

Summary 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

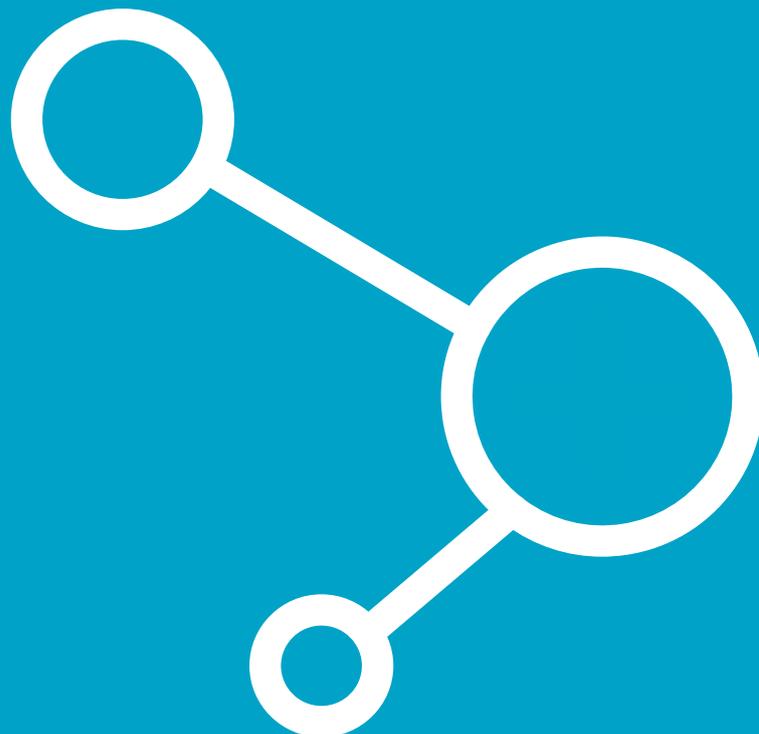
For the High Court of Justice of England and Wales

14 November 2019

Prepared by:

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LCP



First Title Insurance plc to First European Title Insurance Company Ltd

Transfer of insurance business

Summary of the Independent Expert's Scheme Report for the High Court of Justice of England and Wales

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.

Proposed Transfer: it is proposed that FTI's non-UK EEA business will transfer from FTI into FETIC.

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

The transferring reserves, net of external reinsurance, represent c.18% of FTI's reserves as at 31 December 2018.

2. My role as Independent Expert

The Proposed Transfer will need to be approved by the High Court of Justice of England and Wales (the Court). To assess the Proposed Transfer, the Court requires a Scheme Report to be prepared by a suitably qualified independent person, the Independent Expert (IE).

FTI has appointed me to act as the 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 Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards to policyholders.
- Any reinsurer of FTI covering the transferring business will be materially adversely affected.

3. Summary of my conclusions

To assess the Proposed Transfer, I have considered the effect of the Proposed Transfer from the perspective of the following four parties:

A. "Non-transferring Policyholders", ie existing policyholders of FTI whose policies will remain with FTI after the Proposed Transfer: in my opinion the security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer and there will be no material impact on service standards for Non-transferring Policyholders following the Proposed Transfer.

B. "Transferring Policyholders", whose policies will transfer from FTI to FETIC as a result of the Proposed Transfer: in my opinion, the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer and there will be no material impact on service standards for Transferring Policyholders following the Proposed Transfer.

C. "FETIC policyholders", ie any policyholders of FETIC at the time of the Proposed Transfer who will remain with FETIC: I have considered any FETIC policyholders at the time of the Proposed Transfer as though they were Transferring Policyholders as they will benefit from the same level of security and service standards as the Transferring Policyholders.

D. Reinsurers whose contracts with FTI will cease and be replaced with similar contracts with FETIC as part of the Proposed Transfer: in my opinion, reinsurers of FTI who provide cover for the transferring business will not be materially affected by the Proposed Transfer.

I have outlined the main reasons why I have formed these opinions later in this Summary Report.

4. About the Independent Expert

I am a Fellow of the Institute and Faculty of Actuaries (IFoA). I am a Partner in the Insurance Consulting practice at LCP and have over 30 years' experience in general insurance.

5. The IE's Scheme Report

This is a summary of the IE's full Scheme Report, "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".

A copy of the full Scheme Report is available for download free of charge from the website of FTI or by contacting FTI.

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 the conclusions of the Scheme Report, based on any material new developments in the intervening period.

6. Non-transferring Policyholders

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 capital coverage ratio for Non-transferring Policyholders is expected to increase from 194% to 219% as a result of the Proposed Transfer.

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

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.

7. Transferring Policyholders

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.
- 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.

8. Reinsurers

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.

9. Further information and next steps

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

I will be reviewing these conclusions and preparing a Supplementary Report before the Court considers its final approval of the Proposed Transfer at the Sanctions Hearing. The purpose of the Supplementary Report is to confirm and/or update my conclusions based on any material new developments in the intervening period.



Stewart Mitchell
Fellow of the Institute and Faculty of Actuaries

14 November 2019

Use of this Summary Report

This Summary Report has been produced by Stewart Mitchell FIA of 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 Summary Report has been prepared for the purpose of summarising the full Scheme Report accompanying the application to the Court in respect of the proposed insurance business transfer scheme described in that report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Scheme Report and this Summary Report are not suitable for any other purpose.

A copy of both this Summary Report and the Scheme Report will be sent to the Prudential Regulation Authority and the Financial Conduct Authority, and the full Scheme Report will accompany the Scheme application to the Court.

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