



Proposed Part VII Insurance Business

Transfer relating to:

QBE UK Limited

and

QBE Europe SA/NV

**Supplemental Report of the Independent
Expert**

7 October 2020

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Key acronyms and definitions

This Supplemental Report contains various acronyms, shorthand names for companies and technical terms. To aid readability, these are defined in a consolidated glossary in Appendix 8 of my Report dated 23 June 2020. Where used, the first letter has been capitalised. The bold items below are key items from the glossary. Shaded entries below indicate a change from and supersede the definitions contained in the Report.

Companies	QBE Limited	QBE Insurance Group Limited, ultimate owner of all of the companies within the QBE Group ; including QBE EO, QBE UK and QBE Europe.
	QBE EO	QBE European Operations plc, a wholly-owned subsidiary of QBE Limited. A UK-regulated insurance holding company. QBE EO and all of its wholly-owned subsidiaries make up the QBE EO Group. QBE EO has a £175 million Contingent Capital Facility from QBE Strategic Capital Company Pty Limited, the central treasury entity for the QBE Group, to enable QBE EO to restore its capital and thereby ensure that QBE UK and QBE Europe are able to meet the Capital Appetite Framework requirements.
	QBE EO Staff	Employees of QBE Europe, QBE UK, QBE Management (Ireland) Limited and QBE Management Services (UK) Limited acting on behalf of entities within the QBE EO Group.
	QBE UK	QBE UK Limited, the Transferor and a wholly-owned subsidiary of QBE EO. It is a UK-regulated non-life insurance company.
	QBE Europe	QBE Europe SA/NV, the Transferee and a wholly-owned subsidiary of QBE EO. A Belgium-domiciled and regulated non-life insurance and life and non-life reinsurance company.
Policyholders	Affected Policyholders	These comprise the Remaining Policyholders , the Transferring Policyholders and the Existing Policyholders .
	Remaining Policyholders	The policyholders of QBE UK who will remain with QBE UK following the Transfer.
	Transferring Policyholders	The policyholders of QBE UK who will transfer to QBE Europe under the Transfer.
	Existing Policyholders	Policyholders of QBE Europe prior to the Transfer.
Legal, regulatory and Part VII Transfer Terms	Brexit	The departure of the UK from the European Union; or the date of departure (i.e. 31 January 2020).
	Court	The High Court of Justice of England and Wales, which is responsible for approving the Transfer.
	Excluded Policies	Policies that would otherwise fall within the definition of the Transferring Policies but will not transfer to QBE Europe and will remain with QBE UK. These policies will come about following a policy of QBE UK being split under the Scheme so that business that cannot be transferred remains in a policy with QBE UK, while EEA business is within a policy that can be transferred to QBE Europe.
	FCA and PRA	The two insurance regulators in the UK (the Financial Conduct Authority and the Prudential Regulation Authority). Both are consulted prior to the Transfer going ahead. References to SUP18 and the SoP are references to regulatory guidance that set out respectively the expectations of each regulator for the Report.
	Freedom of Services	In the context of insurance business, the permission for a firm authorised in one EEA state to underwrite insurance business anywhere within the EEA as if they were an authorised firm in the EEA state where the risk is underwritten.
	FSMA 2000	The UK legislation enabling the Transfer to take place. Its full name is the Financial Services and Markets Act 2000. Part VII of FSMA relates to insurance business transfers, each commonly referred to as a Part VII Transfer .
	Implementation Period	The period after Brexit during which all pre-Brexit arrangements continue and the UK and EU are negotiating future arrangements. The Implementation Period is currently scheduled to expire at 11pm GMT on 31 December 2020.
	NBB	National Bank of Belgium (<i>Banque Nationale de Belgique/Nationale Bank van België</i>). Belgium's central bank, headquartered in Brussels. The Belgium insurance regulator.
	Parties	QBE UK and QBE Europe
	Report and Supplemental Report	The Report of the Independent Expert dated 23 June 2020 prepared for the Court in accordance with FSMA 2000 setting out the effect of the Transfer on policyholders affected by it. This Supplemental Report is prepared for the Court before it is asked to approve the Transfer to update the Court on any significant matters arising since the Report was prepared.

	Transfer	The proposed Part VII Transfer of certain assets and liabilities of QBE UK into QBE Europe. This is set out in the Scheme submitted to the Court . It will take place on the Transfer Date , expected to be on or around 1 November 2020.
	Transferring Policies	The policies of QBE UK which will transfer to QBE Europe under the Transfer. These will be the entirety of the policies written by QBE UK on a Freedom of Services basis in certain EEA member states prior to the 1 January 2019, except for the Excluded Policies .
Other Insurance Terminology	Adjusted-SCR	The Indicative Internal Model SCR used in my Report and reflecting Technical Provisions as at 31 December 2019 and 2020 business plans. The Adjusted-SCR was prepared for the purposes of my Report, prior to the completion of the June 2020 Major Model Change SCR.
	AOF or Ancillary Own Funds	Funds that have been committed to the insurer but have not been paid-up or called-up. On receipt of regulatory approval these can be counted as Solvency II Eligible Own Funds for an insurer's SCR, subject to specific conditions and limits.
	CAF or Capital Appetite Framework	A statement by the Board of QBE EO setting out the target level and minimum threshold level of capital of all of QBE EO, QBE UK and QBE Europe. It guides the Board of QBE EO in determining dividend levels and when steps need to be taken to restore the financial position of each company.
	CCR or Capital Cover Ratio	A quantitative measure of financial strength, formally: $\text{Capital cover ratio \%} = \frac{\text{financial resources}}{\text{capital requirements}}$ <p>EOFs are normally used for measuring financial resources; SCRs for capital requirements.</p>
	Expected EOF	<i>Pre-Transfer:</i> The EOF as at 2019 year-end allowing for estimated impacts of the COVID-19 pandemic and capital actions already planned for 2020 at the time of the Report. <i>Post-Transfer:</i> The EOF set at the greater of 130% of the Adjusted-SCR and 110% of the latest Approved Internal Model SCR. This is used to represent the target level of financial resources described in the CAF.
	EOF or Eligible Own Funds	This is the surplus of assets over liabilities as determined under Solvency II. Own Funds are classified into three tiers (Tier 1, Tier 2 and Tier 3) based on certain criteria, with Tier 1 Own Funds such as equity being of the highest quality. There are quantitative limits regarding the proportion of each type of Own Funds which can be used by a firm to meet its regulatory capital requirements.
	Forecast EOF	This is the EOF that QBE EO Staff expect the Parties to hold at the Transfer Date or (where indicated) at year-end 2020. This is described in more detail in paragraph 2.2.9.
	GAAP	Generally Accepted Accounting Principles. Statutory financial statements are prepared using GAAP.
	June 2020 Major Model Change	The Major Model Change application submitted to the PRA and the NBB in June 2020 by QBE EO. A decision from the PRA and NBB on the submission, approval or otherwise, is expected in December 2020.
	MMC or Major Model Change	A material change to a previously approved Internal Model, requiring specific regulatory approval. The Internal Model will have a policy setting out what constitutes a major model change requiring approval.
SCR or Solvency Capital Requirement	The regulatory capital requirement for a firm under Solvency II. Most firms use the prescribed Standard Formula SCR to determine their SCR. QBE EO, QBE UK and QBE Europe, use their sophisticated risk modelling capabilities in the QBE EO Internal Model to determine an Indicative Internal Model SCR at a given point in time. QBE EO, QBE UK and QBE Europe have approval from the PRA to use the modelled results to determine their SCR, referred to as an Approved Internal Model SCR .	
	Second Witness Statement	The second witness statement of Mr. David Winkett, CFO of QBE UK and QBE Europe. This will be submitted as evidence for the Sanction Hearing. QBE EO Staff have supplied me with a near-final draft version of this document and told me that they do not expect any material changes to the version I have received at the time of finalising this Supplemental Report.
	Technical Provisions	These are the amounts set aside by insurance companies, at a given date, to pay for expected future cash-flows that would be incurred in meeting liabilities to policyholders from existing insurance and reinsurance contracts. The principles which are followed to calculate these provisions will differ depending on their purpose e.g. regulatory (Solvency II) or annual accounts reporting (GAAP). In this report, used interchangeably with Reserves .
Other	COVID-19	Coronavirus disease 2019, an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). First identified in December 2019 in Wuhan, China, and since spread globally resulting in an ongoing pandemic.

All amounts in this Supplemental Report have been converted to Sterling at £1 = €1.104 = US\$1.240

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A. Introduction and Executive Summary

1. Introduction

1.1. General Matters

- 1.1.1. I, Alex Marcuson, prepared a Report for the Court dated 23 June 2020 entitled "Proposed Part VII Insurance Business Transfer relating to: QBE UK Limited and QBE Europe SA/NV – Report of the Independent Expert". A copy of the Report has been available since 3 July 2020 on this web-site: www.qbeurope.com/about-us/brexit.
- 1.1.2. This Supplemental Report has been prepared since I completed my Report to update the Court with more recent information surrounding the actual and projected positions of QBE UK and QBE Europe. In addition, I highlighted various matters in my Report that I would revisit in this Supplemental Report. I also comment on any other developments that I believe would be of interest to the Court, including my opinion on any issues raised by the Affected Policyholders. This work enables me to confirm that there have not been any changes to the main conclusions set out in my Report.
- 1.1.3. This Supplemental Report should be read together with the Report as its findings relate to the conclusions of the Report. The reliances, limitations, assumptions and sources of uncertainty in the Report apply in full in this Supplemental Report.
- 1.1.4. A list of the data provided to me for the purposes of compiling my Supplemental Report is set out in Appendix 1. I am satisfied that it is appropriate for me to rely upon the data based upon the representations made to the Court in paragraph 12 of the Second Witness Statement.
- 1.1.5. This Supplemental Report, taken together with the Report dated 23 June 2020, has been prepared in compliance with the Financial Reporting Council's Framework for FRC Technical Actuarial Standards and relevant Technical Actuarial Standards (TAS 100 and TAS 200) together with the relevant Actuarial Profession Standard of the Institute and Faculty of Actuaries (APS X2: Review of Actuarial Work).

1.2. Structure of the Report

- 1.2.1. This Supplemental Report contains the following sections:

<p>Section A: Introduction and Executive Summary</p> <p>1. Introduction</p> <p>2. Executive Summary</p>
<p>Section B: Updates arising</p> <p>3. Financial matters</p> <p>4. Non-financial matters</p> <p>5. Communications</p>
<p>Section C: Appendices</p>

2. Executive Summary

2.1. Changes to financial position of the companies considered in my Report

- 2.1.1. I have reviewed the summary mid-2020 financial results declared by QBE UK, QBE Europe, QBE EO and the QBE Group as a whole. Based on my review and discussions with QBE EO Staff, I am satisfied that there have been no developments in any of their financial positions that cause me to change any of my conclusions. This includes consideration of emerging business experience and impacts of the COVID-19 pandemic.
- 2.1.2. The amounts quoted in this Supplemental Report are based on the financial position of the Parties as at 30 June 2020. QBE EO Staff have confirmed that there have been no material adverse movements to the Eligible Own Funds of either of the Parties since 30 June 2020, and the only material movements arising since then have been:
- the injection of the AOF into QBE UK in July 2020 following its approval by the PRA in June 2020; and
 - the trading profits to be reported by the Parties in the 30 September 2020 management accounts. The Parties will confirm to the Court that the amount reported is not materially different from the figures I have quoted in this Supplemental Report.
- 2.1.3. I have reviewed the approach that QBE EO Staff have told me that they will take in calculating the amounts that will move from QBE UK to QBE Europe as part of the Transfer. I am satisfied that this approach does not affect any of my conclusions.

2.1.4. *I have concluded that the financial performance of the Parties since the position set out in my Report does not change my overall conclusions regarding the Transfer.*

2.2. Injection and Transfer of Eligible Own Funds

- 2.2.1. The Transfer results in no change to the GAAP net assets of the two Parties; however, on a Solvency II basis, the Transfer leads to an increase in the Eligible Own Funds of QBE UK of £40 million and a decrease in QBE Europe of £46 million. The different impact on the GAAP and Solvency II balance sheets arises because of differences in the way in which assets and liabilities are valued on Solvency II and GAAP bases.
- 2.2.2. At the same time as the Transfer, £112 million will be injected as Tier 1 Eligible Own Funds into QBE Europe from QBE EO in the form of cash and other liquid assets. This will enable both of the Parties to maintain financial resources at levels that are consistent with their respective Capital Appetite Frameworks. The estimated amount is less than the amount indicated at paragraph 2.1.16 of the Report. The main causes of this change are the following: (i) a proposed reduction in the risk margins in each of the Parties' Solvency II Technical Provisions, (ii) more favourable trading results during the first half of 2020 than had been previously assumed, and (iii) inclusion of an allowance for forecast profits of the Parties during the second half of 2020.
- 2.2.3. A schematic diagram of the capital flows is contained in Appendix 2. This updates the position shown in Figure 2 in the Report. While these figures show the assets passing directly from QBE UK to QBE Europe, the Eligible Own Funds will be injected by QBE EO at the Transfer Date. Approximately £100 million of the £112 million capital injection will be funded by a dividend paid by QBE UK in respect of QBE UK's excess Eligible Own Funds at the time, with the remainder funded by QBE EO.
- 2.2.4. The capital injection of £112 million is not expected to change prior to the Transfer. The portion of this £112 million that is funded by the £100 million dividend from QBE UK may be adjusted to reflect the trading performance of QBE UK prior to the Transfer Date; however, such changes are

not expected to be material. QBE EO Staff will confirm to the Court at the Sanction Hearing the size of the dividend to be paid.

2.2.5. In the event that there is a major change in the financial position of either of the Parties that materially change these amounts, the Parties will adjust the amounts quoted in this Section 2.2 to ensure that the Parties will have financial resources within their Capital Appetite Frameworks post-Transfer and will draw this to the attention of the Court at the Sanction Hearing.

2.2.6. *I am satisfied with the transfer amounts determined by QBE EO Staff, and with the proposed approach for addressing material changes that might arise pre-Transfer.*

2.2.7. The Capital Appetite Frameworks make use of the Indicative Internal Model SCR arising from the June 2020 Major Model Change application. This Major Model Change application was submitted by QBE UK and QBE Europe to the PRA and the NBB in June 2020. A decision from the PRA and the NBB regarding this application is expected between the Transfer Date and 2020 year-end. It is possible that the regulatory review exercise will result in either or both Parties being required to set an SCR at year-end 2020 that differs to the SCR arising from the June 2020 Major Model Change application.

2.2.8. In addition, it is possible that model parameter updates and changes to the business plans of either of the Parties may mean that further changes are made to their SCR late in 2020. To the extent that these changes in risk profile do not give rise to a further Major Model Change, this could be carried out following completion of the PRA and the NBB's reviews of the June 2020 Major Model Change application.

2.2.9. The Eligible Own Funds of QBE UK and QBE Europe used in the various tables and figures in this Supplemental Report (which I refer to as Forecast EOF) are based on the position of each firm at mid-year 2020, adjusted for:

- the injection of AOF into QBE UK;
- updates to their pre-Transfer Risk Margins¹;
- forecast profits in the 3rd quarter of 2020 (for the position at the Transfer Date);
- capital injections and dividend payments at the Transfer Date; and
- forecast profits in the 4th quarter of 2020 (for the position at year-end).

2.2.10. My updated analysis in this Supplemental Report uses the SCR arising from the June 2020 Major Model Change application as a means of assessing the effects of the Transfer on the Parties. In doing so, I have satisfied myself that each of the Parties has access to additional financial resources that they might require following both:

- The PRA or the NBB regulatory reviews of the June 2020 Major Model Change; and
- Subsequent changes to the business plans of the Parties.

2.2.11. *I have concluded that:*

- *The method of determining the amount of Eligible Own Funds required by each of the Parties and the target level of financial resources for each of them remains appropriate;*
- *QBE EO has access to sufficient additional financial resources to be able to provide them to the Parties should this be required post-Transfer to continue to comply with the Parties' Capital Appetite Frameworks in the manner that I have assumed in my analysis.*

¹ The change taking place is that the capital requirement being used in the risk margin is being updated from the SCR to allow for (i) changes to business plans, (ii) changes to reserves since the SCR was approved, and (iii) other data and model parameter updates arising.

2.2.12. *I am therefore satisfied that none of the developments arising since I completed my Report have led me to change my conclusions regarding the Transfer.*

2.3. COVID-19 Pandemic

2.3.1. Since my Report:

- The UK FCA has brought a test case against eight UK insurers on behalf of small and medium enterprise policyholders to clarify the business interruption insurance coverage provided to them in respect of the COVID-19 pandemic. The case is not affected by whether the Transfer goes ahead. This case has resulted in a number of rulings by the Court, some in favour of policyholders and some in favour of insurers. At the time of finalising this Supplemental Report, all but two to the parties to the test case (including both QBE UK and the FCA) have successfully sought leave to apply to appeal to the UK Supreme Court regarding many of the rulings in this case. I have been told by the Parties that the UK Supreme Court is expected to agree to hear such appeals and provide a final ruling, possibly by the end of 2020, but after the Transfer Date. Such a ruling is expected to remove the majority of legal uncertainty that exists as a result of the parties to the test case appealing the Court's rulings surrounding these claims. As a result, uncertainty regarding the size of potential claims liabilities for the insurance industry remains. For QBE UK the uncertainty arising from this ongoing litigation is limited because its claims incurred are unlikely to reduce below its net loss retention or exceed the limit of its reinsurance programme.
- QBE UK and QBE Europe have both opted into the UK Government's trade credit insurance backstop scheme. This will materially reduce the current short-term risks associated with underwriting this line of business.

2.3.2. I have considered both of these developments and concluded that neither leads me to change my conclusions regarding the Transfer.

2.3.3. *I have concluded that the developments from the COVID-19 pandemic since my Report do not change my overall conclusions regarding the Transfer.*

2.4. Changes to the Scheme and other developments

2.4.1. Some changes have been made to the Scheme to accommodate certain of the Transferring Policies that included risks in India where QBE Europe does not have the required regulatory permissions. These policies will be split, so that the EEA business can Transfer to QBE Europe, while the elements that QBE Europe does not have the required regulatory permissions will be placed into Excluded Policies and remain with QBE UK. These changes do not, in my view, have a material impact on the Transfer.

2.4.2. Part of the Transferring Policies includes permitted business that was written by QBE UK on a non-admitted basis in certain non-EEA Member states where QBE Europe had not previously notified the NBB that it was planning to conduct insurance-related activities. QBE Europe has submitted the required filing to the NBB to notify it of QBE Europe's intention to conduct permitted run-off activities in relation to the Transferring Policies in these territories post-Transfer. The NBB provided QBE Europe with an updated 'Certificate of Solvency' dated 30 September 2020 certifying that QBE Europe is entitled to carry on insurance-related activities in these territories.

2.4.3. *In light of there being no objections raised regarding the conduct of business described in 2.4.2, there have been no material changes to the Scheme or other developments that change my conclusions regarding the Transfer.*

2.5. Other matters revisited for this Supplemental Report

- 2.5.1. *In my Report I indicated that there were a number of matters that I would revisit if necessary. I have provided comments on these and other emerging matters in this Supplemental Report. None of the matters have led me to change my conclusions regarding the Transfer.*
- 2.5.2. *QBE EO Staff have confirmed that QBE Europe has written to the NBB on 2 October 2020 in respect of the approach that QBE Europe will address policyholder complaints, as set out in paragraph 16.6.10 of the Report.*
- 2.5.3. *QBE EO Staff have confirmed that there have not been any other material new regulatory issues raised by regulators of QBE UK and QBE Europe.*

2.6. Communications

- 2.6.1. *I have reviewed the progress of the policyholder communications work carried out by QBE EO Staff. While I have not carried out a detailed audit of this exercise, I am satisfied that the work has been carried out in line with the descriptions provided to me and that no material issues have arisen that have led me to change my conclusions.*
- 2.6.2. *I am not aware of any objection or material policyholder complaint raised to date regarding the Transfer.*

2.7. Expert's declaration

- 2.7.1. I confirm that I fully understand my overriding duty to the Court and that I must help the Court on matters within my expertise. My duty to the Court overrides any obligation to those from whom I have received instructions or by whom I am paid. I believe that I have complied, and will continue to comply, with this duty.
- 2.7.2. I confirm that I am aware of the requirements of Part 35 and Practice Direction 35 of the Civil Procedure Rules, and the Guidance for the Instruction of Experts in Civil Claims 2014.
- 2.7.3. I confirm that I have made clear which facts and matters referred to in this Supplemental 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.



Alex Marcuson MA FIA

7 October 2020

B. Updates arising

3. Financial matters

3.1. Introduction

3.1.1. This section contains commentary on:

- Updated financial performance of QBE UK and QBE Europe;
- Internal Model updates;
- Transferring amounts of Assets and Liabilities under the Transfer and Movement of Capital from QBE UK to QBE Europe alongside the Transfer;
- Updated comparison of EOF and SCR;
- Updated financial performance of QBE Group and QBE EO;
- Emerging COVID-19 issues / impacts;
- Updated scenario testing;
- Structure of Eligible Own Funds pre- and post-Transfer; and
- Overall Conclusions regarding the Financial Effects of the Transfer.

3.2. Updated QBE UK and QBE Europe financial performance

3.2.1. QBE EO Staff have provided me with the following data:

- Mid-year 2020 Solvency II balance sheets submitted to the PRA and the NBB; and
- Board papers reporting on performance of QBE UK and QBE Europe since 2019 year-end.

3.2.2. Table 3.1 compares the EOF for QBE UK and QBE Europe that I have used for assessing the Transfer in this Supplemental Report with the amounts shown in Table 13.2 of the Report.

Table 3.1 – Forecast Eligible Own Funds pre-Transfer (Supplemental Report vs. IE Report) - Conv. £ million			
Company	QBE UK (£m)	QBE Europe (Conv £m)	Total (£m)
A EOF at 30 June 2020 (as per Solvency II regulatory submissions)	874	885	1,760
B Additional EOF (QBE UK AOF)	160	-	160
C Forecast profits in 2020 Q3	6	25	30
D Update to pre-Transfer Risk Margin (net of tax)	4	(19)	(15)
E Forecast EOF pre-Transfer (= A + B + C + D)	1,044	891	1,935
F Expected EOF pre-Transfer (see Report, Table 13.2)	c. 940	c. 810 *	c. 1,750
G Improvement in Expected EOF pre-Transfer (= E – F)	c. 105	c. 80	c. 185

* Converted @ 2020 Q2 exchange rates. c. £760m quoted in the Report using earlier exchange rates.

3.2.3. Balance sheets as at 30 June 2020, and a translation of the Technical Provisions between GAAP and Solvency II are shown for each company in Appendix 3 and Appendix 4.

3.2.4. As can be seen in Table 3.1, the Forecast EOFs of QBE UK and QBE Europe pre-Transfer have increased significantly compared to the corresponding figure shown in row D of Table 13.2 of the Report. I have discussed the underlying movements with QBE EO Staff and they have told me that they are predominantly driven by:

- a partial recovery in the investment markets where previously none had been assumed; and
- underwriting profits arising during the first half of 2020.

3.2.5. QBE UK applied for approval of an additional c. £160 million capital injection as AOF, provided in the form of a banking letter of credit. The PRA approved the application on 29 June 2020 and the

increase in Eligible Own Funds was recognised on 20 July 2020 when the banking letter of credit was issued.

- 3.2.6. The update to the pre-Transfer Risk Margin in row D of Table 3.1 has been made by the Parties between mid-2020 and the Transfer Date to reflect changes in their respective risk profiles.
- 3.2.7. I have reviewed at a high-level the mid-year actuarial reserving papers prepared by QBE EO Staff and the calculations to translate the actuarial reserve estimates to a Solvency II basis. For each of the Parties, none of the reserve developments since year-end 2019 fell outside the range of movements that I would have expected to arise within portfolios of their size or nature and in my view the Technical Provisions on the Balance Sheets of the Parties continue to provide an appropriate basis upon which I can reach my conclusions regarding the Transfer.
- 3.2.8. QBE EO Staff have confirmed to me that there have been no material adverse changes in the net assets, business plans or Solvency II Own Funds since 30 June 2020 of each of QBE UK and QBE Europe, and the only material changes arising since then have been:
- the injection of the AOF into QBE UK in July 2020 following its approval by the PRA in June 2020; and
 - the trading profits to be reported by the Parties in their 30 September 2020 management accounts. The Parties will confirm to the Court that the amount reported is not materially different from the figures I have quoted in this Supplemental Report.
- 3.2.9. In the event of a material adverse change for either or both of the Parties then they will arrange for additional EOF to be injected from QBE EO to restore their position(s), if necessary to enable them to comply with their Capital Appetite Frameworks both pre- and post-Transfer.
- 3.2.10. While it is inevitable that there will be changes in the Eligible Own Funds of each company between 30 June 2020 and the Transfer Date other than those indicated in Table 3.1, given the resources available to QBE EO and QBE Limited, I do not anticipate that these will be large enough to affect my conclusions.

3.3. Internal model updates

- 3.3.1. In June 2020, QBE EO submitted a Major Model Change application for approval by the PRA and the NBB. This application included five areas of change:
- Removal of the process for calculating the Technical Provisions from the scope of the QBE EO Internal Model.
 - A change in the methodology to calculate the risk margin in the Technical Provisions.
 - An allowance for the effects of the Transfer, which materially adjusts the reserves of both Parties. This adjustment is consistent with the allowance made in the Adjusted-SCR considered in the Report.
 - Some data and parameter updates, including those in response to COVID-19 that were described in Section 11.7 of the Report, and various other minor changes.
 - An update to the Internal Model Change Policy. This policy sets out when changes to the QBE EO Internal Model are sufficiently large to require regulatory approval prior to adoption by QBE EO and its subsidiaries.

REMOVAL OF THE TECHNICAL PROVISIONING PROCESS FROM THE SCOPE OF THE QBE EO INTERNAL MODEL

- 3.3.2. The removal of the Technical Provisions calculation process from the scope of the QBE EO Internal Model does not affect my conclusions regarding the Transfer because, if approved:

- The change provides the Parties with the ability to change the approach used to calculate Solvency II Technical Provisions without requiring regulatory approval. The Solvency II Technical Provisions will continue to be subject to the Parties existing governance frameworks and be subject to external audit each year. It does not, give rise to an actual change in the assets of the Parties, or materially affect their regulatory capital requirements.
- The change will apply to the Parties whether or not the Transfer proceeds.

CHANGE IN THE METHODOLOGY TO CALCULATE THE RISK MARGIN IN THE TECHNICAL PROVISIONS

3.3.3. QBE EO Staff intend to change the methodology used to calculate the risk margin. This change is to correct issues that were identified in independent Internal Model validation that were causing the risk margin to be materially overstated.

3.3.4. The change in methodology used to calculate the risk margin results in a material reduction for both Parties' risk margin of approximately 30%. The amounts are shown in Table 3.2.

Table 3.2 – Changes to Risk Margin arising from June 2020 Major Model Change						
Company	Pre-Transfer			Post-Transfer		
	QBE UK	QBE Europe		QBE UK	QBE Europe	
Currency	£m	€m	Conv. £m	£m	€m	Conv. £m
A Current risk margin	338	378	342			
B Update to Pre-Transfer Risk Margin	(5)	28	25			
C Updated Risk Margin (=A + B)	332	406	368	281	475	431
D Proposed risk margin	208	311	281	183	347	314
E Change (=D – C)	(124)	(95)	(86)	(99)	(128)	(116)
F SII TPs excluding risk margin	1,725	2,193	1,987	1,519	2,420	2,193
G Change as % SII TPs = E / F	(7)%	(4)%	(4)%	(6)%	(5)%	(5)%

3.3.5. The reduction has arisen because the time period over which claims within the Technical Provisions are assumed to be settled has been materially reduced, as has the period over which the risk associated with the remaining liabilities is assumed to attenuate.

3.3.6. I have reviewed the changes to the methodology and assumptions, as well as the governance, testing and independent validation of this change and satisfied myself that these changes do not result in my changing my conclusions regarding the Transfer.

3.3.7. *Based on this review, I am satisfied that the proposed change to the risk margin calculation and its removal from the scope of the QBE EO Internal Model does not lead me to change my conclusions regarding the Transfer.*

3.3.8. The reduction in Risk Margin results in a corresponding increase in Tier 1 EOF for the Parties (after a deduction of deferred tax²). See Table C.3. in Appendix 3 for details.

² Approximately 20% for QBE UK and 25% for QBE Europe.

OTHER CHANGES TO THE QBE EO INTERNAL MODEL

- 3.3.9. The main data updates include the use of Technical Provisions as at 31 December 2019 and the 2020 business plan and reinsurance programme. These were already largely allowed for in the Adjusted-SCR quoted in Table 13.4 of my Report.
- 3.3.10. The parameter updates are judgements, discussed in Section 11.7 of my Report, that have been included to reflect the riskier environment that we are currently in due to COVID-19.
- 3.3.11. Compared with the Adjusted-SCRs quoted in Table 13.4 of my Report, the June 2020 Major Model Change SCR has:
- Reduced market risk, owing to QBE Group's action between March and April 2020 to de-risk the investment portfolio. In my view this change is appropriate to reflect the prospective view of market risk for the Parties.
 - Increased reinsurance credit risk, as a result of increasing by 20% the probability that the Parties' reinsurers will have their credit rating downgraded. This expert judgement is to allow for the perception that the COVID-19 pandemic might result in a material adverse impact on the financial position of one or more of the Parties' reinsurers. While such a judgement is clearly subjective, an adjustment of this nature is in my view appropriate.
 - Increased Underwriting Risk for QBE UK. This results from updating the variability parameters adopted for the Trade Credit line of business in light of modelling of scenarios involving the effect of significant disruption to international trade that might be caused by the COVID-19 pandemic. Such an approach is in my view appropriate.
- 3.3.12. I have reviewed the governance process followed for the June 2020 Major Model Change and am satisfied that it was appropriate. The internal review processes and model validation did not identify any material unresolved issues.
- 3.3.13. QBE EO Staff have told me that they anticipate a decision from the PRA and the NBB regarding approval of the June 2020 Major Model Change before 2020 year-end, but after the Transfer. This is consistent with the timetable I had assumed in my Report.
- 3.3.14. This timing means that the SCR for each company post-Transfer will initially remain unchanged. Any subsequent change in the SCRs will be subject to the PRA and the NBB's approval. To reflect the changed underlying risk profile of the Parties, the level of financial resources of the Parties will adjust immediately post-Transfer (as described in Section 3.4). This is to ensure that both continue to satisfy their respective, and identical, Capital Appetite Frameworks.
- 3.3.15. It is possible that the regulatory review of the June 2020 Major Model Change will result in either or both of the Parties being required to set an SCR that differs to the amount I have anticipated in this Supplemental Report, which has been based on the June 2020 Major Model Change application. Were this to arise, either or both firms may be required to hold a greater level of financial resources than I have indicated in order to comply with their Capital Appetite Frameworks.
- 3.3.16. While in theory the range of possible scenarios is wide, in my view, the most material individual element of change relates to the reduction in the risk margin of the Parties. I have satisfied myself that, QBE EO continues to be able to provide additional financial resources³ to the Parties should the PRA and/or NBB not permit any reduction in risk margin for the Parties.

UPDATE TO THE INTERNAL MODEL CHANGE POLICY

³ See paragraph 4.8.23 and Section 5.3 of my Report which discusses the £175 million CCF available to the Parties.

3.3.17. QBE's Internal Model Change Policy sets out when changes to the SCRs of the Parties require the submission of a Major Model Change application. The proposed changes include:

- the removal of data updates from the scope of the Model Change Policy;
- the removal of the process for setting Technical Provisions from the scope of the Model Change Policy; and
- changes to the thresholds triggering a Major Model Change.

3.3.18. I have reviewed the proposed changes to the Internal Model Change Policy and do not believe that, if approved, they affect my conclusions regarding the Transfer.

3.3.19. *Based on my review I am satisfied that any changes arising from the June 2020 Major Model Change do not lead me to change my conclusions regarding the Transfer.*

3.4. Transferring amounts of Assets and Liabilities under the Transfer and Movement of Capital from QBE UK to QBE Europe alongside the Transfer

TRANSFERRING AMOUNTS OF ASSETS AND LIABILITIES UNDER THE TRANSFER

3.4.1. QBE EO Staff have described to me the methodology that they propose to use to determine the assets and liabilities being transferred under the Transfer. The cash and investments to be transferred from QBE UK to QBE Europe will be calculated as a balancing item to result in no change in net assets to the Parties on a GAAP basis. In order to calculate this as close as possible to the Transfer Date, QBE EO Staff will use data as at 30 September 2020.

3.4.2. QBE EO Staff have recognised the possibility of an event occurring giving rise to a change of c. £25 million or more in EOF for either of the Parties between 30 September 2020 and the Transfer Date. In such circumstances, they have confirmed to me that the transferring amounts may be adjusted in response, so that both of the Parties can continue to comply with their respective Capital Appetite Frameworks.

MOVEMENT OF CAPITAL FROM QBE UK TO QBE EUROPE ALONGSIDE THE TRANSFER

3.4.3. At the same time as the Transfer, £112 million will be injected as Tier 1 Eligible Own Funds into QBE Europe from QBE EO in the form of cash and other liquid assets. Approximately £100 million⁴ of this will be funded from dividends paid by QBE UK to QBE EO, with the remainder funded from QBE EO's excess assets (in theory with assistance from elsewhere within the QBE Group should this be required).

3.4.4. A schematic diagram of the capital flows is contained in Appendix 2. These figures show the position of each company before and after the Transfer, and then the position at year end should the June 2020 Major Model Change SCR be approved.

3.4.5. *I have reviewed the approach that QBE EO Staff have told me that they will take in calculating the amounts that will move from QBE UK to QBE Europe as part of the Transfer. Based upon this review, I am satisfied that my conclusions are unchanged.*

3.5. Updated comparison of EOF and SCR

3.5.1. Table 3.3 compares the Approved Internal Model SCR (being the SCR that is expected to apply at the time of the Transfer) with the Forecast EOF for each firm.

⁴ This amount may be modified slightly depending on the actual trading results of QBE UK up to September 2020.

Table 3.3 – Forecast EOF vs Approved Internal Model SCR						
Company	Pre-Transfer			Post-Transfer		
	QBE UK	QBE Europe		QBE UK	QBE Europe	
Currency	£m	€m	Conv. £m	£m	€m	Conv. £m
A Approved Internal Model SCR	695	690	625	695	690	625
B Forecast EOF	1,044	983	891	984	1,056	957
C CCR = B/A	150%	142%	142%	142%	153%	153%
D = B - A	349	293	266	289	366	332

3.5.2. Table 3.3 shows that both QBE UK and QBE Europe are projected to maintain financial resources well in excess of their regulatory capital requirements both pre- and post-Transfer.

COMPARISON USING JUNE 2020 MAJOR MODEL CHANGE

3.5.3. Table 3.4 compares the position of the Parties pre- and post-Transfer using the June 2020 Major Model Change SCR. The June 2020 Major Model Change SCR provides a more meaningful comparison of the position of policyholders because it reflects the risk profile of the Parties better than the Approved Internal Model SCR.

3.5.4. In Table 3.4:

- Row A shows the SCR based on the June 2020 Major Model Change application.
- Row B shows the Forecast EOF at the Transfer Date and are the same as those used in Table 3.3.
- Row E shows the Forecast EOF assuming the June 2020 Major Model Change is approved by year-end and the change in the calculation of the risk margin methodology is implemented.

3.5.5. The translation of post-Transfer Forecast EOF, from row B to row E of Table 3.4, can be found in Table C.3 of Appendix 3.

Table 3.4 – Forecast EOF vs June 2020 Major Model Change SCR						
Company	Pre-Transfer			Post-Transfer		
	QBE UK	QBE Europe		QBE UK	QBE Europe	
Currency	£m	€m	Conv. £m	£m	€m	Conv. £m
A June 2020 Major Model Change SCR	651	817	740	594	902	817
B Forecast EOF	1,044	983	891	984	1,056	957
C CCR = B/A	160%	120%	120%	166%	117%	117%
D = B - A	393	166	151	390	154	140
Using Forecast EOF at year-end 2020						
E Forecast EOF				1,068	1,179	1,068
F CCR = E/A				180%	131%	131%
G = E - A				474	277	251

3.5.6. QBE EO Staff have confirmed to me that, should the June 2020 Major Model Change SCR be approved, QBE UK will continue to be subject to its Capital Appetite Framework which targets an EOF of 130% of SCR.

- 3.5.7. Table 3.4 shows that on a like-for-like basis, the CCR for the Transferring Policyholders and the Existing Policyholders will reduce, and on this risk measure appears to fall to a level below QBE Europe's capital risk appetite of 120%. Rows E-F show the position of the Parties should their June 2020 Major Model Change application be approved. Using this updated risk measure, the post-Transfer CCRs are all above 130%. Based on my testing of the position of the Parties post-Transfer, in my view this updated risk measure provides a sufficient margin of financial resources above the SCR for the risk of policyholders not having their claims paid in full to be remote.
- 3.5.8. In practice, I do not expect that the EOF of QBE Europe will fall below its risk appetite of 120% of its Approved Internal Model SCR. This is because at the Transfer Date I anticipate that the PRA and the NBB's review of the June 2020 Major Model Change will still be ongoing. As a result, I expect that the Approved Internal Model SCR will remain at the level shown in Table 3.3. If the PRA and the NBB approve the June 2020 Major Model Change, the EOF will increase at the same time as the Approved Internal Model SCR. The CRR of QBE Europe will then be 131% post-Transfer (as shown in Row F of Table 3.4). In the scenario where the PRA and NBB only partially⁵ approve the June 2020 Major Model Change, then by year-end 2020, QBE Europe's CCR is expected to have increased to 120%.
- 3.5.9. As described in 3.3, I have satisfied myself regarding the proposed changes to the risk margin methodology. I therefore believe it is appropriate for the purpose of reaching my conclusions regarding the Transfer for me to allow for the increased EOF of the Parties that will arise post-Major Model Change.

3.5.10. *The results of Tables 3.3 and 3.4 show that the Parties will maintain excess financial resources over and above their current and projected SCR. As a result, even though the updated projections show a reduction in the financial security provided to the Existing and Transferring Policyholders, I do not believe that this change is material, because the risk of all of the Affected Policyholders not having their claims paid in full will continue to be remote.*

3.6. Updated Financial performance of QBE Group and QBE EO

- 3.6.1. At 30 June 2020, both QBE Group and QBE EO declared losses (on an IFRS basis) on trading during the first half of 2020. These were mainly driven by COVID-19 investment losses and market volatility, the adverse impact of lower discount rates, and provisions for potential COVID-19 related losses.
- 3.6.2. QBE EO's CCR as at mid-year 2020 was approximately 136%⁶ and remains above its target capital level of 130% of SCR. As noted in my Report at paragraph 4.8.23, should it be required for QBE EO to restore its financial position in the face of further losses, it continues to have access to the £175 million of EOF from the CCF.
- 3.6.3. QBE Limited provided its trading update for the first half of 2020 on 12 August 2020. In it, it reported a combined operating ratio of 103.4% (97.4% excluding COVID-19 impacts), and that a comprehensive capital plan had been implemented. This plan included the de-risking of its investment portfolio, the securing of additional reinsurance coverage, and its successful capital raising during April and May 2020 that I described in the Report. The update noted that

⁵ Being the approval of the aspects of the Major Model Change relating to the Transfer and data and parameter changes, but approving neither the change in the methodology to calculate the risk margin in the Technical Provisions nor the removal of the process for calculating the Technical Provisions from the scope of the QBE EO Internal Model.

⁶ Includes capital actions described in Section 4.8 of my Report and an additional c. £100m cash injection funded by QBE EO's sale of Tier 2 debt to a QBE Group company before mid-year 2020.

QBE Limited's capital position remained strong when measured against both regulatory and rating agency capital requirements. In addition, despite recording a statutory loss for the half-year, QBE Limited declared an interim dividend reflecting its confidence in its strength and stability, coupled with improved industry pricing.

3.6.4. *Based on this, I am satisfied that the reported experience of QBE Group and QBE EO since I prepared my Report does not cause me to change my conclusions.*

3.7. Emerging COVID-19 issues/impacts

3.7.1. There are two areas of note relating to COVID-19 pandemic claims that I have considered since I completed my Report:

- The FCA Test Case; and
- The UK Government Trade Credit backstop scheme.

FCA TEST CASE

3.7.2. QBE UK was a party to the recent test case brought by the FCA against eight UK insurers on behalf of small and medium enterprise policyholders to clarify the business interruption insurance coverage provided to them in respect of the COVID-19 pandemic.

3.7.3. The case is not affected by whether the Transfer goes ahead.

3.7.4. The case was completed in July 2020 and a judgement was given on 15 September 2020. This judgement provided a number of rulings regarding the matters raised in the case. Some of these rulings were in favour of policyholders and some in favour of insurers.

3.7.5. At the time of finalising this Supplemental Report, all but two of the parties to the test case (including both QBE UK and the FCA) have sought leave from the court that heard the original case in July 2020 to apply to the UK Supreme Court to appeal to the UK Supreme Court regarding the rulings in this case. I have been told by the Parties that the UK Supreme Court is expected to hear such appeals and provide a final ruling, possibly by the end of 2020, but after the Transfer Date. The UK Supreme Court has the power to change some of the rulings given on 15 September 2020 and as a result, there remains uncertainty over the final outcome for this case. As the highest court in the land, no further appeals are possible regarding the case if the Supreme Court hears it. Therefore, the ruling of the UK Supreme Court can be seen as the point at which the majority of legal uncertainty that exists surrounding these business interruption claims will end. As a result, at the time of finalising this Supplemental Report, uncertainty regarding the size of potential claims liabilities for the insurance industry remains. However, for QBE UK the uncertainty arising from this ongoing litigation is limited because its claims incurred are unlikely to reduce below its net loss retention or exceed the limit of its reinsurance programme.

3.7.6. QBE EO Staff have explained to me the approach that they have adopted in identifying policies that may be affected by this litigation, and how they have estimated Technical Provisions in their mid-2020 financial statements for them. I am satisfied that the methodology and assumptions adopted are appropriate for the purposes of my considering the Transfer. This is because the loss estimates are at a level where further deterioration will be recoverable from the Parties' reinsurers. The Parties' plausible worst case estimates for these claims will not result in a material breach of the aggregate limit of the relevant reinsurance policies. I note that at the end of 2020, QBE UK is forecast to have Eligible Own Funds of approximately 180% of its SCR (see Table 3.4) meaning that it will have financial resources in excess of 130% of its SCR (this excess amount being approximately £300 million). As a result, the test case has not led me to change my conclusions regarding the Transfer.

3.7.7. QBE EO Staff have identified one policy comprised within the Transferring Policies that potentially falls within the scope of the FCA Test Case; however, I understand that this policy is based on policy wordings on which the Court ruled in QBE UK's favour, and as at the date of finalising this Supplemental Report, QBE UK has not received any claims in respect of this policy. The Parties both participate in the same reinsurance cover protecting them from these claims and which is 100% placed with Equator Re⁷. Therefore this policy will continue to benefit from the reinsurance cover provided by Equator Re before and after the Transfer. The potential exposures on this policy is not material in the context of the Transfer.

UK GOVERNMENT TRADE CREDIT BACKSTOP SCHEME

3.7.8. QBE UK and QBE Europe have both opted into the UK government's £10 billion trade credit reinsurance scheme. Under the scheme, the UK government will act as reinsurer to QBE UK and QBE Europe for losses from its trade credit exposures in the UK. The scheme will operate for nine months backdated to 1 April 2020, and is available to all trade credit insurers operating in the UK market. This will act to reduce the ultimate financial cost of trade credit related claims to QBE Limited.

3.7.9. The trade credit reinsurance scheme expires at the end of 2020, one month after the Transfer Date. I do not believe there is any material impact on the Transfer or the Affected Policyholders when the trade credit reinsurance scheme expires at the end of 2020 because:

- There is minimal unexpired risk in the transferring business as these policies went into run-off at the end of 2018;
- For QBE UK and QBE Europe, we have conducted a number of COVID-19 related scenario tests (Section 14.5 of the Report). These results did not lead me to change my conclusions; and
- I have been told by QBE EO Staff that there are ongoing discussions regarding an extension to the scheme. Should no new arrangements be in place, QBE EO Staff have told me that QBE UK will materially reduce its Trade Credit exposures by the end of 2020.

3.7.10. There remains uncertainty to the Parties arising from exposure to losses caused by the COVID-19 pandemic, in particular how longer-tailed policies will be affected. The developments arising since I completed my Report do not, however, lead me to change my conclusions regarding the Transfer.

3.7.11. *Based on my understanding of developments since I completed my Report, I am satisfied that emerging new information relating to the COVID-19 pandemic does not cause me to change my conclusions regarding the Transfer.*

3.8. Updated scenario testing

3.8.1. In my Report, I carried out a series of stress, scenario and reverse stress tests to compare the financial position of the Affected Policyholders before and after the Transfer.

3.8.2. I have updated my sensitivity, scenario, and reverse stress testing in light of the updated information provided to me since then by QBE EO Staff. This testing did not give rise to any material changes to the results of this testing.

⁷ QBE Group's captive reinsurer.

3.8.3. In light of the FCA Test case outcome described in paragraphs 3.7.2 to 3.7.7, I am satisfied that the COVID-19 scenarios that I have used to appraise the effects of the Transfer remain appropriate.

3.8.4. *Based upon the additional scenario testing analysis that I have performed, I have not changed my conclusions regarding the financial effects of the Transfer.*

3.9. Structure of Eligible Own Funds post-Transfer

3.9.1. Table 3.5 shows the anticipated breakdown of Eligible Own Funds for QBE UK and QBE Europe post-Transfer. Both firms are anticipated to hold Eligible Own Funds in tiers that are within the Solvency II quantitative limits.

Table 3.5 – QBE UK and QBE Europe post-Transfer Structure of Eligible Own Funds as % total EOF and % SCR				
Tier	QBE UK		QBE Europe	
	% of EOF	% of SCR	% of EOF	% of SCR
Tier 1	80%	114%	74%	114%
Tier 2	16%	23%	19%	29%
Tier 3	3%	5%	7%	10%
Total	100%	142%	100%	153%

3.10. Overall Conclusions regarding the Financial Effects of the Transfer

3.10.1. *Based on this updated analysis, I have satisfied myself that there are no changes to my conclusions regarding the financial effects of the Transfer on the Affected Policyholders.*

4. Non-financial matters

4.1. Introduction

4.1.1. In this section, I comment upon the following items:

- QBE Europe insurance licences;
- COVID-19 impacts;
- Brexit; and
- Policyholder Protection Schemes.

4.2. QBE Europe insurance licences and permissions

4.2.1. This Section 4.2 sets out the status of QBE Europe's insurance licences and permissions. This information has been provided to me by QBE EO Staff and confirmed in the Second Witness Statement.

4.2.2. At the time of writing my Report, there were five jurisdictions in which risks were situated for which the Transferor held operating licences but the Transferee did not, namely Azerbaijan, China, Honduras, India and Jersey, as listed in paragraph 3.6.2 of the Report. The position regarding Azerbaijan and China has not changed since the time of writing my Report. For the other jurisdictions, an update is provided in the following paragraphs.

RISKS SITUATED IN HONDURAS

4.2.3. QBE Europe received its reinsurance licence for Honduras as at 23 June 2020 (and was notified of this on 6 July 2020).

RISKS SITUATED IN JERSEY

4.2.4. As at the date of this Supplemental Report, QBE Europe has not yet received its insurance licence for Jersey from the Jersey Financial Services Commission. The Parties do not expect this to be in place prior to the Sanctions Hearing, but do expect the licence to have been issued by 31 December 2020. The Parties will treat these policies as Residual Policies, and delay their transfer to QBE Europe until such time as QBE Europe obtains the required licence to conduct business in Jersey.

RISKS SITUATED IN INDIA

4.2.5. In Section 3.6 of my Report, I described how QBE EO Staff would not be applying for an insurance licence in India for QBE Europe. Instead of listing the 9 historic policies identified with risks situated in India as Excluded Policies, it has amended the Scheme so that these policies will be split. Only the portions of these policies with EEA risks will transfer to QBE Europe, where they can continue to be serviced. The remaining portions of the policies will be Excluded Policies and will stay with QBE UK.

OTHER MATTERS

4.2.6. Part of the Transferring Policies includes permitted business that was written by QBE UK on a non-admitted basis in certain non-EEA Member states where QBE Europe had not previously notified the NBB that it was planning to conduct insurance-related activities. QBE Europe has submitted the required filing to the NBB to notify it of QBE Europe's intention to conduct permitted run-off activities in relation to the Transferring Policies in these territories post-Transfer. The NBB provided QBE Europe with an updated 'Certificate of Solvency' dated 30 September 2020 certifying that QBE Europe is entitled to carry on insurance-related activities in these territories.

4.2.7. *In light of there being no objections from the NBB, I am satisfied that QBE Europe has the appropriate insurance licences and permissions to enable it to service the Transferring Policies. The Scheme has put in place appropriate arrangements in place to cater for the short delay in QBE Europe obtaining its insurance licence in Jersey. Therefore my conclusions regarding the Transfer are unchanged.*

4.3. Emerging COVID-19 issues / impacts

4.3.1. QBE EO Staff have told me that the majority of staff are continuing to work from home with no major issues affecting underwriting, claims handling, policy administration or other back-office functions. All key processes have been completed as required and all key internal and external deadlines have been met. QBE EO Staff have also told me that there have been no delays to transactional processing speeds for settlements and accounts payable items.

4.3.2. *Based on this information, I am satisfied that my conclusions regarding the Transfer are unchanged.*

4.4. Brexit

4.4.1. *I am not aware of any developments relating to Brexit that affect my conclusions regarding the Transfer.*

4.5. Policyholder Protection Schemes

4.5.1. QBE EO Staff have confirmed to me that they have written a letter on 2 October 2020 informing the NBB that QBE Europe has undertaken to comply with the relevant provisions of DISP (and other relevant sections of the FCA Handbook) that would apply to the handling of any complaints. This undertaking is discussed in 16.6.10 of my Report. I am not aware of any other material developments since I completed the Report regarding the ability of Affected Policyholders to access the Financial Ombudsman Service that affect my conclusions.

4.5.2. I am not aware of any material developments since I completed the Report regarding the ability of Affected Policyholders to access the Financial Services Compensation Scheme that affects my conclusions.

4.5.3. *There are no changes relating to Policyholder Protection Schemes that affect my conclusions regarding the Transfer.*

4.6. Conclusion

4.6.1. *Based on this analysis, I am satisfied that there are no changes to my conclusions regarding the non-financial effects of the Transfer on the Affected Policyholders.*

5. Communications

5.1. Update on status of communications

5.1.1. There have been no material changes to the notification or publicity arrangements surrounding the Transfer.

5.1.2. The Second Witness Statement highlights some additional post-Transfer notification requirements from regulators in Estonia, Finland, Greece, Hungary, Latvia, Liechtenstein, the Netherlands, Romania and Slovenia, and confirms that QBE Europe will carry them out should the Court approve the Transfer. Additionally, the Second Witness Statement notes that the Irish regulator requested that notices of the Transfer be placed in some additional Irish publications (being Iris Oifigiuil and the Irish Independent) and confirms that this was complied with on 25 August 2020.

5.2. Objections to the Transfer and other Policyholder Issues raised

5.2.1. I have reviewed summary notes of anonymised policyholder enquiries prepared for me by QBE EO Staff. All 55 of these appear to be of a general or administrative nature (for example, to understand why they had been contacted or to clarify which policy or policies were affected).

5.2.2. I have not been advised of any matters raised by policyholders that I consider represent an objection to the Transfer.

5.2.3. QBE UK and QBE Europe have established a dedicated helpline in the UK, and a dedicated email address, operational since 13 July 2020. As at 5 October 2020, the telephone helpline had received 24 calls and the email address had received 31 emails. Based on the volume of calls and emails, I am satisfied that there do not appear to be any major areas of policyholder confusion or concerns in response to the Transfer or the policyholder communication material.

5.3. Communications documents

5.3.1. QBE EO Staff have told me that they had originally intended for Armour Risk Management Limited, the third-party administrator for policies relating to Project Fall, to conduct the notification exercise to policyholders of the Project Fall European Business. Following the Directions Hearing for this Transfer, Armour Risk Management Limited notified the Parties that they were unable to assist due to the impact of COVID-19. QBE EO Staff subsequently notified these policyholders directly as they already had all the relevant contact details.

5.3.2. I am satisfied that the communication documents sent to policyholders regarding the Transfer is consistent with my expectations at the time of completing my Report, other than as described in the above paragraph, and that the communication material used was appropriate.

5.4. Publicity

5.4.1. QBE EO Staff have confirmed that the required notices were placed in the agreed publications between 10 July 2020 and 4 September 2020.

5.4.2. The majority of notices were placed as planned by 4 August 2020 except for notices in Machinery, New Civil Engineer, Construction Plant News, and the additional Irish publications. The Second Witness Statement provides an explanation for these delayed publications and is as follows, for

- New Civil Engineer, Construction Plant News, and Machinery, no advertising space was available until 20 August 2020, 28 August 2020 and 4 September 2020 respectively; and,
- Iris Oifigiuil and the Irish Independent (the additional Irish publications), the Parties were only notified of this request on the 7 August 2020, and 25 August 2020 was the earliest the Parties could arrange for a notice to be placed in these publications.

5.4.3. I am satisfied with the explanations provided by QBE EO Staff of the reasons for the delay in placing notices in these publications and do not believe that the short delay will have been of material detriment to policyholders as these took place over a month before the Sanction Hearing.

5.5. Result of email and postal mailings

- 5.5.1. QBE EO Staff's initial mailing exercise (either printed or electronic documents) took place between 8 July 2020 and 13 July 2020, and was addressed to recipients (these being policyholders of QBE UK and QBE Europe, claimants, intermediaries, reinsurance brokers and reinsurers of policies transferring to QBE Europe). The Second Witness Statement includes a statement that all documents were correctly posted and provides an analysis of the performance. The Second Witness Statement explains that communication packs were sent entirely by post rather than predominantly by post. This was because the data held regarding postal addresses was deemed more reliable and easier to verify than the corresponding email address data.
- 5.5.2. I am satisfied that the process followed where there is returned notification material, and the process that QBE EO Staff have described to me, are consistent with the proposals previously advised to me.
- 5.5.3. QBE EO Staff have provided me with details of the numbers of policyholder mailings that have been returned, from initial communications and from follow-up policyholder mailings.
- 5.5.4. As of 5 October 2020, there were 2,378 communications returned out of 19,529 mailings, approximately 12%. Of these more than half were resent to a new address with no returns received to date, or QBE EO Staff had concluded that either the policyholder had at the outset of the communication exercise already cancelled their policy or the policyholder (or claimant) had received the communication pack by another means. The remainder were deemed to be untraceable or uncontactable by the third-party tracing agent used.
- 5.5.5. Of the 1,028 untraceable or uncontactable policyholders and claimants, the vast majority are Irish policyholders for whom additional advertising in Ireland had already been arranged at the request of the Irish regulator (see paragraph 5.1.2).
- 5.5.6. QBE EO Staff have told me that for policies whose communication was to be handled by a Broker, the majority of Brokers had not provided written confirmation that the mailing was carried out successfully. Where QBE EO Staff did not receive such confirmation from the Broker, QBE EO Staff have contacted the relevant Affected Policyholders directly, to minimise the risk of such policyholders not receiving the notification material regarding the Transfer.
- 5.5.7. QBE EO Staff believe that the low uptake to their request for confirmation from Brokers was likely a result of the COVID-19 pandemic. Following a review of the position, QBE EO Staff identified that 2,281 policyholders and claimants had not been provided with a communications pack by 4 August 2020. Of these policyholders and claimants, QBE EO Staff took steps to contact these policyholders and claimants and by 5 October 2020 had successfully identified and contacted 2,055 of them, leaving 226 that they had been unable to contact.
- 5.5.8. QBE EO Staff have told me that these 226 policyholders and claimants whom the Parties were unable to contact related to marine risks. The Parties have already placed a notice of the Transfer in TradeWinds, the world's largest shipping news service, to attempt to increase the likelihood that British Marine policyholders and claimants were made aware of the Transfer. QBE EO Staff have told me that they therefore believe that sufficient additional publicity arrangements have been put in place in respect of these 226 policyholders and claimants.

5.5.9. The Second Witness Statement highlights that, because QBE UK and QBE Europe are part of the same (re)insurance group, those policyholders who were not notified of the Transfer (described in paragraphs 5.5.5 and 5.5.8) will not in practice notice the effects of the Transfer. This is because, should they wish to make a claim at some point in the future, any such claim will be referred by QBE UK to QBE Europe. As a result, the Parties believe that any potential policyholder detriment arising from a failure to notify them of the Scheme will be materially diminished.

5.5.10. Therefore, taking together the tracing exercises, additional publications of the Transfer, and the Parties belonging to the same group, I am satisfied that QBE EO Staff have taken an appropriate approach to notifying policyholders.

5.5.11. *Based on the information provided to me by QBE EO Staff and the summary of the position set out in the Second Witness Statement, I am satisfied that the policyholder notification has been carried out appropriately.*

C. Appendices

Appendix 1. List of additional data items received for the Supplemental Report

In writing this Supplemental Report, I relied upon the accuracy of certain documents and information provided by QBE EO Staff. The items that were used to prepare this Supplemental report included but were not limited to the following:

Balance sheet and Reserving

- GAAP and Solvency II balance sheets for QBE UK & QBE Europe as at 30 June 2020
- Pro forma balance sheets (GAAP and Solvency II) for post-Transfer entities 30 June 2020
- Finance Report dated 17 July 2020
- Capital, Solvency and Liquidity Plan – August 2020 update
- QBE EO actuarial reserve results pack for 2020H1
- GAAP to Solvency II technical provisions translations as at 30 June 2020
- Reconciliation from 31 March 2020 reserving to GAAP balance sheets as at 30 June 2020

Capital

- Information related to QBE EO's Internal Model for major model change submission in June 2020, including validation reports and test plans
- QBE EO ORSA Updates 2020Q1 and 2020Q2

Policyholder communications

- Policyholder communications pack
- Communications dashboard tracking policyholder responses

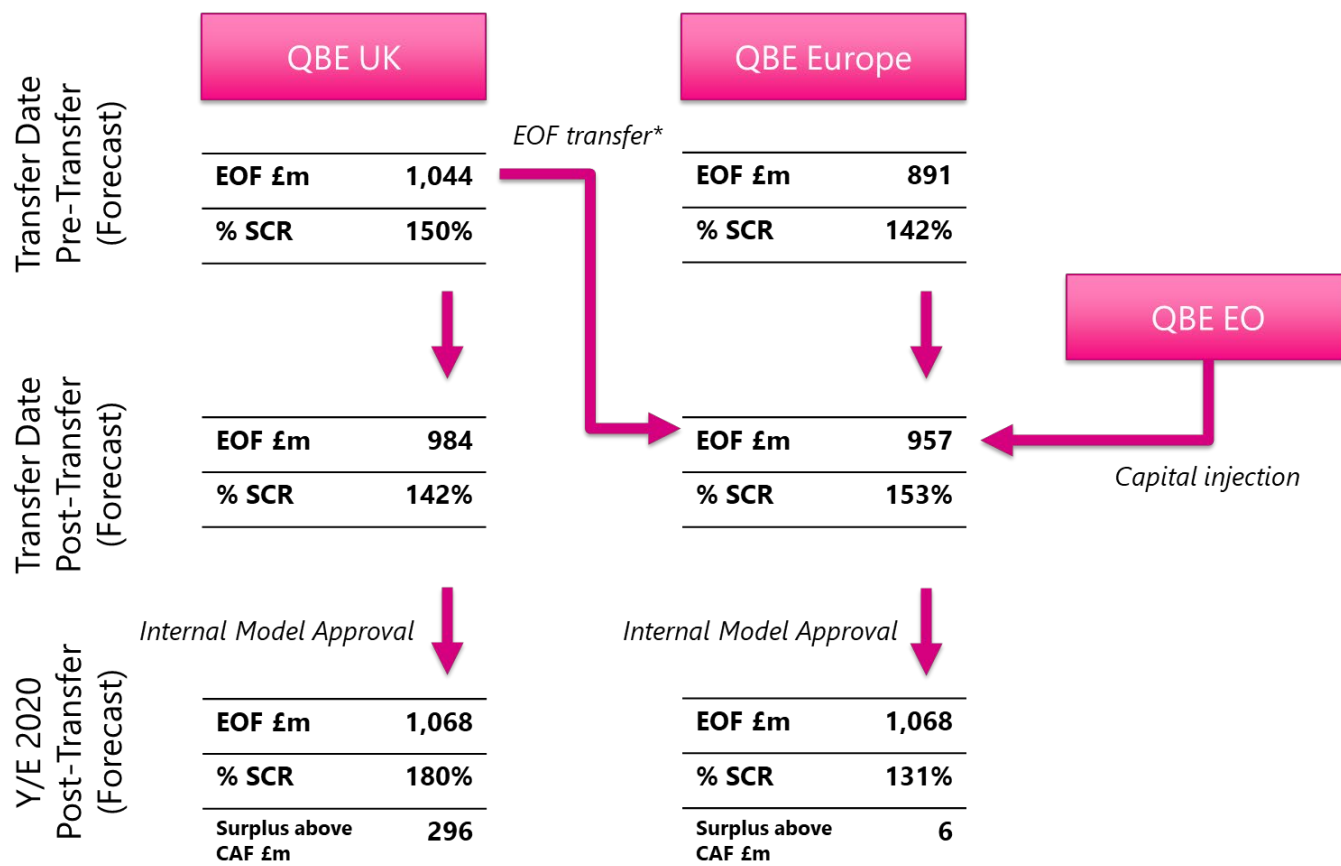
Other

- Paper explaining how QBE EO Staff will calculate the transfer amounts at the Transfer Date

Other information has been gathered from email correspondence and meetings with staff and representatives of QBE EO.

Appendix 2. Eligible Own Funds flow diagrams

The figures in this Appendix provide schematic diagrams to show the flow of EOF between firms that will accompany the Transfer based on mid-year 2020 financial positions.



*indirect EOF transfer – see paragraph 2.2.3

Appendix 3. Consolidated Balance Sheets (current & anticipated positions)

C.3.1 GAAP balance sheets (pre- and post-Transfer)¹

Table C.1 sets out the pre-Transfer entities and the “as-if” post-Transfer positions on a GAAP basis, using the 30 June 2020 position.

Table C.1 GAAP Balance Sheets as at 30 June 2020						
	Pre-Transfer			Post-Transfer		
	QBE UK	QBE Europe		QBE UK	QBE Europe	
	£m	€m	£m	£m	€m	£m
Assets						
Investments & Cash in hand	2,864	3,154	2,858	2,565	3,498	3,170
Reinsurers' share of Technical Provisions	1,034	518	470	945	616	558
Debtors, prepayments & other assets	577	1,221	1,107	568	1,232	1,116
Total	4,475	4,893	4,434	4,078	5,346	4,844
Liabilities						
Technical Provisions	2,996	3,373	3,056	2,699	3,701	3,354
Creditors & other liabilities	401	629	570	401	629	570
Total liabilities	3,397	4,002	3,626	3,100	4,330	3,924
Net assets	1,078	892	808	978	1,016	920
Total	4,475	4,893	4,434	4,078	5,346	4,844
Net TPs	1,963	2,854	2,586	1,754	3,085	2,795

¹ Prepared using QBE UK and QBE Europe’s Solvency II regulatory reporting working files as at 30 June 2020 which aggregate underlying balance sheet items differently to statutory GAAP accounts. QBE EO Staff have confirmed that the net assets remain consistent under both presentations.

C.3.2 Solvency II balance sheets (pre- and post-Transfer)

Table C.2 sets out the pre-Transfer entities and the "as-if" post-Transfer positions on a Solvency II basis, using the 30 June 2020 position.

Table C.2 Solvency II Balance Sheets as at 30 June 2020						
	Pre-Transfer			Post-Transfer		
	QBE UK	QBE Europe		QBE UK	QBE Europe	
	£m	€m	£m	£m	€m	£m
Assets						
Investments & Cash in hand	2,883	3,198	2,898	2,583	3,542	3,210
Reinsurers' share of Technical Provisions	949	377	341	864	471	426
Debtors, prepayments & other assets	412	662	600	394	695	629
Total	4,244	4,237	3,839	3,840	4,707	4,265
Liabilities						
Technical Provisions	3,012	2,948	2,671	2,664	3,366	3,050
Creditors & other liabilities	348	491	445	348	491	445
Total liabilities	3,360	3,439	3,116	3,012	3,857	3,495
Net assets	884	798	723	828	850	770
Total	4,244	4,237	3,839	3,840	4,707	4,265
Net TPs	2,063	2,571	2,330	1,801	2,896	2,624

Table C.3 shows the translation of the Solvency II net assets shown in Table C.2 to Solvency II Eligible Own Funds and projects them forward to the Transfer Date and 31 December 2020.

Table C.3 Translation of Solvency II Net Assets to Solvency II EOF (as at 30 June 2020 and projected to Transfer Date and 31 December 2020)						
	Pre-Transfer			Post-Transfer		
	QBE UK	QBE Europe		QBE UK	QBE Europe	
	£m	€m	£m	£m	€m	£m
Net Assets	884	798	723	828	850	770
Ring Fenced Funds	(10)	(21)	(19)	(10)	(21)	(19)
AOF injection	160		-	160		-
Tier 2 debt eligible for inclusion	-	200	181	-	200	181
EOF as at 30 June 2020	1,034	977	885	979	1,029	933
Forecast profits in 2020 Q3	6	27	25	6	27	25
Update to pre-Transfer Risk Margin	5	(28)	(25)			
Estimated deferred tax movement	(1)	7	6			
Forecast EOF at Transfer Date	1,044	983	891	984	1,056	957
Forecast profits in 2020 Q4				5	26	24
Risk margin reduction (post-MMC approval)				99	128	116
Estimated deferred tax movement				(20)	(32)	(29)
Forecast EOF at 2020 year-end				1,068	1,179	1,068

Table C.4 shows the pre-Transfer to post-Transfer translation of the Solvency II net assets shown in Table C.2 as at 30 June 2020.

Table C.4 Pre-Transfer to Post-Transfer translation for Solvency II Net Assets as at 30 June 2020								
		QBE UK		QBE Europe				Comments
		£m	£m	€m	€m	£m	£m	
A	Pre-Transfer Solvency II Net Assets	884		798		723		Net Assets from Table C.2
B	Cash & Investment change	(300)		344		312		
C	Cash backing transferring TPs & Debtors		(200)		220		200	Cash backing the transferring balances from QBE UK
D	Dividend (QBE UK)		(100)					QBE UK's dividend to QBE EO
E	Cash Injection (QBE Europe)				124		112	QBE Europe's cash injection from QBE EO
F	Net Technical Provisions change	262		(325)		(294)		
G	Change in Risk Margin (pre-Transfer)		5		(28)		(25)	Table C.3 (Update to Pre-Transfer Risk Margin)
H	Change in Risk Margin (due to Transfer)		51		(70)		(63)	Table C.4.1 less Table C.4.2 (Solvency II Risk Margin) less Row G
I	Transferring Net SII TPs excl. RM		206		(227)		(206)	Table C.4.1 less Table C.4.2 (Net SII TP excluding Solvency II Risk Margin)
J	Net debtors change	(18)		32		29		
K	Transferring GAAP debtors		(9)		10		9	Table C.1 (pre-transfer debtors less post-transfer debtors)
L	Deferred tax adjustment		(11)		24		22	See diagnostic below
M	Other		2		(2)		(2)	Future premium adjustments
N	Post-Transfer Solvency II Net Assets	828		850		770		Net Assets from Table C.2 (N = A + B + F + J)
O	GAAP to SII Own Funds Change due to TPs		55		(96)		(87)	Approximately equal to the change in risk margin (G + H)
P	Implied tax rate diagnostic		20%		25%		25%	- L / O

Appendix 4. Technical Provisions GAAP to Solvency II Translation as at / "as-if" at 30 June 2020

C.4.1 Pre-Transfer entities as at 30 June 2020

The following table summarises the UK/Belgian GAAP to Solvency II Technical Provision adjustments for pre-Transfer entities.

Table C.5 Pre-Transfer	QBE UK, £m			QBE Europe, €m			QBE Europe, €m			Calculation #
	Gross	RI	Net	Gross	RI	Net	Gross	RI	Net	
GAAP Technical Provisions	2,996	1,034	1,963	3,373	518	2,854	3,056	470	2,586	1
Future premium receipts on incepted contracts	(97)	(63)	(34)	(370)	(84)	(287)	(336)	(76)	(260)	2
Unearned premium (incepted and unincepted) and associated claims costs	(192)	(22)	(170)	(404)	(62)	(342)	(366)	(56)	(310)	3
Other SII adjustments	(7)	14	(21)	(42)	6	(49)	(38)	6	(44)	4
Discounting	(26)	(13)	(13)	14	(3)	17	13	(2)	15	5
SII Technical Provisions excl. SII Risk Margin	2,674	949	1,725	2,570	377	2,193	2,329	341	1,987	6 = sum 1 to 5
SII Risk Margin	338	0	338	378	0	378	342	0	342	7
SII Technical Provisions	3,012	949	2,063	2,948	377	2,571	2,671	341	2,330	8 = 6+7

C.4.2 Post-Transfer entities "as-if" at 30 June 2020

The following table summarises the UK/Belgian GAAP to Solvency II Technical Provision adjustments for post-Transfer entities.

Table C.6 Post-Transfer	QBE UK, £m			QBE Europe, €m			QBE Europe, €m			Calculation #
	Gross	RI	Net	Gross	RI	Net	Gross	RI	Net	
GAAP Technical Provisions	2,699	945	1,754	3,701	616	3,085	3,354	558	2,795	1
Future premium receipts on incepted contracts	(94)	(62)	(32)	(373)	(85)	(289)	(338)	(77)	(262)	2
Unearned premium (incepted and unincepted) and associated claims costs	(187)	(22)	(165)	(412)	(64)	(348)	(374)	(58)	(315)	3
Other SII adjustments	(11)	15	(25)	(36)	8	(44)	(33)	7	(40)	4
Discounting	(24)	(12)	(12)	12	(4)	16	11	(4)	15	5
SII Technical Provisions excl. SII Risk Margin	2,383	864	1,519	2,891	471	2,420	2,620	426	2,193	6 = sum 1 to 5
SII Risk Margin	281	0	281	475	0	475	431	0	431	7
SII Technical Provisions	2,664	864	1,801	3,366	471	2,896	3,050	426	2,624	8 = 6+7