methodology.

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6. Capital considerations

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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.

An insurer's "capital coverage ratio" is calculated as the available capital in excess of provisions divided by the capital required under regulations. The coverage ratio is a measure of capital strength and, whilst it does not capture all aspects of policyholder protection, all else being equal, a higher coverage ratio provides more protection. A higher ratio indicates that there is more capital available per £ of capital required. Under Solvency II, the level of available capital is referred to as "own funds".

For the purposes of this report, I describe a company as having "sufficient capital" (relative to the regulatory capital requirement under consideration) if the coverage ratio is above 100%. I describe a company as "well-capitalised" if the coverage ratio is between 150% and 200% and "very well-capitalised" if the coverage ratio is in excess of 200%.

6.2. Calculating capital requirements

For both FTI and FETIC, the level of capital required is set under the European Solvency II standard.

A key metric under Solvency II is the SCR. This is an estimate of capital required to ensure that an insurer is able to meet its obligations over the next 12 months with a probability of at least 99.5%.

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 help improve the parameterisation of the calculation for their specific business.
- 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. Under this approach, some aspects of the SCR are calculated using the internal model, and the remainder is calculated using the standard formula.

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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 their SCR. An insurer does not need approval to calculate their SCR using the standard formula without USPs but does need to complete their own assessment of the appropriateness of the standard formula for this purpose.

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FTI uses the standard formula without USPs to calculate their SCR, and FETIC also intends to calculate their SCR using the standard formula without USPs.

Capital requirements beyond a “one-year” view

Solvency II is intended to give 99.5% confidence that an insurer will still be solvent at the end of the next year. In other words, only a 1 in 200 year event should be capable of resulting in the failure of the insurer within one year. FTI uses the standard formula to calculate its solvency capital requirement on this basis.

As FTI writes title insurance in perpetuity, FTI has asked their outsourced actuary to consider solvency requirements on an ultimate time horizon basis. The actuary used USPs in the calculation of solvency requirements on an ultimate time horizon basis.

The USPs are based on FTI's specific claims experience which FTI consider are more appropriate than the factors based on the standard formula “miscellaneous financial loss” class. This class includes other general insurance business with different characteristics to title insurance.

These USPs suggest that the standard formula overstates FTI's premium risk but understates claims risk, the overall net effect of which is that solvency requirements on an ultimate time horizon basis are lower than that calculated using the standard formula.

This leads to a modest increase in SCR coverage ratio from 220% as at 31 December 2018 on a one-year standard formula basis to 227% on an ultimate USP basis.

Having reviewed the capital analysis on an ultimate basis, I have concluded that FTI's ultimate SCR based on USPs would not be materially different from the one-year standard formula view.

For FETIC there is insufficient data to enable conclusions to be drawn on the comparison between the one-year and ultimate view of risk at a similar level of confidence. This point is discussed further in section 6.7.

3499037 **Minimum Capital Requirement**

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Another key measure of capital under Solvency II is the Minimum Capital Requirement (MCR). This is a simpler calculation than the SCR and typically a less onerous requirement.

FTI is very well-capitalised on this measure with an MCR capital coverage ratio of 707% as at 31 December 2018. Therefore, I have not considered the MCR further as part of my assessment of capital considerations for FTI, and my primary focus is on the SCR.

FETIC is projected to be very well-capitalised on this measure with an MCR capital coverage ratio of 234% as at the day before the Proposed Transfer.

The MCR for FETIC is higher than the SCR pre-transfer since no business is planned to be written by FETIC at this point. Post-transfer the SCR is higher than the MCR and so I have not considered the MCR further.

6.3. Components of capital requirements

The key components of the SCR common to both FTI and FETIC are:

- *Premium risk*: the risk that premiums prove to be inadequate to meet claims. For example, this covers the risk of larger than expected losses or a greater than expected number of losses. These could be due to under-pricing, unfavourable economic conditions or a wide variety of other factors.
- *Reserving risk*: the risk that the existing provisions prove to be inadequate.
- *Market risk*: the risk of changes in the value of assets, liabilities and financial instruments arising from changes in markets. For example, this covers the risk of falls in the value of assets that are being held to make future claims payments, as well as changes in the provisions due to (say) changes in the interest rates used to discount the value of the provisions.
- *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 covers the risk of the failure of a reinsurer or a broker.
- *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.

Premium risk and reserving risk, when taken together, are referred to as *underwriting risk*.

The most material component of the SCR for FTI is underwriting risk, which represents c.69% of the undiversified SCR, as reported in FTI's Solvency and Financial Condition

3499037 Report as at 31 December 2018. This is as expected given that insurance is the core business of FTI.

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The SCR projections for FETIC also show the most material component of the SCR is underwriting risk.

6.4. My considerations related to capital

As IE, my overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for both Non-transferring and Transferring 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.

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

- The capital policy for each of FTI and FETIC (section 6.6);
- SCR appropriateness for FTI and FETIC (section 6.7);
- The SCR under stressed scenarios for FETIC (section 6.8);
- The planned capital structures for FTI and FETIC (section 6.9); and
- Projected SCR coverage ratios (section 6.10).

6.5. Approach to my review

I have reviewed a number of documents provided by FTI 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.

I have also independently calculated selected aspects of the standard formula SCR calculation for FTI and FETIC using LCP's standard formula model and compared my results to those produced by FTI and FETIC.

6.6. The capital policy for each of FTI and FETIC

I have reviewed the capital policy for both FTI and FETIC; there are no material differences in the policies.

3499037 **6.7. SCR appropriateness for FTI and FETIC**

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I have considered the SCR appropriateness for both FTI and FETIC considering two aspects: the appropriateness of using the standard formula; and calculating my own independent estimates of the SCR.

Appropriateness of the standard formula for FTI

FTI's outsourced actuarial function considered the appropriateness of the standard formula by considering qualitative factors and also using USPs to calculate the SCR. The USP analysis focussed on the more material contributors to capital ie premium and reserve risk.

The actuarial function concluded that the use of USPs would give a lower SCR than that calculated using the standard formula and that the SCR appears prudent and ensures that FTI can withstand events potentially worse than a 1-in-200 year adverse event and still honour its obligations to its policyholders.

FTI, after considering the actuarial function's standard formula appropriateness analysis, concluded that the standard formula was appropriate for calculating the SCR.

I have reviewed the standard formula assessment provided by FTI and the supporting analysis. I have concluded that the standard formula is an appropriate basis for calculating the SCR for FTI as it is not understating the capital requirements and FTI's supporting USP analysis leads to capital requirements that are not materially different to those of the standard formula.

Independent calculation of the SCR for FTI

I have also performed an independent calculation of the standard formula SCR for FTI and compared my results to those produced by FTI. This is based on LCP's standard formula model using data supplied by FTI.

My independent estimates provide me with the evidence required to support my conclusion that the standard formula SCR for FTI has been calculated correctly.

Appropriateness of the standard formula for FETIC

FTI's outsourced actuarial function considered the appropriateness of the standard formula for the purpose of calculating the SCR for FETIC by using FTI's EU business as a proxy.

There is insufficient data to draw any firm conclusions on the use of USPs for FETIC and without a SF SCR calculation for FTI's EU business as at 31 December it is not possible to investigate the impact of the use of USPs.

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The actuarial function's expectation is that the use of USPs would give lower premium and reserving risk but a higher operational risk, and that it is not possible to be definitive as to the overall impact. The actuarial function's belief is that the use of USPs would not give a materially higher SCR than that calculated using the standard formula and concluded that the use of the standard formula was appropriate.

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I have reviewed the standard formula assessment for FETIC and the supporting analysis. I have concluded that the standard formula is an appropriate basis for calculating the SCR for FETIC, since this was not understating the capital requirements.

Independent calculation of the SCR for FETIC

I have also performed an independent calculation of the standard formula SCR for FETIC and compared my results to those produced by FETIC. This is based on LCP's standard formula model using data supplied by FETIC.

My independent estimates provide me with the evidence required to support my conclusion that the standard formula SCR for FETIC has been calculated correctly.

6.8. SCR scenarios analysis

A number of scenarios have been considered within FTI's ORSA. FETIC has not run an ORSA to date but have performed the stress and scenario testing that will form part of the ORSA.

FTI scenarios

FTI's 2019 ORSA includes a five-year projection that shows FTI is expected to remain very well-capitalised up to 2023.

FTI has considered a scenario on the impact of leaving the EU which also projects that FTI will remain very well-capitalised until 2023. The SCR coverage ratio increases in the event of Brexit and non-UK European business being written by FETIC.

FTI also considered 8 further scenarios around the following key risks:

1. A reduction in premium
2. An immediate failure of FETIC, FTI's primary title insurance reinsurer
3. A high incidence of claims at FTI's current retention of £300k
4. The impact of a cyber-attack.

The severest scenario for each key risk shows the coverage ratio for FTI remains above FTI's minimum risk appetite of 120% in the five-year plan, other than the scenario of a 50% reduction in premium each year. In that scenario, the breach does not occur until 2023 and ignores any management actions that would be taken eg to reduce costs.

3499037 FTI has also considered a combination of scenarios in their reverse stress testing ie identifying what would cause a failure of the business. The scenarios considered are the failure of FATIC and a 40% reduction in premium.

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This leads to a fall in the SCR coverage ratio below 100% in 2021 and to 53% in 2023, assuming no mitigating actions are taken.

Given FATIC has a Standard & Poor's credit rating of A-, the probability of failure is remote but not impossible.

Following my review of the scenario analysis performed by First Title, I have concluded that these are appropriate for the material risks faced by FTI.

FETIC scenarios

A central scenario is prepared annually for FETIC which projects profit and loss for the next 5 years based on a strategic plan. Under this scenario, the SCR coverage ratio is expected to rise over time and FETIC remains very well-capitalised.

FETIC has further modelled 7 scenarios in their stress and scenario testing for the following key risks, which are similar to those for FTI:

1. A reduction in premium
2. Failure of a key reinsurer
3. High incidence of claims
4. Cyber-attack.

FETIC has also considered combinations of scenarios eg a high incidence of claims above the reinsurance retention and an increase in the loss ratio. In all modelled scenarios FETIC retains sufficient capital as described in section 6.1.

FETIC has further considered which combinations of key risks could lead to a failure in their reverse stress testing. The combination that has been modelled is that of reinsurance failure together with a 50% reduction in premium income.

This would lead to own funds falling below the MCR and so the business would become unviable. FETIC's reinsurer is FATIC which is rated A- by Standard & Poor's so the probability of failure is remote but not impossible.

My review of FETIC's stress and scenario testing led me to conclude that the scenarios were reasonable and reflect the key risks faced by FETIC.

3499037 **6.9. The planned capital structures for FTI and FETIC**

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FETIC's target initial capitalisation for day 1 after the Proposed Transfer is €5.9m of paid-up share capital. FETIC plan to invest in 70% cash and 30% corporate bonds.

The above equates to a day 1 SCR coverage ratio for FETIC of 188% (as shown in the second table of the following section).

The FTI capital structure ie the source of funds to finance the overall operations and growth by using different sources of funds is materially unchanged pre- and post- the Proposed Transfer.

FTI will pay a dividend of £1.52m as part of the Proposed Transfer to support FETIC's capital. The dividend will be routed via FAFIH to FEHCL and then to FETIC, although the cash will effectively be paid directly to FETIC. The dividend is expected to be approved by the FTI board, and the onward investment by the boards of both FAFIH and FEHCL, in February 2020. It is expected to be paid by mid-March 2020 at the latest ie before the Sanctions Hearing which is expected in the week commencing 21 April 2020 and so is included in FETIC's own funds in the table below.

6.10. Projected coverage ratios of SCR

The following tables set out the SCR and coverage ratios, prepared by FTI, for FTI and FETIC pre- and post- the Proposed Transfer. These figures are based on current projections and I will comment on any updates to the figures in my Supplementary Report.

FTI – 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	27.4	27.4
SCR	14.2	12.6
SCR coverage ratio	194%	219%

Source: FTI

FETIC – 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	5.8	5.8
SCR	1.4	3.1
SCR coverage ratio	234%*	188%

Source: FETIC, * based on €2.5m MCR as MCR > SCR (SCR coverage ratio 410%)

3499037 FTI has projected that the Proposed Transfer will increase the SCR coverage ratio from 194% ie well-capitalised (as defined in section 6.1) to 219% ie very well-capitalised.
Page 41 of 68 Hence, the security of the Non-transferring policyholders is not adversely affected as a result of the Proposed Transfer. In the years following the Proposed Transfer, FTI is expected to remain very well-capitalised.

The projected SCR coverage ratio of 194% at Day 0 is lower than that reported as at 31 December 2018 (220%) as a result of the payment by FTI of a dividend of £3.7m in May 2019 to provide funds to FAFIH in relation to their capitalisation of FETIC.

The SCR coverage ratio for FETIC as at Day 0 is 410% but, as the MCR is higher than the SCR, I have considered the coverage ratio based on the MCR of 234% ie using the actual capital held.

FETIC has projected that the SCR coverage ratio will be 188% on Day 1, ie well-capitalised.

The SCR coverage ratio for the Transferring Policyholders decreases from 194% to 188% as a result of the Proposed Transfer, which I do not consider a material reduction.

FETIC's own funds at Day 0 and Day 1 (ie the day before and the day after the transfer) are unchanged at €5.8m. The coverage ratio falls for any existing FETIC policyholders from 234% (based on MCR) to 188% but this is because funds have been provided to FETIC in advance of the liabilities being accepted as part of the Proposed Transfer.

FETIC's coverage ratio is expected to increase over the next 5 years as profitable business is written and remain very well-capitalised after 2020.

Brexit impact

FTI and FETIC have considered the impact of FETIC writing non-UK EEA business from 31 October 2019 in the event of a Hard Brexit, rather than from the Effective Date as planned.

In summary, in the event of a Hard Brexit:

- The SCR coverage ratio for Non-transferring Policyholders is projected to increase both pre- and post-transfer. FTI benefits from a lower SCR due to reduced underwriting risk. Therefore, Non-transferring Policyholders will not be materially adversely affected by this aspect of the capital considerations.

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- The SCR coverage ratio for Transferring Policyholders is projected to increase both pre- and post-transfer. FETIC's balance sheet would benefit from the expected profit on the non-UK EEA business. Therefore, Transferring Policyholders will not be materially adversely affected by this aspect of the capital considerations.

Therefore, I do not expect there to be any material adverse changes in the strength of capital protection for either group of policyholders in the event of a Hard Brexit.

6.11. Overall conclusion: Capital considerations

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

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

- **The projected capital requirements for FTI and FETIC have been calculated appropriately for both Non-transferring and Transferring Policyholders.**
- **Following the Proposed Transfer, I do not expect there to be any materially adverse changes in the strength of capital protection for either group of policyholders.**

3499037 **7. Policyholder security**

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7.1. My considerations relating to 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 both Non-transferring and Transferring 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:

- The GAAP balance sheets of FTI and FETIC (section 7.2)
- The solvency positions of FTI and FETIC (section 7.3)
- Access to the Financial Services Compensation Scheme (section 7.4)
- Access to the Financial Ombudsman Service (section 7.5)
- Reinsurance arrangements with external reinsurers (section 7.6)
- Insurance regulation (section 7.7)

Further details on each of these considerations are set out below, and my overall conclusion related to policyholder security is set out in section 7.8.

7.2. Impact on the balance sheets of FTI and FETIC

I have based my analysis on data as at 31 December 2018.

The balance sheets below are based on current projections. The actual balance sheets immediately pre- and post- the Proposed Transfer will be different from those below as at the anticipated Effective Date of 28 April 2020.

I will also prepare a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer, which will include an update of my conclusions on policyholder security in this report.

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GAAP balance sheets of FTI and FETIC

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	FTI £m Pre-Transfer	FTI £m Day 1 Post-Transfer	FETIC €m Day 1 Post-Transfer
Investments and cash	41.4	38.5	9.2
Deferred acquisition costs	0.0	0.0	0.0
Reinsurers recoverables	19.2	12.1	8.0
Insurance and intermediaries receivables	2.9	2.9	0.0
Deferred tax assets	0.0	0.0	0.0
Any other assets, not shown elsewhere	0.1	0.1	0.0
Total Assets	63.6	53.6	17.2
Technical provisions	34.0	24.0	11.3
Reinsurance payables	0.0	0.0	0.0
Any other liabilities, not shown elsewhere	3.2	3.2	0.0
Total Liabilities	37.2	27.2	11.3
Total Equity	26.4	26.4	5.9

Source: FTI, FETIC

The table above shows simplified balance sheets for FTI (£m) pre- and post- the Proposed Transfer and the simplified balance sheet for FETIC (€m) after the Proposed Transfer.

7.3. Impact on the solvency positions of FTI and FETIC

The solvency positions of FTI (£m) and FETIC (€m) pre- and post-transfer are summarised in the following table.

Solvency positions of FTI and FETIC

	FTI £m Pre-Transfer	FTI £m Day 1 Post-Transfer	FETIC €m Day 1 Post-Transfer
Total own funds eligible to meet SCR	27.4	27.4	5.8
SCR	14.2	12.6	3.1
SCR coverage ratio	194%	219%	188%

Source: FTI, FETIC

As set out in the above table, FTI is well-capitalised immediately before and after the Proposed Transfer and FETIC is well-capitalised immediately after the Proposed Transfer (as described in sections 6.1 and 6.10).

3499037 FETIC has been assigned the same Insurer Financial Strength rating of A as FTI by Fitch Ratings, Inc, based on the wider First American Group rating, and assigned a rating of A (Excellent) by A M Best.

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7.4. Access to the Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) in the UK is a statutory “fund of last resort” which compensates customers in the event of the insolvency of a financial services firm.

Insurance protection exists for individuals and small businesses in the situation where an insurer is unable to meet its liabilities for direct policyholders only (ie reinsured policyholders are not covered). For certain insurance that is compulsory in the UK (eg motor third party liability insurance), insurance protection also exists for direct policyholders whether or not they are individuals or small businesses.

The FSCS will pay 100% of any claim incurred for compulsory insurance (eg motor third party liability insurance) and 90% of claims incurred for non-compulsory insurance (eg home insurance), without any limit on the amount payable. No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance.

FTI has received legal advice that the Transferring Policyholders will lose access to the FSCS following the Proposed Transfer if the insured event which gives rise to an actual loss as a result of a title defect occurs after the Proposed Transfer.

The same legal advice concluded that five policyholders whose policies were issued before 2001 have access to the FSCS and will also lose access to the FSCS following the Proposed Transfer.

A policyholder compensation scheme does exist in Malta. However, it only covers policyholders within Malta. None of the Transferring Policyholders are based in Malta and therefore would not benefit from the Maltese equivalent of the FSCS.

FETIC policyholders will be more likely to require FSCS type protection given that the SCR coverage ratio for FETIC is 188% compared to 194% for FTI.

However, the protection would only be required in the event of the insolvency of FETIC and this is extremely unlikely given the coverage ratio of 188%, and not materially different in terms of likelihood to the coverage ratio of 194%.

FETIC have considered establishing a branch office in the UK or utilising transitional arrangements so that Transferring Policyholders continue to have access to the FSCS. They concluded that establishing a branch office in the UK would be disproportionate, principally because FETIC does not plan to issue any new policies covering risks located in the UK. FETIC also concluded that, given the proposed transitional arrangements are

3499037 only for a certain period, these are not suitable for title business which is written in perpetuity. In addition, due to the financial strength of FETIC, I consider an insolvency scenario, which would be needed to trigger FSCS protection, is very unlikely.

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I have concluded that, due to the financial strength of FETIC which I have considered in more detail in the previous section, an insolvency scenario which would be required to trigger FSCS protection is very unlikely. Therefore, losing access to the FSCS is unlikely to have a materially adverse effect on the transferring policyholders.

In addition, the Transferring Policyholders may prefer the certainty of having eligible claims paid rather than loss of access to the FSCS in the very unlikely event of the insolvency of FETIC.

7.5. Access to the Financial Ombudsman Service

The Financial Ombudsman Service (FOS) provides private individuals, micro-enterprises and small businesses with a free, independent service for resolving disputes with financial companies.

Micro-enterprises are defined to be businesses with less than €2m annual turnover and fewer than ten employees.

Small businesses (covered since 1 April 2019) are defined to be businesses with less than £6.5m turnover and either fewer than 50 employees or a balance sheet total of less than £5m.

It is not necessary for the private individual, micro enterprise or small business to live or be based in the UK for a complaint regarding an insurance policy to be dealt with by the FOS. However, it is necessary for the insurance policy concerned to be, or have been, administered from within the UK and/or issued from within the UK.

FETIC has undertaken to comply with the FCA rules (set out in DISP, the Dispute Resolution: Complaints part of the FCA Handbook) that apply to the handling of complaints brought to the FOS and any award or direction made or given by the FOS, relating to acts or omissions prior to the Effective Date.

The Office of the Arbiter for Financial Services (AFS) is a newly constituted autonomous and independent body established under Act XVI of 2016 of the Laws of Malta. It has the power to mediate, investigate and adjudicate complaints filed by customers against financial services providers, similar to the FOS.

Eligibility for the AFS is similar to that of the FOS for individuals and micro-enterprises although small businesses are not eligible to lodge a complaint. The level of compensation available from the AFS is very broadly comparable to that available from

3499037 the FOS (although this depends of the timing of a complaint to the FOS as the level recently increased).

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7.6. Reinsurance arrangements with external reinsurers

There is no external reinsurance protecting the Transferring Policyholders (other than one specific contract which will be novated). Therefore, there is no change to the external reinsurance protection provided for either group of policyholders.

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 the UK and Malta are currently regulated under Solvency II. Solvency II covers the prudential regulation of insurers, including risk management and capital requirements. The position regarding UK insurance regulation post-Brexit is currently unclear. However, the expectation is that the UK will seek to maintain equivalence with Solvency II.

Based on the above considerations, I do not expect Transferring Policyholders to be materially adversely affected by the changes in prudential insurance regulation governing their policies from UK to Malta.

Conduct regulation

Conduct regulation of financial firms typically includes consumer protection, market conduct rules and ethical codes of conduct. 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.

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, so apply to both the UK and Malta. For example, The Insurance Mediation Directive (IMD) aims to ensure appropriate levels of protection for customers.

The Insurance Distribution Directive (IDD) replaced the Insurance Mediation Directive (IMD) across EEA member states on 1 October 2018. It strengthens and consolidates the existing rules of the IMD covering the distribution of insurance and reinsurance, and also the administration and performance of an insurance policy once it has been written. As for Solvency II, the position regarding the compliance with IDD in the UK post-Brexit is currently unclear.

3499037 The location of risks currently insured by FTI will not change as a result of the Proposed Transfer. Therefore, the key relevant comparison is between the conduct regulations in the UK and those in Malta. If these were materially different, this could potentially affect Transferring Policyholders where the business is currently carried out in the UK and post-transfer will be carried out in Malta.

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In summary, there is access to similar mechanisms in terms of conduct regulation and access to an independent complaints service in Malta for the Transferring Policyholders based on EU Directives.

Conclusions on regulation

Based on the above considerations, I do not expect the Transferring Policyholders to be materially adversely affected by the change in insurance regulation governing their policies from UK to Malta.

7.8. Overall conclusion: Policyholder security

Based on the work and rationale described above, I have concluded that the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

3499037 **8. Policyholder communications**

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8.1. My considerations relating to policyholder communications

I have assessed the appropriateness of FTI's proposed 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 information so that they can understand how the Proposed Transfer may affect them.

8.2. Overview of communications strategy

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

- *Transferring Policyholders:* FTI will directly notify all Transferring Policyholders by writing to the address of the property in respect of which title risk is insured under each policy. Insofar as the property has changed hands since the policy was underwritten, the communication should reach the new owner who has obtained the benefit of the insurance on the sale of the property. However, where no known address is held for a policyholder, FTI will write to the policyholder's registered address obtained through a search of company registries or will write to the policyholder's conveyancing lawyer (whose records are retained by FTI, since the lawyers were involved in the conveyance and placement of the policy with FTI).
- *Non-transferring Policyholders:* FTI do not plan to notify directly the Non-transferring Policyholders and will seek a dispensation in this regard.
- *Reinsurers:* FTI will directly notify all reinsurers whose contracts of reinsurance will be transferring to FETIC. The reinsurers consist of FATIC and 2 other reinsurers on one risk-specific reinsurance contract.
- *Intermediaries and other parties:* In relation to Transferring Policyholders, FTI will directly notify the intermediary through which the business was distributed (eg an insurance broker or law firm) for those properties where FTI do not have sufficiently accurate details of the address of an insured property.

IE conclusion

I am satisfied that the communications strategy will ensure that those who will be affected by the Proposed Transfer will be informed appropriately.

8.3. Planned dispensations and rationale

FTI intends to request that the Court grant a dispensation from the need to directly notify the Non-transferring Policyholders.

3499037 FTI will provide a rationale to the Court to support their request for dispensation by reference to the judgement of Norris J in the Directions Hearing in Re Aviva International Insurance Limited [2011] EWCH 1901 (Ch.) (the Aviva Judgement). The Aviva Judgement summarised the following factors as a rationale for granting a dispensation:

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1. the **impossibility** of contacting policyholders;
2. the **practicality** of contacting policyholders;
3. the **utility** of contacting policyholders;
4. the **availability of other information channels** through which notice of the application can be made available;
5. the **proportionality** of strict compliance and the impact of collateral commercial concerns; and
6. the likely **impact** of the Proposed Transfer on policyholders.

Non-transferring Policyholders

FTI's rationale for the dispensation sought for Non-transferring Policyholders is as follows: (I have included in brackets my interpretation of which factors from the Aviva Judgement are applicable)

- FTI's view is that Non-transferring Policyholders will have access to the information from the publications in the UK (see section 8.4 below), so will have the opportunity to be made aware of the Proposed Scheme without direct notification (**availability of other information channels**).
- FTI also believe the cost of direct notification of all Non-transferring Policyholders is disproportionate to the benefit received from direct notification, particularly given the Non-transferring Policyholders are not disadvantaged by the Proposed Transfer and there will be no change to the terms & conditions or administration of their policies (**proportionality** and **impact**).

IE conclusion

I am satisfied with the rationale for the dispensation sought for Non-transferring Policyholders, as the information is available from other sources and my conclusions support that the Non-transferring Policyholders are not disadvantaged by the Proposed Transfer.

8.4. Planned notices

FTI will comply with the regulation and place a notice of the Proposed Scheme in:

- the London, Edinburgh and Belfast Gazettes; and
- two national newspapers in the UK (The Times and The Financial Times).

FTI will also place a notice of the Proposed Scheme in:

- the Iris Oifigiúil (the Irish Gazette); and

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- two national newspapers in Ireland (The Irish Independent and The Irish Times).

Page 51 of 68 FTI intends to request the Court grant a dispensation from the need to place notices in national newspapers in other non-UK EEA states on the following grounds:

- FTI will directly notify all Transferring Policyholders. Non-transferring Policyholders' properties are located in the UK so will have access to the notices referenced above ([availability of other information channels](#)); and
- The costs of translating legal notices into foreign languages and advertising in two national newspapers is disproportionate relative to the number of policyholders who might be reached by such publication ([proportionality](#)).

IE conclusion

As FTI will be notifying all the Transferring Policyholders and I have concluded that Transferring Policyholders are not disadvantaged by the Proposed Transfer, I am satisfied with the request for dispensation from publishing notices in non-UK EEA states.

8.5. Translation of key documents

All publication notices and major documents (including this report) will be provided in English and there are no plans to translate any documents into other languages.

Should any translations be required, the documents will be translated by FTI and I would rely on FTI to ensure that the translations into each language are accurate.

8.6. Clarity of communication

I have reviewed drafts of both the proposed letters and the scheme booklet to be provided to policyholders explaining the background to the Proposed Transfer and the transfer process.

IE conclusion

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

8.7. Overall conclusion: Communication strategy

Based on my review of the communication strategy, I have concluded the planned communications strategy will ensure adequate coverage of affected parties. FTI is applying for a number of dispensations from communicating to some affected parties. I have concluded that these are appropriate.

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

3499037 **9. Customer service and other considerations**

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9.1. Customer service

FETIC has established a claims charter, based on the claims charter that is already in place within FTI.

The General Manager of FETIC, who is based in Malta, will handle any claims against the transferring policies. The process will be overseen by an Executive Director of FETIC.

The time zone of Malta is one hour ahead of London, so there will be limited change in hours of availability. Policyholders currently make contact via post or email. FTI will contact all Transferring Policyholders regarding new contact details and continue to monitor current contact details for policyholder communications.

As such, I do not expect that policyholders will receive a materially different level of customer service following the Proposed Transfer.

Governance and management standards

The governance structure and procedures of FETIC will be similar to those of FTI. The board of FETIC will include the Chief Executive Officer and General Counsel & Head of Compliance of FTI (as executive directors of FETIC) and also the Chief Risk Officer & Chief Finance Officer of FTI (as a non-executive director of FETIC) to provide continuity.

Their experience of the transferring business will be complemented by the local Maltese knowledge and expertise of two resident independent non-executive directors, who have already been appointed. They have oversight of the compliance function and internal audit function and will also sit as members of FETIC's risk committee.

Given the composition of the board I have concluded that governance and management standards will not change and that there will be no impact on the Transferring Policyholders.

Operational model and continuity

There will be no changes to the operational model and continuity for the Non-transferring Policyholders and so they are not affected by the Proposed Transfer in this respect.

The contact details for making claims for Transferring Policyholders will change as a result of the Proposed Transfer and have been provided in the Scheme Booklet. As claims are notified via an email address this will not be a material change. FTI will forward any claims it receives post-transfer to FETIC.

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9.2. Tax implications

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Title insurance policies are issued in perpetuity, ie these policies do not need to be renewed to continue to provide cover. As such no policyholders, transferring or non-transferring, would need to renew their policies with FTI or FETIC.

Therefore, there are no tax implications of the Proposed Transfer on Transferring or Non-transferring Policyholders.

9.3. Investment management implications

As policies will not be renewed, any increases in investment charges cannot be passed onto policyholders. FETIC's investments will be managed in accordance with the FETIC Investment Policy and an Investment Management Agreement with the investment manager, similar to FTI.

Therefore, I do not anticipate any materially adverse impact to the Transferring or Non-transferring Policyholders in terms of investment management as a consequence of the Proposed Transfer.

9.4. Implications on ongoing expense levels

As noted in Section 9.2, no policyholders will need to renew their policies with either FTI or FETIC.

Therefore, there are no impacts on the Transferring or Non-transferring Policyholders as a result of any changes to the ongoing expense levels.

9.5. Impact on liquidity position

The allocation of assets for FTI will be similar both before and after the Proposed Transfer. Assets within FETIC will be held in either government bonds or cash, no equities will be held.

Therefore, I do not anticipate any materially adverse impact on the liquidity position for the Transferring or Non-transferring Policyholders as a consequence of the Proposed Transfer.

9.6. 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 FTI or FETIC. "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.

I have not identified any material set-off rights as part of my review. Therefore, I do not believe considerations around set-off impact my conclusions.

3499037 **9.7. Overall conclusions: Customer service and other considerations**

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Based on the work and rationale described above, 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.

3499037 **10. Conclusions and Statement of Truth**

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I have considered the Proposed Transfer and its likely effects on the Non-transferring Policyholders of FTI, the policyholders transferring to FETIC 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 Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.**
- **The security provided to the Transferring Policyholders (and any existing FETIC policyholders at the point of transfer) will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for the Transferring Policyholders following the Proposed Transfer.**
- **Reinsurers of FTI who provide cover for the transferring business will not be materially affected by the Proposed Transfer.**

10.1. Issues to highlight

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

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

- Finalisation of the reinsurance arrangements for the transferring business.
- Any reinsurer and policyholder objections received.
- The updated position on Brexit and any FETIC policyholders.

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

3499037 **10.2. IE duty and declaration**

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My duty to the Court overrides any obligation to those from whom I have received instructions or who 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.

I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Protocol for Instruction of Experts to give Evidence in Civil Claims.

10.3. Sign-off



Stewart Mitchell FIA
Partner

14 November 2019

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London W1U 1DQ
www.lcp.uk.com

The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with First Title Insurance plc. 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.

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Page 57 of 68 *Appendix 1 - Glossary*

Appendix 1

Term	Definition
Best estimate	An estimate prepared with no margin for either prudence or optimism included.
Bornhuetter-Ferguson (BF) method	A blend of the Chain Ladder Method 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 particular policy year.
Brexit	The expected exit of the UK from the EU following the referendum on continuing membership held in the UK in June 2016.
Capital Cover Ratio	The Capital Cover Ratio is the ratio of Available Capital to Required Capital. This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer.
Central Bank of Ireland (CBI)	The regulator of the insurance sector in Ireland.
Chain Ladder method	An actuarial method for estimating future payments or numbers by using the historical pattern of past payments or numbers to estimate a development profile, which can be used to extrapolate future payments or numbers.
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.
Court	The High Court of Justice of England and Wales.
Direct policyholders	Any policyholders that are not insurers or reinsurers.
European Economic Area (EEA)	The EEA Agreement established the EEA on 1 January 1994. The EEA unites the 28 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.
Effective Date	The effective date of the Proposed Transfer, expected to be 28 April 2020.
European Union (EU)	The EU prior to Brexit, ie the 28 member states. Post-Brexit the EU will consist of 27 member states ie excluding the UK.
Events not in data (ENIDs)	An estimate of possible future events or developments that are not in existing data. Insurers need to make allowance for ENIDs in their Solvency II technical provisions.
Excess of loss (XoL) reinsurance	An insurance contract in which a reinsurer agrees to pay losses that an insurer is exposed to that exceed a set amount (the excess). There is typically an upper limit to the amount that can be claimed from the reinsurer for each loss.

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Appendix 1 (cont)

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Term	Definition
Expected Loss Ratio method	An actuarial method for estimating future payments or numbers based on combining an exposure measure and an assumed rate per unit of exposure (the “initial expected loss ratio”) for the written business.
Financial Conduct Authority (FCA)	The UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Financial Ombudsman Service (FOS)	Set up by the UK Parliament, the FOS is the UK’s official expert in sorting out problems with financial services. Parliament set up the FOS and has legal powers in the UK to address unresolved complaints between a business and a customer relating to financial services.
Financial Reporting Council (FRC)	The body responsible for setting actuarial standards in the UK. The FRC also regulates auditors and accountants and sets the UK’s Corporate Governance and Stewardship Codes.
Freedom of Services (FoS)	Under the EU Insurance Directives, insurance companies have the right to provide business services on a cross-border basis within the EEA under the principle of FoS utilising the “passporting” system in place between EEA regulators.
Financial Services Compensation Scheme (FSCS)	The FSCS is the compensation fund of last resort for customers of UK authorised financial services firms. This covers insurance for individuals and some insurance for small businesses.
Financial Services and Markets Act 2000 (FSMA)	The legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
Generally accepted accounting principles (GAAP)	A collection of commonly-followed accounting rules and standards for financial reporting. GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.
Hard Brexit	A scenario where FTI no longer has FoS rights and may not legally be able to carry on with non-UK EEA business. For example, FTI would not be able to issue new insurance policies across the EEA and might not legally be able to pay valid claims to existing EEA policyholders.
Incurred but not enough reported (IBNER)	See definition of IBNR
Incurred but not reported (IBNR)	The provision for claims that are reported in the future but relate to events that have already occurred. This includes provision for estimated developments to existing open claims, ie those that have been reported but not fully settled. The provision for these 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.

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Appendix 1 (cont)

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Term	Definition
Independent Expert	A suitably qualified person appointed by the Court to produce an independent report on an insurance business transfer scheme, in accordance with the FSMA. The Independent Expert's primary duty lies with the Court, and the opinion of the expert is independent of those of the sponsoring companies involved in the Transfer and the PRA.
Malta Financial Services Authority (MFSA)	The regulator of the insurance sector in Malta.
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.
Minimum Capital Requirement (MCR)	A formulaic calculation of the capital requirement as part of the existing 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.
Prudential Regulation Authority (PRA)	The part of the Bank of England that carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
PRA's Statement of Policy	The Statement of Policy issued by the PRA entitled "Statement of Policy – The PRA's approach to insurance business transfers – April 2015"
Proposed Transfer	The proposed insurance business transfer of FTI to FETIC under Section 105 of the FSMA.
Required capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (ie the SCR).
Reinsurance	An arrangement with another insurer to share or pass on risks. For example, in the case of the Proposed Transfer, FETIC is transferring underwriting (insurance) risk to FTI using a reinsurance excess of loss arrangement.

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Appendix 1 (cont)

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Term	Definition
Scheme Booklet	A document sent to FTI policyholders containing information regarding the Proposed Transfer.
Scheme Document	A document submitted to the Court setting out details of the Scheme or Proposed Transfer.
Scheme Report	This report prepared by me, as the Independent Expert, for submission to the Court.
Solvency Capital Requirement (SCR)	The amount of capital insurers are required to hold under Solvency II regulations. This is an estimate of capital required to ensure that an insurer is able to meet its obligations over the next 12 months with a probability of at least 99.5%. 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 (re)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 100	The FRC issued Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) which applies to all actuarial work produced after 1 July 2017.
TAS 200	The FRC issued Technical Actuarial Standard 200: Insurance (TAS 200) which applies to all 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.
Transferee	The insurer to which the business is being transferred, First European Title Insurance Company Ltd (FETIC).
Transferor	The insurer from which the business is being transferred, First Title Insurance plc (FTI).
Ultimate time horizon basis (for capital)	The total uncertainty and risk over the time horizon of the runoff of a firm's obligations to its policyholders, including obligations relating to business planned to be written in the twelve months following the relevant reference date.
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.

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Appendix 1 (cont)

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Term	Definition
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 and appears as a liability on the insurer's balance sheet, since the premium would be paid back upon cancellation of the policy.

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Appendix 2 – Extract from Terms of Reference

Appendix 2

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Summary of agreed scope of work

I, Stewart Mitchell will act as IE to support your planned Part VII transfer of First Title Insurance PLC (FTI) business into First European Title Limited (FETIC).

Your primary requirement is for the IE to act in line with Section 109 of the Financial Services Markets Act 2000.

The key deliverables from the work will be:

- The main and supplementary IE reports;
- Input as required to address any issues arising;
- Presenting my findings as IE to the Court and responding to any queries and additional court requests; and
- A summary report to support policyholder communications.

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Appendix 3 – CV of Stewart Mitchell FIA

Appendix 3

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I am a Partner in LCP's Insurance Consulting practice and a Fellow of the Institute of Actuaries (qualified in 2004). I hold an MBA from City University Business School and qualified as an ACII with the Chartered Institute of Insurance.

I joined LCP in 2016, and prior to this was a Director at Ernst & Young LLP. I have 20 years' experience as a general insurance actuarial consultant, and a further 10 years' experience working in the insurance industry prior to joining Ernst & Young LLP.

Professional experience

I have a broad experience of actuarial engagements over the last 20 years. This experience covers reserving, capital, pricing, reinsurance and transactions.

I have been the IE and supported or provided peer review to the Independent Expert for eight other insurance business transfer schemes. I have also led the work on Section 166 regulatory reports for the PRA.

I hold a Lloyd's Signing Actuary practicing certificate and am currently the Signing Actuary for four Lloyd's syndicates. I have performed this role for many Lloyd's syndicates in the past, signing the opinions for up to nine Lloyd's syndicates in a single year-end.

I have previously been appointed by the Bermuda Monetary Authority as a Loss Reserving Specialist for Bermudian insurance companies and the Appointed Actuary for Lichtenstein insurance companies.

I have provided opinions on the adequacy of claims reserves for US regulators of UK based insurance companies and for HMRC for UK insurance companies.

I have extensive experience in independent reviews of claim liabilities for general insurance companies. I have also led capital modelling projects and reviews of Solvency II technical provisions.

I have worked with many insurers in reviews of claims liabilities and capital requirements for the purpose of mergers and acquisitions.

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Appendix 4 – Summary of data provided

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The following is a list of the key data items I have requested and received in assessing the Proposed Transfer. All data I have requested has been provided to me. FTI has provided a Data Accuracy Statement 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 FTI for the Proposed Transfer, including:

- Scheme Document (dated October 2019)
- FTI First Witness Statement (dated October 2019)
- FETIC First Witness Statement (dated October 2019)
- Legal notice

2. Draft proposed communication plan and communication prepared by FTI:

- Communication plan (dated October 2019)
- Template letters to policyholders, intermediaries, reinsurers and third parties
- Scheme booklet
- Policyholder logbooks

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

- FTI claims handling policy
- FTI reserving policy
- Paper outlining claims handling and reserving policy for FETIC
- FTI reserve review report as at Q2 and Q4 2018
- FTI reserve committee papers

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

- Solvency and Financial Condition Report (SFCR) for FTI year ending 31 December 2018
- FTI Own Risk and Solvency Assessment (ORSA) 2019 report (dated July 2019)
- Paper on stress and scenario testing for FETIC
- Outline of FETIC ORSA
- FTI and FETIC standard formula calculations pre- and post-transfer

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- Standard formula appropriateness assessment for FTI and FETIC (dated August 2019)

Appendix 4 (cont)

- Projections of future balance sheets and capital requirements up to 31 December 2022 for FTI and FETIC
- Paper considering capital on an ultimate time horizon basis

5. Other evidence prepared by FTI to support the Proposed Transfer, including:

- Internal paper on the impact of the Proposed Transfer on contact points and service standards (dated May 2019)
- Internal paper on the tax, investment and liquidity implications of the Proposed Transfer (dated June 2019)
- Legal opinion on retaining access to FSCS for Transferring Policyholders (dated August 2019)

6. Documents relating to the authorisation of FETIC, including:

- FETIC business plan and supporting appendices
- Approval letter of authorisation from MFSA
- Risk committee terms of reference
- Underwriting committee terms of reference
- Actuarial support agreement
- Reinsurance agreement
- Insurance management agreement
- Support and services agreement

7. Data Accuracy Statement

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Appendix 5

The table below shows the relevant section references in the Scheme Report where I have addressed each point in the guidance from Chapter 18 of the Supervision Manual of the FCA Handbook and the PRA’s “Statement of Policy - The PRA’s approach to insurance business transfers – April 2015” with regards to the scheme report.

The guidance references for “PRA x.x” are taken from the PRA statement of policy and “FCA x.x” are taken from Chapter 18 of the Supervision Manual.

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (1) FCA 18.2.33 (1)	Who appointed the independent expert and who is bearing the costs of that appointment	2.3 (page 11)
PRA 2.30 (2) FCA 18.2.33 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator (the PRA)	2.3 (page 11)
PRA 2.30 (3) FCA 18.2.33 (3)	A statement of the independent expert’s professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role	2.3 (page 11) Appendix 3
PRA 2.30 (4) FCA 18.2.33 (4)	Whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest	2.3 (page 11)
PRA 2.30 (5) FCA 18.2.33 (5)	The scope of the report	2.4 (page 11)
PRA 2.30 (6) FCA 18.2.33 (6)	The purpose of the scheme	3.3 (page 19)
PRA 2.30 (7) FCA 18.2.33 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	3 (page 16)
PRA 2.30 (8) FCA 18.2.33 (8)	What documents, reports and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided	Appendix 4

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Appendix 5 (cont)

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Guidance reference	Guidance	Scheme report reference
PRA 2.30 (9) FCA 18.2.33 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others	2.6 (page 12)
PRA 2.30 (10) FCA 18.2.33 (10)	The people the independent expert has relied on and why, in their opinion, such reliance is reasonable.	2.6 (page 12)
PRA 2.30 (11) FCA 18.2.33 (11)	Their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) Non-transferring Policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee	Executive summary (page 4) 10 (page 55)
PRA 2.30 (12) FCA 18.2.33 (11A)	Their opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme.	Executive summary (page 4) 10 (page 55)
PRA 2.30 (13) FCA 18.2.33 (12)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme.	10 (page 55)
PRA 2.30 (14) FCA 18.2.33 (13)	For each opinion that the independent expert expresses in the report, an outline of their reasons	Reserving: 5.10 (page 31) Capital: 6.11 (page 42) Policyholder: 7.8 (page 48) Communication: 8.7 (page 51) Other: 9.7 (page 54)
PRA 2.32 (1) FCA 18.2.35 (1)	A description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme	3.2 (page 18)
PRA 2.32 (2) FCA 18.2.35 (2)	A description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	3.2 (page 18)
PRA 2.33 (1) FCA 18.2.36 (1)	Include a comparison of the likely effects if it is or is not implemented	3.4 (page 19)

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Appendix 5 (cont)

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Guidance reference	Guidance	Scheme report reference
PRA 2.33 (2) FCA 18.2.36 (2)	State whether they considered alternative arrangements and, if so, what	3.4 (page 19)
PRA 2.33 (3) FCA 18.2.36 (3)	Where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences they consider may be material to the policyholders	Executive summary (page 4) 7.4 (page 45)
PRA 2.33 (4) FCA 18.2.36 (4)	Include their views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; (b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and (c) the cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations	(a) Executive summary (page 4) 7.4 (page 45) (b) and (c) 9 (page 52)

The Proposed Transfer does not involve any mutual companies or long-term insurance business. As such, PRA 2.35 and PRA 2.36 (FCA 18.2.38 and FCA 18.2.39) do not apply.

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

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