Proposed Part VII Insurance Business Transfer relating to:

QBE UK Limited

and

QBE Europe SA/NV

Report of the Independent Expert

23 June 2020

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Key acronyms and definitions

This Report contains various acronyms, shorthand names for companies and technical terms. To aid readability, these are defined in a consolidated glossary in Appendix 8. Where used, the first letter has been capitalised. The bold items below are key items from the glossary that I have used in Section A of this 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 Staff	Employees of QBE Europe, QBE UK, QMIL and QMSUK acting on behalf of QBE EO entities.
	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.
	QSCC	QBE Strategic Capital Company Pty Limited, the central treasury entity for the QBE Group. An Australia-domiciled company. QBE EO has a £175 million **Contingent Capital Facility** from QSCC 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.
	Equator Re	Equator Reinsurances Limited (Bermuda), QBE Group's captive reinsurer, providing reinsurance protection to divisions within the QBE Group in conjunction with other external reinsurance programs. A reinsurer domiciled in Bermuda.
	QMSUK	QBE Management Services (UK) Limited, a wholly-owned subsidiary of QBE EO. A UK-domiciled service company.
	QMIL	QBE Management (Ireland) Limited, a wholly-owned subsidiary of QBE EO. An Ireland-domiciled service company.
Legal, regulatory and Pt. 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.
	European Business	Business written by QBE UK and QBE Europe in EEA States on either a Freedom of Services or via an EEA branch operating on a Freedom of Establishment basis.
	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 it were an authorised firm in the EEA state where the risk in 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 (*Banque Nationals de Belgique/Nationals Bank van België*). 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** prepared for the Court in accordance with FSMA 2000 setting out the effect of the Transfer on policyholders affected by it. The Supplemental Report will be prepared for the Court shortly before it is asked to approve the Transfer. This is 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 from QBE UK to 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. Essentially these will be the policies written by QBE UK on a Freedom of Services basis in certain EEA member states prior to the 1 January 2019.

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. Essentially these will be the policyholders whose policies were written by QBE UK on a Freedom of Services basis in certain EEA member states prior to 1 January 2019.
	Existing Policyholders	Policyholders of QBE Europe prior to the Transfer.
Other Insurance Terminology	**Adjusted-SCR**	The Indicative Internal Model SCR that reflects Technical Provisions as at 31 December 2019 and 2020 business plans. I believe that the Adjusted-SCR is a more satisfactory representation of the risk profile of the Parties than the Approved Internal Model SCR, as it allows for more up to date business developments.
	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 used in this Report, formally: $Capital\ cover\ ratio\ \% = \frac{financial\ resources}{capital\ requirements}$ EOF is normally used for measuring financial resources, while SCR is used for capital requirements.
	Coverholder Business	Business written by coverholders of QBE UK under delegated underwriting authority agreements.
	Expected EOF	*Pre-Transfer:* The EOF as at 2019 year-end allowing for estimated impacts of the COVID-19 pandemic and capital actions already planned for 2020. *Post-Transfer:* 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. There are limits on the proportion of the SCR that can be met by certain types of Eligible Own Funds.
	GAAP	Generally Accepted Accounting Principles. Statutory financial statements are prepared using GAAP.
	GWP	Gross written premium.
	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. When QBE EO, QBE UK and QBE Europe obtain approval from the PRA and the NBB to use the results of the QBE EO Internal Model to determine their SCR, these SCRs are referred to as the **Approved Internal Model SCRs**. At the time of writing, the latest supervisory approval of the QBE EO Internal Model was granted in January 2020.
	Technical Provisions	These are essentially the amounts set aside by insurance companies, at a given date, to pay for all potential 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	**Comparative terms**	I use the term **remote** to describe terms that I believe are sufficiently unlikely so as to be immaterial to my conclusions. This is discussed in greater detail in Section 6.
	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.
	First Brexit Transfers	Part VII transfers and an associated cross-border merger executed by QBE UK and QBE Re (Europe) Limited, which took effect on 1 January 2019. Together, these were a Part VII transfer of the (re)insurance business of the EEA branches of QBE Insurance Europe Limited (since renamed QBE UK) into QBE Europe, a Part VII transfer of the entirety of the (re)insurance business of QBE Re (Europe) Limited into QBE Europe, and a cross-border merger of QBE Re (Europe) Limited into QBE Europe.

Amounts in this Report have been converted to Sterling at £1 = €1.1810 = US$1.3247

Contents

A. Introduction and Executive Summary

1. Introduction

1.1. Background

1.1.1. This Report covers the proposed Part VII Transfer relating to QBE UK and QBE Europe. The project was initiated by QBE EO in response to the uncertainty created by Brexit in relation to the legality of continuing to carry on servicing (re)insurance contracts for policyholders with EEA risks after the UK leaves the EU.

1.1.2. On 29 March 2017, the UK Government informed the Council of the EU that it intended to leave the EU. Following a period of negotiation between the UK and EU to agree the terms of its withdrawal, the UK's formal departure took place on 31 January 2020.

1.1.3. As part of the withdrawal agreement entered into between the UK and the EU, an Implementation Period was established under which the existing trading arrangements continue. Unless extended, this Implementation Period will expire on 31 December 2020. The UK Government has indicated that it does not intend to seek an extension of the Implementation Period beyond this date.

1.1.4. At the time of writing my Report, no final agreement has been reached between the UK and the European Union regarding the future trading arrangements between the UK and EU regarding the issuing and servicing of insurance business post-Brexit and the transition period. In the absence of such an agreement and following expiry of the Implementation Period[1], UK-domiciled (re)insurance companies that conduct (re)insurance business throughout the EEA using their existing Freedom of Services and Freedom of Establishment permissions will cease to be able to do so in all EEA member states.

1.1.5. To avoid the risk of disruption to its business and to provide certainty to its policyholders, QBE EO reorganised its UK (re)insurance companies through the execution with effect from 1 January 2019 of the First QBE Brexit Transfers, described in the next two paragraphs.

1.1.6. First, QBE EO carried out a Part VII Transfer of the (re)insurance business of the EEA branches[2] of QBE Insurance Europe Limited (since renamed QBE UK) into QBE Europe, a newly established (re)insurer domiciled in Belgium.

1.1.7. At the same time, QBE EO also carried out a Part VII Transfer of the entirety of the (re)insurance business of QBE Re (Europe) Limited into QBE Europe, and a cross-border merger of QBE Re (Europe) Limited into QBE Europe.

1.1.8. From 1 January 2019, QBE UK ceased writing any new or renewal business for risks located in the EEA on a Freedom of Services basis or via branches in EEA member states. It retained, however, a portfolio of policies that had been written on a Freedom of Services basis and incepted prior to 1 January 2019.

[1] This assumes that ongoing negotiations between the UK and EU during the Implementation Period do not change the position. My current understanding is that a material change is not expected, however my conclusions in this Report do not rely on this assumption.

[2] In Belgium, Bulgaria, Denmark, Estonia, France, Germany, Ireland, Italy, Norway, Spain and Sweden.

1.2. Purpose of the Scheme

1.2.1. The Transfer completes the reorganisation of QBE EO's European Business, by transferring the business written on a Freedom of Services basis[3] by QBE UK and incepting prior to 1 January 2019. This will remove the current remaining uncertainty for these policyholders and for QBE UK regarding the ability for the contracts to be serviced legally in future.

1.2.2. The purpose of the Scheme is to request that the Court uses its powers under FSMA 2000 to bring the Transfer into effect. Under FSMA 2000, QBE EO must obtain a report prepared for the Court by an independent expert, commenting on the effects of the Scheme.

1.3. Independent Expert

1.3.1. I, Alex Marcuson, have been appointed by QBE UK and QBE Europe to act as the Independent Expert for the Transfer. This role, established under Part VII of FSMA 2000 (along with supporting regulations) is described in the PRA's SoP and SUP18 of the FCA's Handbook. The PRA (in consultation with the FCA) approved my appointment on 27 March 2019. A copy of relevant sections from my letter of engagement appointing me to act in this role is included in Appendix 1.

1.3.2. I am the Managing Director of Marcuson Consulting Ltd, a specialist non-life insurance actuarial consulting firm. I am a Fellow of the Institute and Faculty of Actuaries with over twenty years of experience advising non-life insurers and reinsurers. I have experience in loss reserving and capital modelling for non-life (re)insurance companies and have previously acted as an independent expert and advised a number of firms carrying out Part VII transfers, including the First QBE Brexit Transfers. A copy of my curriculum vitae is included in Appendix 4.

1.3.3. To carry out this role, I am required to be able to act independently in performing a review of the Transfer. I believe I can do so for the following reasons:

- Neither I nor Marcuson Consulting Ltd has identified any direct shareholding or any other direct financial interest in or relationship with any entity within the QBE Group.
- Neither I nor Marcuson Consulting Ltd has any insurance policy with any entity within the QBE Group.
- Subject to the paragraph below, none of the members of the team who have assisted me in performing my review (including carrying out peer review of my work) have any shareholding or other direct financial interest in or relationship with or any insurance policy with any entity within the QBE Group.
- While my peer reviewer has a minority participation in a limited liability Lloyd's underwriting vehicle which provides underwriting capacity to a Syndicate managed by QBE Underwriting Limited (Syndicate 386), he has no financial interest in the QBE Group. As no aspect of QBE's Lloyd's operation is part of the Transfer, I have no reason to believe that his independence is impaired.
- I am not aware of any other conflicts of interest that might impair my ability to act.

1.3.4. I was appointed by QBE UK and QBE Europe to act as the independent expert for the First QBE Brexit Transfers. I do not believe that this impairs my ability to act as Independent Expert for the Transfer because the intended date on which the Transfer will be sanctioned by the Court is early in the fourth quarter of 2020. This will mean that:

[3] Whether solely relating to risks situated in one or more EEA member state other than the UK, or also covering risks situated in one or more other jurisdictions (one of which could be the UK as well as non-UK EEA member states).

- At least two year-ends (2018 and 2019) will have been completed and audited between the balance sheet that I relied upon in carrying out my work on the First QBE Brexit Transfers and the final balance sheet that I anticipate relying upon for the Transfer in my Supplemental Report.
- The QBE EO Internal Model will have been subject to two cycles of approval for Major Model Change between the First QBE Brexit Transfers and the Transfer.
- A significant passage of time (approximately two years) will have elapsed between when I originally looked at the portfolio to be transferred[4] under the Transfer and the date on which I finalise my Supplemental Report (see paragraph 1.3.11). This means that a material number of the policies in the portfolio will have expired, and the outstanding claims liabilities and associated uncertainty will have reduced, particularly for the shorter-tailed lines of business.

1.3.5. Together, these mean that the balance sheets will have evolved and been subject to independent actuarial and audit review, and capital requirements and the QBE EO Internal Model will have been subject to independent model validation and regulatory approval of Major Model Change.

1.3.6. The Transferring Policies did not change companies, countries or move between differing regulatory regimes under the First QBE Brexit Transfers. Therefore I did not need to consider matters relating to conduct or other non-financial issues affecting policyholders in as great a level of detail as I need to do for these policyholders under the Transfer.

1.3.7. The Parties obtained waivers from notifying the non-transferring policyholders and had no requirement to notify their reinsurers under the First QBE Brexit Transfers. Therefore, I did not need to consider the effectiveness of the notification of the Transferring Policyholders or their reinsurers to the detailed level that would otherwise have applied.

1.3.8. As a result, I believe that the review that I will be required to perform with regard to the technical provisions, balance sheets, risks, business plans and regulatory capital requirements of QBE UK and QBE Europe and other non-financial and policyholder communications arrangements for the Transferring Policies will not put me in the position of reviewing work on which I have recently provided an opinion. Instead, I believe that I will be in a position where I can form a new opinion based upon the new facts and a different portfolio of business at the Transfer Date.

1.3.9. Other than this, Marcuson Consulting Ltd has not previously undertaken any other work for QBE UK, QBE Europe or any other entity within the QBE Group.

1.3.10. My review has been carried out between September 2019 and June 2020, making use of data available to me during this period. My fees incurred in the preparation of this Report are payable by QBE Management Services (UK) Limited, a wholly-owned subsidiary of QBE EO.

1.3.11. I anticipate preparing a Supplemental Report close to the Transfer Date that updates the Court on information arising since I finalised this Report and confirms my conclusions.

1.4. Role

1.4.1. My role as Independent Expert is to review the terms of the Scheme and produce this Report for the Court describing its effects. In doing so, I am required to consider the financial and non-financial effects of the Transfer on the Affected Policyholders, and the effects of the Transfer on the Reinsurers of the Transferring Policyholders. The Affected Policyholders can be subdivided into:

- the Remaining Policyholders;

[4] which was part of the business that remained in QBE UK after the First QBE Brexit Transfers

- the Transferring Policyholders; and
- the Existing Policyholders.

1.5. Structure of the Report

1.5.1. This Report contains the following sections:

Section A: Introduction and Executive Summary	
1.	Introduction
2.	Executive Summary
Section B: Overview of the Transfer	
3.	Description of the Transfer and the Transferring Policyholders
4.	Description of the Companies
5.	QBE EO Group Perspective
6.	Approach: additional description
Section C: Detailed Review – Financial effects	
7.	Introduction
8 – 9.	Review of Company Technical Provisions and Balance Sheets
10 – 14.	Qualitative and quantitative risk and capital analysis
15.	Summary of financial positions of Affected Policyholders
Section D: Detailed Review – Non-financial effects, notification and publicity	
16.	Non-financial aspects relating to the Transfer
17.	Notifications and Publicity arrangements
Section E: Appendices	

1.5.2. The Report should be considered in its entirety as parts taken out of context could be misleading.

1.6. Purpose and use of the Report

1.6.1. This Report has been prepared to set out for the Court my findings in respect of the Transfer, following the guidance set out in the SoP and SUP18. It should not be used for any other purpose, for any other insurance business transfer or in any other legal forum.

1.6.2. Marcuson Consulting Ltd and I do not owe or accept any duty to any party other than the Court or to any party seeking to use the Report for any purpose other than in connection with the Transfer. We shall not be liable for any loss, damage or expense (including interest) of whatever nature that is caused by any party choosing to rely on this Report for any other purpose.

1.7. Compliance with SoP, SUP18 and UK Actuarial Standards

1.7.1. This Report follows the guidance set out in the SoP and SUP18, and considers the guidance set out in FCA FG 18/4: The FCA's approach to the review of Part VII insurance business transfers.

1.7.2. This Report has been prepared in compliance with the FRC'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 IFoA (APS X2: Review of Actuarial Work).

1.7.3. The PRA (in consultation with the FCA) has approved the form of this Report in the context of the Transfer.

1.8. Reliances

1.8.1. In preparing this Report I have been assisted in performing the analysis by my colleagues at Marcuson Consulting Ltd. Where I refer to work that I have carried out, this may have been performed by members of the team working under my supervision. The conclusions and opinions expressed in this Report are, however, my own.

1.8.2. I have relied upon legal advice from QBE external lawyers regarding the application of the Financial Ombudsman Service to Transferring Policyholders. The lawyers responsible for preparing this advice have confirmed to me that I can place reliance upon it.

1.8.3. I have relied upon the data, reports and other information provided to me by QBE EO Staff. A list of this information is contained in Appendix 3. QBE EO Staff have checked the information contained in this Report for factual accuracy and confirmed the accuracy of the data and other information provided to me. I have relied upon the confirmation of this to the Court in the Witness Statement.

1.8.4. Although I have not sought to verify independently each item of data, I have sought to perform reasonableness checks on the material received so as to satisfy myself that I could rely upon it for the purposes of reaching the conclusions in this Report. Where necessary I have sought clarification from QBE EO Staff. Where possible, this has included reconciling information to audited financial information and other unaudited management information.

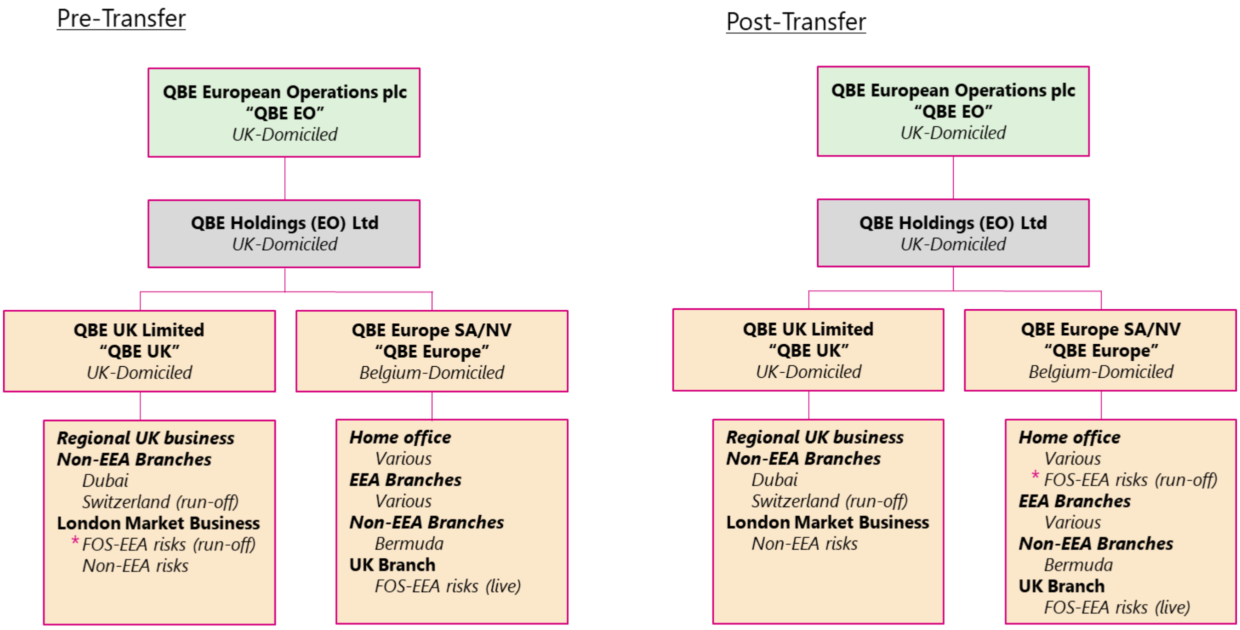
2. Executive Summary

2.1. Overview of the Scheme and Transfer

2.1.1. The Scheme is an internal reorganisation within the QBE Group of part of its European (re)insurance operations, all of which are wholly-owned subsidiaries of QBE EO. QBE Group is one of the twenty largest global non-life insurance and reinsurance groups in the world, with shareholders' equity of approximately £6.2 billion as at 31 December 2019 and its core operating entities have Insurer Financial Strength Ratings from Standard & Poor's of A+/Stable. QBE EO has Solvency II Eligible Own Funds of approximately £1.7 billion. The Transfer brings about no change to the position at a consolidated level of either QBE Group or QBE EO.

2.1.2. Figure 1 is a schematic diagram setting out the components of the Scheme and Transfer.

*Figure 1 - Schematic summary of the Transfer – only items marked with * are transferring*

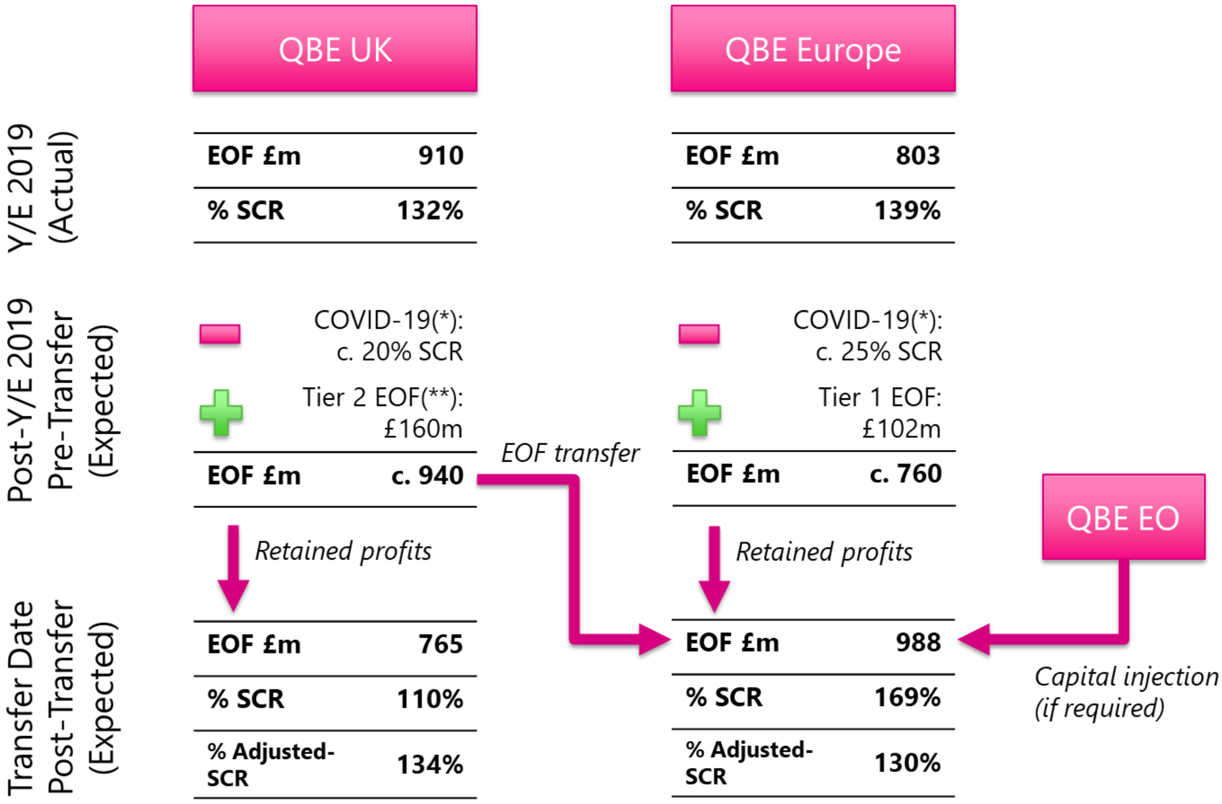


2.1.3. The Transfer will move the assets and liabilities associated with the Transferring Policies. At the same time, additional Eligible Own Funds will be transferred from QBE UK and injected (via QBE EO Group companies) into QBE Europe. The amount to be transferred will be determined close to the Transfer Date and will be set to enable QBE UK and QBE Europe to maintain levels of financial resources in line with the Capital Appetite Framework. I have provided an indication of the amounts in paragraphs 2.1.15 - 2.1.18 based on the projections used in this Report.

2.1.4. QBE EO Staff have told me that there are no immediate alternative plans in place if the Transfer does not proceed.

2.1.5. Figure 2 shows the progression of Eligible Own Funds for QBE UK and QBE Europe from the position as at year-ending 31 December 2019 to the Transfer Date, assuming the Transfer proceeds.

Figure 2 - Progression of Eligible Own Funds for the Parties from year-end 2019 to Transfer Date (£m/Conv £m)



(*) *Market volatility and potential loss exposures*
(**) *Subject to PRA approval*

Expected EOF for the Parties before the Transfer

2.1.6. Figure 2 shows two causes of significant movement in EOF for each of the Parties since year-ending 31 December 2019:

- Erosion of EOF arising from losses recognised to date caused by the COVID-19 pandemic; and
- Completion of capital actions already planned for 2020.

2.1.7. Owing to the uncertainty surrounding losses caused by the COVID-19 pandemic, I have distinguished the approximate allowances for them shown in Figure 2, by presenting them rounded and expressed as percentages of each firm's Approved Internal Model SCRs. Similarly the expected pre-Transfer EOFs in Figure 2 have been rounded to the nearest £10 million.

2.1.8. **COVID-19:** The erosion of EOF during the first half of 2020 arose predominantly from realised and unrealised investment losses related to market turmoil caused by the COVID-19 pandemic. These investment losses can be characterised as a balance sheet event (i.e. an event of a size requiring an injection of additional financial resources). This has prompted QBE EO and the Parties to take steps to restore their balance sheet solvency positions in line with the Capital Appetite Framework.

2.1.9. Any direct financial (re)insurance claim impacts of the COVID-19 pandemic are very uncertain and will remain so for some time. However, I have been told by QBE EO Staff that these (re)insurance claim impacts are best characterised as a P&L event (i.e. similar to other major natural catastrophe events that the Parties budget for each year) and that will not on their own require additional financial resources.

2.1.10. I have described how I have satisfied myself that the COVID-19 pandemic does not change my conclusions regarding the Transfer in Section 2.4, and in greater detail in Sections 4 and 11 of this Report.

2.1.11. **Completion of planned capital actions:** QBE UK has applied for approval of an additional c. £160 million injection as AOF, provided in the form of a banking letter of credit. QBE EO Staff have told me that they expect that the PRA will have decided whether to approve this application no later than 17 August 2020. €70 million of Tier 1 equity was injected into QBE Europe in April 2020. A further injection of €50 million of Tier 1 equity into QBE Europe took place on 16 June 2020.

EXPECTED EOF FOR THE PARTIES AFTER THE TRANSFER

2.1.12. Figure 2 shows the Expected EOF post-Transfer. The definition of the Expected EOF post-Transfer mirrors the Capital Appetite Framework. The Adjusted-SCR is expected to approximate to the June 2020 Major Model Change application.

2.1.13. The size of the Transfer means that a Major Model Change needs to be approved by the supervisors to allow the SCR to adjust in response to the Transfer. QBE EO Staff have told me that the June 2020 Major Model Change application (that includes modelling of the risks faced by the Parties post-Transfer) is expected to be approved by the end of 2020, but not before the Transfer Date. Therefore, I expect there will be a short period of time between the Transfer Date and 31 December 2020 when the in-force SCR for the Parties do not adjust in response to the Transfer.

2.1.14. The amount of excess EOF available from QBE UK and required by QBE Europe pre-Transfer to enable the Parties to remain in line with their Capital Appetite Framework will be determined close to the Transfer Date. I will note and comment on them in my Supplemental Report, but at this stage make the following observations.

2.1.15. For QBE UK:

- After the Transfer, QBE UK's in-force SCR will not reduce immediately to reflect its reduced risk exposures. Its SCR is expected to reduce later in the fourth quarter of 2020, once the June 2020 Major Model Change is approved by the PRA.
- The Capital Appetite Framework permits QBE UK's EOF to fall to 110% of its SCR[5] to enable it to accommodate restructuring exercises such as the Transfer. This provides QBE UK with the flexibility to release c. £175 million of EOF at the Transfer Date to QBE Europe.

2.1.16. QBE Europe will require c. £230 million of additional EOF at the Transfer Date, by comparing its Expected EOF before and after the Transfer.

2.1.17. In summary, QBE UK is expected to have an Expected EOF post-Transfer that is greater than its Expected EOF pre-Transfer, and will be able to provide financial resources to QBE Europe of approximately £175 million at the time of the Transfer. Conversely, the approximate additional EOF expected to be required by QBE Europe comes to approximately £230 million. This comes to a combined shortfall between the Parties of c. £55 million.

[5] Subject to a minimum of 130% of QBE UK's Indicative Internal Model SCR. Indicative Internal Model SCR are updated results from the QBE EO Internal Model which have gone through internal governance within QBE EO, but are not yet approved by the PRA.

2.1.18. I am satisfied that, should there be no additional sources of EOF (e.g. retained profits from either of the Parties[6]) to make up the shortfall of c. £55 million identified in the previous paragraph, the amount is well within the level of additional financial resources of QBE EO. I am also satisfied that, if needed, QBE Group will be able to provide this amount of additional financial to QBE EO so that it can support the Parties.

2.1.19. This is because:

- QBE EO is committed to, and has a clear business interest in, maintaining the financial resources of the Parties as its subsidiaries under its Capital Appetite Framework; and
- QBE EO has in place a Contingent Capital Facility with which it can draw upon up to £175 million in Tier 1 equity from QBE Group should this be required to remain within its Capital Appetite Framework.
- QBE Group has a clear business interest in supporting QBE EO, and successfully raised c. $1.3 billion from investors during the second quarter of 2020.

2.2. Description of QBE UK and QBE Europe business

2.2.1. The business of QBE UK comprises:

- UK-domiciled business underwritten from the UK targeting large and middle-market corporates. Core product-lines include property, casualty, motor and financial and specialty lines.
- Cross-border business written from the UK under QBE UK's Freedom of Services rights[7] and incepting prior to 1 January 2019, predominantly covering the same core product lines listed above. This portfolio has been in run-off since 1 January 2019. It is this business that will transfer to QBE Europe under the Transfer. As at 31 December 2019, the net Technical Provisions associated with this Freedom of Services business have been estimated by QBE UK to be £209 million (c. 10% of the total for QBE UK).
- Business underwritten by the Dubai and Swiss branches of QBE UK (the Swiss branch is currently in run-off).
- The Project Fall Business described in Section 5.5. This is a portfolio of UK and European liability business that is 100% reinsured with third party reinsurers. A small part of this portfolio will be transferring to QBE Europe as part of the Transfer but does not, in my view, have a material bearing on the Transfer.

2.2.2. The business of QBE Europe comprises:

- Insurance business underwritten by the non-UK EEA branch network of QBE Europe under its Freedom of Establishment rights. This business targets large and middle market corporates. Core product-lines include property, casualty, motor and financial lines.
- Cross-border insurance business underwritten by the UK branch of QBE Europe using its Freedom of Services rights, with the following core product lines: property, casualty, motor and financial lines.

[6] QBE EO Staff have told me that the June 2020 Major Model Change submission may result in an increase in the Parties' EOF due to a change in their risk margin methodology. As the June 2020 Major Model Change has only just been submitted, I will review this in my Supplemental Report.

[7] Whether solely relating to risks situated in one or more EEA member state other than the UK, or also covering risks situated in one or more other jurisdictions (one of which could be the UK as well as non-UK EEA member states).

- Reinsurance business written from its home office in Belgium and its branches in Ireland and Bermuda consisting of: short- and long-tailed proportional and non-proportional business (both risk and catastrophe excess of loss business), and reinsurance for credit, transport, surety, life (mortality and morbidity) and accident (including personal accident and workers' compensation) business.

2.3. Scope of Report and Approach

2.3.1. The scope of this Report is to consider and set out my findings on the following four matters:

- The financial impact of the Transfer on the Affected Policyholders;
- The non-financial impact of the Transfer on the Affected Policyholders;
- The impact of the Transfer on the reinsurers of the Transferring Policies; and
- The approach adopted by the Parties to notifying Affected Policyholders and reinsurers of the Transferring Policies of the Scheme and their proposed publicity arrangements.

2.3.2. To assess the financial impact of the Transfer on the Affected Policyholders, I have:

- Reviewed QBE UK and QBE Europe's Technical Provisions (and the process for determining them) as these are typically the largest items and sources of the most uncertainty on a (re)insurer's balance sheet.
- Reviewed the process for, and results of, splitting the Technical Provisions of QBE UK between the Remaining Policyholders and the Transferring Policyholders.
- Reviewed the balance sheets of QBE UK and QBE Europe pre- and post-Transfer. This review seeks to understand the financial resources of each company and identify the risks present on the balance sheet.
- Considered the reported position of other related companies to understand the financial resources and liquidity available to support QBE UK and QBE Europe. For the Transfer, the companies of interest to me are QBE EO, QBE Limited, Equator Re and QSCC.
- Reviewed the QBE EO Internal Model to determine the reliability of required capital resulting from its application. This comprised a review of model documentation and results, as well as performing sensitivity, scenario and reverse stress tests on the model.
- Considered the impact on the results of the QBE EO Internal Model for QBE Europe in light of its increased business volumes since its Major Model Change submission in August 2019.
- Confirmed that QBE UK and QBE Europe had sufficient financial resources to exceed their regulatory capital requirements, based on results from the Approved Internal Model SCR as at 31 December 2019.
- Compared the risks, capital requirements and available financial resources of each of QBE UK and QBE Europe both before and after the Transfer. I used results from the Adjusted-SCR for each company. This review is to (i) confirm that QBE UK and QBE Europe will hold sufficient financial resources to exceed their regulatory capital requirements; and (ii) compare the financial strength of QBE UK and QBE Europe to identify whether any of the Affected Policyholders are in a company post-Transfer with a materially lower Capital Cover Ratio than their existing position, which would thereby increase the probability of insolvency.

2.3.3. To review the non-financial impact of the Transfer on the Affected Policyholders I have looked at how the Transfer will affect matters including differences in the way in which the companies are managed, policies are administered, and changes in the legal and regulatory protections provided to policyholders. I have also looked at the question of which governing law applies to each of the policies of the Transferring Policyholders in order to understand the risk that the Transfer may not be recognised under any of them.

2.3.4. To review the impact on reinsurers of the Transferring Policies, I have considered how the Scheme treats reinsurance policies, and whether differences between the Parties before and after the Transfer could affect the level of claims arising under reinsurance policies being transferred.

2.3.5. To review notification and publicity arrangements I have considered whether the proposed communications strategy for the scheme is appropriate for the relevant policyholders and reinsurers and I have given my opinion on the waivers from the requirements of FSMA 2000 being sought.

2.3.6. While the Transfer has been initiated in response to Brexit, when weighing up the overall effect of the Transfer on the Affected Policyholders, I have set aside the consequences of the step-change that will arise on 31 December 2020[8]. At this point, UK-domiciled (re)insurers may be unable to administer policies or settle claims in many EEA member states. The reasons for setting this issue to one side are that:

- Were I to include such arguments, it might be possible to support quite disadvantageous arrangements for EEA policyholders on the grounds that this would be preferable to non-payment of a legitimate claim.
- QBE EO has not sought to take advantage of this potential cliff-edge risk in the Transfer.
- There remains a possibility that an agreement will be reached between the EU and the UK that eliminates this step-change, or that individual EEA member states will have introduced before Brexit legal mechanisms for existing policies to be administered and claims to be settled.

2.4. Approach to consideration of impact of the COVID-19 pandemic

2.4.1. The COVID-19 pandemic is a significant event with wide-ranging effects on the insurance industry. As such, it could have a significant impact on both the financial and non-financial positions of each of the Parties.

2.4.2. To evaluate the potential implications of COVID-19 on the Transfer, I have considered the extent to which the Parties are exposed to:

i. Fall in investment asset values;
ii. Classes of business with potential claims arising from COVID-19;
iii. Deterioration in profitability over the year 2020, e.g. due to fall in market demand for certain classes of business[9];
iv. Increased risks of counterparty defaults;
v. Fall in the risk free yield curve used to discount liability values for the time value of money;
vi. Impact of the pandemic upon the wider QBE Group;
vii. Adverse impact on their operations; and
viii. Adverse impact on the effectiveness of the policyholder notification and publicity exercise.

2.4.3. Items (i)-(vi) in the list in paragraph 2.4.2 are addressed in Section 4, and the last two in Sections 16 and 17 respectively.

2.4.4. I have also commented upon how the pandemic has affected the wider insurance group in Section 4.

2.4.5. As at 31 March 2020, the pandemic has had a material impact on the Parties and QBE EO mostly as a result of investment volatility. The losses arising were not of a size to risk breaching regulatory

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[8] i.e. the expected date on which the post-Brexit Implementation Period will expire.

[9] Note that QBE EO Staff have told me that they believe that these effects will be mitigated by some classes of business that are likely to be, or are already, performing materially better in 2020 than previously expected.

capital requirements for any of them but have resulted in breaches of the level of financial resources that they normally seek to maintain in running the companies. I have reviewed information provided to me by QBE EO Staff on the activity completed and in progress in response to the pandemic. From this I have been able to satisfy myself that an appropriate approach has been followed by them and that my conclusions regarding the Transfer remain unchanged.

2.4.6. At the time of writing this Report, there remains significant uncertainty surrounding the financial implications of the COVID-19 pandemic. As part of my review of the financial effects of the Transfer, I have considered whether the Adjusted-SCR remains appropriate, and tested the impact of the pandemic having a significantly more adverse effect on the financial positions of the Parties pre- and post-Transfer than is currently expected.

2.4.7. *My analysis and testing using the information available to me at the time of writing this Report has not led me to change my conclusions in this Report.*

2.4.8. I will update the Court in my Supplemental Report regarding my assessment of the effects of the pandemic for the purposes of reaching my conclusions regarding the Transfer.

2.5. Conclusions – Financial Impact of the Transfer on Affected Policyholders

2.5.1. I have concluded that the methodology and level of Technical Provisions for QBE UK and QBE Europe are appropriate in the context of the Transfer. This is based on a detailed review of the internal and external actuarial reserving reports, as well as my own high-level independent testing of a sample of the Reserves of each company (see Section 8).

2.5.2. I have concluded that the process for, and results of, splitting the Technical Provisions of QBE UK between the Remaining Policyholders and the Transferring Policyholders are appropriate. In doing so I have tested the impact of misallocation, and am satisfied that the Affected Policyholders are not materially adversely affected by the risks of mis-estimation of the reserves in respect of the Transferring Policies.

2.5.3. The reserves for the Transferring Policyholders are small (c. 10% in relation to the reserves of both QBE UK and QBE Europe) and these liabilities are expected to be a smaller proportion by the Transfer Date as the portfolio is in run-off.

2.5.4. I have concluded that it is appropriate to:

- Use the pre-Transfer balance sheets prepared by QBE EO Staff for QBE UK and QBE Europe without requiring any material adjustments. To do this I reviewed each of the main items on the balance sheets pre-Transfer and sought clarification from QBE EO Staff where necessary (see Section 9); and
- Use the Expected EOFs without requiring further adjustments to determine the financial resources for each of the Parties pre- and post-Transfer.

2.5.5. The Transfer is in essence an internal reorganisation within the QBE Group and within its wholly-owned subsidiary European group owned by QBE EO. QBE Group and QBE EO both have (indirect) 100% ownership of QBE UK and QBE Europe. As a result, they each have a clear strategic commercial rationale for supporting both of these companies and restoring their financial strength in the event that they experience losses.

2.5.6. Both QBE UK and QBE Europe benefit from the same Capital Appetite Framework in which the QBE EO and the Parties' Boards commit to maintain or restore their financial strength to what I consider to be an appropriate level. This position is unchanged by the Transfer. QBE EO's ability to provide this support is backed-up by:

- Its own excess capital, that may exist from time to time.
- The £175 million Contingent Capital Facility (in the region of 20%-30% of the SCR of each of QBE UK and QBE Europe) from QSCC. This can be accessed by QBE EO, if it has insufficient excess capital to support its subsidiaries. QSCC is the QBE Group's central treasury entity with over $500 million held in liquid investments. Note that to date QBE EO has not needed to draw down on this facility to restore its, or either of the Parties', financial resources.

2.5.7. From this, I have concluded that QBE Group and QBE EO have:
- sufficient capital to support QBE UK and QBE Europe;
- put in place arrangements to commit additional financial resources and make such financial resources promptly available to QBE UK and QBE Europe in the event that they are needed; and
- taken appropriate steps to manage risks facing QBE UK and QBE Europe arising from the failure of Equator Re (see Section 5).

2.5.8. Based on the sensitivity, stress and scenario testing of the model, together with my desk-based review of its documentation, I am satisfied that the Adjusted-SCR provides an appropriate and comparable measure of the capital requirements for QBE UK and QBE Europe for the purposes of my review of the Transfer (see Sections 10-14).

2.5.9. In reaching this conclusion, I have made use of the Adjusted-SCR arising from the QBE EO Internal Model. This Adjusted-SCR has made a high-level allowance for the more recent actual and planned premium volumes of QBE Europe arising in 2019 and 2020.

2.5.10. The sensitivity tests have enabled me to draw my conclusions while recognising that the QBE EO Internal Model will continue to be developed[10] and that balance sheets, Technical Provisions and business plans change over time, both: (i) over the period during which I have carried out my review, and (ii) between the time of my finalising this Report and the Transfer Date (see Sections 11 and 14).

2.5.11. The results of the Adjusted-SCR, supported by those of the scenario and reverse stress tests performed for me on QBE UK and QBE Europe, show that none of the groups of Affected Policyholders will be materially adversely affected by the Transfer (see Sections 10-14) and that the chance of their policyholders not having claims paid in full as they fall due is remote.

2.5.12. Both of the Parties will continue to meet their regulatory capital requirements, based on the projected SCRs and financial resources of each of them.

2.5.13. *Based on this analysis, I have concluded that the Transfer will not have a materially adverse impact on the financial position of the Affected Policyholders. I anticipate confirming in my Supplemental Report that this conclusion remains unchanged as a result of new information made available to me in the intervening period.*

2.5.14. The tables in Figure 3 show additional key business metrics before and after the Transfer and using actual year-end 2019 reserves and 2020 planned premium together with the Adjusted-SCRs and Expected EOFs shown in Figure 2. These tables show that while the level of reserves would decrease for QBE UK and increase for QBE Europe, the levels of planned 2020 GWP for QBE UK and QBE Europe are not expected to change as a result of the Transfer because the Transferring Policies are in run-off. Greater detail is set out in Part C of this Report.

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[10] This relates to Major Model Change and related processes, which I discuss in Section 11.5

2.5.15. Figure 3 shows QBE Europe having a CCR of 109% pre-Transfer, which, were it to arise, would be below its capital targets under the Capital Appetite Framework. This is a temporary position in anticipation of the Transfer and the June 2020 Major Model Change[11].

Figure 3 – Key metrics pre- and post-Transfer

Pre-Transfer

QBE UK	
GAAP accounts - £ million	
GWP (2020 plan) (*)	818
Gross Reserves at y/e 2019	2,874
Net Reserves at y/e 2019	2,019
Solvency II expected position - £ million	
Expected EOF	940
Adjusted-SCR	641
Capital Cover Ratio - %	147%

QBE Europe	
GAAP accounts – € million	
GWP (2020 plan) (*)	1,309
Gross Reserves at y/e 2019	2,831
Net Reserves at y/e 2019	2,469
Solvency II expected position - € million	
Expected EOF	898
Adjusted-SCR	820
Capital Cover Ratio - %	109%

Post-Transfer

QBE UK	
GAAP accounts - £ million	
GWP (2020 plan) (*)	818
Gross Reserves at y/e 2019	2,571
Net Reserves at y/e 2019	1,810
Solvency II expected position - £ million	
Expected EOF	765
Adjusted-SCR	571
Capital Cover Ratio - %	134%

QBE Europe	
GAAP accounts - € million	
GWP (2020 plan) (*)	1,309
Gross Reserves at y/e 2019	3,189
Net Reserves at y/e 2019	2,716
Solvency II expected position - € million	
Expected EOF	1,166
Adjusted-SCR	897
Capital Cover Ratio - %	130%

(*) The GWP figures are based on QBE EO's revised forecast allowing for COVID-19 impacts

2.6. Conclusions – Non-Financial Impact of the Transfer on Affected Policyholders

2.6.1. I did not identify any aspects of the Scheme which are potentially disadvantageous to the Transferring Policyholders.

2.6.2. While there are some theoretical scenarios described in Section 16.5 and 16.6 under which some of the Transferring Policyholders could lose their rights to access the UK's Financial Services Compensation Scheme or the Financial Ombudsman Service, I believe that these are remote.

2.6.3. For the reasons described more fully in Section 16.5 and 16.6, it is not possible to give a precise estimate of the number of policyholders affected by the change as eligibility can only be determined (for the Transferring Policyholders) at the time at which support from the FSCS or the Financial Ombudsman Service is sought.

2.6.4. As QBE Europe has a UK branch and intends to continue to meet the supervisory requirements set out by the PRA to maintain it, policyholders eligible to receive protection from the FSCS pre-Transfer will retain this protection. Because QBE Europe currently has a material portfolio of business underwritten by its UK branch, I believe the likelihood of this FSCS protection falling away to be remote. Should the UK branch not obtain authorisation from the PRA, this would not

[11] Additionally it makes no allowance for any retained profits that may emerge after the losses recognised during the first quarter of 2020, nor anticipated changes in EOF that may arise from the June 2020 Major Model Change (see footnote 6).

change my overall conclusions regarding this aspect of the Transfer. This is because I believe that the chance of insolvency of QBE Europe, that might give rise to the need for eligible policyholders to access the FSCS, is remote.

2.6.5. The Transferring Policyholders will continue to have their policies administered and claims handled by QBE Europe employees located in the UK (jointly employed by QBE Europe and QMSUK)[12] under the supervision of the Management Committee of QBE Europe. They are therefore expected to retain any pre-Transfer eligibility to access the Financial Ombudsman Service.

2.6.6. QBE EO Staff have told me that they believe that the governing law for the Transferring Policies should be English law or that of another EEA state, and that they have not to date identified any cases of policies written with a governing law that is not that of the UK or of an EEA member state. QBE EO Staff have confirmed to me that they will pay any valid claim, not seek to rely on the non-recognition of the Transfer under the governing law of a policy as a basis for avoiding a claim and meet any reasonable legal costs and expenses incurred by the policyholder in question to the extent that they relate to the enforcement of a policy in a jurisdiction that does not recognise the Transfer.

2.6.7. QBE EO Staff have told me that they do not anticipate that the COVID-19 pandemic will have any impact on the non-financial arrangements relating to the Transfer. All of the staff performing work for the Parties and QBE EO have been able to relocate to continue their functions from home. Post-Transfer, these contingency arrangements will continue to be available should they be required, unchanged from the position pre-Transfer.

2.6.8. *Based on this analysis I have concluded that there are no materially adverse non-financial impacts on the Affected Policyholders arising from the Transfer.*

2.7. Conclusions – Impact of the Transfer on Reinsurers

2.7.1. *I do not believe that the Transfer will have any material impact on reinsurers of the Transferring Policyholders because:*

- *Their commercial relationship will remain with subsidiaries of QBE EO;*
- *There are no changes proposed to the manner in which reinsurance is to be managed by QBE Europe when compared to the approach of QBE UK.*
- *The only change to reinsurance policies brought about by the Scheme is to split certain reinsurance policies. This is to enable the same underlying business to continue to make use of the existing outwards reinsurance contracts and will not change the claims submitted to these contracts.*

2.8. Conclusions – Notification and publicity arrangements

2.8.1. I have reviewed the notification and publicity arrangements and believe that they are appropriate. In addition to seeking general waivers from requirements to notify policyholders and reinsurers where QBE EO has not been able to locate contact information or there are errors or omissions in the contact information, QBE EO are seeking the following waivers:

[12] Other than for policyholders of the Project Fall European Business, whose policies will continue to be administered and claims handled under an existing outsourcing agreement between QBE UK and Armour Risk Management Limited in the UK. QBE Europe will be added to this agreement to allow Armour to continue administering the agreement.

- For the Remaining Policyholders and the Existing Policyholders, on the grounds of the extremely high costs relative to the benefit to these policyholders of receiving the notification materials.
- For the Transferring Policyholders, where they have performed analysis that suggests that the likelihood of their giving rise to a claim is very low.
- For beneficiaries of employers' liability policies (i.e. who will be employees of Transferring Policyholders), where QBE UK does not have and has no reliable means of comprehensively obtaining their details.

2.8.2. For the Remaining Policyholders and the Existing Policyholders, I have reviewed the cost estimates and the reasons why the benefit to these groups of policyholders will be limited. Based on this analysis, I have concluded that the arguments for this waiver are appropriate.

2.8.3. For the Transferring Policyholders, I have reviewed the analysis performed to determine the Transferring Policies that are unlikely to give rise to a claim. Based on this and the additional sign-off provided by the QBE EO Actuarial Function, I have concluded that the arguments for this waiver are appropriate.

2.8.4. I have concluded that it is appropriate for the Parties to seek the general notification waivers and the specific waiver in respect of beneficiaries of employers' liability policies because it is either not practicable or proportionate for them to obtain this information in a comprehensive fashion.

2.8.5. I have reviewed the method and content of the proposed approach to notifying the Affected Policyholders and concluded that they are appropriate.

2.8.6. I have reviewed the publicity arrangements proposed by the Parties for the Transfer and consider that they meet the requirements of FSMA 2000. The Parties have sought a waiver from one of the elements of the advertising requirements to avoid a risk of breaching them as a result of different possible interpretations of the wording of the advertising requirements. In my view this waiver is appropriate and will not have a material bearing on the outcome of the advertising arrangements.

2.8.7. *I have therefore concluded that the notification and publicity arrangements for the Transfer are appropriate.*

2.9. Conclusions – Summary

2.9.1. I have concluded that the Transfer will not have a materially adverse impact on the financial position of the Affected Policyholders.

2.9.2. I have concluded that the Transfer will not have a materially adverse impact on the non-financial position of the Affected Policyholders.

2.9.3. I have concluded that the Transfer will not have any material impact on reinsurers of the Transferring Policies.

2.9.4. I have concluded that the notification and publicity arrangements for the Transfer are appropriate.

2.10. Important Limitations

2.10.1. My role as Independent Expert is not to provide an independent estimate of the Technical Provisions or the capital requirements of QBE UK or QBE Europe, nor should this Report be considered a validation report of the QBE EO Internal Model. This Report should therefore not be used for either of these purposes.

2.10.2. (Re)insurance companies are exposed to a wide range of risks which can lead to failure. This Report does not provide any form of guarantee against the failure of any of the companies considered in it. It is particularly important that readers of this Report recognise this in the context of the current COVID-19 pandemic which materially increases such risks. The pandemic is an unprecedented event facing the modern insurance industry and at the time of writing there remain many gaps in scientific knowledge, and considerable uncertainty over the consequences of the economic and political responses to the pandemic adopted in many countries.

2.10.3. My work is not an audit of any of the companies considered and should not be taken as providing any form of audit assurance.

2.10.4. This Report should not be taken as providing any form of investment advice relating to any of the companies considered.

2.10.5. This Report does not provide a legal opinion on the effectiveness of the Scheme or Transfer.

2.10.6. My opinion only relates to the totality of the position of each of QBE UK and QBE Europe, their ability to meet policyholder claims as they fall due and the comparative position of the Affected Policyholders as a result of the Transfer.

2.10.7. Other more general limitations and assumptions are set out in Appendix 2.

2.11. Expert's declaration

2.11.1. 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.

2.11.2. 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.

2.11.3. 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.

Alex Marcuson .... Alex Marcuson MA FIA 23 June 2020

B. Overview of the Transfer

3. Description of the Transfer and the Transferring Policyholders

3.1. Introduction

3.1.1. Part B of my Report provides more detail regarding the Transfer. It contains the following elements:

- This section provides a detailed description of the Transfer and the Transferring Policyholders.
- Section 4 provides a description of each of the companies within the QBE Group that are relevant to my consideration of the effects of the Transfer. It does not provide an in-depth review of the (re)insurance companies with which the Affected Policyholders have policies, as this is reserved for my analysis in Part C.
- Section 5 sets out my analysis of the Transfer from a group-wide perspective, reflecting the fact that this is an internal reorganisation within the QBE EO Group, which is itself part of the wider QBE Group.
- Section 6 provides additional description and supporting explanation for the approach I have adopted, including how I have segmented the Affected Policyholders and where I have placed reliance on QBE EO Staff and other specialists.

3.1.2. In this Section, the elements covered are:

- Description of the Transfer;
- Purpose of the Transfer;
- Subsequent plans;
- The Transferring Policyholders;
- Transferring branches, Licences and Service Companies;
- Reinsurance;
- Alternative arrangements should the Transfer not go ahead; and
- Policy administration and claims handling.

3.2. Description of the Transfer

3.2.1. The Transfer is to bring about an internal reorganisation of the assets and liabilities within QBE EO Group in response to Brexit.

3.2.2. The Transfer comprises the transfer from QBE UK to QBE Europe of all policies of QBE UK that include elements written by it on a Freedom of Services basis in non-UK EEA member states[13]. These policies all incepted prior to 1 January 2019.

3.2.3. Also transferred to QBE Europe at the same time will be a proportion of the other assets of QBE UK, calculated so as to leave both QBE UK and QBE Europe with Eligible Own Funds compliant with the Capital Appetite Framework.

3.3. Purpose of the Scheme

3.3.1. The Parties and QBE EO are carrying out this Transfer in response to Brexit. They are completing the consolidation of their non-Lloyd's insurance and reinsurance business in Europe into the authorised firm in Belgium, QBE Europe.

[13] Whether solely relating to risks situated in one or more EEA member state other than the UK, or also covering risks situated in one or more other jurisdictions (one of which could be the UK).

3.3.2. The initial stage of this activity was a reorganisation of its UK (re)insurance companies through the execution with effect from 1 January 2019 of the First QBE Brexit Transfers, described in the next two paragraphs.

3.3.3. First, QBE EO carried out a Part VII transfer of the (re)insurance business of the EEA branches[14] of QBE Insurance Europe Limited (since renamed QBE UK) into QBE Europe, a newly established (re)insurer domiciled in Belgium.

3.3.4. At the same time, QBE EO also carried out a Part VII transfer of the entirety of the (re)insurance business of QBE Re (Europe) Limited into QBE Europe, and a cross-border merger of QBE Re (Europe) Limited into QBE Europe.

3.3.5. Following this, there remained a run-off portfolio of business that had been written on a Freedom of Services basis by QBE UK and involving policies incepting prior to 1 January 2019. From this date, new and renewal business within this portfolio ceased to be underwritten by QBE UK and was instead underwritten by QBE Europe. The run-off portfolio is proposed to be transferred to QBE Europe in order to provide certainty that the policies can be administered and claims settled post-Brexit.

3.4. Subsequent Plans

3.4.1. I am not aware that the Parties have any plans following the Transfer that have any material bearing on my conclusions.

3.5. The Transferring Policyholders

3.5.1. With the exception of any Excluded Policyholders or Residual Policyholders, the term Transferring Policyholders refers to any and all policyholders[15] holding policies written by or on behalf of QBE UK incepting before 1 January 2019 and comprising an element of risks written in non-UK EEA member states on a Freedom of Services basis.

3.5.2. The Transferring Policyholders include risks written in all EEA member states, being the following countries: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK. UK policies are included within the Transferring Policies where the policy also covers risks in another EEA member state.

3.5.3. There are 9 Excluded Policies which have been listed in the Scheme. These cover policies with risks situated in India.

3.5.4. At the time of writing no Residual Policies have been identified.

3.5.5. The number of Transferring Policies as at 30 September 2019, (excluding Coverholder Business) is approximately 201,275. This is approximately 7.5% of QBE UK's c. 2.7 million policies (excluding Coverholder Business).

3.6. Transferring branches, licences and service companies

3.6.1. No branches, licences or service companies are being transferred under the Transfer.

[14] In Belgium, Bulgaria, Denmark, Estonia, France, Germany, Ireland, Italy, Norway, Spain and Sweden.

[15] Using the meaning of policyholder given by the FSMA Order.

3.6.2. The Transferring Policies include risks in the following jurisdictions outside the EEA, in which QBE UK holds an insurance licence but QBE Europe does not: Azerbaijan, China, Honduras, India and Jersey. Paragraph 27 of the Witness Statement confirms that:

- QBE EO Staff have received legal advice in Azerbaijan, China and Honduras confirming that it is possible for QBE Europe to service the relevant business without a licence in these jurisdictions.
- QBE EO Staff are in the process of preparing an application for a license in Jersey for QBE Europe (which is expected to be in place prior to the Transfer Date).
- To the extent that it is not possible for QBE Europe to service the Transferring business in relation to risks situated in Jersey, it will treat them as Residual Policies until such time as QBE Europe obtains the licence in Jersey.

3.6.3. Paragraph 27 of the Witness Statement states that The Parties have received legal advice that in India, QBE Europe would need to be licenced with Insurance Regulatory and Development Authority. QBE EO Staff have identified 9 policies that QBE Europe will not be able to service without a licence. Therefore, these policies have been listed as Excluded Policies in the Scheme. QBE EO Staff have told me that these policies have all expired and have no claims notifications. As these policies relate to property business, they are not expected to give rise to any claims.

3.6.4. QBE EO Staff expect to confirm to the Court at the Sanction Hearing that all necessary permissions and licences are in place. If necessary, I will comment on these arrangements in my Supplemental Report.

3.7. Reinsurance

3.7.1. Attached to the Scheme at Schedule 1 is a list of the reinsurance agreements to be transferred under the Scheme. These agreements are split into two parts: A and B.

3.7.2. Part A lists out the reinsurance agreements where QBE UK is the sole reinsured pre-Transfer and the reinsurance solely relates to the business that is to be transferred pursuant to the Scheme, and therefore QBE Europe will be the sole reinsured post-Transfer.

3.7.3. Part B lists out the reinsurance agreements which relate to both the business that is to be transferred pursuant to the Scheme and business that is not subject to Scheme. These agreements will therefore be split, whereby both QBE Europe and QBE UK will retain an interest in the reinsurance post-Transfer.

3.7.4. Under the Scheme all of the rights, benefits and powers of QBE UK under the specified reinsurance contracts listed in Part A will transfer to QBE Europe. Paragraph 47 of the Witness Statement confirms that the benefit of inuring outwards reinsurance contracts (both with reinsurers within the QBE Group, including Equator Re, and with external reinsurers) will be transferred to QBE Europe under the Scheme to the extent that they relate solely to the Transferred Business. Where an outwards reinsurance contract relates both to the Transferred Business and other business underwritten by QBE UK, the benefit of such outwards reinsurance contract, as listed in Part B, shall be split in accordance with the terms of the Scheme Document.

3.8. Alternative arrangements should the Transfer not go ahead

3.8.1. Should the Transfer not proceed, QBE EO Staff have told me that the present intention is that the Transferring Policies will continue to be run-off by QBE UK.

3.8.2. It is possible that, under such a scenario, at some point in time QBE UK may no longer be legally permitted to administer policies and settle claims. Therefore, if the Transfer does not proceed, QBE EO Staff have told me that they will develop appropriate plans to address this. QBE UK has written to every EEA regulator (in April 2020) setting out details of the proposed Transfer and that it would seek to rely on each regulators' run-off mechanisms should the Transfer not proceed as planned. QBE EO Staff have told me that QBE UK has not, to date, received any negative response from an EEA regulator to suggest that an orderly run-off of the Portfolio would not be allowed in such circumstances.

3.9. Policy administration, staffing and claims handling

3.9.1. All staff-based in the UK carrying out work on the Transferring Policies are dual-employed by QMSUK, a service company with an outsourcing arrangement with QBE UK, and QBE Europe. These members of staff will continue to be able to continue to work on the Transferring Policies in the same manner as pre-Transfer, but with their activities being under the ultimate direction of QBE Europe's Board of Directors and Management Committee and thereby being deemed to be performed for QBE Europe rather than QBE UK.

3.9.2. I have been told by QBE EO Staff that no changes to policy and claims outsourcing arrangements are therefore anticipated to be required as a result of the Transfer (and, where claims handling is currently outsourced to third party administrators, QBE Europe will maintain these arrangements). This has been confirmed in paragraph 50 of the Witness Statement.

3.9.3. Accordingly, my understanding of the proposed arrangements is that the same people (whether QBE EO Staff or external providers of services to QBE EO Group companies) will continue to perform the same administration of tasks after the Transfer as before the Transfer.

3.9.4. I note that pre-Transfer, the Affected Policyholders are exposed to the possibility of changes to claims outsourcing arrangements and claims-handler staffing levels. I have not identified any changes to this position arising from the Transfer. QBE EO Staff have told me that other than the changes described here, which are necessary as a result of the Transfer, no changes to outsourcing arrangements and claims-handler staffing levels are currently planned.

4. Description of the Companies

4.1. Introduction

4.1.1. This section describes the companies that are party to the Transfer – QBE UK and QBE Europe – together with their European parent company and ultimate parent company, QBE EO and QBE Limited respectively. I comment on the impact of the COVID-19 pandemic on these companies at the end of this Section 4, and the steps being taken to restore and maintain their financial resources.

4.1.2. Some high-level commentary is also included for Equator Re and QBE Strategic Capital Company Pty Limited, owing to the former being a material reinsurer of QBE UK and QBE Europe and the latter being a provider of contingent capital to QBE EO.

4.1.3. Sections 8 – 9 contain my review of the Technical Provisions and balance sheets of each of QBE UK and QBE Europe. In particular, Section 8.3 contains a detailed description of the (re)insurance portfolios of QBE UK and QBE Europe.

4.2. QBE Insurance Group Limited (QBE Limited)

4.2.1. QBE Limited is the ultimate parent company for the QBE Group. It is domiciled in Australia and listed on the Australian Securities Exchange. It is one of the twenty largest global non-life insurance and reinsurance companies in the world and is subject to prudential supervision by the Australian Prudential Regulation Authority.

Table 4.1 - QBE Limited – $ billion, as at 31 December 2019

P&L		Balance sheet		S&P Insurer Rating (*)	
Net earned premium	11.6	Net assets	8.2	FSR	A+
Net profits after tax	0.6	Net Technical Provisions	19.4	Outlook	Stable

(*) S&P Insurer Rating applies to core operating subsidiaries of QBE Limited
Source: Group accounts as at 31 December 2019 and Group website

4.2.2. It was established in 1973 to bring about the merger of three companies: (i) Queensland Insurance, (ii) Bankers' and Traders' Insurance Company, and (iii) Equitable Life and General Insurance Co.

4.2.3. Appendix 5 contains a simplified company structure chart setting out where the companies mentioned in this Report lie within the QBE Group. This shows that all of the companies that I refer to in this Report are wholly-owned subsidiaries of QBE Limited.

4.2.4. The principal nature of the subsidiary undertakings within the QBE Group is the underwriting of general insurance, long-term insurance and reinsurance risks, management of Lloyd's syndicates and investment management.

4.3. QBE European Operations Plc (QBE EO)

4.3.1. QBE EO is the top-level European (re)insurance holding company within the QBE Group. Its main regulated subsidiaries are QBE UK, QBE Europe and QBE Underwriting Limited. A further subsidiary, QBE Corporate Limited, provides underwriting capacity to QBE EO's two Lloyd's syndicates: 386 and 2999 (the latter being an umbrella syndicate). These syndicates are managed by QBE Underwriting Limited.

4.3.2. The principal activity of QBE EO's subsidiary undertakings is the transaction of specialist commercial insurance and reinsurance business operating through Lloyd's and company markets.

4.3.3. QBE EO receives prudential supervision from the PRA, which acts as group supervisor for QBE EO and its European subsidiaries and Lloyd's operations.

4.3.4. Table 4.2 sets out the former names of QBE EO since its incorporation in 1991.

Table 4.2 – QBE EO – Former Company Names	
Period	Company Name
29/08/1991 – 26/02/1992	Minmar (175) Limited
27/02/1992 – 19/07/2001	QBE International Holdings (UK) Public Limited Company
20/07/2001 – 28/12/2011	QBE International Holdings (UK) PLC.
29/12/2011 – Current	QBE European Operations plc

Source: Companies House

4.3.5. All of QBE EO's (re)insurance subsidiaries have Insurer Financial Strength Ratings of A+/Stable from Standard & Poor's.

4.3.6. QBE EO has a Contingent Capital Facility with QSCC. This is a contractually binding arrangement providing access to up to £175 million of capital at short notice, in the event that it is needed to restore its capital to the target minimum level of capital set out in the Capital Appetite Framework. The Capital Appetite Framework is discussed further in Section 12 and the Contingent Capital Facility in Section 5.

4.3.7. QBE EO is guarantor for the following defined benefit pension schemes: the Iron Trades Scheme, the QBE Re (Europe) Ltd Pension & Life Assurance Plan and the Janson Green Scheme. As at 31 December 2019, the schemes' assets and liabilities were valued on an IFRS accounting basis at approximately £398 million and £377 million respectively, giving rise to a net surplus of £21 million.

4.4. QBE UK Limited

4.4.1. QBE UK is an insurance company domiciled and regulated in the UK. It is a limited company and a wholly-owned subsidiary of QBE EO. It is authorised by the PRA to write non-life insurance and reinsurance business and is subject to insurance prudential supervision from the PRA and conduct supervision from the FCA.

Table 4.3 – QBE UK Key financials - £ billion, as at 31 December 2019					
P&L		**Balance sheet**		**S&P Insurer Rating**	
Net earned premium	0.85	Net assets	1.1	FSR	A+
Net profits after tax	0.07	Net Technical Provisions	2.0	Outlook	Stable

Source: Statutory accounts as at 31 December 2019, QBE Group website

4.4.2. Table 4.4 sets out the former names of QBE UK since its incorporation in 1983.

Table 4.4 – QBE UK – Former Company Names	
Period	Company Name
14/10/1983 – 11/04/1984	Legibus 373 Limited
11/04/1984 – 03/02/1987	Delta International Reinsurance Company Limited
03/02/1987 – 14/10/1988	Imperial Chemicals Reinsurance Limited
14/10/1988 – 04/03/1992	QBE Reinsurance (London) Limited
04/03/1992 – 30/09/2005	QBE International Insurance Limited
30/09/2005 – 31/12/2018	QBE Insurance (Europe) Limited
31/12/2018 – current	QBE UK Limited

Source: Companies House

4.4.3. In addition to issuing products branded using various QBE-prefixed names, QBE UK issues products using the trading name British Marine.

4.4.4. The majority of QBE UK's insurance business is liability, property, financial lines and motor insurance. The remainder is predominantly inwards reinsurance and marine and transport insurance. Approximately 86% of QBE UK's gross written premiums written in 2019 related to risks with QBE's UK and Credit Lines divisions (predominantly UK based) with the remainder from the International Markets division. This division includes world-wide covers and also covers risks in a variety of non-EEA countries around the world.

4.5. QBE Europe

4.5.1. QBE Europe was incorporated on 12 February 2018 as a Belgium-domiciled public limited company (*Société Anonyme / Naamloze Vennootschap*). On 22 May 2018, it received authorisation from the NBB to underwrite classes 1 – 17 non-life insurance business, and both life and non-life reinsurance. QBE Europe is subject to prudential supervision by the NBB and conduct supervision by the Belgium Financial Services and Markets Authority.

4.5.2. It has permission to underwrite insurance and reinsurance business across the EEA on both a Freedom of Services and Freedom of Establishment basis. QBE Europe has also obtained permission to write reinsurance on a branch basis from Bermuda and has obtained reinsurance licences in a number of other jurisdictions.

Table 4.5 – QBE Europe Key financials – € billion, as at 31 December 2019

P&L		Balance sheet		S&P Insurer Rating	
Net earned premium	0.90	Net assets	0.8	FSR	A+
Net profits after tax	0.03	Net Technical Provisions	2.5	Outlook	Stable

Source: Statutory accounts as at 31 December 2019, QBE Group website

4.5.3. QBE Europe writes both insurance and reinsurance business for the UK and EEA locations. The majority of QBE Europe's insurance business is liability, property, financial lines and motor insurance. Its inwards reinsurance business is made up of property, casualty and a small proportion of worldwide life business. More detail on its business profile is contained in Section 8.

4.5.4. QBE Europe operates a small defined benefit pension scheme, the Secura NV Scheme. As at 31 December 2019, it had a fair value of scheme assets of €12 million, a present value of its liabilities of €19 million, giving rise to a deficit of €6 million. QBE Europe is also committed to pay medical expenses of certain former employees on retirement giving rise to liabilities valued at €1 million.

4.6. Equator Re

4.6.1. Equator Re is a Class 3B insurer domiciled in Bermuda since 1984 and supervised by the BMA.

4.6.2. It is QBE Group's captive reinsurer and provides reinsurance protection to divisions within the QBE Group in conjunction with other external reinsurance programs.

4.6.3. As at 2019 year-end, it disclosed a profit of $130 million in its audited financial statements.

4.6.4. I have considered in Section 14 two scenarios in which Equator Re goes insolvent to understand its impact on the Parties both pre- and post-Transfer.

4.7. QBE Strategic Capital Company Pty Limited (QSCC)

4.7.1. QSCC is a limited company incorporated and domiciled in Australia. It is a wholly-owned subsidiary of QBE Limited. It acts as the central treasury entity and manages the Group's foreign exchange exposures with external counterparties.

4.7.2. QSCC is a separate group company with over $500 million held in liquid investments. Its role within the QBE Group is to act as a centralised treasury company, providing economies of scale across the group for obtaining bank financing and foreign exchange hedging needs.

4.7.3. QSCC is the counterparty to the £175 million Contingent Capital Facility with QBE EO, providing a source of additional short-notice Eligible Own Funds to QBE EO should it require them to enable it to meet the target capital levels presented by the Capital Appetite Framework for itself and its (re)insurance company subsidiaries: QBE UK and QBE Europe.

4.8. COVID-19 Pandemic

4.8.1. In late 2019, a virus outbreak arose centred in Wuhan, China. The pandemic illness caused by this virus, referred to as COVID-19, spread rapidly around the world during the first half of 2020. At the time of writing there have been in excess of 9 million confirmed cases and approximately 500,000 deaths worldwide.

4.8.2. In response to the pandemic, many countries have closed down significant parts of their economies. It is unclear at the time of writing this Report how soon economic activity will return to pre-pandemic levels, with there currently being no vaccine or therapeutic medication available to help to control the effects of the virus or reliably treat COVID-19.

4.8.3. The effect on (re)insurance companies is currently uncertain, with potential negative financial effects arising in a number of distinct areas:

- Claims from policies providing insurance coverage for losses triggered by the pandemic. Some of the possible, yet more severe, loss scenarios arising from this source arise from disputes over policy wordings, or the remote risk of potential legislative action by governments that serve to rewrite policy wordings retrospectively to cause claims to be payable by (re)insurers.
- Loss of future profits arising from reduced levels of economic activity.
- Investment losses, arising from changes in asset values and movements in yield curves.
- Credit losses arising from failure of firms, including potentially (re)insurance brokers and reinsurers.
- Operational losses including from sources such as increased costs of working and increased level of fraudulent activity.

4.8.4. I have discussed with QBE EO Staff the impact of each of these elements on the Parties, QBE EO and QBE Group. It is important to stress that the information at this stage remains subject to change, possibly material change, owing to the very wide range of potential pandemic scenarios that may come to pass.

4.8.5. At this stage in the pandemic and assessment of the impact of it upon the Parties, my approach has been to review and understand the results of the analysis performed by QBE EO Staff, and not seek to perform an extensive or independent review. I anticipate that the position should be clearer by the time of my Supplemental Report and I expect to provide the Court with an updated picture at that point.

Impact on The Parties - Underwriting

4.8.6. To date, QBE EO Staff have confirmed to me that each of the Parties remain a going concern with no breach of SCR arising. Each has carried out a granular review of their portfolios to identify those portfolios and policies which have received notifications of COVID-19 related claims or are perceived to be at an increased risk of experiencing COVID-19 related claims. Additionally, they have analysed where policyholders may be entitled to premium refunds, and where future premium income may be reduced as a result of reduced levels of economic activity.

4.8.7. Based on this analysis, QBE EO Staff have told me that they anticipate that the bulk of their potential exposure will come from:

- Property – in the form of business interruption claims.
- Trade credit and surety – owing to corporate defaults anticipated as a result of the severe economic recession triggered by national responses to the pandemic. The extent of the beneficial impact of the UK Treasury proposal to temporarily guarantee[16] transactions that are currently supported by trade credit insurers is, at the time of writing this Report, uncertain, but will reduce the ultimate financial cost to trade credit insurers.
- Reinsurance – as a result of reinsurance of portfolios with personal accident, travel and in some instances property damage and business interruption insurance losses.

4.8.8. They have confirmed to me that they do not write material volumes of contingency and event cancellation insurance, or direct travel insurance.

4.8.9. I understand that there is a risk of litigation surrounding business interruption coverage provided by property insurers. In addition, there is a risk of political pressure on insurers to accept such claims or political action to introduce retrospective legal changes forcing them to do so. At the time of writing this Report, it is not possible to determine how such scenarios may affect the Parties, however I make the following observations:

4.8.10. It is important to note that the nature of claims arising from the pandemic are from live policies, so claims are not anticipated to emerge from earlier years of underwriting. This increases the confidence that QBE EO Staff can place on analysis of live policy wordings, as it does not involve an extensive exercise comparing policy wordings used in earlier years.

4.8.11. Additionally, because the Transferring Policies all incepted on or before 31 December 2018, most of these policies should not be exposed to claims arising from the pandemic. The Transfer therefore should not therefore materially change the exposure of either of the Parties to such claims.

4.8.12. In the most extreme scenarios, the Transferor and the Transferee have the benefit of the financial support that would be provided by the same parent companies pre- and post-Transfer.

4.8.13. QBE EO Staff have told me that their updated forecasts for 2020 profitability for the Parties are that claims arising from the pandemic are likely to reduce the CCR of both companies, but in neither case to a level that will lead to a breach in their SCR.

Impact on The Parties – Investments and Market Risk

4.8.14. QBE EO Staff have told me that, during the first quarter of 2020, both of the Parties experienced losses arising from the significant movements in equity and bond markets during March 2020. Three principal causes of these losses were:

- Reductions in the yield curve – causing discounted Technical Provisions/liability valuations to rise by more than fixed income asset values owing to the shorter duration of the Parties' asset portfolios;

[16] https://www.gov.uk/government/news/government-to-support-businesses-through-trade-credit-insurance-guarantee

- Increases in credit spreads on corporate bonds – causing the value of holdings in these assets to reduce; and
- Falls in the value of growth, principally equity, assets.

4.8.15. I note that since the end of March 2020, investment markets have stabilised and asset valuations have increased. With the outlook for investments remaining uncertain, the Parties have taken steps to reduce the risk within their investment portfolios and thereby reduce exposure to future investment losses.

4.8.16. QBE EO Staff have told me that the effect of investment market movements during the first quarter of 2020 reduced the CCR of both companies, but in neither case to a level that came close to breaching their SCR.

IMPACT ON THE PARTIES – OTHER IMPACTS

4.8.17. QBE EO Staff have told me that the impact of other elements is as follows:

- The Parties have experienced some increased operating expenses, as a result of adapting to enable staff to work from home, accommodate staff sickness and potential increases in claims. Offsetting this has been actions to defer projects involving discretionary spending.
- Operationally, QBE EO Staff have confirmed that their systems have enabled them to continue to underwrite and administer policies and settle claims despite the requirements for their employees at locations around the world to work from home.
- Liquidity modelling has indicated that both of the Parties have very good liquidity. This is to cater for the possibility that some insureds and intermediaries may seek extensions on premium payment terms and/or a slowing down in reinsurance recoveries.
- No material risk of reinsurance default or downgrades have been identified to date. Reinsurance assets held with Equator Re are partially collateralised.
- QBE Europe has experienced some investment losses arising from its defined benefit pension fund but this has not given rise to a material amount as a result of its small size.

AGGREGATE IMPACT ON THE PARTIES

4.8.18. Were it all recognised by the end of March 2020, the combined effect of:

- adverse claims exposures forecast to arise during the first half of 2020;
- actual investment losses in March 2020; and
- other experience

would have resulted in a reduction of the financial resources for the Parties from their year-end position of c. 130% (QBE UK) and c. 140% (QBE Europe) to c.115% of SCR, i.e. below the 120% risk appetite for the companies. In response:

- QBE UK has applied to the PRA for approval of £160 million of AOF in the form of a banking letter of credit[17]. On approval this would increase its CCR by approximately 23%. QBE EO Staff have told me that they expect to receive a decision on whether the PRA will approve this application no later than 17 August 2020.
- In April, QBE Europe received an injection of €70 million of Tier 1 equity from QBE EO in the form of cash. This cash injection was funded by QBE EO's sale of £62 million of Tier 2 debt to

[17] Note that this AOF application already formed part of QBE UK's capital planning for 2020 prior to the COVID-19 pandemic.

a QBE Group treasury company. A further €50 million of Tier 1 equity from QBE EO is expected to be injected into QBE Europe before 30 June 2020.

4.8.19. Once completed, the above actions will serve to restore the CCR of the Parties to their stated risk appetite of having financial resources above 130%.

4.8.20. QBE EO Staff have confirmed to me that the directors of QBE EO remain committed to funding the Parties so that they will have a CCR of 130% post-Transfer by the end of 2020, once the Transfer and the June 2020 Major Model Change cycle have been completed.

4.8.21. I anticipate confirming in my Supplemental Report that these and any other actions needed to restore the financial resources have been completed or are underway prior to the Transfer.

WIDER IMPACT ON QBE EO AND QBE GROUP

4.8.22. The experience of QBE EO, as the European group holding company for the QBE UK and QBE Europe, is similar to that described above for the Parties, with the underwriting experience and investment losses of the Parties combining with its own investment losses (including through its exposure as guarantor of the three defined benefit pensions schemes referred to in 4.3.7). These have reduced its CCR in a similar fashion to that of the Parties. Were the losses to have been anticipated at the end of March 2020, they would have reduced the CCR of QBE EO to below its 120% risk appetite. With the inclusion of the £62 million Tier 2 debt injection described in 4.8.18 however, QBE EO's CCR was restored prior to 31 March 2020 to above 120%.

4.8.23. Should this be required to restore its financial resources in the face of further losses, QBE EO continues to have access to the £175 million of EOF from the CCF (referred to in paragraph 4.7.3 and described in greater detail in Section 5). To date, QBE EO has not made any use of the CCF.

4.8.24. In its mid-April first quarter 2020 market release[18] QBE Limited provided a trading update arising from its first quarter experience and its planned activities to raise capital to restore its capital levels in response to the effects of the COVID-19 pandemic. These activities included raising $750 million in equity during April 2020 from institutional investors and a further $500 million in capital qualifying debt in early May, both of which have been successfully completed. There has been no change to its financial strength rating from S&P since the start of the COVID-19 pandemic. While it is outside the scope of my work to carry out a detailed review of the position of QBE Limited and the wider QBE Group, these actions indicate to me both that QBE Limited has been proactive in responding to the losses arising from the pandemic and that it retains the support of its investors.

4.8.25. *Based on this information, I have concluded that:*

- *The Parties have adopted an appropriate approach to assessing the impact of the COVID-19 pandemic;*
- *The Parties have taken appropriate steps to strengthen their financial resources in response to the COVID-19 pandemic;*
- *QBE EO and QBE Group remain large and well-rated insurance groups, with both the appetite and resources with which to provide support to the Parties should this be required.*

4.8.26. *As a result, I believe that my conclusions regarding the Transfer remains appropriate.*

[18] https://www.asx.com.au/asxpdf/20200414/pdf/44gxfng6yh41fy.pdf

5. QBE EO Group Perspective

5.1. Introduction

5.1.1. This Section sets out the QBE EO Group level perspective to the Transfer. This includes a description of how QBE EO manages its and its subsidiaries' exposures to risks arising from losses or events experienced elsewhere in the QBE Group. This section is arranged in four parts:

- An overview of the Transfer from a QBE EO Group (and through this, from a QBE Group) perspective.
- How QBE EO's Capital Appetite Framework applies and how the Contingent Capital Facility ensures additional financial resources can be made available promptly for QBE UK and QBE Europe when needed.
- How QBE EO manages the risk to itself and its subsidiaries of the default of Equator Re, QBE Group's captive reinsurer.
- Other Part VII transfers being undertaken by the Parties.

5.1.2. This section does not compare the financial security provided by QBE UK and QBE Europe as this is addressed in detail in Part C of this Report. Nor does it repeat the impact of the COVID-19 pandemic on QBE EO, described in the previous section.

5.2. Overview of the Transfer from a QBE EO Group perspective

5.2.1. The Transfer is to complete the internal reorganisation of the liabilities and future business of two companies, both of which are wholly-owned subsidiaries of QBE EO as described in Section 3.3.

5.2.2. As such, the consolidated balance sheet and risk position of QBE EO is not materially changed. Any change in the risks arising from one firm is offset by a corresponding movement in the risks from the other. The Transfer is not extracting any assets to meet future claims liabilities from one subsidiary firm unless they are to be placed in another, so the aggregate amount of these assets held across QBE UK and QBE Europe after the Transfer will be no less than is held across these companies before the Transfer.

5.2.3. *At an overall QBE EO level there is no material change in risk profile; this is essentially an internal reorganisation of assets and liabilities between wholly-owned subsidiaries.*

5.2.4. QBE EO is itself a wholly-owned subsidiary of QBE Limited, one of the world's largest insurance and reinsurance groups, with high-quality financial strength ratings. At 31 December 2019, QBE Limited has GAAP net assets of approximately £6.2 billion. At this date, QBE EO has Solvency II net assets of £1.3 billion and Solvency II Eligible Own Funds of approximately £1.7 billion, being 131% of its consolidated Group SCR using its Approved Internal Model. In my view, QBE EO has no interest in allowing its (re)insurance subsidiaries to fail; as a result, it makes sure that they all hold capital comfortably in excess of their regulatory minimum. Similarly, as QBE EO is a major part of the QBE Group and is the holding company for its European operations, it is in QBE Limited's interest to restore QBE EO's financial position in the event that QBE EO or one of its subsidiaries were to get into financial difficulty.

5.2.5. *Given the size of QBE Limited and the size and capitalisation level of QBE EO I have concluded that QBE Group and QBE EO have sufficient capital to provide financial support should it be needed to QBE UK and QBE Europe.*

5.3. QBE EO's Capital Appetite Framework and Contingent Capital Facility

5.3.1. In order to articulate formally their common approach to holding appropriate levels of capital in each firm, the Boards of each of QBE EO, QBE UK and QBE Europe have adopted a consistent

Capital Appetite Framework. This sets out the level at which each will be capitalised and the approach to determining the level at which dividends will be paid.

5.3.2. The Capital Appetite Framework commits QBE EO to support QBE UK and QBE Europe by maintaining more than 110% of their Approved Internal Model SCR and targeting 130%.

5.3.3. From a QBE EO perspective, the Capital Appetite Framework commits QBE EO to ensuring that its insurance subsidiaries are funded to an appropriate level of capitalisation. Injecting capital into a subsidiary does not change QBE EO's consolidated net assets. However, it is clear that there may be constraints on the assets that QBE EO can provide to its subsidiaries, should they be tied up in another of its subsidiaries.

5.3.4. QBE EO therefore has in place a Contingent Capital Facility with another company in the QBE Group, QSCC, that enables it to raise up to £175 million of additional capital (equal to approximately 20%-30% of the individual SCR of each of QBE UK and QBE Europe) in immediately available funds. This capital can be provided to QBE EO at short notice on agreed terms in the event that losses arising at one of its subsidiaries brings QBE EO's capital down to below 120% of its SCR, the capital appetite set out in its Capital Appetite Framework. QSCC is a separate group company with over $500 million held in liquid investments. Its role within the QBE Group is to act as a centralised treasury company, providing economies of scale across the group for obtaining bank financing and foreign exchange hedging needs.

5.3.5. These arrangements to restore the capital of subsidiaries adopt what in my view is a common-sense approach to the capital management of the firms; but (other than the Contingent Capital Facility between QSCC and QBE EO) they are not legally binding agreements. In the event of the most extreme losses, those in which policyholders' claims cannot be met, it can be hard to predict whether future Boards will honour the decisions and commitments taken by their predecessors or whether changed circumstances will mean that they are unable to. With no certain means of legal enforcement by the subsidiary, it is therefore important to consider the picture in the absence of the assumed parental support. I consider this in detail in Part C, focussing on:

- Whether QBE UK and QBE Europe are appropriately capitalised; and
- How the financial strength of QBE UK and QBE Europe compare before and after the Transfer. Through this I have considered the financial impact of the Transfer on the Affected Policyholders.

5.3.6. *My review of these arrangements has led me to conclude that QBE EO and QBE Group have put in place appropriate arrangements to commit additional financial resources to QBE UK and QBE Europe in the event that they are needed and that such funds can be made available promptly.*

5.4. Management of the risk of default by Equator Re to QBE EO and its subsidiaries

5.4.1. Equator Re provides a material quantity of reinsurance to QBE UK and QBE Europe. It holds capital that is more than 120% of its regulatory capital requirements under the Bermudan insurance regulatory regime. The Bermudan regulatory regime has been deemed by the European Union to be an equivalent regulatory regime to Solvency II. Equator Re has an A+/Stable rating from Standard & Poor's.

5.4.2. As at 31 December 2019, QBE EO's (re)insurance entities, being QBE UK, QBE Europe and QBE's Lloyd's Syndicates, held a total of $240 million of collateral in respect of amounts owed to them by Equator Re. The collateral comprises $100 million of Letters of Credit issued by banks with S&P credit rating of A+ or better, with the remainder held in cash and investment grade securities (being S&P credit ratings of BBB- or above). The amount of collateral is managed with reference to QBE EO's credit risk appetite.

5.4.3. *Based on my review of the arrangements put in place by QBE EO with respect to its exposure to the risk of failure of Equator Re, I have concluded that:*

- *QBE EO has taken appropriate steps to manage the risks facing QBE UK and QBE Europe arising from the failure of Equator Re; and*
- *The Transfer does not result in any change to the arrangements.*

5.5. Other Part VII Transfers being undertaken by the Parties

5.5.1. QBE EO Staff have told me that there are no ongoing insurance business transfer schemes which may impact the Transfer.

5.5.2. Earlier this year, QBE UK and East West Insurance Company Limited ("EWICL") decided to discontinue Project Fall. Project Fall was the Part VII Transfer from QBE UK to East West Insurance Company Limited ("EWICL"), of QBE UK's:

- UK and Irish-based employers' liability and public liability exposures arising in relation to policies underwritten prior to 31 December 2007; and
- Portfolio of business previously underwritten by QBE UK and reinsured by Tata Steel's captive insurer, Crucible Insurance Company Limited. This portfolio comprised employers' liability, general public and products liability, motor and personal accident business.

5.5.3. The Project Fall Business is made up of mostly UK-based risks (c. 1.6 million policies) but QBE EO Staff have told me that they have identified 400 policies (issued to 130 policyholders) with non-UK EEA risks. These were written and are administered under QBE UK's Freedom of Services permissions (the "Project Fall European Business").

5.5.4. Project Fall was due to complete in late-2019 but was adjourned shortly before its Court hearing to sanction the transfer and then terminated in January 2020. QBE EO Staff have told me, and confirmed this in the Witness Statement, that the ruling[19], which affected EWICL's financial position, was unrelated to Project Fall or any of the Project Fall Business, QBE EO Staff have confirmed to me that neither QBE UK nor QBE Europe have any material exposure to business affected by the ruling.

5.5.5. As a result of further analysis since this delay, the parties to Project Fall have decided to discontinue the transfer of the Project Fall Business. Accordingly, the Project Fall European Business will be included as part of the Transfer, to ensure they are treated consistently with other QBE UK business with EEA risks. In doing so, the Parties will avoid the risk of exposing Project Fall European Business policyholders to the possibility that QBE UK may be unable to administer all of its policies and settle associated claims after the expiry of the Implementation Period (31 December 2020).

5.5.6. I have commented in Section 17 on the different notification arrangements for those Transferring Policyholders that would have been subject to Project Fall and for the other Transferring Policyholders. These differences are to ensure that, where these Transferring Policyholders had previously been notified about Project Fall, they will be informed of the revised proposals.

[19] https://www.casemine.com/judgement/uk/5c57c70d2c94e079deca6b1a

5.5.7. The liabilities associated with Project Fall are already subject to 100% quota share reinsurance, which will remain in place after the Transfer[20]. Consequently, there is no material change to the financial position of QBE UK or QBE Europe from the decision by QBE UK and EWICL not to proceed with Project Fall.

5.5.8. *I am therefore satisfied that the inclusion of Project Fall European Business as part of the Transfer does not affect my conclusions regarding the Transfer.*

[20] The reinsurers are RenaissanceRe Europe AG and ILS Property & Casualty Re Limited. RenaissanceRe Europe AG has an S&P rating of A+ and ILS Property & Casualty Re Limited continues to provide collateral for its share of the Project Fall liabilities. QBE EO Staff have also told me that they are not aware of any issues relating to the security of these reinsurers.

6. Approach: additional description

6.1. Introduction

6.1.1. This section provides additional description and supporting explanation for the approach I have adopted. It covers the following matters:

- The language and terminology used to describe concepts relating to risk and uncertainty;
- Measures of financial resources and capital requirements used in my analysis;
- Comparison criteria for financial effects of the Transfer;
- Comparison criteria for non-financial effects of the Transfer;
- Evaluation of QBE EO's approach to communications relating to the Transfer;
- Segmentations of the Affected Policyholders used in my analysis;
- Reliance on data from QBE EO Staff;
- Reliance on other experts;
- Contact with regulators during my review; and
- Approach to consideration of the impact of the COVID-19 pandemic.

6.2. Language and terminology

6.2.1. For both Financial and Non-financial aspects, the Transfer may improve the position of a group of Affected Policyholders in one way, and worsen their position in another. Therefore, it is necessary for me to exercise my judgement to weigh up the positive and negative effects, in order to determine whether the Transfer will have a "**material adverse**" impact in aggregate on a group of Affected Policyholders. I have provided the rationale for my judgements and conclusions throughout the Report.

6.2.2. For some of the financial consequence analysis, the conclusions rely on judgements regarding "**remote scenarios**" (often estimated as being less likely than 1 outcome in every 200). Because of the uncertainty inevitably associated with the assessment of such events, I do not believe it is appropriate to use language that overstates the precision or reliability of such forecasts.

6.2.3. I therefore use the term "**unlikely**" to indicate that there remains a degree of residual uncertainty in my comparative measurement of non-payment of policyholder claims. While this is a subjective test, as a guide I have adopted a 5% chance as a suitable threshold of an outcome being something that I would consider for these purposes as "unlikely".

6.3. Measure of financial resources and capital requirements used in my analysis

6.3.1. I calculate financial resources and regulatory capital requirements of the entities considered using the approach established under Solvency II. I have adopted this approach because:

- It seeks to value assets and liabilities consistently and, where possible, using a fair market value. The approach recognises that for some assets and liabilities, no market price exists and so an approach must be used that provides a value consistent with a market price.
- It has been adopted by all firms across the European Union and therefore provides a consistent and widely recognised means of framing the financial strength of a firm using a risk-based measure tailored to the needs of insurance.
- This is an approach that (i) QBE EO, QBE UK and QBE Europe; and (ii) the PRA, the NBB and other European prudential insurance regulators all use.
- The regulatory capital of QBE EO and its subsidiaries has been calculated using the QBE EO Internal Model. The PRA, as QBE EO's group prudential supervisor, and the NBB have determined that the QBE EO Internal Model provides a suitable approach for calculating the regulatory capital requirements of these firms.

- An Internal Model is a model that estimates the potential financial losses that a firm might suffer over a prospective one-year period. This gives the minimum amount of capital that a firm must hold to provide what is generally considered to be a sufficiently low chance of the company going insolvent over one year. It requires a sophisticated level of financial modelling capability together with extensive obligations on the firm to govern, document and validate their model on an ongoing basis. This includes resubmitting the model for approval by the regulator when methods or assumptions change significantly.
- If an Internal Model is not approved by the prudential regulator or approval is withdrawn, firms must fall back upon a prescribed formulaic approach, the Standard Formula SCR, to calculate their regulatory capital requirements. While the Standard Formula SCR approach may give rise to a higher or lower regulatory capital requirement than an Internal Model, it is important to note that non-approval of an Internal Model does not, of itself, change the nature of the underlying risks. If it believes that the Standard Formula SCR is too low, the regulatory framework provides for the regulator to impose a capital add-on.

6.3.2. Where there are material changes to the business plans or technical provisions of a firm that have not been reflected in its Approved Internal Model, I have considered modelling performed by QBE EO Staff that shows the anticipated impact of these changes adjustments on the SCR. Where this provides a more appropriate basis for comparing the position of the Affected Policies, I have included this alternative measure in my analysis.

6.3.3. The Solvency II prudential capital requirements have been set to target a high chance of companies being able to meet all policyholder claims, providing a confidence level of 199 times out of every 200, or 99.5%, over a one-year period. In addition, to satisfy Solvency II Pillar 2 prudential requirements, companies have policies in place to ensure a certain buffer of capital is in place in excess of their regulatory minimum. The purpose of this buffer is to cover short-term fluctuations in asset or liability values and to address the uncertainty inherent in some of the judgements made when establishing the prudential capital requirements.

6.3.4. Under Solvency II, companies use their ORSA to consider their position over a longer period and risks not captured in the scope of the SCR. As a part of this, companies also present their medium-term capital plans which explain the companies' approach to capital target levels and dividend strategy over the next 3-5 years.

6.4. Comparison Criteria – financial effects

6.4.1. My comparison of the effects of the Scheme comprises both a qualitative review of the changes brought about by the Scheme and quantitative testing of its effects.

6.4.2. The qualitative review (in Section 10) compares the risks that each segment of the Affected Policyholders faces before and after the Transfer and describes any significant changes.

6.4.3. It also considers the overall size of the balance sheets and net assets of the companies that are party to the Transfer. This analysis indicates whether the maximum size of adverse loss event that each company can withstand will change, and hence whether the Affected Policyholders will be materially adversely affected in terms of their financial security.

6.4.4. My quantitative testing is presented in Sections 13 and 14. The key measure used for this is the CCR. This is the ratio of a company's financial resources to the quantitative measure of risk used to determine its regulatory capital; it provides an objective and generally recognised measure of the absolute financial strength of a company and a means of comparing companies' relative financial strength.

6.4.5. When interpreting an insurer's CCR one needs to consider the size and nature of its business. However, if a company's CCR falls below 100% it is certainly considered under-capitalised as this would mean it is failing to meet its regulatory capital requirements.

6.4.6. In practice, in order for me to consider a company adequately-capitalised, it would need to hold a margin or buffer of capital in excess of a CCR of 100%. This is to allow for:

- Short-term fluctuations in asset and liability values.
- The inherent uncertainty in valuing assets and liabilities.
- The range of reasonable assumptions and methods that might be used in quantifying the regulatory capital requirements of a firm.
- The passage of time between my review and the Transfer Date.

6.4.7. To test the target buffer that QBE EO sets for itself and each of its subsidiary companies using the Capital Appetite Framework, I have performed a number of sensitivity tests in Section 14. This enables me to form a view as to the appropriateness of the margin and therefore whether the Parties to the Transfer will maintain a level of capital that is (at least) adequate. It also shows whether the Transfer will lead to a material change in the size of the margin appropriate for each of the Parties.

6.4.8. In Section 14 I have also performed the following tests:

- Assessing how the CCR changes for each of the Parties under a set of scenarios. These scenarios address each of the main risks facing the companies.
- Performing Reverse Stress Tests on each of the Parties pre- and post-Transfer in order to assess and compare the resilience of each firm to withstand severe losses.

6.4.9. Considering and comparing the impact that each scenario has on CCR, together with assessing the Reverse Stress Tests and the Capital Appetite Framework, has helped me to form a view on:

- the reliability of the SCR calculations of each company; and
- the effects of the Transfer on the absolute and relative level of security that each company provides to the Affected Policyholders.

6.4.10. The Reverse Stress Tests also enable me to test extreme scenarios (notably those involving the run-off of reserves) that in my view are likely to manifest themselves over a number of years rather than over the one-year time horizon addressed by the Internal Model. These can therefore fall outside the scope of the SCR, and place reliance upon the excess financial resources of a firm.

6.5. Comparison Criteria – non-financial effects

6.5.1. The non-financial consequences of the Transfer are defined less clearly. In this Report I have considered the following elements, many of which relate to matters of conduct:

- Governance, strategy and operational matters.
- Policyholder priority on insolvency and winding-up and set-off rights.
- Policyholder protection schemes, policyholder complaints and Employers' Liability Tracing Office.
- Impact on reinsurers.
- Supervisory authorisations, Internal Model approvals and other waivers.
- Insurance law and governing law considerations.
- Cost and tax effects of the Scheme.
- Pension funds and employee benefit plans.
- Impact of COVID-19 pandemic.

6.5.2. If needed, I also flag specific areas of concern relating to conduct risk.

6.5.3. For these non-financial matters, I have indicated where my comparisons rely on my subjective judgements rather than what I consider to be a more straightforward interpretation of the facts. My conclusions for these non-financial topics make use of my general understanding of the issue based upon my experience working in the general insurance and reinsurance industry over a number of years.

6.6. Evaluation of approach to communications

6.6.1. I have looked at the approach proposed by the Parties to communicating details of the Transfer to the Affected Policyholders.

6.6.2. In doing so, I have looked at:

- The rationale for any waivers being sought from the Court by the Parties in respect of their obligations to notify all the Affected Policyholders. This includes consideration of the reasons for excluding certain policyholders from communications, and the way in which the Parties have identified them (including how policyholder segmentation has been carried out and other analysis in support of the waivers).
- The mode and content of communication proposed by QBE UK and QBE Europe to the policyholders they intend to notify of the Transfer.
- Where Brokers[21] are being asked by QBE EO to perform the communication, I have inquired into the extent to which QBE EO can reasonably rely on these intermediaries to perform this communication comprehensively.
- The suitability of arrangements put in place by QBE UK and QBE Europe to handle enquiries arising from the notified policyholders.
- The suitability of the publicity and advertising arrangements proposed by QBE UK and QBE Europe given the nature of the Affected Policyholders.

6.6.3. I have also considered:

- The likelihood of those affected by waivers making a claim;
- The materiality of changes arising from the Transfer for the policyholders excluded by the waiver;
- The cost-saving from the waiver to QBE EO versus the benefit to the policyholders excluded by the waiver; and
- Whether any arrangements have been proposed by QBE UK and QBE Europe to compensate for the waivers from full notification requirements (such as advertising at a greater level than the regulatory minimum required for the Transfer).

6.7. Segmentations considered

6.7.1. For my review, the principal segmentation of the Affected Policyholders that I have adopted is between:

- Transferring Policyholders;
- Remaining Policyholders; and
- Existing Policyholders.

6.7.2. This segmentation covers all the policyholders of the two companies.

6.7.3. The other segmentations that I have considered are:

- Personal consumers (i.e. individuals) and small businesses – this is because under UK regulation, these policyholders have additional protections in the event of insurer failure or a

[21] For the Transfer, only British Marine Brokers and Third Party Administrators will be asked to fulfil such a role.

complaint against the administration of their policy or claim. I consider this specific subset of policyholders in Section 16 when I review these matters.

- Reinsurance policyholders – this is because these policyholders rank behind direct insurance policyholders on a wind-up event and both QBE UK and QBE Europe are mixed insurance and reinsurance companies. I have considered the issue in Section 16.
- Policyholders with policies governed by the laws of a non-EEA member state. This specific issue is covered earlier in Section 16.

6.7.4. I considered but did not explicitly segment long-tail policyholders and short-tail policyholders. As the name indicates, for long-tail business it generally takes more time for claims to be reported and settled than for short-tail business. This means, for example, that these policyholders are exposed to risks that may emerge some time after the Transfer, in addition to those that may arise in the short-term. I did not use this additional segmentation as I concluded that the relative position of these segments will not be affected by the Transfer. All of the Affected Policyholders are already, and will remain, exposed to a mixture of long-tail and short-tail risks. In my scenario testing in Section 14 I have considered the impact of loss scenarios associated with both short-tail and long-tail classes of business.

6.8. Reliance on data and information from QBE EO

6.8.1. My analysis has made use of material prepared by and for QBE EO and its subsidiaries. This data is listed in Appendix 3. There were no material data items requested that QBE EO were not able to provide.

6.8.2. I believe it is appropriate for me to rely upon the data and information supplied to me by QBE EO Staff because:

- The data and information appeared to me to be reasonable, based upon my (re)insurance knowledge and experience. I have not, however, performed an audit of the data; nor have I sought to test the controls surrounding their preparation.
- I performed the following additional tests to provide myself with comfort that the data supplied was appropriate:
    - Reconciliation checks of claims information against published accounts, to check for completeness.
    - Independent tests of certain calculations or review of the interpretation of their results. These have been described in the relevant parts of this Report.
    - Inspection of various aggregated and individual data items supplied, to confirm that they were consistent with my understanding.
    - Where calculation results were supplied, performing approximate checks of the results to test for any anomalies.
    - Where my testing highlighted features or anomalies that had not been explained, I sought clarification from QBE EO Staff.
- I have considered the statements made to the Court by Mr. David Winkett in his witness statement at paragraphs 58 to 61, which are included as part of the Transfer documents. The witness statement confirms (at paragraph 59) the reliability of the data and information provided to me (including those that are based upon opinions, views or forecasts).
- I consider that Mr. Winkett is suitably placed to provide such confirmation as he is the Chief Financial Officer of QBE UK and QBE Europe, an approved person on the Financial Services Register, maintained by the FCA, and an experienced insurance professional. Within QBE EO, the individuals who have provided me with information report, either directly or indirectly, to Mr. Winkett.

6.8.3. The data provided also includes material relating to future business plans for QBE EO and its subsidiaries. Other than those explicitly referred to in this Report, I have not been advised of any material changes to these plans, for example, future major Internal Model changes, other new Part VII transfers or changes to the level of capital targeted by the company.

6.9. Reliance on others

LEGAL ADVICE

6.9.1. I received copies of legal advice prepared for the Parties for my work. The lawyers who gave the advice were happy for me to receive a copy of the advice and have stated in writing that I can rely upon it in my role as Independent Expert.

6.9.2. The legal advice related to the operation of the Financial Ombudsman Service and was prepared by Maria Ross of Norton Rose Fulbright LLP, dated 21 January 2020.

6.9.3. For this legal advice, I have considered the advice carefully and used it to form my own view regarding the matter. The nature of the advice is in my view of a factual nature, setting out in summary form the legal position. While the lawyers providing the advice have been retained as legal advisers by QBE EO or its subsidiaries, I did not identify any subjective matters or perceive that the advice sought to provide an advantageous interpretation for QBE EO or its subsidiaries. I am therefore satisfied that I have been able to use the material in forming the conclusions set out in this Report without impairing my independence. In the relevant section of the Report I have briefly explained my understanding of the matter so that if Affected Policyholders have concerns regarding the interpretations they can draw this to the Court's attention for me to consider the matter further.

TRANSLATION OF DOCUMENTS

6.9.4. QBE EO Staff have told me that all policy documents for the Transferring Policies are in English. All material sent to Affected Policyholders relating to the Transfer will therefore be in English only and no translated documents will be prepared.

OTHER MATTERS

6.9.5. There were no other matters where I considered seeking other specialist advice.

6.10. Contact with regulators

6.10.1. I have attended meetings with the PRA and FCA relating to the Transfer. Both the PRA and FCA have had the opportunity to review this Report before it was finalised and ask me questions relating to it. The PRA, in consultation with the FCA, has approved the form of my Report.

6.10.2. QBE EO Staff have told me that in their correspondence with the NBB, they included my contact details so that the NBB can raise any matters regarding the Transfer with me directly.

6.10.3. I will comment in my Supplemental Report on any matters raised with me by the NBB.

6.11. Approach to consideration of the impact of the COVID-19 pandemic

6.11.1. The COVID-19 pandemic is a significant event with wide-ranging effects on the insurance industry. As such, it could have a significant impact on both the financial and non-financial positions of each of the Parties.

6.11.2. To evaluate the potential implications of the COVID-19 pandemic on the Transfer, I have considered the extent to which the Parties are exposed to:

i. Fall in investment asset values;
ii. Classes of business with potential claims arising from COVID-19;

iii. Deterioration in profitability over the year 2020, e.g. due to fall in market demand for certain classes of business ;
iv. Increased risks of counterparty defaults;
v. Fall in the risk free yield curve used to discount liability values for the time value of money;
vi. Impact of the pandemic upon the wider QBE Group;
vii. Adverse impact in their operations; and
viii. Adverse impact in the effectiveness of the policyholder notification and publicity exercise.

6.11.3. I have also commented upon how the pandemic has affected the wider insurance group.

6.11.4. At the time of writing this Report, there remains significant uncertainty surrounding the financial implications of the COVID-19 pandemic. As part of my review of the financial effects of the Transfer, I have considered whether the Adjusted-SCR remains appropriate, and tested the impact of the pandemic having a significantly more adverse effect on the financial positions of the Parties pre- and post-Transfer than is currently expected.

6.11.5. I expect to comment on further developments around this issue in my Supplemental Report.

C. Detailed Review – Financial Effects

7. Introduction

7.1.1. This part of my Report, Part C, contains my in-depth analysis of the financial strength of the companies before and after the Transfer. It is presented in the sections listed below.

7.1.2. At the time of completing this analysis, the COVID-19 pandemic is an emerging issue for the Parties and I note that its financial impact does not appear in any of the historical balance sheets presented in this Report. Prospective information regarding business plans and capital requirements are evolving in response to new information and include some recognition of changes in recent months. I have indicated below how each group of sections of my financial analysis has incorporated information relating to the pandemic.

7.2. Technical Provisions and Balance Sheets

7.2.1. Section 8 sets out my review of the Technical Provisions of QBE UK and QBE Europe as at 31 December 2019.

7.2.2. Section 9 summarises the remainder of the balance sheets pre- and post-Transfer for each company, together with QBE EO, as at 31 December 2019.

7.2.3. As this work reviews balance sheet dates before any significant effects had arisen from what was to become the COVID-19 pandemic, no allowance is made here for it.

7.3. Qualitative Review of Capital Requirements

7.3.1. Section 10 draws on my analysis in Sections 8 and 9, together with the QBE EO ORSA report, and summarises the key risks for QBE UK and QBE Europe pre-Transfer, and how I believe that these will change under the Transfer.

7.3.2. Section 11 reviews the QBE EO Internal Model and the approaches taken by QBE UK and QBE Europe when determining their SCR and Indicative Internal Model SCR. I comment on the QBE EO Internal Model approach, its coverage of risks and the governance, validation and model change cycle surrounding the QBE EO Internal Model.

7.3.3. Section 12 sets out how QBE UK and QBE Europe determine the financial resources that they need to hold so that their stakeholders can have sufficient confidence that claims and other liabilities will be met as they fall due.

7.3.4. I have included a qualitative comparison of COVID-19 pandemic risks in Section 10. In Section 11 I have reviewed whether the Adjusted-SCR remains appropriate in light of the pandemic. In Section 12 I have discussed how the impact of the COVID-19 pandemic on the financial resources of the Parties has been addressed within the Capital Appetite Framework. This is used to explain the anticipated EOF of the Parties pre- and post-Transfer in Section 13.

7.4. Quantitative Review of Capital Requirements

7.4.1. Sections 13 and 14 contain my quantitative analysis of the risks and capital requirements for QBE UK and QBE Europe. In Section 13 I have set out the capital requirements calculated for each firm pre- and post-Transfer on a number of bases and compared them with their Eligible Own Funds.

7.4.2. In Section 14 I set out the results of a number of additional tests on the quantitative financial strength of QBE UK and QBE Europe. These tests, incorporating existing scenario tests used by QBE EO Staff and supplemented by some additional tests requested by me, provide me with another perspective on the financial strength of the companies in addition to the SCR calculations in Section 13.

7.4.3. I have included in Section 14 some specific pandemic scenario testing.

7.5. Summary

7.5.1. Section 15 summarises this portion of my analysis to reach my conclusions regarding the financial effects of Transfer.

8. Review of Company Technical Provisions

8.1. Introduction

8.1.1. For both QBE UK and QBE Europe, the Technical Provisions item is one of the largest items on the balance sheet and the largest area of uncertainty. The Technical Provisions are therefore a key component for me to consider in my analysis. This section:

- Provides a description of the (re)insurance portfolios of QBE UK and QBE Europe.
- Sets out the matters that I have reviewed and my conclusions from reviewing their Technical Provisions.
- Highlights the main sources of uncertainty associated with the Technical Provisions and identifies which of these will be transferring between companies as a result of the Transfer.

8.2. Conclusions regarding the Technical Provisions

8.2.1. *Overall, I have concluded that the Technical Provisions provide me with a suitable basis upon which to perform my review of the Transfer.*

8.2.2. There are two key judgements underpinning the reserves that dominate the uncertainty in the reserve estimates, namely:

- Estimates of expected profitability in current and recent underwriting years. For longer-tail classes, reserving techniques often give greater weight to initial profitability assumptions in cases where it is too early to estimate the ultimate loss experience solely from the losses reported to date; and
- The extent to which claims will continue to develop in future, particularly for long-tail classes of business. This may arise because QBE UK and QBE Europe do not have experience of the full run-off of the claims arising from this type of business or because the rate at which these claims develop changes materially over time. As a result, claims experience may differ from assumptions and therefore future claims costs are underestimated.

8.2.3. Both of these judgements:

- Can lead to a risk of future adverse loss development should assumptions change in future or should emerging claims experience exceed the level anticipated in each company's reserves.
- Present issues faced by all insurers that write similar lines of business; however, the issues are exacerbated for all insurers by the recent (re)insurance market environment in which there has been minimal levels of profitability across many lines of business.

8.2.4. I have tested the resilience of QBE UK and QBE Europe to more conservative judgements in these two areas in Section 14.

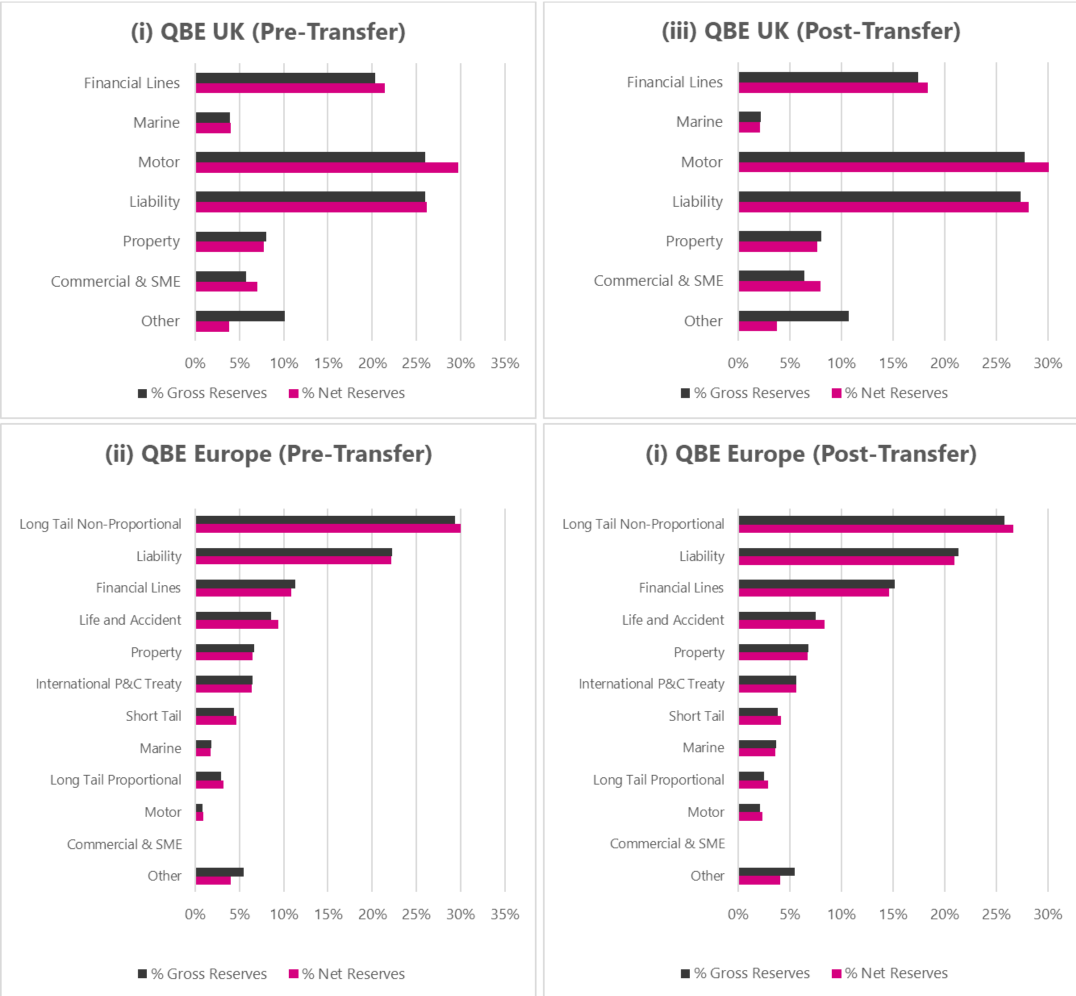
8.3. Description of portfolios

8.3.1. Table 8.1 sets out the gross and net Technical Provisions on a GAAP basis of the two companies (QBE UK and QBE Europe) as at 31 December 2019 and the corresponding position had the Transfer already taken place at that date.

8.3.2. Figure 7 shows a graphic illustration of the approximate breakdown of Reserves by class of business for each entity before and after the Transfer, calculated as at 31 December 2019. While the exact proportions will differ at the Transfer Date, I do not anticipate that such changes will be material.

Table 8.1 – Summary of GAAP Technical Provisions as at 31 December 2019, Conv £ billion (presented assuming Transfer had taken place on that date)						
	Pre-Transfer			Post-Transfer		
	(i) QBE UK	(ii) QBE Europe	Total	(iii) QBE UK	(iv) QBE Europe	Total
Gross	**2.9**	**2.4**	**5.3**	**2.6**	**2.7**	**5.3**
Reinsurance	(0.9)	(0.3)	(1.2)	(0.8)	(0.4)	(1.2)
Net	**2.0**	**2.1**	**4.1**	**1.8**	**2.3**	**4.1**

Figure 7[22] - Reserves as at 31 December 2019 - Approximate breakdown by class of business for pre- and post-Transfer entities



8.3.3. Table 8.1 shows how the net GAAP Technical Provisions of QBE UK will reduce by approximately 10%, or approximately £0.2 billion, while those of QBE Europe will increase by the same amount. The total net GAAP Technical Provisions across the two companies does not change as a result of the Transfer.

8.3.4. Figure 7 shows that:

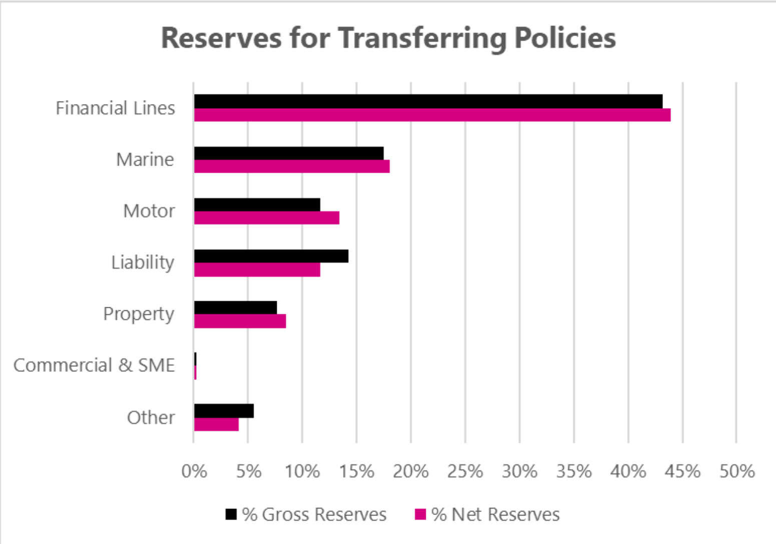
- Approximately 85% of the net Technical Provisions of QBE UK fall within the liability, motor, financial and property portfolio segments, with the remainder arising from commercial and SME package business portfolios, marine and energy business and a range of other classes.

[22] Illustration is prepared on an underwriting year basis. Figures are before application of DLRC aggregate reinsurance protection, discussed in Section 8.6, and other QBE Group reinsurance recoveries.

- Approximately 36% of the net Technical Provisions of QBE Europe fall within the long-tail non-proportional reinsurance and international property & casualty treaty reinsurance portfolios, and 40% fall with the liability, property, and financial lines insurance portfolios. The remainder comprises motor and marine insurance, accident and life reinsurance and a range of other smaller insurance and reinsurance classes.
- For both QBE UK and QBE Europe, the composition of the Technical Provisions is similar pre- and post-Transfer.

8.3.5. Figure 8 shows the split of reserves for the transferring policies by segment. It shows that 75% of the transferring net Technical Provisions fall within the financial lines, marine and motor portfolio segments, with the remainder arising from liability, property and a range of smaller insurance and reinsurance classes.

Figure 8 - Reserves as at 31 December 2019 - Approximate breakdown by class of business for Transferring Policies



QBE UK PORTFOLIO SEGMENTS – DETAILED DESCRIPTION OF PRE-TRANSFER PORTFOLIOS

8.3.6. The liability segment comprises:

- business written through the London Market, mostly on a direct and facultative basis from countries around the world. This comprises a diverse mix of industries and coverages.
- business written through its UK branch network and covering employers' liability, public liability, general liability, accident and health business.
- a small portfolio that forms part of the Project Fall Business (see Section 5.5).

8.3.7. The financial lines segment is written through both the London Market and UK branch network, and covers a diverse mix of lines, including professional indemnity, management liability, directors' and officers' liability, medical malpractice, construction, and after-the-event legal expenses.

8.3.8. Motor insurance is written through the UK branch network and in its head office and covers commercial policyholders, bus and coach accounts and motor trade businesses.

8.3.9. Commercial and SME package business covers property, employers' liability and public liability.

8.3.10. The property segment includes business interruption and some packaged liability risks and is written in the London Market and through its UK branch network.

8.3.11. The marine and energy segment includes some small vessel P&I business, as well as London Market cargo, hull and marine and energy liability risks.

8.3.12. The Legacy Business segment comprises a:

- small portfolio that forms the remainder of the Project Fall Business (see Section 5.5).
- mix of aviation, casualty, credit, property and reinsurance portfolios in run-off.

8.3.13. The other portfolios include: motor extended warranty and asset protection risks, political violence, trade credit and surety risks.

QBE Europe Portfolio Segments – Detailed description of Pre-Transfer Portfolios

8.3.14. QBE Europe portfolios comprise:

- Insurance business written through its EEA branch network and Freedom of Services business written in the London Market through its UK branch.
- Reinsurance business written from its head office in Belgium and its branches in Ireland and Bermuda.
- Some legacy and non-divisional business.

8.3.15. The EEA branch-based insurance business of QBE Europe comprises the following segments:

- Retail liability business covering employers' liability, public liability, general liability, accident and health, and French construction (Dommages-Ouvrage and Decennial).
- A diverse mix of financial lines, including professional indemnity, management liability, directors' and officers' liability, medical malpractice, construction, after-the-event legal expenses, environmental impairment liability and kidnap and ransom.
- Motor insurance covering commercial policyholders, bus and coach accounts and motor trade business.
- Commercial and SME package business covering property, employers' liability and public liability.
- Property business, including business interruption and some packaged liability risks.
- Marine and energy business, including some small vessel P&I business.

8.3.16. The UK branch-based insurance business of QBE Europe comprises business written in the London Market for policyholders with an element of EEA risk and covers risks of a similar nature to some of the London Market business written by QBE UK and that is the subject of the Transfer.

8.3.17. The head office reinsurance portfolio comprises five segments:

- Credit and transport – including aviation, credit and bonds, and transport business;
- Life and accident – including short-term and long-term mortality and morbidity business as well as proportional and non-proportional reinsurance of workers' compensation insurance;
- Long tail non-proportional business – segmented into reinsurance of casualty business in Belgium, France, the UK and other territories;
- Long tail proportional – split between motor and general third-party liability reinsurance; and
- Short-tail reinsurance – property written on a non-proportional basis and fire and motor written on a proportional basis.

8.3.18. The Ireland and Bermuda branch portfolios comprise North American and international property and casualty treaty business, marine and personal accident excess of loss reinsurance.

8.3.19. The legacy business is made up of a diverse mix of property, casualty, motor, credit and surety business in run-off. It includes a portfolio of risks exposed to US asbestos, pollution and health hazard liabilities written between 1977 and 1991, however the total size of these liabilities as at 31 December 2019 is less than 1% of the liabilities of QBE Europe.

QBE UK PORTFOLIO SEGMENTS – DETAILED DESCRIPTION OF PORTFOLIOS OF TRANSFERRING POLICIES

8.3.20. The portfolio of Transferring Policies consists of business similar to that already being written by QBE Europe's EEA branch network and on a Freedom of Services basis in the London Market through its UK branch, namely, marine, financial lines, motor, liability, property and a range of smaller insurance and reinsurance classes. Additionally, it includes the Project Fall European Business.

8.4. Approach to my review

8.4.1. My review of the companies' Technical Provisions has comprised the following elements:

- A review of the processes followed to prepare the Technical Provisions, including the data and other information used, the actuarial and other estimation methodologies applied and the documentation and sign-off performed.
- A high-level review of the Technical Provisions to assess the appropriateness of the key reserving judgements made.
- Specific elements of the reserving calculations where I carried out testing of a sample of models in greater depth.
- Review of QBE EO Staff analysis used to calculate the Reserves in respect of the Transferring Policies.

8.4.2. My work has been performed using the position of QBE UK and QBE Europe as at 31 December 2019. I anticipate updating the Court in my Supplemental Report regarding material developments in the Technical Provisions in the intervening period.

8.5. Review of the documentation, reserving process, methodology, data, and sign-off process

8.5.1. The following paragraphs in this sub-section describe the review I carried out on the QBE EO reserving process for QBE UK and QBE Europe.

DOCUMENTATION

8.5.2. QBE UK and QBE Europe's reserving process is documented in the following material that I received and reviewed:

- Internal and external actuarial reserve reports for data as at 30 September 2019.
- QBE EO Actuarial Function Reports regarding Technical Provisions as at 2019 year-end, issued in May 2020.
- Roll-forward summary translating actuarial estimates as at 30 September 2019 to the booked GAAP Reserves as at 31 December 2019.
- Reconciliations between the booked GAAP Reserves and the Solvency II Technical Provisions as at 31 December 2019 for QBE UK and QBE Europe.

8.5.3. Each year, as part of the independent validation of the QBE EO Internal Model, a validation report is prepared covering the Solvency II Technical Provisions. At the time of writing my Report, I have reviewed the latest report available for the 2018 year-end reserves. I anticipate reviewing the validation report for the 2019 year-end reserves for my Supplemental Report.

8.5.4. *I am satisfied that the process for setting Technical Provisions for QBE UK and QBE Europe as at 31 December 2019 is appropriately documented for the purposes of enabling me to reach my conclusions in this Report.*

Reserving Process

8.5.5. Internal actuarial estimates for the Reserves of QBE UK and QBE Europe are prepared at a highly granular level. The main reserve reviews are carried out every six months (as at 31 March and as at 30 September) to set estimates of ultimate premiums and claims for each underwriting year.

8.5.6. These estimates are then rolled forward to allow for the earning of exposure between the reserve review dates and the balance sheet date, adjustments for major claim movements and events arising, and deduction of any claim payments made.

8.5.7. I have reviewed the key elements of this roll-forward process from 30 September 2019 to 31 December 2019 and sought explanations from QBE EO Staff for the material components of this.

8.5.8. *Based on the explanations received from QBE EO Staff, I have concluded that the roll-forward exercise prepared by QBE is suitable for use in my analysis in this Report.*

8.5.9. The GAAP Technical Provisions are then translated to Solvency II Technical Provisions making allowance for the differences between these two calculation bases.

8.5.10. I have reviewed this translation in order to be comfortable with the adjustments made as at 31 December 2019. I anticipate confirming in my Supplemental Report that there are no changes to my conclusions arising during the period between then and the Transfer Date for either QBE UK or QBE Europe.

8.5.11. *I have reviewed the steps performed to translate the GAAP Technical Provisions to the Solvency II Technical Provisions that I have used in forming my opinion. Where I believed it necessary, I have performed the additional checks noted below on the calculations performed. Based on this, I have satisfied myself that an appropriate process has been used to prepare the Technical Provisions that enables me to use them as the basis for forming my opinions in this Report.*

Methodology

8.5.12. QBE has applied standard non-life actuarial techniques in estimating the Reserves for QBE UK and QBE Europe pre-Transfer, including the use of chain-ladder and Bornhuetter-Ferguson techniques, the use of rate-monitoring systems to estimate the profitability of new risks and the use of benchmark development data from external market sources or similar business written in other QBE classes.

8.5.13. When calculating the position net of reinsurance, an initial estimate is made of reinsurance recoveries as a proportion of gross claims. This is derived originally from the reinsurance pricing basis and the business plan, along with a review that considers catastrophe / large / attritional losses and non-treaty cover. Any known large outstanding claims are considered on a case by case basis. Reinsurance IBNR is released in line with the gross to maintain a suitable net provision.

8.5.14. The approach used by the internal and external actuaries to determine the best estimate GAAP Reserves as described in the reports appear to me to be appropriate and consistent with good practice. Standard techniques appear to be consistently applied and where they are likely to be unsuitable, alternative approaches have been adopted.

8.5.15. The Actuarial Function Reports highlight extensive rate monitoring and technical rate pricing of new and renewal business and provide statistics for each company. This information is used to inform reserving assumptions for the more recent underwriting periods, where there is insufficient claims experience to assess business performance.

8.5.16.	*I am satisfied that the methodology used to estimate the Technical Provisions is appropriate.*

DATA

8.5.17. The estimates as at 31 December 2019 are calculated using data extracted as at the end of September 2019 for QBE UK and QBE Europe business.

8.5.18. The data from the claims and underwriting systems are extracted and prepared by the Data Engineering & Analytics department. This process makes allowance for various adjustments and allocations. Examples of these are:

- Segmentation of data to split property damage claims from personal injury claims, or to separate out disease claims. This is because the loss development behaviour of each type can differ.
- Allowance for third party, non-reinsurance recoveries.
- Reconciliation differences and other data errors.

8.5.19. QBE EO has a process in place whereby the Actuarial Function query and resolve any unusual data movements with the Data Engineering & Analytics department. Data issues that may affect specific classes are noted clearly within QBE's internal actuarial reports.

8.5.20. The Actuarial Function confirms that they are not currently aware of any material data-related deficiencies in the best estimate liabilities. Improvements have been made to data provisioning during 2018 reducing the number of manual interventions. There was also a project underway to improve the reserving process during 2019 and owing to COVID-19, this project will now continue throughout 2020 and 2021. For my review:

- QBE have provided me with a reconciliation between claims and accounting information; and
- QBE EO Staff were able to answer all the queries raised by me to my satisfaction.

8.5.21. I did not identify anything in the independent review of some of the portfolios (described below in Section 8.6) that suggested that the data was inappropriate for my analysis. For a business of the size and scale of QBE UK and QBE Europe, it is inevitable that data issues exist, and in my view the actuarial analysis appears to have taken an appropriate approach to addressing them. As a result, I do not believe that those data issues that exist materially limit the reliability of the estimated Reserves.

8.5.22. For the longer-tailed classes of business, in particular the long-tailed non-proportional reinsurance classes, QBE Europe has extensive claims history to support its Technical Provisions model parameter choices.

8.5.23.	*I have concluded that the data used for estimating the Technical Provisions is appropriate for me to reach my conclusions in this Report.*

SIGN-OFF PROCESS

8.5.24. As part of my review of reserving documentation I have considered the sign-off process adopted by QBE EO Staff, and the experience and qualifications of the members of staff responsible for each key stage of setting Technical Provisions.

8.5.25. The actuarial reserve estimates appear to have been prepared by suitably qualified and experienced individuals, with clear accountability and reporting lines in place.

8.5.26. An external, independent actuarial review is conducted as part of the year-end reserving process (based on data as at 30 September). I have received and reviewed the reports relating to 2019 year-end.

8.5.27. The use of an external, independent actuarial review aligns with good practice for a large firm with diverse risks such as QBE EO. The external review adopts a differing segmentation of the portfolios from the internal analysis. This provides some comfort that the estimates in aggregate do not appear to be particularly sensitive to the decisions taken regarding the segmentation of the portfolio.

8.5.28. *I have concluded that an appropriate process is in place for the sign-off of the estimates for the Technical Provisions for the two companies that are prepared by the Actuarial Function.*

8.6. High-level review of the Technical Provisions

8.6.1. To gain additional comfort regarding the level at which the companies have set their Technical Provisions, I have carried out a limited review of some of the loss development experience of a subset of the Technical Provisions. This review covered over 75% of the net GAAP Technical Provisions of QBE UK and QBE Europe as at 30 September 2019.

8.6.2. My review was performed on data that had been aggregated to a relatively small number of classes of business with similar characteristics. Using data at this level of aggregation removes some of the distortions that arise from individual claim volatility caused by all but the largest claims. As it is performed at a high level, it may not detect detailed portfolio features and is not intended to be a substitute for this.

8.6.3. This limited, high-level review contrasted with the QBE internal analysis, which is carried out at a very granular level. While well-suited to taking account of portfolio features, a granular approach risks being overly affected by volatility that can arise in smaller portfolio segments.

8.6.4. My review looked at:

- The approach taken to define the data to carry out the reserve allocation analysis, to ensure its consistency with the definition of the Transfer;
- The appropriateness of the allowance for future loss development in the more mature underwriting years;
- The consistency over time in the level of future loss development across underwriting years;
- The consistency of assumed profitability levels in the most recent underwriting periods with the level and trend of profitability in the recent past; and
- Diagnostics relating to the proportion of gross Technical Provisions that were assumed to be ceded to reinsurers. Where I considered necessary, I have requested additional information[23] from QBE EO Staff around their reinsurance assumptions and I have received adequate explanation around these. QBE EO Staff have also confirmed that they are not aware of any major reinsurance disputes.

8.6.5. While this review cannot, and should not, be taken as providing assurance regarding the level at which the Reserves have been set, nor is it an exhaustive test of the Reserves, it provides me with a useful perspective on the degree of uncertainty arising in the estimation of Reserves by the actuarial teams.

[23] For example, for large or unusual ceded IBNR amounts or in respect of specific losses.

8.6.6. In the recent soft market and in light of increased regulatory scrutiny of reserving on long tailed casualty lines, I sought to discuss with QBE EO Staff their reserving approach for these portfolios. Compared to their 31 March 2019 reserve review, there has been an increase in reserve ultimates across older underwriting years on a gross of reinsurance basis. This deterioration has been substantially mitigated by QBE EO's aggregate reinsurance covers so there was minimal reserve strengthening required on a net of reinsurance basis.

8.6.7. *My quantitative review of the portfolios provided me with comfort regarding the level of the Technical Provisions, their suitability for my purposes of considering the Transfer and that no adjustment is necessary in respect of them to the QBE UK or QBE Europe balance sheets for the purposes of my review.*

AGGREGATE REINSURANCE PROTECTIONS AND RECENT CATASTROPHE EXPERIENCE

8.6.8. QBE EO makes use of aggregate excess of loss reinsurance contracts with Equator Re to reduce the volatility of its subsidiaries' net Technical Provisions and underwriting exposures. Placing reinsurance with an internal captive reinsurer alongside the other underwriting operations within the QBE Group enables the group to achieve economies of scale, as Equator Re can then purchase matching outwards reinsurance.

8.6.9. For the 2015 to 2018 accident years, QBE EO benefits from three DLRC contracts from Equator Re: The first DLRC contract covers insurance business of QBE UK, QBE Europe and QBE EO's Lloyd's operations. The second DLRC contract covers reinsurance business of QBE Europe, QBE EO's Lloyd's operations and the reinsurance operations of North America (across the 2016 to 2018 accident years). The third DLRC covers credit and surety lines. The policies cover large and catastrophe losses equal to or above $2.5 million subject to an aggregate retention, and subject to per claim, event and yearly limits.

8.6.10. QBE EO have not renewed the DLRC cover for the 2019 accident year. QBE EO's 2018 Annual ORSA notes that the non-renewal of DLRC has a relatively neutral impact on the plan net combined ratio, but clearly introduces additional variability around large and catastrophe losses. In Section 14, I have considered the impact on the financial strength of pre- and post-Transfer entities to a series of large and catastrophe stress scenarios, and this analysis takes the non-renewal of the DLRC into account.

8.6.11. As at 31 December 2019, QBE UK and QBE Europe recoveries from DLRC were £281 million (18% of net of reinsurance claims outstanding) and £70 million (3% of net of reinsurance claims outstanding) respectively.

8.6.12. I have reviewed a sample of the DLRC modelling files which the QBE EO actuarial team used to determine the recoveries to QBE UK and QBE Europe under these contracts.

8.6.13. *Based on my tests of a sample of the calculations, I did not identify any issues in the approach or calculations that led me to modify my conclusions regarding the Transfer.*

8.6.14. QBE EO Staff have provided me with a schedule of catastrophe loss ultimates affecting the 2017 to 2019 accident years, as at 31 December 2019. Since 2018 year-end, across QBE UK and QBE Europe and all major catastrophe events in 2017 to 2019, there has been a net ultimate movement of $46 million before application of DLRC. Given the size of these movements relative to the size of the overall Reserves of each company, I do not anticipate that uncertainty in the final costs of these catastrophe losses would add materially to the uncertainty in the Reserves.

8.6.15. QBE EO has purchased a number of other aggregate outwards reinsurance contracts from Equator Re to cover deterioration in its outstanding claims Reserves:

- DAR1: An aggregate excess of loss reinsurance policy protecting accident years 2011 to 2014 from adverse movements in bodily injury claims as a result of changes to the discount rate used by the Court to determine lump sum awards for loss of earnings and cost of care. These are typically awards made to individuals suffering the most severe injuries.

  On 15 July 2019 the Ministry of Justice announced a change to the rate of interest (Ogden Rate) from –¾% to –¼%. This change has been allowed for in the reserves reported on the 31 December 2019 balance sheets for QBE UK and QBE Europe (shown in Section 9). In Section 14, I have considered the impact of a reduction of the rate used by QBE UK and QBE Europe to calculate its Technical Provisions to -1% (Scenario S.4) from the current level.

- DAR2: An aggregate excess of loss reinsurance policy protecting accident years 2011 to 2014 from adverse development in the large risk losses for QBE EO's financial lines portfolios.

  As at 31 December 2019, approximately 90% of the cover across all accident years had been utilised. Therefore, further deterioration across these years may not be protected from the DAR2 aggregate covers. In Section 14, I have considered the impact of a deterioration in Reserves on the financial strength of pre- and post-Transfer entities. Scenario S.10 tests the effect of applying to classes that make up over 80% of the non-property reserves of QBE UK and QBE Europe:
    - a 10% increase in the net of reinsurance Reserves; together with
    - a 10% increase in the planned loss ratio for the new underwriting year.

8.6.16. *Based on my analysis of the aggregate reinsurance protections purchased by QBE UK and QBE Europe, potential exhaustion of this reinsurance and the effects of recent catastrophes, I identified scenarios for further testing in Section 14, but did not identify any issues that led me to modify my conclusions regarding the Transfer.*

8.7. Reserves for Transferring Policies

8.7.1. Reserves for claims made on the Transferring Policies are normally determined as part of portfolios that contain Transferring Policies and Remaining Policies. An exercise has therefore been performed to allocate reserves from aggregated reserving classes to the Transferring Policies. This exercise was carried out using the results of the year-end 2019 reserve review. QBE EO Staff have supplied me with their underlying working files.

8.7.2. The allocation methodology apportions the reserves to the transferring business as follows:

- Case estimates on a case by case basis as are IBNR reserves relating to specific policies.
- The remaining gross of reinsurance IBNR is allocated separately for attritional, large and catastrophe claims. For attritional claims on policies underwritten before 2016, IBNR is allocated in proportion to case reserves. All other IBNR is allocated in proportion to the share of premium associated with the Transferring Policies for each reserving class and underwriting year.
- The ceded IBNR is allocated in proportion to gross of reinsurance IBNR splits.

8.7.3. Note that between 31 December 2019 and the Transfer Date, some claims will be settled. QBE EO Staff intend to therefore perform an updated calculation using more up to date information and then subtract estimated payments to the Transfer Date.

8.7.4. To test the allocation, I have performed spot checks on their underlying working files, reviewed reserve diagnostic ratios, and considered the sensitivity of the allocated reserves to alternative allocation methods.

8.7.5. *Based on this testing, I have satisfied myself that an appropriate methodology has been adopted to calculate the transferring Technical Provisions that enables me to use them as the basis for forming my opinions in this Report.*

8.7.6. This analysis has led me to include tests of over and under allocation of the reserves for the Transferring Policies by 20% (approximately €50 million) when testing the financial resources of the Parties post-Transfer.

8.7.7. QBE EO Staff have also told me that they plan to perform additional back-testing on the output of their allocation exercise by constructing and projecting triangulations specifically for a sample of the Transferring Policies. I do not expect this to produce a materially different result compared to their allocation approach, but will provide an update in my Supplemental Report should the results of this back-testing lead me to change my conclusions regarding the Transfer.

8.8. Translation of GAAP to Solvency II Technical Provisions

8.8.1. I have reviewed the translation steps between the GAAP and Solvency II Technical Provisions for QBE UK and QBE Europe pre- and post-Transfer performed by QBE EO. The main steps include allowances for the following:

- *Future premium receipts on incepted contracts:* These are accounted for within Technical Provisions under Solvency II.
- *Unearned premium (for incepted and unincepted business) and associated claims costs:* Provision for unearned premiums under GAAP is removed and replaced with provisions for only the expected claims on unearned premiums under Solvency II. Future cashflows for business bound at the valuation date but not yet incepted are also included here.
- *Discounting:* cashflows are discounted at a prescribed rate under Solvency II to allow for the time value of money.
- *Risk margin:* an amount required within the Technical Provisions under Solvency II to support the cost of a notional run-off of the insurance obligations.

8.8.2. My review comprised a combination of tests, including reconciliation of data to other sources, diagnostic tests, comparison of the 2019 adjustments with those applied at 2018 year-end (which have been subject to independent validation as part of the QBE EO Internal Model validation exercise) and other sense checks.

8.8.3. I have also reviewed the pro forma post-Transfer translation between the GAAP and Solvency II Technical Provisions by comparing it with the pre-Transfer calculation. In aggregate, the translations were similar pre- and post-Transfer entities.

8.8.4. Appendix 7 sets out a summary of the pre- and post-Transfer translations from GAAP to Solvency II.

8.8.5. *These tests led me to conclude that the pre- and post-Transfer Solvency II Technical Provisions were appropriate for me to use in my analysis in this Report.*

8.9. Sources of uncertainty in the Technical Provisions

8.9.1. This final part of my review of the Technical Provisions summarises my observations on various sources of uncertainty in the Technical Provisions of QBE UK and QBE Europe pre- and post-Transfer. These elements are based on my review of the internal and external actuarial reserving reports together with my wider market experience and my own observations from reviewing the Technical Provisions.

8.9.2. I have not provided an exhaustive list, but highlighted key elements of uncertainty and whether they will move between or remain with QBE UK and/or QBE Europe under the Transfer.

8.9.3. These observations below do not include sources of uncertainty associated with other areas of risk facing the company, such as credit, group or operational risks. Therefore, failure of key insurance counterparties do not appear on this list. The low loss retention for risk and catastrophe claims net of reinsurance for both QBE UK and QBE Europe removes certain types of risk from inclusion.

8.9.4. The following general sources of uncertainty affect the Technical Provisions of QBE UK and QBE Europe:

- Inadequate allowance for claims development of long tail insurance and reinsurance classes in reserve estimates.
- Profitability of recent underwriting years proving to be lower than assumed in projection techniques.
- Emergence of new types of latent claim.
- Macro-economic effects including Brexit, and repeats of systemic financial market events such as the global financial crisis and sub-prime mortgage crisis.
- Weaknesses in QBE EO data quality and / or errors arising from complexity of the Technical Provisions calculation process.
- Potential exposure to additional claims arising from the COVID-19 pandemic.

8.9.5. The following specific sources of uncertainty affect QBE UK and QBE Europe:

- For large bodily injury claims that are settled by means of annuities, mainly arising in the UK, and France, the rate at which costs are increased each year is uncertain, as is the future lifespan of the annuitant. Even with a reasonable number of such annuitants, improvements in medical science and population mortality gives rise to a systemic exposure to increased life expectancies. In the UK, the increase in costs each year is normally linked to an index published by the UK Office for National Statistics. In France and Belgium the rate is set each year by the government.
- UK large bodily injury claims are currently subject to increased levels of uncertainty whether they are settled as a lump sum or by means of an annuity. The Ogden Rate of interest being used to calculate lump sum awards for the most seriously injured victims was reduced in early-2017 and this change materially increased the cost of these awards. While the UK government has subsequently increased the rate in early-2019 (and therefore reduced the awards), these rates will be reviewed periodically.
- Portfolios where volatility in foreign exchange rates following the decision for the UK to leave the European Union may give rise to greater levels of inflation. This could be as a result of changes to the cost of importing goods, disruptions to supply chains or the availability of workers. Where this inflation feeds through to an increased cost of claims over time, ultimate claims costs may exceed the levels currently forecast.

8.9.6. The following specific sources of uncertainty affect QBE UK and do not particularly affect QBE Europe:

- Trends in UK small bodily injury claims, including legislative changes.
- Surety business. This is a portfolio written within QBE UK. The key risk is the failure of multiple clients at the same time either as a result of an economic shock or a contagion effect between

surety clients. The risk is mitigated by the $5m per client limit provided by the internal group reinsurance arrangement.

8.9.7. The following specific sources of uncertainty affect QBE Europe but not QBE UK:

- The QBE Europe Life reinsurance portfolio contains an element of life business for which Reserves are evaluated using non-life techniques. While the size of the portfolio is small (at approximately 4% of QBE Europe's Reserves), there is the risk that the approximate approach of using non-life insurance valuation techniques may misestimate the overall Reserves.
- Long-tail reinsurance business written by QBE Europe where, by their nature, the claims which affect excess of loss reinsurers are the larger ones that are typically more complex and may be subject to significant litigation and appeal. As a result, they can take very many years to fully settle.
- The Dommages-Ouvrage and Decennial Liability business written to protect property owners in France. This class of business provides cover for 10 years following the completion of the project. For both portfolios, claims can take much longer to report and settle than the 10-year policy period, particularly for larger contractors.

8.9.8. *Based on this analysis of changes in sources of uncertainty for each company, I have concluded that the portfolios are exposed to a diverse range of risks associated with Technical Provisions. Some of these are common to all of the portfolios, while others are not. As a result:*

- *Remaining Policyholders will have a greater concentration to certain risks of UK origin, and will lose the remaining benefit of geographical diversification that it had through its EEA risks.*
- *Transferring Policyholders will lose exposure of some types of risk, notably those arising from small UK bodily injury claims, but acquire exposure to others, notably the reinsurance risks written by QBE Europe.*
- *Existing Policyholders will gain additional European risks through the Transfer and thereby benefit from the additional diversification it brings to its exposures.*

8.9.9. *Given the size of the liabilities associated with the Transferring Policies relative to the total reserves for either QBE UK or QBE Europe, I do not expect the impact of the change to be large.*

8.9.10. *I have taken account of these changes when considering and comparing the capital requirements of each firm in Sections 10 – 14; in Section 14 some of the scenarios test the impact of adverse changes in Technical Provisions for each set of Affected Policyholders.*

9. Review of Company Balance Sheets

9.1. Introduction

9.1.1. This section of my Report reviews the remainder of the items on the balance sheets of the companies, QBE UK, QBE Europe and QBE EO. The purpose of this review is to explain the main elements on the balance sheet on the two accounting bases used, the reasons for the differences between them and to identify any material uncertainties relevant to my consideration of the Transfer.

9.1.2. This review should not be taken as an audit of any of the company balance sheets.

9.1.3. *Based on this review, I have concluded that the company balance sheets provide a suitable basis upon which to perform my review of the Transfer.*

9.2. QBE UK balance sheet and commentary

9.2.1. Table 9.1 shows the summary balance sheet for QBE UK[24] on both a UK GAAP and Solvency II basis as at 31 December 2019.

Table 9.1
QBE UK Balance Sheets Pre-Transfer – £ million
As at 31 December 2019

ASSETS	UK GAAP	SII	Diff (SII - GAAP)	Paragraph reference
Investments & Cash in hand	2,933	2,957	24	9.2.2 - 9.2.3
Reinsurers' share of Technical Provisions	856	701	(155)	9.2.4 - 9.2.6
Debtors, prepayments & other assets	532	333	(200)	9.2.7 - 9.2.8
	4,321	**3,991**	**(330)**	
LIABILITIES AND CAPITAL				
Technical Provisions	2,874	2,764	(110)	9.2.9
Creditors & other liabilities	359	307	(52)	9.2.10 - 9.2.11
Total Liabilities	**3,234**	**3,071**	**(162)**	
Net assets	1,088	920	(168)	9.5
	4,321	**3,991**	**(330)**	
Net TPs	**2,019**	**2,063**	**44**	

9.2.2. **Investments & Cash in hand**. 80% of this is in fixed income securities, 4% is cash, 2% is loans to other QBE Group companies, and the remaining 14% is equities, infrastructure assets, property trusts and other unlisted variable yield securities. Over 90% of these investments (excluding cash, equities, property, infrastructure assets and intercompany loans) are rated A- or better.[25]

9.2.3. The currency split of QBE UK's investments (excluding cash, intercompany loans and derivatives) is 84% Sterling, 8% US dollar, 6% Euro and 3% of other denominations. QBE UK has exposure to currency risk, i.e. net asset exposure in non-Sterling currencies, which it seeks to mitigate through

[24] Prepared using QBE UK's Solvency II regulatory reporting working files as at 31 December 2019 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.

[25] Note that this is as at 31 December 2019. Following the COVID-19 pandemic market volatility, QBE UK took steps to materially reduce the risk in its investment portfolio.

the purchase of foreign exchange hedges. It also has exposure to interest rate movements, with average asset duration of 3.12 years, compared with an insurance liability duration of 4.45 years.

9.2.4. **Reinsurers' share of Technical Provisions** In Section 8 I have described QBE EO's approach to calculating this item and my review of its approach and calculations.

9.2.5. On a GAAP basis, this comprises:

- £791 million of expected recoveries on QBE UK's reserves for claims already incurred, of which approximately 70% are provided by other QBE Group companies, mainly Equator Re, with the remainder provided by external reinsurers. QBE UK holds $200 million as at 31 December 2019 (approximately 27% of expected recoveries) of collateral in respect of amounts owed to it by Equator Re.
- £64 million of unearned reinsurance premiums.

9.2.6. Approximately 95% of the external reinsurers' share of technical provisions is with a counterparty having an S&P rating of A- or better.

9.2.7. **Debtors, prepayments & other assets.** The main GAAP elements are:

- £371 million of debtors from direct and reinsurance operations (mainly premiums receivables and reinsurance recoverables).
- £95 million is deferred acquisition costs.
- £66 million of other debtors including trade receivables, accrued investment income, and deposits to cedants.

9.2.8. Under Solvency II, the difference of £200 million breaks down as follows:

- £120 million of the debtors from direct and reinsurance operations are removed and treated as Technical Provisions.
- £95 million are deferred acquisition costs, which are valued at nil.
- £17 million of accrued income and other debtor balances are reclassified as investments.
- An offset caused by recognising a deferred tax asset of £32 million.

9.2.9. **Technical Provisions** are discussed in Section 8.

9.2.10. **Creditors & other liabilities.** The main elements are:

- £297 million of creditors from direct and reinsurance operations (being claim amounts owed to policyholders and outwards reinsurance premiums owed to reinsurers).
- £57 million of trade payables.
- £6 million other creditors including taxation.

9.2.11. Under Solvency II, the majority of the adjustment from UK GAAP is due to creditors from direct and reinsurance operations being removed and treated as Technical Provisions.

9.2.12. Section 9.5 shows a reconciliation between QBE UK's SII Net Assets and EOF.

9.3. QBE Europe balance sheet and commentary

9.3.1. Table 9.2 shows the summary balance sheet for QBE Europe on both a GAAP[26] and Solvency II basis as at 31 December 2019. QBE Europe reports on a Belgian GAAP basis, but I do not believe

[26] prepared using QBE Europe's Solvency II regulatory reporting working files as at 31 December 2019 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.

that compared with UK GAAP, this materially affects the Solvency II position which I use for my consideration of the Transfer.

Table 9.2
QBE Europe Balance Sheets Pre-Transfer – € million
As at 31 December 2019

ASSETS	Belgian GAAP	SII	Diff (SII - GAAP)	Paragraph reference
Investments & Cash in hand	2,913	2,953	40	9.3.2 - 9.3.3
Reinsurers' share of Technical Provisions	362	230	(132)	9.3.4 - 9.3.5
Debtors, prepayments & other assets	873	559	(314)	9.3.7 - 9.3.8
	4,148	**3,743**	**(405)**	
LIABILITIES AND CAPITAL				
Technical Provisions	2,831	2,523	(308)	9.3.9
Creditors & other liabilities	508	451	(57)	9.3.10 – 9.3.11
Total Liabilities	**3,339**	**2,974**	**(365)**	
Net assets	808	769	(40)	9.5
	4,148	**3,743**	**(405)**	
Net TPs	**2,469**	**2,293**	**(176)**	

9.3.2. **Investments & Cash in hand**. 83% of this is fixed income securities, 1% is cash, 2% is loans to other QBE Group companies, and the remaining 14% is equities, infrastructure assets, property trusts and other unlisted variable yield securities. Over 90% of these investments (excluding cash, equities, property, intercompany loans) are with counterparties rated A- or better.[27]

9.3.3. The currency of QBE Europe's investments (excluding cash and intercompany loans) is 81% Euro, 14% US dollar and almost all the remainder is Sterling denominated. QBE Europe has exposure to currency risk, which it seeks to mitigate through the purchase of foreign exchange hedges, through having some of its net assets held in non-Euro currencies. It also has exposure to interest rate movements through its having an average asset duration of 3.42 years, compared with an average liability duration of 6.15 years.

9.3.4. **Reinsurance Technical Provisions**. In Section 8 I have described QBE EO's approach to calculating this item and my review of its approach and calculations.

9.3.5. On a GAAP basis, this comprises:

- €321 million of expected recoveries on QBE Europe's reserves for claims already incurred, of which approximately 77% are provided by other QBE Group companies, mainly Equator Re, with the remainder provided by external reinsurers. QBE Europe has a collateral agreement with Equator Re based upon the net balance sheet exposure. At 31 December 2019 QBE Europe did not hold collateral for its exposures to Equator Re.
- €41 million of unearned reinsurance premiums.

9.3.6. Approximately 87% of the external reinsurers' share of technical provisions is with a counterparty having an S&P rating of A- or better.

[27] Note that this is as at 31 December 2019. Following the COVID-19 pandemic market volatility, QBE Europe took steps to materially reduce the risk in its investment portfolio .

9.3.7. **Debtors, prepayments & other assets.** The main GAAP elements are

- €742 million of this is debtors arising from direct and reinsurance operations (mainly premiums receivable, reinsurance recoverables and funds withheld by cedants).
- €111 million of prepayments and accrued income. Over 90% of this is deferred acquisition costs, which are valued at nil under Solvency II.
- €20 million of other debtors, including property, plant and equipment held for own use and trade receivables.

9.3.8. Under Solvency II, the difference of €314 million breaks down as follows:

- €261 million of debtors from direct and reinsurance operations is removed and classified as Technical Provisions.
- €101 million are deferred acquisition costs, which are valued at nil.

Offset by:

- An €8 million increase in the value of property, plant and equipment held for own use compared with Belgian GAAP.
- A net reclassification of €3 million of investments as receivables.
- The creation of a deferred tax asset of €37 million due to the conversion to Solvency II.

9.3.9. **Technical Provisions** are discussed in Section 8.

9.3.10. **Creditors & other liabilities**. The main GAAP elements are:

- €243 million of creditors from direct and reinsurance operations (amounts owing on claims or outwards reinsurance premiums, or holdings of deposits from reinsurers).
- €200 million of subordinated debt.
- €65 million of trade payables and other creditors.

9.3.11. Under Solvency II, the difference of €57 million breaks down as follows:

- €90 million of creditors from direct and reinsurance operations are removed and treated as Technical Provisions.

Offset by:

- €9 million of deferred tax.
- €24 million of other adjustments on pension liability obligations, trade payables and obligations on derivative contracts.

9.3.12. Section 9.5 provides a reconciliation between QBE Europe's SII Net Assets and EOF.

9.4. QBE EO balance sheet and commentary

9.4.1. Table 9.3 sets out a simplified consolidated group balance sheet for QBE EO on a Solvency II basis. These are based on its latest regulatory solvency submissions.

Table 9.3 QBE EO Consolidated Solvency II Balance Sheets Pre-Transfer As at 31 December 2019				
ASSETS	**QBE EO £m**	**QBE UK £m**	**QBE Europe €m**	**Paragraph reference**
Investments & Cash in hand	6,147	2,957	2,953	
Reinsurers' share of Technical Provisions	896	701	230	
Debtors, prepayments & other assets	898	333	559	9.4.3-9.4.5
	7,941	**3,991**	**3,743**	
LIABILITIES				
Technical Provisions	4,900	2,764	2,523	
Creditors & other liabilities	1,696	307	451	9.4.2
Total liabilities	**6,596**	**3,071**	**2,974**	
Net assets	1,345	920	769	9.5
	7,941	**3,991**	**3,743**	

9.4.2. QBE EO's SII balance sheet includes the consolidation of its main insurance regulated entities, QBE UK and QBE Europe, and treats its subsidiary Lloyd's member, QBE Corporate Limited as an investment.

9.4.3. QBE EO's creditors and other liabilities includes £1.1 billion of subordinated debt which contributes towards the Tier 2 Eligible Own Funds of QBE EO. Only £397 million of this subordinated debt is eligible in the EOF calculation because £0.7 billion of it is considered to constitute reciprocal financing under Solvency II rules and is therefore ineligible. This £0.7 billion is recorded under Investments & Cash in hand and Debtors in Table 9.3.

9.4.4. QBE EO's other debtors, prepayments and other assets (excluding the QBE UK and QBE Europe amounts) relate to non-insurance related receivables, deferred tax assets, property, and plant and equipment assets.

9.4.5. QBE EO's debtors and creditors include an allowance for the net surplus of £15 million across the four defined-benefit pension and some other employee benefit schemes as at 31 December 2019. The total present value of the liabilities of the five schemes as at this date is £393 million.

9.4.6. On a consolidated basis, QBE EO's EOF are 131% of its Approved Internal Model SCR at 2019 year-end. Section 9.5 shows a reconciliation between its SII Net Assets and EOF.

9.4.7. In the event that QBE EO requires additional capital, it has access to the £175 million of Eligible Own Funds on demand under the Contingent Capital Facility described in Section 5. This provides QBE EO with considerable excess assets to absorb losses and support the capital requirements of QBE UK, QBE Europe and QBE's Lloyd's operations.

9.5. Eligible Own Funds as at 31 December 2019

9.5.1. Under Solvency II, Eligible Own Funds represent the financial resources which can be used to meet a firm's SCR.

9.5.2. Table 9.4 below shows a high-level reconciliation between the Solvency II net assets and EOF for pre-Transfer QBE EO, QBE UK and QBE Europe as at 31 December 2019.

Table 9.4 – High-level Reconciliation between SII Net Assets and EOF Pre-Transfer QBE EO, QBE UK and QBE Europe as at 31 December 2019			
	QBE EO £m	**QBE UK £m**	**QBE Europe €m**
SII net assets	**1,345**	**920**	**769**
Less restricted own funds	(27)	(9)	(21)
Add subordinated debt	397	-	200
Less non-available own funds	(57)	-	-
EOF	**1,657**	**910**	**948**

9.5.3. Restricted own funds are those that have some constraint on their use, which means that they may not be available to meet all policyholder claims as they fall due. Examples of restricted funds are assets held in trust funds, pledged as letters of credit, or held on deposit by cedants.

9.5.4. QBE EO's, QBE UK's and QBE Europe's EOFs include adjustments of £27 million, £9 million and €21 million respectively, for restricted assets that are not eligible for inclusion in the EOF calculation.

9.5.5. Non-available own funds of £57 million are also deducted from QBE EO's EOF. These relate to net deferred tax assets which are not available at the group level.

9.5.6. Both QBE EO and QBE Europe hold subordinated loan agreements which qualify for Tier 2 Eligible Own Funds. Tier 2 debt does not increase the net assets of a firm, but prioritises policyholder liabilities over debt-holder rights and hence improves policyholder security.

9.5.7. Table 9.5 below shows the breakdown of Eligible Own Funds for pre-Transfer QBE EO, QBE UK and QBE Europe as at 31 December 2019.

Table 9.5 – Structure of Eligible Own Funds As at 31 December 2019						
	QBE EO		**QBE UK**		**QBE Europe**	
	£m	**%**	**£m**	**%**	**€m**	**%**
Tier 1	1,251	76%	877	96%	720	76%
Tier 2	397	24%	0	0%	200	21%
Tier 3	9	1%	34	4%	28	3%
Total	1,657	100%	910	100%	948	100%

9.5.8. The majority of the Eligible Own Funds of QBE EO, QBE UK and QBE Europe are graded as sufficient quality to meet the requirements of Tier 1 Eligible Own Funds. These are the highest grade of financial resources recognised under Solvency II and are predominantly shareholders' equity.

9.5.9. The Tier 2 Eligible Own Funds for QBE Europe comprised two subordinated loan agreements, in each case QBE Europe borrowed from its immediate parent, QBE Holdings (EO) Limited.

9.5.10. The Tier 3 Eligible Own Funds for QBE EO, QBE UK and QBE Europe comprised net deferred tax assets, arising as a result of differences between local GAAP and Solvency II accounting.

9.5.11. Under Solvency II, Tier 2 and Tier 3 Eligible Own Funds can be used to meet a firm's SCR, subject to the following quantitative limits:

- The eligible amount of Tier 1 items shall be at least 50% of the SCR;

- The eligible amount of Tier 3 items shall be less than 15% of the SCR; and
- The sum of the eligible amounts of Tier 2 and Tier 3 items shall not exceed 50% of the SCR.

9.5.12. *I am satisfied that the proportions of Eligible Own Funds that are classified as Tier 2 and Tier 3 are well within Solvency II quantitative limits for QBE EO, QBE UK and QBE Europe before the Transfer.*

9.5.13. QBE EO Staff have told me that they have submitted an application to the PRA for Ancillary Own Funds to be eligible to cover QBE UK's SCR. QBE EO Staff have told me that they expect that the PRA will have decided whether to approve this application no later than 17 August 2020.

9.5.14. In my Supplemental Report, I anticipate confirming to the Court that the proportion of Tier 2 and Tier 3 EOFs used to meet each company's SCRs continue to be well within Solvency II quantitative limits.

9.6. Post-Transfer Balance Sheet Commentary

9.6.1. Table 9.6 below shows the net of reinsurance Technical Provisions of pre- and post-Transfer QBE UK and QBE Europe on GAAP and Solvency II bases, if the Transfer were to happen on 31 December 2019.

Table 9.6 – Net of Reinsurance Technical Provisions for the Parties pre- and post-Transfer

	Pre-Transfer		Post-Transfer	
Company	**QBE UK, £m**	**QBE Europe, €m**	**QBE UK, £m**	**QBE Europe, €m**
GAAP Net TP	2,019	2,469	1,810	2,716
SII Net TP	2,063	2,293	1,812	2,609

9.6.2. Table 9.7 shows the expected pre- and post-Transfer EOF of the two firms.

Table 9.7 – Expected EOFs for the Parties pre- and post-Transfer

	Pre-Transfer		Post-Transfer	
Company	**QBE UK, £m**	**QBE Europe, €m**	**QBE UK, £m**	**QBE Europe, €m**
Expected EOF	940	898	765	1,166

9.6.3. To determine the post-Transfer EOF for the Parties, QBE EO Staff have told me that they intend to:

- Target CCR for QBE UK and QBE Europe that are broadly the same as one another after the Transfer, based on their respective Indicative Internal Model SCR at the Transfer Date;
- Permit the EOF of post-Transfer QBE UK to fall temporarily to 120% of Adjusted-SCR, provided that it always remains in excess of 110% of SCR. I discuss this temporary arrangement further in Section 12.4.

9.6.4. The Expected EOF positions of the two firms post-Transfer shown in Table 9.6 are consistent with QBE EO's intention as set out in 9.6.3 above. This is discussed in more detail in Section 13.

9.6.5. QBE EO Staff have also told me that:

- Both firms will continue to hold in excess of 90% of their investments (excluding cash, equities, property, infrastructure assets and intercompany loans) in investment grade (BBB- or better rated assets) post-Transfer. The average asset duration for both firms post-Transfer will remain at approximately 3.1 years for QBE UK and 3.4 years for QBE Europe.
- Both firms, to the extent possible, will continue to match the currency composition of their investment assets to those of their liabilities.

9.6.6. The portfolio of Transferring Policies has been in run-off since 1 January 2019[28]. Therefore, I expect the actual size of the assets and liabilities to be transferred from QBE UK into QBE Europe under the Transfer to be smaller than the figures shown above, which are estimated based on financial information available as at 31 December 2019.

9.6.7. In my Supplemental Report, I anticipate reviewing QBE EO's proposed approach to calculate the amount of assets and liabilities to be transferred at the Transfer Date.

[28] Project Fall European Business all expired on or before 31 March 2016.

10. Summary of key risks and qualitative appraisal of impact of the Transfer

10.1. Introduction

10.1.1. This Section sets out my qualitative appraisal of the financial impact of the Transfer on each set of Affected Policyholders.

10.1.2. It contains:

- An overview of the key risks I have identified that affect each of QBE UK and QBE Europe[29] and a qualitative description of the impact of the Transfer on each group of Affected Policyholders by comparing the risks faced by their (re)insurer before and after the Transfer.
- A description of the impact of changes to the size of the relevant (re)insurers.
- Comments on other qualitative considerations.

10.2. Key risks identified

10.2.1. The list below details the material risks facing QBE UK and QBE Europe. This list has been compiled using the latest ORSA reports of QBE EO and QBE Europe, information relating to the Technical Provisions and balance sheets of each company and my wider insurance market experience. Other than where associated with regulatory uncertainties, the list excludes strategic risks facing these firms. Strategic risks do not fall within the scope of the QBE EO Internal Model and are therefore not considered in setting the SCR. This is because they are perceived by QBE EO to emerge over a longer time horizon than the one-year over which the SCR is calculated and permit corrective management action.

- **Deterioration in Reserves**: This can occur from greater numbers of claims or larger claims than expected. Consequences can be particularly severe where arising from causes that affect multiple lines of business (e.g. claims inflation being worse than expected, legislative changes, or reserve estimation uncertainty possibly arising from weaknesses in data or from biases in the reserving processes (intentional and unintentional)).

  This uncertainty can result in aggregate claims costs exceeding their expected settlement values. Classes of business where claims take longer to be notified and to settle (notably casualty and reinsurance classes) are more exposed to this risk.

  Deterioration in claims reserves may emerge over a number of years. This reflects the period over which the claims run off in full. The QBE EO Internal Model only considers the extent to which reserve deteriorations arise over a one-year time horizon, however my testing in Section 14 (in particular the Reverse Stress Tests performed) allow for scenarios involving severe reserve deteriorations that might arise over the full run-off of each company's reserves.

- **Impact of ongoing competitive market environment**: Competitive pressures can have a three-fold effect:
  - Lower profitability than expected in the business plans of the relevant company, owing to lower premium rates or wider policy terms and conditions.
  - Under-reserving of recent underwriting years as a result of overestimation of current market profitability. For longer-tailed classes, reserving techniques often place greater

[29] Section 11 looks at how these are addressed in the QBE EO Internal Model and Sections 13 and 14 provide quantitative testing of them.

weight upon initial profitability assumptions than shorter-tail classes, and do so for a longer period of time.

- Weaker reserving as a result of wider pressures on the profitability of a firm. Historically, reserves set in times of adverse trading conditions have experienced a greater degree of adverse loss development.

The second and third of these effects give rise to an increased risk of adverse reserve deteriorations arising.

- **Natural and man-made catastrophe events**: These include hurricanes, earthquakes, floods, pandemics, cyber-triggered events (such as blackouts), product contamination recalls, terrorism-related losses.
- **Market risk:** Losses arising from falls in asset values, changes in the risk-free yield curve and movements in foreign exchange rates can give rise to losses to each of the companies. The current environment of economic and political uncertainty following the Brexit referendum result and the economic impact of the COVID-19 pandemic, including the perceived risk of negative risk-free interest rates, increases the size of this risk. The average asset durations of the company's investment funds are shorter than their average liabilities' durations and this helps to mitigate against increases in the yield curve.
- **Reinsurer counterparty default**: The failure of a major reinsurer can result in a significant reduction in the associated asset value. This could be particularly severe if it is coinciding with a major catastrophe loss event that is reinsured. With a large amount of reinsurance placed with Equator Re its failure is the largest part of this type of risk, notwithstanding QBE EO's arrangements to mitigate the risk described in Section 5.4.
- **Regulatory uncertainties**: Uncertainties such as the impact of Brexit can disrupt each company's ability to write new business and settle claims. Other current regulatory challenges that the firms recognise include an increased level of challenge from the PRA regarding capital, reserving, governance, group risk and cyber risk.

  Regulatory action can lead to fines, reputational damage, unplanned remediation costs and additional capital requirements or loss of profits from restrictions on writing new business.

  This Transfer is intended to mitigate some of the Parties' risks arising from Brexit.

- **Other risks:** QBE EO, QBE UK and QBE Europe are also exposed to a number of other, less material risks. These include risks arising from losses elsewhere in the QBE Group, risks associated with deficits emerging in the pension schemes guaranteed by QBE EO or QBE Europe, liquidity risk, other credit risks and various operational risks.

10.2.2. *I have concluded that these material risks have been appropriately considered in the QBE EO ORSA and incorporate the key elements that I would expect to see facing these firms. Other than strategic elements of regulatory uncertainties identified above, I believe that the QBE EO Internal Model captures these material risks.*

10.2.3. I have considered each of these material risks further in my quantitative testing of the capital requirements and the effects of the Transfer in Sections 12 – 15.

10.3. Impact of the Transfer on the Affected Policyholders – risk profile of (re)insurer

REMAINING POLICYHOLDERS

10.3.1. The Remaining Policyholders will remain exposed to all of the key types of risk outlined in Section 10.2. Changes will arise from changes to the portfolios to which QBE UK remains exposed. In summary I expect these changes to be an increased focus on UK risks, owing to the removal of remaining European risks. Benefits from this are offset by less diversification within QBE UK post-Transfer.

10.3.2. *Qualitatively, I do not believe that these changes to the risk profile represent a materially favourable or unfavourable change to the position of the Remaining Policyholders.*

TRANSFERRING POLICYHOLDERS

10.3.3. The Transferring Policyholders will remain exposed to all of the key types of risk outlined in Section 10.2. Changes will arise from the benefits of diversification within QBE Europe that can serve to increase stability in the experience of a (re)insurance portfolio. Whereas the Transferring Policyholders benefitted pre-Transfer from diversification between the European and UK parts of the portfolio, following the Transfer they will benefit from the mixing of insurance and reinsurance liabilities within QBE Europe.

10.3.4. Offsetting these benefits arising from diversification is an exposure to new risks within QBE Europe's portfolio. QBE Europe writes worldwide reinsurance business. As such, the Transferring policyholders will become exposed to certain new risk types, such as mortality and morbidity risks. The Transferring Policyholders will also be exposed to increases in those risks arising from major US hurricanes and earthquakes.

10.3.5. *Qualitatively, I do not believe that these changes to the risk profile represent a materially favourable or unfavourable change to the position of the Transferring Policyholders.*

EXISTING POLICYHOLDERS

10.3.6. The Existing Policyholders will remain exposed to all of the key types of risk outlined in Section 10.2. Changes will arise from the introduction of the reserves associated with the Transferring Policies. On balance any benefit from diversification between current and prior-year underwriting of European Freedom of Services business will be offset by the risks that the prior year reserves introduce.

10.3.7. *Qualitatively, I do not believe that these changes to the risk profile represent a materially favourable or unfavourable change to the position of the Existing Policyholders.*

10.4. Other qualitative considerations

10.4.1. The Transferring Policies are exposed to similar classes of business to those in both QBE UK and QBE Europe.

10.4.2. *The Transfer does not in my view give rise to a material change in the risk profile of either of the Parties. Therefore it does not give rise to material changes in the categories of risk to which any of the Affected Policyholders will be exposed.*

10.4.3. As a result of the Transfer:

- QBE UK will have a smaller balance sheet and a reduced absolute amount of excess financial resources; and

- QBE Europe will have a larger balance sheet and an increased absolute amount of excess financial resources.

10.4.4. Additionally, QBE Europe will have a larger balance sheet and hold a greater absolute amount of excess financial resources post-Transfer than QBE UK did pre-Transfer.

10.4.5. All other things being equal, a smaller balance sheet and absolute amount of excess financial resources means that the magnitude of any individual cause of loss that can be absorbed by an insurer is reduced and therefore the risk to policyholders is greater. The opposite is the case with a large balance sheet and level of financial resources.

10.4.6. *Therefore, the reduction in balance sheet size and level of financial resources of QBE UK arising from the Transfer presents some disadvantage to the Remaining Policyholders. However, I do not consider this on its own to have a material impact on the security of the Remaining Policyholders, because:*

- *The excess financial resources held by QBE UK post-Transfer remain at a level targeting a similar, very low, risk of being unable to meet policyholder claims; and*
- *The size of Technical Provisions associated with the Transferring Policies is small when considered as a proportion of QBE UK (being approximately 10% net of reinsurance). Therefore, QBE UK will remain a large, well-diversified (re)insurer.*

10.5. Qualitative comparison of the risk to the Affected Policyholders arising from the COVID-19 pandemic

10.5.1. Because the Transferring Policies all incepted before 1 January 2019, most (and probably almost all) of the policies will have expired before the pandemic arose and loss triggering events (i.e. event cancellations, travel restrictions and closure of many businesses) occurred in most developed economies in February and March 2020. Therefore, I do not believe that the Transfer will give rise to a change in exposure to either of the Parties. As a result, I do not expect that the pandemic affects the position of either the Remaining or Existing Policyholders.

10.5.2. Although many of the risks faced by QBE UK and QBE Europe are similar, they have differences in the mix of business underwritten. For example, QBE UK has a greater exposure to direct property business while QBE Europe has exposures to reinsurance of travel and life insurance portfolios. At the time of writing this Report, it is not apparent that either presents a greater degree of risk.

10.5.3. Additionally, as both companies are with the QBE Group, they both benefit from the same ultimate parent supporting them.

10.5.4. *I have therefore concluded that I do not believe that qualitatively the pandemic changes the effect of the Transfer on the Affected Policyholders. While there remains considerable uncertainty about how the pandemic will affect the Parties, I do not believe that there is sufficient evidence to suggest that the risks are materially greater for any of the Affected Policyholders as a result of the Transfer.*

11. Approach to determination of capital requirements

11.1. Introduction

11.1.1. This section reviews the QBE EO Internal Model and the approaches taken by QBE UK and QBE Europe to determine their SCR. It also sets out the approach I have adopted to assess the impact of the Transfer on the Affected Policyholders' financial positions.

11.1.2. The QBE EO Internal Model provides a means of quantifying risk for QBE EO, QBE UK and QBE Europe. An Internal Model approach has been adopted by QBE EO because it believes that the Standard Formula approach to setting the SCR is not appropriate to it and its subsidiaries. Approval has been sought, and granted, from its college of European supervisors[30] for QBE EO and its subsidiaries[31], to use the QBE EO Internal Model to calculate their SCRs. QBE EO Staff regularly update the model and its parameters and, where required by the Internal Model Change Policy, seek re-approval of the model from their college of supervisors.

11.1.3. In Section 12 I discuss how these companies use the results of the QBE EO Internal Model to assess the amount of financial resources that they need to hold. The aim of this assessment is that their stakeholders can have sufficient confidence that claims and other liabilities will be met as they fall due.

11.1.4. In Sections 13 and 14 I set out my quantitative testing of the QBE EO Internal Model and the effect of the Transfer on the Affected Policyholders.

11.1.5. The QBE EO Internal Model was calibrated prior to the COVID-19 pandemic. To satisfy myself that it remains appropriate for me to use the QBE EO Internal Model results to reach my conclusions regarding the Transfer, I have considered:

- In Section 11.7, analysis prepared by QBE EO Staff of how well the QBE EO Internal Model reflects uncertainties presented by the COVID-19 pandemic; and
- In Section 14, the results of two COVID-19 pandemic scenario tests and two Reverse Stress Tests to assess the impact of evolving pandemic scenarios on the Affected Policyholders.

11.1.6. I anticipate discussing the impact of the emerging information relating to the COVID-19 pandemic in my Supplemental Report.

11.2. Approach to Review of QBE EO Internal Model

11.2.1. My review of the QBE EO Internal Model has considered:

- Key parts of the QBE EO Internal Model documentation and validation reports.
- The methodology description and calculations that QBE EO proposes to use to split existing QBE UK business classes where these will straddle QBE UK and QBE Europe.
- A schedule of data and model input items used by the model to understand the timeliness and appropriateness of the inputs.
- A sample of primary model validation tests, including reconciliation checks for key data / model input items.
- The results of the additional tests described in Section 14.
- Summary model output for each firm.
- Summary business plans for the 2019 – 2022 underwriting years.

[30] Being the PRA, QBE EO's group supervisor, and including the NBB.

[31] Including both QBE UK and QBE Europe.

11.2.2. I have also held a number of meetings with QBE EO Staff in the capital modelling team to discuss the QBE EO Internal Model.

11.3. Scope and Design

11.3.1. QBE EO Staff have developed the QBE EO Internal Model applicable to and appropriate for both itself and all of its (re)insurance subsidiaries: QBE UK, QBE Europe and QBE EO's Lloyd's operations separately. This approach enables risks shared by all of them (for example major catastrophe events) to be modelled consistently, and where necessary, features of shared outwards reinsurance arrangements to be modelled appropriately.

11.3.2. While the QBE EO Internal Model includes the business underwritten at Lloyd's by QBE Underwriting Limited, for the purposes of calculating the SCR for QBE EO, QBE Corporate Limited (which owns the capacity of QBE Underwriting Limited) is treated in the QBE EO Internal Model as an investment and an additional amount of capital is included in the SCR for the full value of this asset. The model does, however, take account of the sharing of outwards reinsurance between QBE UK, QBE Europe and QBE's Lloyd's syndicates.

11.3.3. The model covers all of the non-strategic risks faced by QBE EO and its (re)insurance subsidiaries: insurance risk, market risk, credit risk, operational risk, liquidity risk, group risk and pension risk.

Insurance Risk

11.3.4. The QBE EO Internal Model allows for 75 distinct classes of business. This will be increased to 76 classes post-Transfer to avoid material classes of business being split across more than one underwriting entity. The large number of classes of business reflects the diverse range of underwriting performed by QBE EO subsidiaries.

11.3.5. Insurance risk is split between future underwriting, unexpired periods of cover arising on past underwriting and expired periods of cover on past underwriting. Risk exposures arising from future underwriting periods and unexpired periods of cover include elements relating to catastrophes (both natural and man-made), large claims (typically where explicit outwards reinsurance protections may apply) and small or attritional claims. The model allows for the risk that premium rate levels may not be as profitable as anticipated in the business plan and volumes of business written may deviate from the plan.

11.3.6. Natural catastrophe risk modelling makes use of third-party software widely used across the insurance market. The software enables exposures to be aggregated by their geographic location, and the impact of the effects of patterns of events tested. The patterns of events have been calibrated to historic catastrophes and current scientific understanding of their incidence. Overlaid upon the third-party software is QBE EO's own in-house underwriting and catastrophe modelling expertise. This allows for shortfalls in third-party software when applied to QBE EO's portfolio and incorporates the firms' own judgements regarding the characteristics of the risks. These adjustments are important to enable the QBE EO Internal Model to take account of perils or regions that are not included in the third-party software models.

11.3.7. Non-natural catastrophes make use of in-house technical underwriting and exposure modelling techniques to allow for man-made disasters as individual shock losses. As these risks tend to be diverse and complex, they rely on significant amounts of judgement taken by the firm.

11.3.8. For future underwriting risk, outwards reinsurance recoveries are modelled explicitly, including the effects of sharing reinsurance between QBE EO (re)insurance entities.

11.3.9. Reserving risk is modelled using statistical and actuarial models fitted to historic loss data overlaid with in-house expert judgements. Judgement is applied to adjust the variability selected to take account of the effect of group aggregate excess of loss reinsurance.

11.3.10. Claims costs allow for uncertainty over risks arising from common causes. Examples of elements considered include future claims inflation, changes in the legislative or political outlook and model or parameter specification errors. Whilst some allowance is made in the Technical Provisions for these issues, this uncertainty can result in greater increases in losses than assumed. As these factors can affect multiple lines of business at the same time, systemic drivers of losses are parameterised and modelled within insurance risk.

11.3.11. Allowance is included in the model for the emergence of risks over time, with losses from catastrophe claims assumed to be recognised in full during the first year.

11.3.12. Post-Transfer, many classes map without adjustment to either QBE UK or QBE Europe. For some however, it is necessary to split them so that aggregated results can be obtained for each company post-Transfer.

11.3.13. A relatively simple approach has been adopted for this splitting, under which an assumed level of correlation is assumed to exist between the sub-divided elements. The standalone variability of each is then assumed to scale inversely relative to their size (so that a smaller portfolio will become more volatile than a larger one). The scaling is set so that the combined distribution when the subdivided portfolios are combined has approximately the same variability as it did before sub-division.

11.3.14. I believe that this approach is an appropriate method to adopt, having the suitable characteristics of giving greater volatility to smaller portfolios and recombining to match the previous result. Prior to the updated QBE EO Internal Model being submitted to the PRA, a review is scheduled of the appropriateness of the parameters, the latest Technical Provisions and the latest business plan. To illustrate the overall materiality of the Transferring business on QBE UK and QBE Europe, I requested that QBE EO Staff perform a sensitivity test showing the impact of an overall 20% increase in the reserves with respect to the Transferring Policyholders. This did not give rise to a materially different SCR for each of QBE UK and QBE Europe.

11.3.15. *From my review, I am satisfied that the QBE EO Internal Model's approach:*

- *Has taken an appropriate approach to modelling of insurance risk.*
- *Covers appropriately the key risks relating to natural and man-made catastrophe events.*
- *Covers appropriately the key risks relating to deterioration in Reserves and the impact of the ongoing competitive market environment.*
- *Has made use of an appropriate methodology to sub-divide classes of business for use post-Transfer.*

Market Risk

11.3.16. Market risk allows for the variability of the value of assets, and mismatches in the movements in values of assets and liabilities in response to changes in foreign exchange rates and yield curves. The QBE EO Internal Model makes use of a third-party economic scenario generator that indicates the range of possible changes in the value of investments, yield curves and foreign exchange rates over time. The economic scenario generator is calibrated to market values at a particular point in time.

11.3.17. *I am satisfied that market risk is covered appropriately within the QBE EO Internal Model.*

Credit Risk

11.3.18. Credit risk allows for the potential for each firm's reinsurers and other debtors (including broker balances) to be downgraded or default. The credit risk modelling allows for risk mitigation arrangements in place, such as collateralised funds.

11.3.19. *I am satisfied that credit risk and particularly reinsurance counterparty default risk is covered appropriately within the QBE EO Internal Model.*

Other Risks

11.3.20. Operational risk considers the range of possible events and losses that could arise under each risk taken from the QBE EO risk register as applied to each firm and adopts an appropriate structure. Regulatory fines, remediation costs and costs arising from increased regulatory capital requirements are modelled as scenarios within the QBE EO Internal Model.

11.3.21. Group risk incorporates the costs from scenarios such as a ratings downgrades of QBE Limited and arising from failure of group-wide systems and processes shared by QBE EO, QBE UK and QBE Europe. Other risks originating from elsewhere in the group (such as default by Equator Re on loans to other group companies) are modelled under credit risk.

11.3.22. Liquidity risk considers the increased costs arising from short-term borrowing needs to meet cashflow liquidity requirements. Liquidity risk is calculated from negative cashflows arising in the capital model and the borrowing costs required to service this.

11.3.23. Pension risk considers scenarios relating to changes in the value of assets in the underlying defined benefit pension funds, along with changes in the level of benefit inflation and scenarios of changes in the level of future mortality experienced by each pension fund. QBE UK does not have any liability to meet deficits arising from defined benefit pension funds, but QBE Europe has liability for one such fund, as well as for a very small unfunded post-retirement medical scheme. There are three other defined benefit pension funds considered in the QBE EO Internal Model. QBE EO is liable for making good any deficit arising in these funds, with no liability falling to QBE UK or QBE Europe. Modelled surpluses arising on the pension funds are assumed in the QBE EO Internal Model not to be available to meet losses arising elsewhere in the business.

11.3.24. *I am satisfied that an appropriate approach is adopted in the QBE EO Internal Model to address each of these other risks.*

Dependencies

11.3.25. The QBE EO Internal Model recognises that there is a significant amount of overlap between the risks that each company faces. It incorporates an allowance for linkages and dependencies between such risk elements in the model through a combination of explicit assumptions regarding the correlation of variables within the model and through the use of shared variables within the model. Examples of this include inflation (affecting asset values, claims and pension liabilities) and the volume of business or loss exposures (affecting the size of aggregate claims and credit risks). The modelling approach adopted by the QBE EO Internal Model relating to the dependency relationship in modelled extreme scenarios is consistent with good market practice. Assumptions relating to the correlations and dependencies make considerable use of expert judgement.

11.3.26. *I am satisfied that an appropriate approach is adopted in the QBE EO Internal Model to allow for the correlations and dependencies between risks.*

11.3.27. The QBE EO Internal Model seeks to calculate the financial resources needed by the firms under consideration to be able to remain solvent over one year into the future 99.5% of the time. This aligns with the capital requirements of the SCR under Solvency II.

11.3.28. To perform the calculations, the QBE EO Internal Model uses the Monte Carlo simulation technique. This statistical technique generates many simulated possible versions of the prospective year. The approach enables the combined effect of assumptions that describe how each of the QBE EO Internal Model's risk elements to be calculated. From this, the threshold within which 99.5% of the simulated versions of the future year's results lie can be derived directly.

11.3.29. *From my review I have concluded that the QBE EO Internal Model:*

- *Adopts an approach that is consistent with what I would consider to be good market practice.*
- *Provides estimates of capital requirements on an appropriate and consistent basis for each of the Parties without any material bias.*
- *Includes within its scope each of the material risks identified in Section 10.2 in order to calculate the regulatory capital required by each firm.*
- *Includes within its scope, the business covered by each of Parties for the Transfer.*
- *Has adopted some appropriate modifications to the class structure and parameters to enable distinct calculations to be performed of the capital requirements for pre-and post-Transfer QBE UK and QBE Europe.*

11.4. Governance

11.4.1. The QBE EO Internal Model is governed by the Risk and Capital Committee. Its role is to support the QBE EO, QBE UK, QBE Europe and QUL Boards in overseeing the integration and effectiveness of the risk and capital management framework. This includes ensuring that adequate capital is maintained against the risks associated with business activities and responsibility for changes in the QBE EO Internal Model.

11.4.2. The Risk and Capital Committee members are appointed by the Boards of each relevant company and comprise the non-executive directors of QBE EO and its underlying underwriting subsidiaries.

11.4.3. The Risk and Capital Committee is supported by:

- The Chief Risk Officer (who is also an attendee of the Risk and Capital Committee) in the role of leading the firms' risk management functions.
- The Economic Capital Model Technical Review Group – a technical team responsible for making recommendations to the Chief Risk Officer regarding relevant aspects of the ORSA, SCR and capital allocation processes.
- The Head of Model Validation who has responsibility for overseeing all of the validation of regulatory capital requirements across all relevant legal entities within QBE EO. This role is responsible for giving senior management confidence that the QBE EO Internal Model is fit for purpose when it is used. From 2019, this role is performed internally by the Enterprise Risk Management Director of QBE EO, who is independent of the capital modelling team.

11.4.4. *Having reviewed the governance framework for the QBE EO Internal Model, I can conclude that a structure is in place:*

- *For it to be overseen at an appropriate level in the business; and*
- *To include a robust, independent validation and change cycle that operates through the year so that the model can operate effectively and respond to changes as the business evolves.*

11.5. Model Change Processes

11.5.1. There is a single overall model change and approval process for the QBE EO Internal Model used by QBE EO and its underwriting subsidiaries.

11.5.2. QBE EO regularly updates its model inputs and parameters. Where necessary, it makes changes to the underlying calculations to ensure that the model and its outputs continue to reflect the individual features of the companies as closely as possible.

11.5.3. The key inputs to the model include the balance sheet, Technical Provisions and business plans for each entity.

11.5.4. The parameterisation process involves analysing data and fitting statistical models that are then used in the QBE EO Internal Model to represent the features of the insurance company. Examples of this include the number and size of claims arising over a period, and the volatility in asset values.

11.5.5. As part of an Internal Model approval process, the regulator must not only approve the calculation methodology and the parameter inputs, but also the conditions and thresholds on which changes would trigger a Major Model Change. Any Major Model Change would require approval from the regulator.

11.5.6. The QBE EO Internal Model Change Policy defines what constitutes a change to its Internal Model, including the high-level process and governance around model changes. This is to ensure changes are made with appropriate internal and external approvals. In particular, The QBE EO Internal Model Change Policy sets out the criteria and thresholds of what constitutes a Major Model Change, and distinguishes the approval processes required for Major Model Changes from minor changes to the QBE EO Internal Model that fall below this threshold.

11.5.7. Minor changes to the QBE EO Internal Model are collated and submitted to the QBE EO's RCC for approval prior to adoption. These changes are then used to calculate the SCR for QBE EO and its insurance subsidiaries and do not require further supervisory approval. Minor changes to the QBE EO Internal Model do, however, require some validation to be performed prior to their implementation. The extent of this validation will depend on the nature and materiality of the change.

11.5.8. Major Model Changes require prior supervisory approval in addition to the processes followed for minor changes before adoption in SCR calculations. Before submission to supervisors for approval, all Major Model Changes require a full validation exercise to be completed.

11.5.9. Due to the complexities and time required for supervisory approval of the QBE EO Internal Model, it is not practicable for Major Model Changes to be submitted less than six months apart. Under a normal annual cycle, the Major Model Change application is submitted to supervisors during July or August, and the updated model is ready for adoption by the following February (possibly with amendments in response to supervisory challenge). However, where the Major Model Change triggers are met, a Major Model Change application may be made sooner.

11.5.10. To cater for this annual cycle of supervisory review and Internal Model approval, QBE EO Staff also calculate an Indicative Internal Model SCR, which provides the various Boards with an up-to-date view of what the SCR would be were all data and model updates adopted for use.

11.6. Use of QBE EO Internal Model in analysing the financial impact of the Transfer

11.6.1. As at 31 December 2019, QBE UK and QBE Europe calculated their SCR using the QBE EO Internal Model that was approved in February 2019. These SCR figures are shown for the firms pre-Transfer in Table 13.1.

11.6.2. In January 2020, QBE EO, QBE UK and QBE Europe received supervisory approval to calculate their SCR based on their latest Major Model Change submission. This Major Model Change was submitted to the PRA and the NBB for approval in August 2019, and therefore was based on data available at that date, including balance sheets as at 31 December 2018. These SCRs are currently the amount applicable for regulatory capital purposes at the time of finalising this Report. They are shown in Table 13.3.

11.6.3. Under the Model Change Policy for the QBE EO Internal Model, changes to the Parties' risks that adjust each firm's SCR by more than a pre-defined threshold cannot be reflected in the SCR, until a Major Model Change has received supervisory approval. For the impact of the Transfer, the relevant threshold is 10% of SCR.

11.6.4. After the date on which the most recent Major Model Change was submitted in August 2019, changes were made to the Parties' business plans as part of their normal course of business. In particular, the planned premium of QBE Europe increased materially. By 31 December 2019, these increased levels of actual and planned premium income together with knock-on increases in Technical Provisions, require a further Major Model Change before their effect is fully incorporated in the QBE Europe SCR. This June 2020 Major Model Change was submitted to supervisors shortly before this Report was finalised. I do not expect this Major Model Change to have received supervisory approval by the Transfer Date.

11.6.5. Therefore, for the purposes of the comparisons in Section 13 of the financial position of Affected Policyholders as a result of the Transfer, I have needed to make use of and show the position of QBE UK and QBE Europe using an Adjusted-SCR based upon the Major Model Change submission in August 2019 and adjusted for further business developments for QBE Europe (described in paragraph 11.6.9-11.6.10 below). I believe that the Adjusted-SCR provides a more appropriate measure with which to compare the risks facing the Affected Policyholders at the Transfer Date.

11.6.6. Between 31 December 2019 and the Transfer Date, I expect the risk profile of the Parties will continue to evolve. While I believe that 31 December 2019 is a sufficiently recent date upon which I can base my analysis, I will update the Court on changes arising after this date and their implications for my conclusions in my Supplemental Report.

11.6.7. The Adjusted-SCR is an Indicative Internal Model SCR calculated for me by QBE EO Staff using data updates to the latest Approved Internal Model SCR. Although it is not a full update of all of the model parameters (as the Major Model Change submitted during June 2020 shortly before this Report was finalised was completing its internal governance processes at the same time as I was carrying out my review) I believe that it is a satisfactory representation of the risk profile of the Parties with which I can assess the Transfer. In my view, the Approved Internal Model SCR is not appropriate for my analysis of either QBE UK or QBE Europe in this Report. This is because it has not been updated for the most recent actual and planned premium income, which significantly affects the SCR for QBE Europe due its targeted growth of some portfolios.

11.6.8. In addition to a limited set of internal validation tests performed by QBE EO Staff on the Adjusted-SCR, I have carried out my own reasonableness checks on the results to satisfy myself that it is appropriate for my use.

11.6.9. The latest Approved Internal Model SCR allows for the changes reflected in the Major Model Change submission in August 2019. It updates the Approved Internal Model in force as at 31 December 2019 to make use of the:

- 2019 reinsurance programme;
- 2019 catastrophe exposures;
- Reduction in collateral arrangements between QBE EO and its subsidiaries and Equator Re;
- More recently calculated model parameters; and
- Refinements to the calculation methodology addressing supervisory and model validation feedback from the previous Major Model Change exercise.

11.6.10. The further changes reflected in the Adjusted-SCR and the June 2020 Major Model Change include:

- An update to use the Technical Provisions as at 31 December 2019.
- Updating to use the 2020 business plan, capturing planned premium income growth, and the 2020 reinsurance programme.
- A subsequent increase in collateral arrangements between QBE EO and its subsidiaries and Equator Re.
- Other updates to data and model parameters (e.g. asset holdings and exchange rates).

11.7. Review of how the QBE EO Internal Model addresses the COVID-19 pandemic

11.7.1. Since the onset of the COVID-19 pandemic, QBE EO Staff have reviewed the appropriateness of the existing QBE EO Internal Model in light of recent experience of market volatility and potential loss exposures recognised. Based on this review, they have adjusted the parameter assumptions used to forecast possible future outcomes.

11.7.2. This Section 11.7 describes the QBE EO Staff analysis and sets out my findings from reviewing it. To supplement this work, I have tested the impact on the Parties of two pandemic scenarios and two Reverse Stress Tests in Section 14. This is a very important element of model testing, as it enables scenarios to be considered where losses arise from distinct causes which are normally assumed to arise independently of one another. In doing so, these tests can help inform the extent to which the financial resources held by the Parties can withstand possible future circumstances.

11.7.3. In the case of the pandemic, such future scenarios might comprise further waves of infection, resulting in more adverse impacts to the global economy, falls in asset values and increased levels of claims.

11.7.4. This additional work, set out in Section 14 has looked at:

- The absolute level of financial security provided by the Parties;
- The relative impact of possible future pandemic scenarios on the Parties, both pre- and post-Transfer.

QBE EO Staff Analysis

11.7.5. QBE EO Staff have told me that their review of parameter assumptions comprised:

- Comparing actual investment and potential underwriting experience arising with parameter assumptions. This form of review, known as back-testing considers how likely an element of experience is under the parameter assumptions of the QBE EO Internal Model. Where a firm considers it to be sufficiently unlikely, this acts as a trigger for the firm to revise the assumption.

- Expert review by suitably qualified individuals within the firm of the parameter assumptions in the QBE EO Internal Model. This sort of review is used where there is insufficient data on which to model an element of experience. The experts provide an up to date opinion on appropriate model parameters based on their wider industry knowledge.

11.7.6. This review highlighted that:

- There were some asset classes (such as emerging market debt and high yield debt) that gave rise to investment losses that were more extreme than existing model parameters had anticipated. QBE EO Staff have not updated these parameters owing to the Parties having reduced to negligible proportions or entirely removed their holdings of such asset classes.
- For those insurance classes with potential for loss as a result of the pandemic, only trade credit insurance was considered to have fallen outside the range anticipated by the existing QBE EO Internal Model parameters. Revised parameters for this class have been determined using expert judgements.
- More prudent credit risk parameters have been determined using expert judgement reflecting the perception of an increased risk of corporate, including reinsurer, failure in the economic climate caused by the pandemic.

11.7.7. I have reviewed this additional testing and satisfied myself that:

- QBE EO Staff have considered all of the main types of risk that I believe could potentially require revision in light of the pandemic;
- QBE EO Staff have carried out an appropriate analysis of the emerging experience to test and revise the parameter assumptions used in the QBE EO Internal Model to calculate the SCR and Adjusted-SCR.

11.7.8. QBE EO Staff have told me that based upon their testing they did not change any of the model parameters relating to dependencies in the model. It is difficult to directly test whether a change to dependency parameters in internal models is required based on a single event. I have therefore tested this decision by QBE EO Staff by performing specific scenario and reserve stress tests in Section 14 to satisfy myself that the QBE EO Internal Model makes sufficient allowance for pandemic scenarios in which multiple parts of the business give rise to losses.

Potential Impact of Change to Parameters

11.7.9. Neither the current Approved Internal Model SCR nor the Adjusted-SCR have been updated to allow for the prospective impact of the COVID-19 pandemic. This is important to note because both models were parameterised prior to the pandemic. Although there are some areas where QBE EO Staff have concluded that parameters should be changed, the impact on the Adjusted-SCR would have been less than 5% for the Parties.

11.7.10. There are a number of reasons why the impact on the Adjusted-SCR, at less than 5%, is relatively limited. I have described in the following paragraphs what I see as the most important:

11.7.11. **Reduction of risk in investment portfolio:** Following the major movements in asset values that arose in March 2020, the Parties took steps to reduce the degree of investment risk adopted. This comprised reducing holdings in equities, higher yielding debt instruments and other growth assets, and increasing their holdings in investment grade fixed income securities.

11.7.12. **Use of reinsurance to limit retained losses:** In common with other (re)insurers, the Parties make use of reinsurance to limit losses to large losses. In a disclosure to the Australian Stock Exchange on 25 May 2020[32], QBE Limited has noted that reinsurance would limit QBE Group's net UK business interruption claims to $75 million. In my view, the significance of this is:

- the amount quoted is significantly less than the eligible own funds of either of the Parties; and
- business interruption claims are currently seen as a major source of uncertainty for (re)insurers. This is because of current and anticipated litigation in the UK surrounding whether policies issued by various insurers (including QBE UK) provide coverage for losses caused by the pandemic.

11.7.13. **High proportion of reserves relating to expired risks:** As at 31 December 2019, the claims provisions made up 86% of the net best estimate technical provisions of QBE UK and 87% for QBE Europe. As the direct effect of the pandemic relates to live rather than expired risks, a high proportion of the technical provisions of both companies will not be directly affected by the pandemic. The uncertainty of loss amounts arising from pandemic-related claims diversifies with the uncertainty in reserves that are not directly exposed to pandemic losses. This reduces the proportionate increase in the SCR of the Parties arising from allowing for the effect of the pandemic.

11.7.14. *Based on my review, and subject to the results of the testing that I have set out in Section 14:*

- *An appropriate approach to testing the impact of the COVID-19 pandemic has been followed by QBE EO Staff;*
- *The limited impact on the results of the QBE EO Internal Model arising from parameter updates in light of the COVID-19 pandemic appears reasonable; and*
- *I am able to reach my conclusions regarding the financial effects of the Transfer through using the SCR and Adjusted-SCR of QBE UK and QBE Europe.*

11.7.15. At the time of writing this Report, there remains significant uncertainty surrounding the financial implications of the COVID-19 pandemic. I anticipate updating the Court in my Supplemental Report on my further review of the QBE EO Internal Model in light of emerging experience.

[32] https://www.qbe.com/-/media/group/document%20listing/2020/05/24/22/44/asx%20announcement%20-%20uk%20business%20interruption%20claims%20-%20for%20asx.pdf?download=1

12. Approach to determination of financial resources

12.1. Introduction

12.1.1. This section describes the approaches taken by QBE UK and QBE Europe to determine the financial resources that they need to hold under the Capital Appetite Framework.

12.2. Capital Appetite Framework

12.2.1. The QBE EO Capital Appetite Framework sets out the approach that QBE EO, QBE UK and QBE Europe will take in determining whether it is appropriate to pay a dividend, and the size of any such dividend declared. Equally, it provides a framework for the firms to determine whether additional capital is required.

12.2.2. The Capital Appetite Framework envisages a sufficient capital buffer so that each company can continue trading under their existing business models following foreseeable major adverse insurance (or other) losses. It also takes into account known Internal Model limitations and the uncertainty inherent in the modelling process for capital and valuation of assets and liabilities.

12.2.3. Under the Capital Appetite Framework, QBE EO, QBE UK and QBE Europe all have a target level of Eligible Own Funds expressed in the form of a CCR.

12.3. Financial Resources under the Capital Appetite Framework

12.3.1. Under the Capital Appetite Framework, QBE EO and its (re)insurance subsidiaries target financial resources equivalent to a CCR of 130% of Indicative Internal Model SCR, with a minimum CCR appetite of 120%. The Indicative Internal Model SCR will normally be similar to the Approved Internal Model SCR. In order to accommodate significant restructuring exercises (such as the Transfer) that can give rise to material differences between the Indicative Internal Model SCR and the Approved Internal Model SCR, the Capital Appetite Framework requires the CCR to exceed 110% Approved Internal Model SCR. This lower threshold is needed because the Approved Internal Model SCR can take several months to respond to changes in the underlying risk profile.

12.3.2. In circumstances where the CCR falls below 120% of Indicative Internal Model SCR, the relevant Board will re-assess the risk position and implement a Board approved capital plan which may include; suspension or reduction of dividends, seeking capital support from other QBE Group companies (including in the case of QBE EO, the Contingent Capital Facility described in Section 5).

12.4. Financial Resources of QBE UK and QBE Europe before and after the Transfer

12.4.1. QBE EO Staff have told me that they intend to target CCR for QBE UK and QBE Europe that are broadly the same as one another after the Transfer, based on their respective Indicative Internal Model SCR at the Transfer Date.

12.4.2. In my view, the decision by QBE EO and QBE UK to permit QBE UK to have a CCR post-Transfer that falls below 120% of the Approved Internal Model SCR is appropriate, because:

- The situation is temporary, to allow for the fact that QBE UK's regulatory SCR may not reduce in response to the Transfer until a Major Model Change has been approved by the PRA, even though the reserves, and hence the amount of risk facing QBE UK, will fall as a result of the Transfer;
- The Parties intend that the CCR will remain above 110%, providing a buffer above the Approved Internal Model SCR;
- The CCR target and threshold requirements in respect of the Indicative Internal Model SCR will remain; and

- Once the Major Model Change has been approved to allow for the impact of the Transfer, QBE UK will revert to adoption in full of the target and threshold CCRs in the Capital Appetite Framework.

12.4.3. The COVID-19 pandemic described in Section 4 has resulted in a significant reduction in the EOF of the Parties. This has caused the CCRs to fall to a level below 120% of their SCR. Even allowing for QBE EO Staff's current estimates of these losses, the EOFs have remained above 110% of SCR. Management actions to restore the CCR to within appetite, but which have not all been completed, include an injection of €70 million of cash as Tier 1 EOF from QBE EO into QBE Europe (itself funded by the sale of Tier 2 debt to other QBE Group companies) in April 2020, followed by a further €50 million injected on 16 June 2020.

12.4.4. In addition, the existing application by QBE UK to use an AOF instrument worth £160 million as EOF will help QBE UK to restore its CCR to within appetite.

12.4.5. *In my view the plans taken (both those completed and those in progress) to restore the Parties CCR are appropriate and I expect that both will be able to achieve them pre-Transfer. I will confirm that I still believe this to be the case in my Supplemental Report.*

12.4.6. *The decision by QBE EO and the Parties to add a target CCR for the Parties that is also at least 130% of the Indicative Internal Model SCR is in my view appropriate, because there is expected to be a period of time during 2020 when the Approved Internal Model SCR will not have responded to QBE Europe's increased premium income.*

12.4.7. *I have reviewed the firms' CAF and temporary capital targets before and after the Transfer and concluded that it provides a reasonable basis for decision-making by the firms regarding dividends and restoring capital coverage. My additional testing in Section 14 seeks to assess quantitatively whether the target level of 130% of Adjusted-SCR is appropriate and its implications for the Transfer.*

12.5. Medium Term Evolution of Financial Resources under the Capital Appetite Framework

12.5.1. QBE EO Staff have told me that both QBE UK and QBE Europe will maintain their target financial resources of 130% (and threshold of 120%) of the SCR as set out in the Capital Appetite Framework. In my view, such an arrangement will put the Affected Policyholders in a very similar position to their position pre-Transfer. I will provide an update in my Supplemental Report should there be any material change to this position.

12.5.2. I have reviewed the projected SCRs, EOFs and CCRs performed by QBE EO for QBE UK and QBE Europe, including:

- Projections for year-ends 2019-2021 within QBE EO's annual ORSA report dated March 2019 (noting that this covers both QBE UK and QBE Europe); and
- Projections for year-ends 2019-2021 within QBE Europe's annual ORSA report (as required by the NBB) dated May 2019.
- Updated projections for year-end 2020 for QBE UK and QBE Europe contained in the Capital Solvency and Liquidity Plan presented to the Boards in May 2020.

12.5.3. I note that while each of the projections had different values for forecast EOFs and SCRs due to the different as-at dates of model inputs and/or model parameters, all of the projections have targeted 130% CCR at each year-end. This stable 130% CCR is achieved by the following planned actions:

- Where the CCR increases beyond 130% (e.g. due to profit in that year), a dividend would be paid so that the CCR reverts to 130%;

- Where the CCR falls below 130%, additional actions will be implemented to restore to the CCR to 130%; and
- Where the CCR falls below 120%, additional financial resources will be provided by QBE EO to restore the CCR to 130%.

12.5.4. I note that following the effects of the COVID-19 pandemic, the second and third of these actions have been put in practice by QBE EO Staff.

12.5.5. *I have therefore concluded that in the medium-term, the financial security provided to the Affected Policyholders is unlikely to change as a result of the Transfer.*

12.5.6. In Section 13.3, I discuss at a high level how between now and the year-end, the financial resources of QBE UK and QBE Europe may evolve. While the actual amounts remain uncertain and the actual amounts will differ from those quoted, I believe that it is reasonable to assume that additional financial resources that are needed to support the Parties will be made available by QBE EO and QBE Group. Given the amount of additional finance required relative to QBE Group's size, together with QBE EO's access to the Contingent Capital Facility of £175 million, I am satisfied that the Parties will be able to have the required financial resources by the Transfer Date and post-Transfer. I note that during the second quarter of 2020 QBE Limited has successfully raised c. $1.3 billion in financial resources from capital markets.

12.5.7. QBE EO Staff have confirmed to me that, to the extent necessary, they will seek additional finance from within the QBE Group. I will confirm the arrangements that have been put in place in my Supplemental Report.

13. Comparison of capital requirements and Eligible Own Funds

13.1. Introduction

13.1.1. This Section 13 compares the ratio of the capital requirements to financial resources (or Capital Cover Ratio) for the Parties pre- and post-Transfer.

13.1.2. Section 13.2 shows the CCR for QBE UK and QBE Europe as at 31 December 2019, based on the Approved Internal Model SCR and actual EOF held by each firm at that date.

13.1.3. Section 13.3 shows the change in EOF that will be required for QBE UK and QBE Europe between 31 December 2019 and post-Transfer, including the Expected EOF of each of the Parties pre-Transfer. The Expected EOF pre-Transfer recognises the additional financial resources provided to each of the Parties since year-end 2019 as well as the adverse impact for each of the market volatility and potential loss exposures arising from the COVID-19 pandemic. The post-Transfer EOF has been set to be consistent with QBE EO's capital targets described in Section 12.4 and its Capital Appetite Framework.

13.1.4. Section 13.4 and 13.5 compare the pre- and post-Transfer EOFs of the Parties with:

- The Approved Internal Model SCR (in Section 13.4); and
- The Adjusted-SCR (in Section 13.5). The Adjusted-SCR is needed because the Approved Internal Model SCR cannot update for large changes to actual and planned premium income, which have arisen for QBE Europe since it was last approved. It therefore provides a more appropriate measure of risk with which to compare the financial effects of the Transfer.

13.1.5. These comparisons are made to:

- show the extent to which the Parties are expected to have financial resources in excess of each of the Approved Internal Model SCR and the Adjusted-SCR both pre- and post-Transfer; and
- explain how I have used this to reach my conclusions regarding the Transfer.

13.1.6. Section 13.6 confirms each firm's ability to cover its MCR pre- and post-Transfer.

13.2. Approved Internal Model SCR as at 31 December 2019

13.2.1. Table 13.1 shows the position of pre-Transfer QBE UK and QBE Europe using the Approved Internal Model SCR that was in-force and the actual EOFs as at 31 December 2019.

Table 13.1 – EOF vs Approved Internal Model SCR as at 31 December 2019

Company	Pre-Transfer		
	QBE UK	QBE Europe	
Currency	*£m*	*€m*	*Conv. £m*
A Approved Internal Model SCR	692	682	*578*
B EOF	910	948	*803*
C CCR = B/A	132%	139%	*139%*
D = B - A	218	266	*225*

13.2.2. As at 31 December 2019, QBE UK and QBE Europe both held EOFs that were similar to the 130% SCR target, consistent with the Capital Appetite Framework.

13.3. Summary of Changes in Eligible Own Funds for the Parties during 2020

13.3.1. Table 13.2 shows the changes in EOF that will arise for QBE UK and QBE Europe, between the EOF as at 31 December 2019 (shown in Table 13.1) and the Expected EOFs post-Transfer that are required for each firm to maintain QBE EO's capital targets and its Capital Appetite Framework.

13.3.2. For these purposes, the Expected EOF post-Transfer is set at the greater of:

- 110% of the SCR expected to be in force at the time; and
- 130% of the Adjusted-SCR. This Adjusted-SCR takes account of actual and planned changes in the Parties' risk profiles, and is expected to approximate to the June 2020 Major Model Change application that the Parties submitted to their supervisors during June 2020.

13.3.3. Table 13.2 also shows the approximate impact on financial resources arising from COVID-19 pandemic market volatility in March 2020 and potential loss exposures. To distinguish these approximate amounts from other figures shown in this table, they have been rounded and expressed relative to each firm's Approved Internal Model SCRs and no combined figure has been included.

Table 13.2 – Progression of Eligible Own Funds Y/E 2019 to Transfer Date - Conv. £ million

Company	QBE UK (£m)	QBE Europe (Conv £m)	Total (£m)
Pre-Transfer			
A EOF at 31 December 2019	910	803	1,713
B Additional financial resources	160 *	102	262
C COVID-19 market volatility and potential loss exposures	c. 20% of SCR	c. 25% of SCR	
D Expected position pre-Transfer	c. 135% of SCR ≈ 940	c. 130% of SCR ≈ 760	c. 1,700
Post-Transfer			
E Expected EOF	765	988	1,753
F Additional EOF required after the Transfer = E – D	c. (175)	c. 230	c. 55

* *Subject to supervisory approval*

13.3.4. Row D of Table 13.2 shows the approximate projected level of EOF held by the Parties pre-Transfer, after allowing for:

- COVID-19 pandemic market volatility and potential loss exposures; and
- The additional injection of financial resources that have taken place or are due to be completed pre-Transfer.

13.3.5. By comparing Rows D and E of Table 13.2, I note that QBE UK is expected to have an actual EOF that is greater than its Expected EOF post-Transfer, and will be able to provide financial resources to QBE Europe of approximately £175 million at the time of the Transfer. Conversely, the expected approximate total additional EOF required by QBE Europe comes to approximately £230 million. This gives to a combined shortfall of c. £55 million.

13.3.6. I am satisfied that, should there be no additional sources of EOF (e.g. retained profits from either of the Parties[33]) to make up the shortfall of c. £55 million identified in the previous paragraph, the

[33] QBE EO Staff have told me that the June 2020 Major Model Change submission may result in an increase in the Parties' EOF due to a change in their risk margin methodology. As the June 2020 Major Model Change has only just been submitted, I will review this in my Supplemental Report.

amount is well within the level of additional financial resources of QBE EO. I am also satisfied that, if needed, QBE Group will be able to provide these financial resources to the Parties.

13.3.7. This is because:

- QBE EO is committed to, and has a clear business interest in, maintaining the financial resources of the Parties as its subsidiaries under its Capital Appetite Framework; and
- QBE EO has in place a Contingent Capital Facility with which it can draw upon up to £175 million in Tier 1 equity from QBE Group should this be required to remain within its Capital Appetite Framework.
- QBE Group has a clear business interest in supporting QBE EO, and successfully raised c. $1.3 billion from investors during the second quarter of 2020.

13.3.8. *Based on my analysis of the financial resources of QBE EO and QBE Group, I am satisfied that the Parties would be able to access additional financial resources, if required, to comply with their Capital Appetite Framework post-Transfer.*

13.4. Financial impact of the Transfer – Approved Internal Model SCR

13.4.1. In January 2020, the Approved Internal Model SCRs for each firm were changed once the August 2019 Major Model Change received supervisory approval. The revised SCRs pre- and post-Transfer are shown in Table 13.3, which shows the latest view of the SCRs at the time of writing.

13.4.2. The Approved Internal Model SCRs are compared with the Expected EOFs for each firm, which are based on:

- **Expected EOF pre-Transfer**: these are the amounts shown in Row D of Table 13.2, which approximately allows for estimated COVID-19 losses to date and planned capital action to date.
- **Expected EOF post-Transfer**: these are the amounts shown in Row E of Table 13.2.

Table 13.3 – Expected EOF vs the 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	*584*	695	690	*584*
B Expected EOF	940	898	*760*	765	1,166	*988*
C CCR = B/A	135%	130%	*130%*	110%	169%	*169%*
D = B - A	245	207	*176*	70	476	*403*

13.4.3. As described in Section 11.5, there is scope for minor model changes to be made prior to the Transfer Date that will result in changes to the SCR. Given the quantitative thresholds for minor model changes, I am satisfied that such changes in SCR are not expected to cause either QBE UK or QBE Europe to breach their regulatory capital requirements.

13.4.4. In Table 13.3, it can be seen that the SCR are not expected to change immediately for both QBE UK and QBE Europe following the Transfer. This is because the change caused by the Transfer is sufficiently large to trigger a Major Model Change for the Parties, therefore their SCR cannot change until supervisory approval has been obtained for the June 2020 Major Model Change.

13.4.5. Additionally, using the Expected EOF post-Transfer:

- The CCR for QBE Europe is considerably in excess of the 130% CCR target. This is to enable it to meet the 130% target level of CCR under the June 2020 Major Model Change (as approximated by the Adjusted-SCR).
- The CCR for QBE UK is assumed to fall to 110% (as highlighted in Section 12.4). Again, this is to reflect the results of the June 2020 Major Model Change.

13.4.6. I anticipate providing an updated version of this table in my Supplemental Report.

13.4.7. *Under the Expected EOF positions shown, both QBE UK and QBE Europe are projected to have financial resources in excess of their regulatory capital requirements both pre- and post-Transfer.*

13.5. Financial impact of the Transfer – Adjusted-SCR

13.5.1. Table 13.4 compares the position of the companies pre- and post-Transfer using the Adjusted-SCR. While these Adjusted-SCRs are not the SCRs of the respective companies, in my view the Adjusted-SCRs provide a better means of comparing the two companies as they allow for more recent company developments. If the EOF for each of the Parties was determined using the Approved Internal Model SCR at the Transfer Date, the post-Transfer financial resources of QBE Europe would in my view be too low and those of QBE UK too high.

13.5.2. The Adjusted-SCRs are an estimate of the Major Model Change SCR that QBE EO Staff have told me they submitted for approval to the PRA and NBB in June 2020.

13.5.3. Similarly to Table 13.3, the Adjusted-SCRs are compared with the Expected EOFs for each firm, using the definitions used in Table 13.3.

Table 13.4 – Expected EOF vs Adjusted-SCR

Company	Pre-Transfer			Post-Transfer		
	QBE UK	QBE Europe		QBE UK	QBE Europe	
Currency	*£m*	*€m*	*Conv. £m*	*£m*	*€m*	*Conv. £m*
A Adjusted-SCR	641	820	*695*	571	897	*760*
B Expected EOF	940	898	*760*	765	1,166	*988*
C CCR = B/A	147%	109%	*109%*	134%	130%	*130%*
D = B - A	299	77	*65*	194	269	*228*

13.5.4. QBE Europe has a CCR of 109% pre-Transfer, which is under its capital targets under the Capital Appetite Framework. This is a temporary position in anticipation of the Transfer and the June 2020 Major Model Change.

13.5.5. Table 13.4 shows that, relative to the CCR pre-Transfer:

- The Remaining Policyholders will have a reduction in CCR from 147% to 134%;
- The Transferring Policyholders will have a reduction in CCR from 147% to 130%; and
- The Existing Policyholders will have an increase in CCR from 109% to 130%.

13.5.6. In my view, the reduction in CCR for the Remaining Policyholders and Transferring Policyholders outlined in 13.5.4 does not, on its own, materially adversely affect them. This is because:

- QBE UK's Expected EOF pre-Transfer is temporarily higher than its capital target of 130%, in anticipation of releasing excess EOF alongside the Transfer;
- Post-Transfer, QBE UK and QBE Europe are both expected to have CCR at or above 130%; and
- The Parties both have the same capital targets under the same Capital Appetite Framework before and after the Transfer, which means that over the medium-term, the Affected Policyholders can expect to have similar levels of CCR regardless of the Transfer.

13.5.7. *Subject to my testing in Section 14 of the adequacy of the 130% target CCR, I am satisfied that the Transfer does not materially adversely affect the Affected Policyholders.*

13.5.8. I anticipate providing the Court with updated financial projections in my Supplemental Report.

13.6. The effect of the Transfer on each company's ability to cover its MCR

13.6.1. I have compared the MCRs of QBE UK and QBE Europe with the part of the EOF that can be used by firms to meet their MCR. The ratio of MCR to this part of the EOF for all of these companies is in excess of 230%.

13.6.2. *As such I have concluded that all of the companies will continue to have financial resources to cover their MCR following the Transfer.*

14. Additional testing of financial strength

14.1. Introduction

14.1.1. This section sets out the results of additional quantitative tests performed on the financial position of QBE UK and QBE Europe.

14.1.2. The purpose of this testing is four-fold:

- To provide some additional independent testing of the QBE EO Internal Model SCR for each company, in particular to allow for the fact that the Adjusted-SCR has not received supervisory approval for use in calculating the SCR of QBE UK or QBE Europe pre- or post-Transfer.
- Time will have elapsed between my analysis and the Transfer Date which means that the capital requirements and EOF used in my analysis to reach my conclusions have changed. I therefore wish to have confidence that there is an additional cushion in the financial resources that means that my conclusions are unlikely to change.
- To help me to assess whether the target level of excess capital under the Capital Appetite Framework is appropriate given the sensitivity of the QBE EO Internal Model SCR to alternative expert judgements.
- To compare the position of the Affected Policyholders before and after the Transfer.

14.1.3. There are four groups of additional tests performed:

(i) Sensitivity tests on key parameters used in the QBE EO Internal Model. These are to confirm that the QBE EO Internal Model results do not change materially as a result of using what I consider to be plausible alternative management judgements. These also provide an examination of the adequacy of the excess capital held by the companies under their Capital Appetite Framework.

(ii) Assessment of the impact of a set of adverse, but not extremely adverse, scenarios. Typically these are scenarios that I might expect to arise once in every 5 – 20 years ("Low Return Periods"). They may significantly reduce profits or cause a small loss, but not require a material injection of capital.

(iii) Assessment of the impact of a set of severe adverse scenarios. Typically these are scenarios that I might expect to arise once in every 20 – 100 years or more (or "High Return Periods"). They have the potential to cause a significant loss to (re)insurers and require an injection of capital.

(iv) Reverse stress tests. These test how extreme an adverse scenario needs to be in order to render the company insolvent.

14.1.4. The tests have been applied using the Adjusted-SCR and a CCR of 130%. This basis represents the position that would apply after the annual Major Model Change cycle has been completed, whether or not the Transfer goes ahead. In my view, this is the most meaningful basis on which to compare the effects of the Transfer.

14.1.5. In Table 13.4, I have shown that the pre-Transfer position has different CCRs for the Parties. I believe that 130% CCR is the right level of financial resources to assume pre-Transfer, because it reflects the capital targets under the Parties' Capital Appetite Framework. The levels of pre-Transfer EOF in Table 13.4 is a temporary position in anticipation of the Transfer and the June 2020 Major Model Change.

14.1.6. The tests are applied to understand the immediate effect of each stress or scenario on each company, however in practice some risks may emerge over a longer period. This is particularly the case for reserve risk. The Reverse Stress Tests considered reflect outcomes that I might expect to arise over an extended period of time as the ultimate liabilities run off.

14.1.7. Using the test results, comparisons are made between the risks to which each company is exposed for the purposes of understanding the impact on each group of Affected Policyholders. To compare the impact of the Transfer on the:

- Remaining Policyholders, I compare the risks facing QBE UK pre- and post-Transfer.
- Transferring Policyholders, I compare the risks facing QBE UK pre-Transfer with those facing QBE Europe post-Transfer.
- Existing QBE Europe Policyholders, I compare the risks facing QBE Europe pre- and post-Transfer.

14.1.8. Comparing risks in this manner assists me with understanding the aggregate effect of the Transfer on each group of Affected Policyholders.

14.1.9. In this Section 14, I describe four tests performed that specifically address the potential risks arising from the COVID-19 pandemic. These comprise two scenarios S.13 and S.18 that apply combinations of sources of loss and with Scenario S.18 being the more severe of the two. In addition, there are two Reverse Stress Tests, RST.3 and RST.4 that test the residual ability of the Parties to absorb other insurance losses in combination with Scenario S.18. These four test results are summarised in Section 14.5.

14.2. Sensitivity tests

14.2.1. QBE EO Staff have performed a set of sensitivity tests on the QBE EO Internal Model for QBE UK and QBE Europe. A description of the tests performed are set out in Appendix 6.

14.2.2. *These tests show that:*

- *The CCR reduced for all tests for each firm. This was as expected as each parameter change was more conservative than the base model.*
- *None of the sensitivity tests reduced the CCR by more than 20%. 120% of Adjusted-SCR is the lower threshold for Eligible Own Funds I have used in applying the Capital Appetite Framework for each of the companies. Therefore, none of the sensitivities causes the Eligible Own Funds of the Parties to fall below their Adjusted-SCR.*

14.2.3. *I have therefore concluded that the Capital Appetite Framework provides a sufficient buffer of excess capital to cater for:*

- *Uncertainty in some of the parameter choices used in the Adjusted-SCRs;*
- *The period of time between the time at which the analysis has been performed and the Transfer Date.*

14.2.4. *These results support the conclusion that it is appropriate for me to rely upon the results of the tests in this and other Sections using Adjusted-SCRs in reaching my overall conclusions in this Report.*

14.3. Scenario tests

14.3.1. QBE EO Staff tested the impact of a set of low and high return period scenarios on each of QBE UK and QBE Europe. These tests incorporated existing scenario tests used by QBE EO Staff and were supplemented by some additional tests requested by me, based on my understanding of the key risks faced by each firm (as summarised in Section 10) to provide a set of tests across the risk profile of QBE UK and QBE Europe. The Low Return Period scenarios are described in Table 14.1 and the High Return Period scenarios in Table 14.2.

Table 14.1 – Description of Low Return Period Scenario Tests	
Model	**Short Description**
S.1	Underwriting losses
S.2	Reinsurer failure – Equator Re including exhaustion / shared RI
S.3	Reinsurer failure – external reinsurer
S.4	UK Bodily injury claims increase
S.5	Natural catastrophe scenario – North America
S.6	Natural catastrophe scenario – UK / Europe
S.7	Major emerging risk event
S.8	Life catastrophe
S.9	Claims inflation stress
S.10	Stress on reserves related to liability and casualty classes
S.11	FoS reserve allocation under-stated by 20%
S.12	FoS reserve allocation over-stated by 20%

Table 14.2 – Description of High Return Period Scenario Tests	
Model	**Description**
S.13	Combined stress due to COVID-19
S.14	Severe reinsurer failure – Equator Re
S.15	Severe reinsurer failure – external reinsurer
S.16	Eurozone economic crisis
S.17	Net reserve deteriorates by 10% followed by Equator Re failure
S.18	Extreme combined stress due to COVID-19

14.3.2. A full description of these scenarios is contained in Appendix 6.

14.3.3. Using the scenario test results, I compared how the CCR changed as a result of each scenario between:

- QBE UK pre- and post-Transfer;
- QBE UK pre-Transfer and QBE Europe post-Transfer; and
- QBE Europe pre- and post-Transfer.

14.3.4. Table 14.3 sets out the changes in risk exposures arising from these scenarios that I consider material. For a particular pairing in 14.3.3, the fall in the pre-Transfer CCR is compared with the fall in the post-Transfer CCR. In a test where the fall in the post-Transfer CCR is 10% or more than the fall in the pre-Transfer CCR, I have described this as an increase in risk exposure. Conversely, in a test where the fall in the pre-Transfer CCR is 10% or more than the fall in the post-Transfer CCR, I have described this as a decrease in risk exposure.

Table 14.3 – Material increase/ reduction in risk exposure after the Transfer		
Firm comparison (and associated group of Affected Policyholders)	**Increased risk exposure**	**Reduced risk exposure**
QBE UK pre- and post-Transfer (Remaining Policyholders)	S.12 FoS Reserve allocation over-stated by 20%	S.11 FoS Reserve allocation under-stated by 20%
QBE UK and QBE Europe (Transferring Policyholders)	S.16 Eurozone economic crisis	S.2 Reinsurer failure – Equator Re S.10 Stress on reserves related to liability and casualty classes S.14 Severe reinsurer failure - Equator Re S.18 Extreme combined stress due to COVID-19
QBE Europe pre- and post-Transfer (Existing Policyholders)	None	None

14.3.5. Scenarios S.11 and S.12 investigate the consequence of mis-estimating the size of the transferring reserves. While Scenario S.12 shows that the Remaining Policyholders have an increased risk exposure to the reserves in respect of the Transferring Policies being over-stated, I am satisfied that they are not materially adversely affected by the risks of mis-estimation of the reserves in respect of the Transferring Policies. This is because:

- The increased risk exposure arising from Scenario S.12 is offset by the reduced risk exposure from Scenario S.11.
- In both scenarios S.11 and S.12, the impact on the two firms of mis-estimating the size of the reserves in respect of the Transferring Policies is approximately 10%, considerably smaller than the margin of EOF held by the Parties above their SCR; and
- The size and materiality of the reserves in respect of the Transferring Policies is expected to reduce by the Transfer Date.

14.3.6. The other changes in risk exposures are consistent with my expectations, as QBE Europe has greater exposure to Eurozone investments and makes less use of outwards reinsurance especially with regard to Equator Re.

14.3.7. I note that all of the companies stay above 100% of the Adjusted-SCR following the various natural catastrophe events considered. Table 14.4 identifies those scenarios under which any of the companies were modelled as having Eligible Own Funds that fall below their Adjusted-SCR.

Table 14.4 – Scenarios giving rise to breach in Adjusted-SCR	
Firm	**Scenario**
QBE UK Pre-Transfer	S.2 Reinsurer failure – Equator Re S.10 Stress on reserves related to casualty classes S.13 Combined stress due to COVID-19 S.14 Severe reinsurer failure - Equator Re S.17 Net reserve deteriorates by 10% followed by Equator Re failure S.18 Extreme combined stress due to COVID-19
QBE Europe Pre-Transfer	S.13 Combined stress due to COVID-19 S.14 Severe reinsurer failure - Equator Re S.17 Net reserve deteriorates by 10% followed by Equator Re failure S.18 Extreme combined stress due to COVID-19
QBE UK Post-Transfer	S.2 Reinsurer failure – Equator Re S.10 Stress on reserves related to casualty classes S.13 Combined stress due to COVID-19 S.14 Severe reinsurer failure - Equator Re S.17 Net reserve deteriorates by 10% followed by Equator Re failure S.18 Extreme combined stress due to COVID-19
QBE Europe Post-Transfer	S.13 Combined stress due to COVID-19 S.14 Severe reinsurer failure - Equator Re S.17 Net reserve deteriorates by 10% followed by Equator Re failure S.18 Extreme combined stress due to COVID-19

14.3.8. I note that:

- Most of the scenarios tested did not result in the firms breaching their Adjusted-SCR;
- None of the scenarios tested (even the failure of Equator Re with no recovery or benefit from collateral held by QBE UK) caused QBE UK or QBE Europe to become insolvent.

14.3.9. *Based on these scenario tests I have concluded that:*

- *The model is giving rise to results in line with my expectations from my qualitative review (see Section 10);*
- *QBE UK and QBE Europe both appear sufficiently well capitalised to withstand a wide range of adverse scenarios.*
- *Those policyholders experiencing changes in the risk profiles of their (re)insurers benefit from some reductions in risk to compensate for increases in risk.*

14.4. Reverse Stress Tests

14.4.1. Together with QBE EO Staff, I designed and reviewed the results of two Reverse Stress Tests applied to each firm to illustrate the severity of scenarios that would need to arise for each to exhaust, or nearly exhaust all of their EOF. The idea of a Reverse Stress Test is to cause each firm to be unable to meet all of its policyholders' claims without recourse to additional capital support from QBE EO or QBE Limited.

14.4.2. This type of test complements the scenario tests above, by looking at the resilience of firms to the most extreme circumstances, focussing on the most material risks.

14.4.3. The tests have been performed on the position of each firm pre- and post-Transfer.

14.4.4. Table 14.5 describes two Reverse Stress Tests, and sets out the residual EOF for each firm after the application of each Reverse Stress Test.

Table 14.5 – Residual EOF(*) after application of Reverse Stress Testing – Conv £ million				
	Pre-Transfer		**Post-Transfer**	
Test Description	**QBE UK**	**QBE Europe**	**QBE UK**	**QBE Europe**
RST.1: Increase in Solvency II Technical Provisions by 40%	8	126	17	104
RST.2: Increase in Solvency II Technical Provisions by 28%, combined with a reduction in premium rates for the next year of underwriting by 28%	45	80	24	90

(*) EOF before application of RSTs set at 130% of Adjusted-SCR, as described in 14.1.4.

14.4.5. In order to test the resilience of each firm in light of COVID-19 , I have also applied two further tests which are similar but less severe than tests RST.1 and RST.2 but are added to by the effect of the extreme combined stress due to COVID-19 (scenario S.18). The results of these tests are shown in Table 14.6.

Table 14.6 – Residual EOF(*) after application of Reverse Stress Testing – Conv £ million				
	Pre-Transfer		**Post-Transfer**	
Test Description	**QBE UK**	**QBE Europe**	**QBE UK**	**QBE Europe**
RST.3 Extreme combined stress due to COVID-19 and an increase in Solvency II Technical Provisions by 18%	21	152	4	162
RST.4: Extreme combined stress due to COVID-19, increase in Solvency II Technical Provisions by 13%, and a reduction in premium rates for the next year of underwriting by 13%	74	19	79	11

(*) EOF before application of RSTs set at 130% of Adjusted-SCR, as described in 14.1.4.

14.4.6. The tests show

- In each case, both QBE UK and QBE Europe are able to withstand what I consider to be remote stress tests over the full run-off of the claims liabilities.
- Remaining Policyholders are less exposed to the effects of RST.1 and RST.4, but more exposed to the effects of RST.2 and RST.3.
- Transferring Policyholders are more exposed to the effects of RST.4, but less exposed to the effects of the other three RSTs.
- Existing Policyholders are less exposed to the effects of RST.2 and RST.3, but more exposed to the effects of RST.1 and RST.4.

14.4.7. *Based on these Reverse Stress Tests, I have concluded* that *each firm is able to withstand losses that I consider to be very severe, both pre- and post-Transfer.*

14.4.8. *These tests therefore support a conclusion that even though there are some scenarios that give rise to a worse effect on some of the Affected Policyholders, these are compensated for by other scenarios under which the adverse effects appear to be reduced.*

14.4.9. *Overall I have therefore concluded that these tests do not indicate a material adverse effect on the Affected Policyholders by the Transfer.*

14.5. Summary of COVID-19 testing

14.5.1. The additional testing performed in this Section 14 included two COVID-19 scenarios, S.13 and S.18 and two reverse stress tests, RST.3 and RST.4.

14.5.2. The scenario tests allowed for additional COVID-19 related losses relative to those recognised to date:

- S.13 assumes further market volatility and potential loss exposures of twice the amount allowed for to date; and
- S.18 combines the stresses from S.13 with losses from the failure of each firm's second largest reinsurer, the failure of a broker and an operational risk event.

14.5.3. These scenarios are in my view suitably severe tests to assess and compare the Parties' ability to withstand further losses arising from the pandemic, given they are in addition to losses that already arose and the Parties have reduced their exposure to riskier investments since the market volatility arising in late-March 2020. These scenarios might arise should there be further waves of infection arising.

14.5.4. As described in Table 14.4 above, for each of scenarios S.13 and S.18, the Parties would require the injection of additional financial resources in order to enable each to meet their Adjusted-SCR and continue with business plans in their current form.

14.5.5. Table 14.7 shows the reduction in CCR from scenarios S.13 and S.18.

Table 14.7 – Impact of COVID-19 scenarios as % Adjusted-SCR

	Pre-Transfer		Post-Transfer	
Test Description	**QBE UK**	**QBE Europe**	**QBE UK**	**QBE Europe**
S.13 Combined stress due to COVID-19	45%	36%	47%	35%
S.18 Extreme combined stress due to COVID-19	69%	58%	72%	56%

14.5.6. In both scenarios, the effect of the Transfer on the Affected Policyholders' exposure to the COVID-19 stresses is either small or favourable:

- For Remaining Policyholders, the reduction in CCR is c. 2-3% greater post-Transfer;
- For Transferring Policyholders, the reduction in CCR is c. 10-15% smaller post-Transfer; and
- For Existing Policyholders, the reduction in CCR is c. 2% greater post-Transfer.

14.5.7. In my view, none of these changes are materially adverse to the Affected Policyholders.

14.5.8. The two reverse stress tests show that, even after the more severe of the two scenarios (S.18) both of the Parties remain able to withstand significant levels of further deterioration in reserves (18%) or both reserves and reduced premium rates (13% of each) before approaching insolvency.

14.5.9. *While at the timing there remains significant uncertainty surrounding the financial implications of the COVID-19 pandemic, the testing I have performed has not led me to change my conclusions regarding the Transfer.*

14.6. Conclusions

14.6.1. I have drawn the following overall conclusions from this analysis:

- The QBE EO Internal Model has behaved as I expected.
- The Capital Appetite Framework provides resilience to alternative and more conservative parameter choices in the QBE EO Internal Model.
- QBE UK and QBE Europe are all sufficiently well capitalised to withstand a wide range of scenarios and severe scenarios. To exhaust their capital, a combination of scenarios is required, consistent with a remote combination of events being required to render them insolvent.
- Most tests showed that the position of policyholders was similar pre- and post-Transfer.
- While some tests show the risks to certain policyholder groups would increase as a result of the Transfer, other tests show that these policyholders would also receive some compensating reduction in their exposure from other risks.
- While noting the uncertainty arising from the COVID-19 pandemic, my testing of its financial implications have not led me to change any of my conclusions regarding the Transfer.

14.6.2. *Overall I have concluded that:*

- *The QBE EO Internal Model provides a suitable basis for assessment of the impact of the Transfer on the Parties.*
- *The overall effects of the Transfer do not appear to be materially adverse for the Affected Policyholders.*

15. Summary of financial positions of Affected Policyholders

15.1.1. This section summarises the conclusions from my detailed review in Part C of the financial implications of the Transfer. Other than looking at the balance sheet of QBE EO (which does not change as a result of the Transfer), the analysis in Part C sets aside the support that is available to QBE UK and QBE Europe from QBE EO and looks at the companies on a stand-alone basis.

15.1.2. In Sections 8 and 9 I concluded that the balance sheets, including the Technical Provisions provided me with an appropriate basis with which to assess the Transfer. This review also helped me to identify some of the key risks affecting the companies.

15.1.3. In Section 10 I summarised the key risks that I saw as affecting the companies and performed a qualitative review of the impact of the Transfer. I noted that while each group of policyholders would have changes to the risks facing their insurer, qualitatively these changes in risk profile did not represent a materially favourable or unfavourable change to any of them.

15.1.4. Finally, I noted that the Transfer would reduce the regulatory risk facing QBE UK arising from the uncertainties presented by Brexit.

15.1.5. In Section 11 I reviewed in detail the approach taken by the companies to calculate capital requirements using the QBE EO Internal Model. Overall I concluded that it addressed the key risks and provided me with an appropriate basis on which to review the impact of the Transfer.

15.1.6. I noted that in my view, the Approved Internal Model SCR is not appropriate for my analysis of QBE Europe in this Report. This is because it has not been updated for the most recent actual and planned premium income of QBE Europe. I have therefore reviewed the effects of the Transfer using the Adjusted-SCR, an Indicative Internal Model SCR which updates data in Approved Internal Model SCR to allow for increases in actual/planned premium income for QBE UK and QBE Europe and corresponding changes to its Technical Provisions.

15.1.7. I also considered testing of the effects of the COVID-19 pandemic on the risk profiles of the Parties and satisfied myself that I was able to reach my conclusions in subsequent sections of the Report using the Approved Internal Model SCR and Adjusted-SCR for QBE UK and QBE Europe

15.1.8. In Section 12 I reviewed how the Capital Appetite Framework is used by QBE UK and QBE Europe to determine the level of financial resources to hold in each company. I concluded that the Capital Appetite Framework provided a reasonable basis for decision-making by the firms regarding dividends and restoring capital coverage and that over the medium term, capital would be set consistently post-Transfer with the position pre-Transfer.

15.1.9. In Section 13 I analysed the impact of the Transfer on the Affected Policyholders by looking at the amount by which the financial resources of QBE UK and QBE Europe exceed the capital requirements when calculated using the Adjusted-SCR. I also showed the Approved Internal Model SCR for each firm at 31 December 2019 and the anticipated changes to EOF prior to the Transfer and arising from the Transfer.

15.1.10. I believe that the Adjusted-SCR provides the most meaningful comparison of the position of the companies before and after the Transfer because the calculations provide a consistent comparison of the risks and capital requirements of each.

15.1.11. I have therefore considered the effects of the Transfer using the Expected EOF as the available financial resources when comparing the CCRs pre- and post-Transfer. This is because it reflects the capital targets under the Parties' Capital Appetite Framework. While the pre-Transfer EOF of QBE Europe may fall below this level, in my view this is a temporary position in anticipation of the

Transfer and the June 2020 Major Model change. QBE EO Staff have told me that they will target the greater of 130% of the Adjusted-SCR and 110% of Approved Internal Model SCR for each of QBE UK and QBE Europe post-Transfer, and seek additional capital outside these two firms if necessary.

15.1.12. These comparisons also showed that post-Transfer:

- the amount of additional financial resources projected to be required by the Parties at the time of the Transfer was well within those available to QBE EO and QBE Group.
- both QBE UK and QBE Europe will have EOF in excess of their MCRs; and
- the Transfer would be unlikely to provide any material adverse financial effect on the Affected Policyholders.

15.1.13. In Section 14 I performed some additional quantitative tests on the QBE EO Internal Model and the companies. These enabled me to satisfy myself regarding:

- the robustness of the QBE EO Internal Model and the appropriateness of my using the Adjusted-SCR in my analysis;
- the adequacy of the capital buffers set out in the Capital Appetite Framework;
- the reliability of my conclusions regarding the Adjusted-SCR and the Capital Appetite Framework; and
- the COVID-19 pandemic impact not changing my conclusions

15.1.14. *I have therefore concluded that none of the Affected Policyholders are likely to be materially adversely affected by the Transfer, in respect of its anticipated financial consequences.*

15.1.15. *The various tests have confirmed that both QBE UK and QBE Europe will have financial resources in excess of their regulatory capital requirements. They have also led me to conclude that the chance of insolvency of any of the companies is remote.*

D. Detailed Review – Non-financial effects, notifications and publicity

16. Non-financial aspects relating to the Transfer

16.1. Introduction

16.1.1. This section sets out the various non-financial aspects of my review:

- Governance, strategy and operational matters.
- Servicing of UK risks post-Brexit.
- Policyholder priority on insolvency and winding-up and set-off rights.
- Policyholder protection schemes, policyholder complaints and Employers' Liability Tracing Office.
- Impact on reinsurers.
- Supervisory Authorisations, Internal Model approvals and other waivers.
- Insurance law and governing law considerations.
- Tax effects of the Scheme.
- Pension funds and employee benefit plans.
- Impact of COVID-19 pandemic.

16.2. Governance, strategy and operational matters

CORE FUNCTIONS AND BOARD COMMITTEES

16.2.1. QBE EO Staff have told me that there are no intended changes to the core functions or board committees of either QBE UK or QBE Europe as a result of the Transfer. Both companies have, with regulatory approval, delegated to QBE EO responsibility for certain core functions and board and executive committee activities.

BUSINESS STRATEGY

16.2.2. QBE EO Staff have told me that there are no intended changes to the business strategy as a result of the Transfer.

UNDERWRITING AND CLAIMS AUTHORITY

16.2.3. QBE Europe delegates authority for underwriting, claims and other activities from its Board to its general managers via its Chief Executive Officer. This approach is consistent with the existing arrangements within QBE UK, providing continuity in the manner in which decision-making is delegated across QBE EO entities.

INTERNAL CONTROL

16.2.4. QBE EO entities (including QBE UK and QBE Europe) operate an internal control framework that is designed to deliver legal and compliance minimum standards, including the standard required under Article 46 of the Solvency II Directive, and no material change is anticipated.

INVESTMENT STRATEGY AND INVESTMENT MANAGEMENT

16.2.5. Both QBE UK and QBE Europe outsource their investment management to specialist investment managers by means of a group-wide global investment master services agreement entered into with QBE Group Services Pty Limited. No changes are expected to arise to investment management as a result of the Transfer.

16.2.6. QBE EO Staff have confirmed to me that no material changes to the investment strategy or asset allocation of either QBE UK or QBE Europe are anticipated as a result of the Transfer.

16.2.7. The duration of the assets of QBE UK will be 2.8 years and those of QBE Europe will be 2.7 years. This shows that pre- and post-Transfer the firms will hold assets with shorter durations than their liabilities (being approximately 3.8 years for QBE UK and 6.2 years for QBE Europe).

Claims Handling and Policy Administration

16.2.8. QBE EO Staff have told me that no changes will take place to any claims handling or policy administration arrangements as a result of the Transfer. Details of the arrangements regarding employees and outsourcing agreements are described in Section 3.9.

16.2.9. These arrangements have been confirmed in paragraph 50 of the Witness Statement.

16.2.10. QBE EO Staff have told me that the same people (whether QBE EO employees or external providers of services to QBE EO companies) will continue to perform the same tasks using the same systems after the Transfer as before the Transfer, albeit that they will be performed for and on behalf of (and at the direction of) QBE Europe.

16.2.11. Additionally, all of the relevant companies will be subject to the same ownership, oversight and group-wide reporting lines before and after the Transfer.

16.2.12. *Based on information from QBE EO and QBE Europe staff there is no reason to believe there will be any material changes to the strategy, underwriting and claims authority, internal control, investment strategy and investment management arrangements, claims handling and policy administration or IT arrangements as a result of the Transfer.*

Data

16.2.13. QBE EO representatives have provided me with the following description regarding QBE Europe's approach to handling of data.

16.2.14. QBE Europe uses the IT infrastructure of QBE EO. As such, data currently resides in its UK-located data centres. In addition, QBE EO has a number of agreements in place with third party software-as-a-service providers that result in data being hosted in data centres within continental Europe or outside of it.

16.2.15. Where the data includes personal data, QBE EO subsidiary insurance companies have in place provisions with suppliers to ensure compliance with data protection laws including the transfer of data outside of the EEA, principally through the use of EU-approved standard contractual clauses. In addition, the QBE Group's information security function carries out due diligence reviews of all third-party suppliers to ensure that their security measures are adequate and meet QBE Group's relevant policies and legal and regulatory obligations.

16.2.16. Under GDPR and the UK Data Protection Act the Transfer allows QBE Europe to become the data controller of any personal data relating to the Transferring Policies.

16.2.17. *I do not believe that the Transfer will introduce any changes with respect to data handling that will affect any of the Affected Policyholders. This is because QBE EO currently has in place appropriate arrangements to handle and process data both within and outside the EEA that are not expected to change as a result of the Transfer.*

Cost of Restructuring

16.2.18. The costs of the restructuring (including the costs of the Scheme) will be borne by QBE EO. I do not believe that the costs of restructuring are such that it will affect the security of any of the Affected Policyholders.

Conclusions

16.2.19. *I have therefore concluded that there will be no material changes or disruptions as a result of the Transfer to:*

- *The model for governance and internal control applied across QBE EO businesses;*
- *The business strategy of QBE EO;*
- *The manner in which policies are administered, claims are handled or other operational matters for the Affected Policyholders as a result of the Transfer.*

16.2.20. *This is because I have not identified in my investigations any material change or difference in the way in which the Parties to the Transfer operate.*

16.3. Servicing of UK risks post-Brexit

16.3.1. The UK departed from the EU on 31 January 2020. At this point, the UK and EU entered into the Implementation Period. This allows time for the UK and the EU to negotiate their future trading arrangements post-Brexit.

16.3.2. Prior to Brexit, and until the end of the Implementation Period, QBE UK and QBE Europe are both authorised to:

- Carry on (re)insurance activities across EEA member states using Freedom of Services passporting permissions from the home office of the (re)insurance company.
- Carry on (re)insurance activities across EEA member states using Freedom of Establishment passporting permissions (although these permissions are only being utilised by QBE Europe at present). The branches employ individuals locally to conduct this (re)insurance activity.

QBE UK Position

16.3.3. Following the expiry of the Implementation Period[34], QBE UK will not be able to conduct (re)insurance activities in EEA member states using Freedom of Services or Freedom of Establishment passporting permissions. In some EEA member states, some of the activities considered in the UK as the conduct of (re)insurance business may be permitted, while in others no such activity will be legal. The position differs between EEA member states.

16.3.4. Post-Transfer, QBE UK will no longer need to conduct any (re)insurance business in any EEA member state.

QBE Europe Position

16.3.5. On 26 July 2018, QBE Europe received permission from the PRA for it to establish a branch office conducting (re)insurance business in the UK, and on 22 August 2018 this UK branch was established.

16.3.6. On 14 February 2019 the PRA acknowledged QBE Europe's intention for its UK branch to enter the Temporary Permissions Regime, or TPR. This acknowledgement is the mechanism by which

[34] This assumes that ongoing negotiations between the UK and EU during the Implementation Period do not change the position. My current understanding is that a material change is not expected, however my conclusions in this Report do not rely on this assumption.

QBE Europe's UK branch will enter the TPR once the Implementation Period expires. UK branches of EEA-domiciled Firms that have entered into the TPR will, during its period of operation, be deemed by the PRA to be authorised to conduct (re)insurance business in the UK[35].

16.3.7. The TPR is anticipated to commence at 11pm GMT on 31 December 2020 and expire after 3 years, however the UK Government has legislated that it can choose to extend the TPR in 12 month increments.

16.3.8. The purpose of the TPR is to provide the PRA and firms with a period of time during which authorisation of UK branches can be carried out. It is needed because it is not possible for the process of authorisation of UK branches to take place until the change in the governing law arising from Brexit takes effect.

16.3.9. There is the theoretical possibility that QBE Europe's UK branch will not obtain authorisation during the TPR, and QBE Europe will therefore not have permission to conduct (re)insurance business in the UK after the end of the TPR. I believe that this scenario is remote given the size and scale of QBE EO's established operations in the UK.

16.3.10. QBE EO Staff have told me that QBE Europe intends to administer policies and settle claims for UK risks using its staff working for its UK branch. Prior to reauthorisation of its UK branch under post-Brexit regulations, it will be permitted to operate in this manner as it will be deemed to be authorised during the TPR.

16.3.11. *Based on this analysis I have concluded that appropriate arrangements are and will remain in place to enable QBE Europe to service Transferring Policies using employees of QBE Europe's UK branch.*

16.3.12. *Post-Brexit and after the expiry of the Implementation Period, QBE Europe's UK branch will operate initially under the TPR while it obtains authorisation from the PRA. I have no reason to doubt that it will be successful in obtaining this authorisation given the size and scale of QBE EO's established operations in the UK.*

16.4. Policyholder priority on insolvency and winding-up and set-off rights

16.4.1. There is no change to the corporate domicile of the (re)insurer of the Remaining Policyholders or of the Existing Policyholders.

16.4.2. The Transferring Policyholders will move to a Belgium-domiciled (re)insurer from a UK-domiciled (re)insurer. Under both UK and Belgium law, where a firm is subject to insolvency direct insurance policyholders have priority for payment of claims over reinsurance policyholders.

16.4.3. Both QBE UK and QBE Europe have insurance and reinsurance policyholders and the Transferring Policyholders are all (re)insurance policyholders.

16.4.4. Given that the liabilities associated with the Transferring Policyholders are only a small proportion of those of both QBE UK and QBE Europe, the impact of any changes arising for any of the Affected Policyholders will not, in my view, be material. This is because the proportion of insurance and reinsurance policyholders will not change materially as a result of the Transfer.

16.4.5. *I have therefore concluded that changes with respect to winding-up priorities of the Affected Policyholders as a result of the Transfer will not be material.*

16.4.6. In my experience, under set-off negotiations relating to claim settlements or commutations Parties look at their overall position across all claims relative to the counterparty group. As all the

[35] This authorisation of UK branches of overseas firms is referred to as the branch having *Part 4A permission*.

Parties are and will remain wholly-owned subsidiaries of the QBE Group, I do not anticipate that the Transfer will confer any advantage to any companies within the QBE Group relative to the Affected Policyholders in this respect.

16.4.7. *I have therefore concluded that there will not be any material changes to set-off rights arising for the Affected Policyholders from the Transfer.*

16.5. Policyholder protection schemes

PROTECTION PROVIDED

16.5.1. In the event of default by an insurer authorised to write business in the UK, insurance policyholders benefit from the protection provided by the FSCS[36]. As a general rule, this protection is only provided to individuals and small businesses[37].

16.5.2. For claims arising from UK compulsory insurance classes of business (predominantly employers' liability and third-party motor liability insurance), from professional indemnity insurance or from the death or incapacity of a policyholder through injury, sickness or infirmity it provides 100% coverage for any insurer shortfall. In other cases, the coverage provided is 90%.

16.5.3. I have identified that in Belgium the protection provided is spread across more than one organisation:

- The Fonds Commun de Garantie Belge/Belgisch Gemeenschappelijk Waarborgfonds, whose website[38] states that in the event of insurer insolvency it provides protection for claims caused by motor vehicles that occurred in Belgium.
- Fedris, the Federal Agency for Occupational Risks, states on its website[39] that it indemnifies victims (or rightful claimants) of occupational diseases.

16.5.4. The protection provided by the Belgian schemes identified appears in my view to be less than that provided by the FSCS; however I believe that the specific circumstances applicable would need to be considered in determining the protection available to policyholders.

ELIGIBILITY FOR UK FINANCIAL SERVICES COMPENSATION SCHEME

16.5.5. The FSCS exists to provide protection to policyholders of UK-authorised insurers and not to those of overseas insurers. However where a policy written by a UK authorised firm is transferred to an overseas insurer, the FSCS includes provisions to cover claims that occurred prior to the Transfer[40] (whether reported to the insurer or not).

16.5.6. For unexpired periods of cover at the Transfer Date, eligibility to benefit from the FSCS will additionally depend upon whether QBE Europe remains a *'relevant person'*. It is currently a *relevant person* as a result of its being an incoming EEA firm. My analysis of this is based upon the Bank of England's February 2019 Policy Statement and subsequent July 2019 Consultation

[36] Described in the Policyholder Protection section of the PRA Rulebook.
[37] Those with an annual turnover of less than £1,000,000.
[38] http://www.fcgb-bgwf.be/images/lang/fr/orki/File/En/Mission_of_compensation.pdf
[39] https://www.fedris.be/en/node/439
[40] These provisions are contained in the Successor Firms provisions (Section 11 of the Policyholder Protection section of the PRA Rulebook "Successors in Default".) The provisions are most clearly explained in paragraph 20 of the PRA's Policy Statement PS5/15 "Policyholder protection" dated April 2015: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2015/ps515

Paper[41]. The Bank of England has indicated in these publications that for as long as QBE Europe retains authorisation for its UK branch, policyholders that meet the other eligibility requirements (relating to the type and size of policyholder) will retain the benefit of the FSCS.

16.5.7. Under the TPR, it will be deemed to have a Part 4A permission (i.e. an authorised UK branch) from the PRA until such time as its UK branch receives its Part 4A permission, or one of the following three scenarios arises at which point it will cease to be a relevant person:

- QBE Europe's application for authorisation of its UK Branch is declined by the PRA;
- The PRA decides unilaterally to cancel the deemed Part 4A permission; or
- The TPR comes to an end.

16.5.8. In the event that the UK Branch ceases to be a *relevant person*, it will no longer be authorised to write new business and will be expected to run-off its existing business in an orderly fashion. The UK Government has made a commitment in December 2017 to support the orderly run-off of such business.[42]

16.5.9. QBE EO Staff have told me that it has no plans to cease having an authorised UK branch. Given the size and scale of its UK branch, I am satisfied that there is valid strategic rationale for QBE Europe to maintain an authorised UK branch. Therefore, I believe that the potential impact of the Transfer on the Transferring Policyholders relating to policyholder protection schemes is not material.

16.5.10. In Section 15, I concluded that the likelihood of an insolvency event for QBE Europe is remote. This is based on my testing of the financial strength of the company in Section 14 and because QBE Europe will be an adequately capitalised (re)insurer. In addition, as described in Section 5, it benefits from additional security provided to it by being owned by QBE EO, which is itself owned by QBE Limited. If the UK branch does not get authorised for any reason, this will not change my conclusions because I have also satisfied myself that the chance of insolvency of QBE Europe is remote. I therefore believe that this does not materially adversely affect these policyholders.

Estimated Numbers of Policyholders Affected

16.5.11. The Witness Statement notes at paragraph 38(a) that the vast majority of the Transferring Policyholders are unlikely to benefit from the protections offered by the FSCS because they are neither individuals nor small businesses. Generally speaking, the Transferor focusses on the provision of insurance to medium to large sized corporates.

16.5.12. It is not possible to give a precise estimate of the number of policyholders affected by the loss of eligibility to claim from the FSCS in the event of insurer failure. This is because eligibility is determined at the time of a claim arising.

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[41] Policy Statement PS5/19 issued in February 2019 and indicated on 28 February 2019 as 'near final', with final versions to be published close to Brexit "The Bank of England's amendments to financial services legislation under the European Union (Withdrawal) Act 2018" https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/the-boes-amendments-to-financial-services-legislation-under-the-eu-withdrawal-act-2018.pdf?la=en&hash=1B26AA88A7DCA56C731498A74DB2B688EC79CD58 and subsequent July 2019 Consultation Paper CP18/19 "UK withdrawal from the EU: Changes following extension of Article 50": https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2019/cp1819-complete.pdf?la=en&hash=573F7920C9CFF71114674FE54707645F9CF4C247

[42] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2017-12-20/HCWS382/

16.5.13. QBE EO Staff have told me that they believe there are a small number of policies with an unexpired portion of risk at the Transfer Date. These are for long-term construction risk policies, which are typically for clients that are large corporates (i.e. not eligible for the FSCS).

16.5.14. *I have concluded that, in the unlikely event of QBE Europe being unable to meet policyholder claims in full, there will be no impact to policyholder protection arrangements:*

- *For Transferring Policyholders who are not individuals or small businesses at the time the protection from these arrangements are called upon, as they anyway had no protection in place pre-Transfer;*
- *In respect of claims relating to circumstances pre-Transfer; and*
- *For Remaining Policyholders and Existing Policyholders.*

16.5.15. *I have concluded that there is an immaterial risk of a reduction in policyholder protection arrangements otherwise, because:*

- *I consider the possibility of QBE Europe becoming insolvent and policyholders not having their claims paid in full to be remote;*
- *QBE Europe's current intention is to retain its UK branch, meaning that Transferring Policyholders will retain access to the FSCS (to the extent that they are eligible claimants) for protection post-Transfer; and*
- *In the event that QBE Europe does not maintain its UK branch, Transferring Policyholders will retain protection from the FSCS (where they are eligible) to the extent that the insured event took place prior to QBE Europe ceasing to be a UK authorised person. QBE EO Staff have told me that there are only a small number of policies with an unexpired portion of risks at the Transfer Date, and these policyholders are not expected to be eligible for the FSCS.*

16.6. Policyholder complaints

COMPARISON OF OMBUDSMAN ARRANGEMENTS

16.6.1. Subject to meeting certain specified criteria, policyholders of UK-domiciled insurance firms can take complaints to the Financial Ombudsman Service regarding the administration of their policy or claim. The Financial Ombudsman Service is a free-to-use, public body established by law that makes awards of up to £150,000 that are binding upon insurance firms.

16.6.2. Policyholders of Belgium-domiciled firms can apply to two distinct complaint resolution services:

- Ombudsman des Assurance / Ombudsman van de Verzekeringen – a body established by law that can make non-binding recommendations regarding the matter.
- Ombudsfin – a private body that, for insurance, can make non-binding recommendations regarding the matter.

16.6.3. In both cases, policyholders and claimants are entitled to issue legal proceedings against insurance firms and the operation of these redress schemes does not preclude this. Typically, issuing legal proceedings can be an expensive approach to resolution of issues of this nature and may not be available to personal and small commercial policyholders. While this also applies in the UK, the Financial Ombudsman Service is a free-to-use service and may help policyholders to avoid incurring significant legal costs as its awards of up to £150,000 are binding upon insurance firms.

16.6.4. Therefore in my view, the mechanisms for policyholders to obtain redress where they have legitimate complaints about how a policy or claim has been administered are weaker in Belgium than in the UK.

16.6.5. The eligibility rules for complainants mean that only the following types of complainant are eligible to access the Financial Ombudsman Scheme:

- Consumers – essentially a natural person acting outside his or her trade, business or profession;
- A micro-enterprise – defined in the FCA Handbook (by reference to EU law) as an enterprise which (a) employs fewer than 10 persons and (b) has a turnover or annual balance sheet that does not exceed €2 million;
- A charity with annual income of less than £1 million at the time the complaint is made; or
- A trustee of a trust which has a net asset value of less than £1 million at the time the complaint is made.

ESTIMATED NUMBERS OF POLICYHOLDERS AFFECTED

16.6.6. The Witness Statement notes at paragraph 41(a) that the Transferring Policyholders are largely non-consumer business and therefore unlikely to meet the eligibility criteria to access the Financial Ombudsman Service. Generally speaking, QBE UK focusses on the provision of insurance to medium to large sized corporates.

16.6.7. It is not possible to provide a precise estimate of the number of policyholders that might be eligible to access the Financial Ombudsman Service as this can only be determined at the time at which a complaint is made.

16.6.8. The Parties have obtained legal advice from Norton Rose Fulbright LLP, a UK law firm, confirming my understanding of the application of the Financial Ombudsman Service to the Transferring Policyholders post-Transfer and setting out the detailed legal basis. Norton Rose Fulbright LLP have confirmed in writing that I may rely upon their legal advice for the purposes of considering the Transfer.

16.6.9. The legal advice confirms that the Transferring Policyholders will effectively retain the eligibility that they have pre-Transfer to access the Financial Ombudsman Service. This is because:

- Post-Transfer, the Transferring Policyholders will have their policies administered and claims settled by UK-based employees of QBE Europe's UK branch.
- Pre-Transfer matters in respect of the activities of QBE UK that have transferred to QBE Europe will remain within the jurisdiction of the Financial Ombudsman Service because QBE Europe is the successor of QBE UK[43].
- Post-Transfer matters arising from activities performed in the UK by QBE Europe employees will remain within the jurisdiction of the Financial Ombudsman Service because QBE Europe will at any point in time when such activity takes place be either an incoming EEA firm, a firm with Part 4A permission (having an authorised UK branch) or a firm deemed to have Part 4A permissions (having an existing UK branch prior to Brexit and as a result of the TPR or subsequent arrangements published post-Brexit)[44].

16.6.10. There is a theoretical loss of eligibility to access the Financial Ombudsman Service in respect of activities carried out outside of the UK. However, the Parties have confirmed in the witness

[43] Section 234B of FSMA 2000

[44] Dispute Resolution: Complaints (DISP) chapter of the handbook of rules and guidance issued by the FCA.

statement that the current intention of the Transferee is that the relevant Transferring Policies will continue to be administered in the UK and, therefore, complaints and disputes in relation to policy administration activities will remain subject to the jurisdiction of the Financial Ombudsman Service. In addition, QBE Europe has undertaken to comply with:

- the relevant provisions of DISP in the FCA Handbook that would apply to the handling of any complaints brought to the Financial Ombudsman Service that fall under its jurisdiction; and
- any valid judgment, settlement, order or award (or relevant part thereof) of the Financial Ombudsman Service, made under its jurisdiction as set out in DISP 2.

16.6.11. Should QBE Europe decide to administer any of the Transferring Policies outside of the UK post-Transfer, such activities will not be subject to the jurisdiction of the Financial Ombudsman Service.

Frequency of use of the Financial Ombudsman Services

16.6.12. QBE EO Staff have told me that during the last five years there have not been any referrals to the Financial Ombudsman Service in respect of the Transferring Policyholders.

16.6.13. In comparison to the number of claims handled for the Transferring Policyholders over the same period, this absence of recent referrals suggests to me that the chance of any of the Transferring Policyholders needing to access the Financial Ombudsman Service is very low.

16.6.14. In summary:

- The policyholder complaint arrangements for a Belgium-domiciled insurer appear weaker than for a UK-domiciled insurer.
- Only individuals and very small businesses, trusts and charities are eligible to use the Financial Ombudsman Service. Most of the Transferring Policyholders do not fall into this category and will therefore be ineligible to claim.
- The proposed arrangements post-Transfer mean that Transferring Policyholders will in practice retain rights of access to the Financial Ombudsman Service.
- Recent experience suggests that the likelihood of there being a complaint to the Financial Ombudsman Service from any of the Affected Policyholders is very low.

16.6.15. *I have therefore concluded that the Transferring Policyholders:*

- *Will maintain their existing rights of access to the Financial Ombudsman Service in respect of acts or omissions in the administration of their policies arising pre-Transfer;*
- *Will maintain their existing rights of access to the Financial Ombudsman Service in respect of acts or omissions in the administration of their policies arising post-Transfer, where the administration of their policy takes place in the UK (in accordance with QBE Europe's current intentions); and*
- *Will lose their existing rights of access to the Financial Ombudsman Service in respect of acts or omissions in the administration of their policies arising post-Transfer, where the administration of their policy takes place outside of the UK.*

16.6.16. *I note that:*

- *The equivalent arrangements in Belgium appear to me to be inferior to the UK arrangements.*
- *No Transferring Policyholders have accessed the Financial Ombudsman Services over the last five years suggesting that QBE EO Staff have maintained good standards of customer service.*

16.6.17. *Overall, I have concluded that there is a theoretical reduction in the protection provided to policyholders as a result of the Transfer in this regard, but it is unlikely to be material.*

16.7. Employers' Liability Tracing Office

16.7.1. The Employers' Liability Tracing Office (ELTO) was established in the UK in 1999 to assist claimants in tracing the employers' liability insurer of a UK employer in order to pursue a claim. QBE EO provides data each year to ELTO, on behalf of both QBE UK and QBE Europe. I note that the ELTO website refers to QBE Europe as QBE EU SA/NV, but QBE EO Staff have confirmed that this is an administrative error and that QBE Europe SA/NV is intended.

16.7.2. QBE EO Staff have told me that QBE EO has a single ELTO membership for its subsidiaries including QBE UK and QBE Europe. This means that for Transferring Policies that include UK employers' liability business, all potential claimants will continue to be able to identify QBE EO as their previous employers' insurers, and QBE EO Staff would internally identify the correct entity should any claims be made.

16.7.3. *Based on this and the proposed arrangements post-Transfer, I am satisfied that policyholders, claimants and their representatives will not be adversely affected by the Transfer.*

16.8. Impact on Reinsurers

16.8.1. The Transfer allows outwards reinsurance policies associated with inwards business to transfer to QBE Europe from QBE UK. These are individually listed in the Scheme.

16.8.2. Where a reinsurance contract provides protection in respect of claims from both Transferring and Remaining Policies, the Scheme provides for the reinsurance contract to be split between QBE UK and QBE Europe. This ensures that there is no economic effect to either the reinsurer or QBE Group as a result of the Transfer.

16.8.3. *I have therefore concluded that there is unlikely to be any material impact on reinsurers arising from the Transfer.*

16.9. Supervisory Authorisations, Internal Model approvals and other waivers

PRUDENTIAL SUPERVISION

16.9.1. There will be no change as a result of the Transfer to the group supervisor of QBE EO; this will remain the PRA. Similarly there will be no change to the supervisor of QBE Group, this will remain the APRA.

16.9.2. Prudential supervision for the Transferring Policyholders will change from the PRA to the NBB. Both the PRA and NBB are well-established, experienced insurance supervisors who follow the requirements of Solvency II

16.9.3. There will be no change as a result of the Transfer to prudential supervision for the Remaining Policyholders and Existing Policyholders.

16.9.4. *Overall, I have concluded that while there will be a change in the prudential supervisor for some of the Affected Policyholders, I do not believe the effect to be material.*

CONDUCT SUPERVISION

16.9.5. As a result of the Transfer, oversight of conduct supervision for the Transferring Policyholders will pass from the FCA to the Belgium Financial Services and Markets Authority (as lead conduct supervisor of QBE Europe). However, the FCA (like other local EEA conduct regulators) will continue to have a secondary conduct supervisory role in relation to policyholders with UK risks.

16.9.6. Pre-Transfer, the FCA is responsible for conduct supervision of all business written by UK-authorised firms including their overseas branches. Therefore all of the QBE UK policyholders fall within the FCA's oversight. In the UK, the Financial Conduct Authority has two statutory objectives: (i) a strategic objective to ensure that the relevant markets function well; (ii) operational objectives to secure an appropriate degree of protection for consumers; protecting and enhancing the integrity of the financial system; and promoting effective competition in the interest of consumers.

16.9.7. Conduct supervision for QBE Europe is the responsibility of the Financial Services and Markets Authority, the financial regulatory agency in Belgium. The role of this agency is to ensure the honest and equitable treatment of financial consumers and the integrity of the financial markets. In particular, its role as regards insurance undertakings is limited to ensuring that they comply with the laws governing insurance contracts and the provision of information to policyholders and to giving its opinion to the NBB on the fit and proper character of directors, and other senior officers as well as on compliance matters.

16.9.8. The Insurance Distribution Directive ("IDD") implementation requirements started to apply to firms across EU member states from 1 October 2018. The IDD sets regulatory requirements for firms designing and selling insurance products. It is a minimum harmonisation directive for insurance distribution regulation, which aims to enhance consumer protection and support competition between insurance distributors by creating a 'level playing field'.

16.9.9. Based on this comparison of the objectives of each of the two conduct regulators, and their respective roles regarding the Affected Policyholders, I have satisfied myself that the Transfer will not give rise to a material change in the arrangements for conduct supervision that will affect outcomes for the Transferring Policyholders.

16.9.10. *I have concluded that changes in conduct supervision for the Affected Policyholders will not be material.*

INTERNAL MODEL APPROVAL

16.9.11. In January 2020, QBE EO and the Parties received supervisory approval for the Major Model Change to the QBE EO Internal Model that was submitted in August 2019.

16.9.12. QBE EO Staff have told me that they submitted their next Major Model Change application to the PRA and NBB in June 2020 shortly before the finalisation of this Report.

16.9.13. *I did not identify any other material supervisory matters arising from the Transfer and affecting the Affected Policyholders.*

16.10. Insurance law and governing law considerations

INSURANCE LAW GOVERNING PRUDENTIAL SUPERVISION

16.10.1. Both the UK and Belgium have implemented the EU-wide Solvency II insurance law within their own laws. While I anticipate that there will be some differences in the manner in which they have been implemented, I am not aware of any material differences that apply.

IMPACT OF GOVERNING LAW OF THE POLICIES OF THE TRANSFERRING POLICYHOLDERS

16.10.2. There is a theoretical risk that policyholders with policies governed by laws that are not those of the UK or of an EEA member state may subsequently be deemed not to have transferred under the relevant policy's governing law. QBE EO Staff have therefore carried out an exercise to analyse the governing law applicable to the Transferring Policies. They have examined a sample of standard contract wordings, including those policies issued by coverholders, used in the Transferring Policies. They have confirmed that all of these are governed by English law or that of another EEA state and that they have not identified as part of this work any Transferring Policies with policies using any other governing law.

16.10.3. QBE EO Staff have also confirmed to me that they will pay any valid claim, not seek to rely on the non-recognition of the Transfer under the governing law of a policy as a basis for avoiding a claim and meet any reasonable legal costs and expenses incurred by the policyholder in question to the extent that they relate to the enforcement of a policy in a jurisdiction that does not recognise the Transfer.

16.10.4. As QBE UK will continue to exist post-Transfer, any claimant who successfully challenged in a non-EEA court the validity of the Transfer would still be able to submit claims for payment to QBE UK.

16.10.5. I have not identified any scenario under which a Transferring Policyholder would rationally wish to challenge the validity of the Transfer.

16.10.6. *Based on this analysis, I am satisfied that none of the Affected Policyholders will be disadvantaged as a result of the governing law of the policy not recognising the Transfer.*

16.11. Tax effects of the Scheme

16.11.1. QBE EO Staff have told me that they believe that the risk of any tax liabilities being triggered by the Transfer is remote. Given the size of the Transfer, any such tax liability that might arise would be well within the financial resources of each of the Parties. Should this position change I will update the Court in my Supplemental Report.

16.12. Pension fund and employee benefit plans

16.12.1. QBE EO Staff have told me that there are no current or former UK employees of QBE UK; all UK staff will continue to work for QMSUK.

16.12.2. *Based on this information I have concluded that there are no issues arising from the Transfer relating to pensions or other employee benefit plans that I need to highlight in my Report.*

16.13. Impact of COVID-19 pandemic

16.13.1. QBE EO Staff have told me that they do not anticipate that the COVID-19 pandemic will have any impact on the non-financial arrangements relating to the Transfer. All of the staff performing work for the Parties and QBE EO have been able to relocate to continue their functions from home. Post-Transfer, these contingency arrangements will continue to be available should they be required, unchanged from the position pre-Transfer.

16.13.2. *Based on this information I have concluded that there are no additional issues arising from the Transfer relating to the current COVID-19 pandemic that I need to highlight in this section of my Report.*

17. Notifications and Publicity arrangements

17.1. Introduction

17.1.1. In this section I have commented upon the approach the Parties propose to take in notifying Affected Policyholders and their proposed publicity arrangements. My understanding of the proposed approach is based upon the material supplied to me at the time of writing my Report by QBE EO Staff, including the Witness Statement.

17.1.2. Under FSMA 2000, the Parties (i.e. QBE UK and QBE Europe) are required to provide notification of the proposed Transfer to all Affected Policyholders and to all Reinsurers of the Transferring Policies and are required to publicise the Transfer in a number of publications. The Parties are seeking waivers from notifying certain Affected Policyholders and Reinsurers of the Transferring Policies and one waiver from the publicity requirements.

17.1.3. In this section I have indicated whether I believe that the arguments and arrangements put forward relating to notifications and publicity by the Parties are appropriate. I stress however, that it will be for the Court to approve these arrangements and any waivers sought and that it may amend some or all of them. If they are amended, I will comment on whether there are any changes to my conclusions in my Supplemental Report.

17.1.4. I have noted where relevant in this section my consideration of the potential impact of the COVID-19 pandemic on the notification and publicity arrangements.

17.2. High-level approach to Notification Arrangements - Policyholders

17.2.1. The Parties intend to provide notification of the Transfer to claimants (or their legal advisors) under Transferring Policies who have open outstanding claims and where QBE EO or their Brokers (being in this context TPAs) have their details in their operational computer records.

17.2.2. The Parties also intend to notify Transferring Policyholders who hold Active Policies. QBE EO has defined an Active Policy as:

- A policy having a claim recorded on QBE UK's operational computer records that either is open or has an outstanding indemnity claim amount recorded against it; or
- A policy within a cohort of policies for which the company is holding an Incurred But Not Reported (IBNR) reserve amount, gross of reinsurance.

17.2.3. For the purposes of the Transfer, a *cohort* of policies is determined as a group of policies with a common class of business and underwriting year.

17.2.4. The Parties are therefore seeking waivers from notifying the following groups of Affected Policyholders of the Transfer:

- Transferring Policyholders (excluding those within the Project Fall European Business who are subject to a different waiver) who do not have an Active Policy.
- Project Fall European Business policyholders who meet certain criteria.
- Remaining Policyholders.
- Existing Policyholders.
- Other Transferring Policyholders (in the form of a general waiver).
- Employers' liability policy beneficiaries (usually employees of the Transferring Policyholder).

17.2.5. I have set out my opinion and supporting analysis on each of these waivers in Sections 17.3 to 17.7.

17.3. Waiver for Transferring Policyholders (excluding Project Fall European Business) who do not have an Active Policy

17.3.1. The reason for seeking this waiver is to exclude those Transferring Policyholders who (in the Parties' view) hold a policy that is highly unlikely to give rise to a claim. The Parties have argued that the cost of such a communications exercise would be disproportionate to any policyholder benefit derived.

17.3.2. Given that the Transfer is moving policyholders between companies within the QBE Group, and taking into account the other protections provided by the Part VII Transfer process, QBE considers that any benefit provided by such notification would be very limited.

17.3.3. QBE EO Staff have analysed the Transferring Policyholders to identify those that hold Active Policies by testing whether they meet either of the following criteria:

- They have an open claim on their policy; or
- A reserve for IBNR claims has been recorded against a cohort of policies that includes the policy in question.

17.3.4. I have been provided with a copy of the exhibit prepared by QBE EO Staff setting out the results of the analysis of Active Policies referred to in paragraph 84 of the Witness Statement. This shows for each distinct portfolio considered:

- the first and last underwriting years;
- the most recent underwriting year that has no IBNR allocated to it;
- the approximate gross IBNR estimated by the QBE EO Actuarial Function; and
- the number of years since the last claim was notified on any of the underwriting years with no IBNR.

17.3.5. The exhibit indicates, for each distinct portfolio, which underwriting years have been considered as an Active Underwriting Year, with each of those underwriting years in which there has been a claims notification in the last five years being considered Active Underwriting Years even where there is no IBNR.

17.3.6. As an additional protection, I requested that QBE EO's Actuarial Function sign off the results of this exercise and determine whether any additional underwriting years should be classified as Active Underwriting Years on a case-by-case basis. This was to mitigate against the risks that:

- The actuarial IBNR estimates were not prepared for the purpose of this analysis;
- Some small segments are excluded inappropriately; and
- Certain policy or claim types have specific characteristics that make the criteria described in paragraph 17.3.3 inappropriate.

17.3.7. I reviewed the process adopted and have satisfied myself that, other than for the P&I portfolio, the final classification excluded only those groups of policies where the chance of a future claim arising is remote.

17.3.8. I reviewed the final exhibit identifying the Active Policies and discussed the results with QBE EO's Actuarial Function before it was finalised. Based on this I am satisfied that, other than for the P&I portfolio, the approach adopted in support of this waiver is appropriate.

17.3.9. For the P&I portfolio, a modification to the general approach was adopted because during the last two years QBE UK have received two claims notifications for asbestos-related matters on Transferring Policies that were underwritten during the 1990s. For these underwriting years, QBE EO Staff have told me that they do not believe that QBE UK has complete policyholder data records on their computer systems, owing to computer data migrations that took place in the early years of this century.

17.3.10. QBE EO Staff have therefore decided to place an additional advertisement publicising the Transfer in TradeWinds. TradeWinds' owner, NHST Media Group, notes on its website that the publication was launched about 30 years ago. QBE EO Staff have told me that they have selected this publication because they understand it to be one of the most widely recognised publications amongst the insurance market and shipowners, with shipowners and brokers regularly referring to articles in this publication. QBE EO Staff therefore believe the publication is the most likely to be read by policyholders of the P&I portfolio.

17.3.11. *I have concluded that the arguments for this waiver put forward by the Parties are appropriate, having considered the supporting analysis performed by QBE EO Staff and the additional sign-off provided by the QBE EO Actuarial Function.*

17.3.12. *I believe that the additional advertising provides a suitable compensatory effort to contact P&I policyholders who might otherwise not receive communication regarding the Transfer.*

17.4. Waiver for Project Fall European Business policyholders who meet certain criteria

17.4.1. This waiver is for Project Fall European Business policyholders who meet all of the following criteria:

- The policyholder does not have an open claim;
- The policyholder has not notified an industrial disease claim since 1 January 2014;
- The policyholder does not have a policy covering risks located in the Republic of Ireland according to QBE UK's records; and
- The policyholder was not notified about Project Fall for any other reason.

17.4.2. This waiver differs from the waiver sought for the other Transferring Policyholders. It means that QBE EO intends to notify Project Fall European Business policyholders using the same criteria as that used for Project Fall. The Parties have told me that the reason for the difference in this waiver application, compared with that described in 17.3, is to recognise that:

- The nature of industrial disease claims covered by policies that would have transferred under Project Fall, particularly those arising from exposure to asbestos-related products, is that they tend to have a significantly longer reporting period than claims from other liability classes.
- Some of these policyholders will have already been made aware of Project Fall, and the Parties are keen to avoid any confusion arising from the decision to cancel the transfer of the Project Fall Business.

17.4.3. QBE UK has identified approximately 130 Project Fall European Business policyholders from their current operational computer records. QBE EO Staff have told me that they do not believe that they have complete policyholder data records on their computer systems, owing to computer data migrations that took place in the early years of this century. They have told me that they do not have the data to be more precise.

17.4.4. In respect of the 130 Project Fall European Business Transferring Policyholders, there are 145 open claims and, in addition, 45 of the policies have a notified industrial disease claim since 1 January 2014. The open claims arise from two policyholders.

17.4.5. The reasons for seeking this waiver are as follows:

- The Parties believe that this will exclude those Transferring Policyholders of the Project Fall European Business who (in the Parties' consideration) hold a policy that is highly unlikely to give rise to a claim.
- This waiver is consistent with that applied when notifying policyholders who were being transferred under Project Fall.
- The Transfer is moving policyholders between companies within the QBE Group, and taking into account the other protections provided by the Part VII Transfer process, QBE considers that any benefit provided by such notification would be very limited.
- There will be not be any change to the process for submitting a claim as a result of the Transfer.

17.4.6. *I have reviewed these arguments and concluded that the arguments for this waiver put forward by the Parties are appropriate, having considered the supporting analysis performed by QBE EO Staff.*

17.5. Waiver for Remaining Policyholders and Existing Policyholders

17.5.1. QBE UK has estimated that there are approximately 127,700 Remaining Policyholders and 97,500 Existing Policyholders and proposes not to contact such Affected Policyholders. These are estimated based on their current operational computer records and could exclude policyholder records that have not migrated[45] from their decommissioned legacy systems, the last of which was decommissioned in 2010. QBE EO Staff have estimated that many Project Fall policyholder records[46] will not be included in their current operational computer records.

17.5.2. The reasons for seeking this waiver are as follows:

- The Transfer is being carried out in response to Brexit and the need for QBE UK to make arrangements to continue administering policies and settling claims, rather than for another commercial rationale.
- The Transfer will have limited impact on either QBE UK or QBE Europe given the size of the liabilities associated with the Transferring Policies as a proportion of the liabilities of QBE UK and QBE Europe.
- These Affected Policyholders will have no changes applying to their policy, so any correspondence to them would be to inform them of there being no change to (i) their (re)insurer's governance structure and regulatory framework; (ii) their policy terms and conditions; and (iii) their security of benefits.
- These policyholders will remain within the QBE EO Group and QBE Group. They will continue to be subject to the Capital Appetite Framework before and after the Transfer.
- QBE UK has estimated that the cost of notifying these policyholders (including significant tracing costs) will be in excess of £2.1 million and considers that this cost will be disproportionate given the limited effect of the Transfer upon these policyholders.
- That there are no adverse findings in this Report relating to these groups of policyholders.

17.5.3. *I have reviewed these arguments and concluded that the arguments for this waiver put forward by the Parties are appropriate, having considered the supporting analysis performed by QBE EO Staff.*

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[45] because they did not have an open claim at the point of migration and have never had a claim since the data migration took place

[46] being approximately 720,000 as reported in the independent expert report for Project Fall (https://qbeeurope.com/media/7909/11-report-of-the-independent-expert.pdf) at paragraph 1.9.

17.6. Waiver for Other Transferring Policyholders.

17.6.1. This waiver is being sought because it is likely that the Parties will be unable to notify all Transferring Policyholders with Active Policies. Some specific examples considered by the Parties are:

- Those Transferring Policyholders that cannot be identified because the operational computer records of the Parties do not contain details of those Transferring Policyholders who are not indicated on the face of the policy as the policyholder. This is particularly relevant because the definition of policyholder in the FSMA Order is very wide and could include individuals who make a claim in the future and are unknown to the Parties and many individuals for whom the likelihood of making a claim is remote.
- Those Transferring Policyholders who have become policyholders by virtue of an assignment of the original policy but who have not informed the Parties.
- Those Transferring Policyholders whose contact details have changed since the policy was issued but have not informed the Parties of the change.
- There is always the risk that, due to human error, some Transferring Policyholders in this category may be omitted from the notification exercise in error.

17.6.2. This waiver is being sought because in each case it would be impossible for the Parties to be certain that it had notified all the relevant Transferring Policyholders. In essence, the Parties are seeking these waivers to avoid being in breach of their notification obligations owing to gaps or errors that may exist in their operational computer records, despite the Parties' endeavours.

17.6.3. *I have concluded that the arguments for this waiver put forward by the Parties are appropriate.*

17.7. Waiver for employers' liability policy beneficiaries

17.7.1. The definition of Policyholder under the FSMA Order is very broad and includes all beneficiaries under policies. The nature of employers' liability business means that insurers are unlikely to have details of all employees of their insured firms and QBE EO Staff have told me that they believe that the cost of gathering this information reliably for all current and previous insured firms would be very expensive and unlikely to succeed in obtaining a comprehensive list of all potential beneficiaries, particularly where formerly insured firms are no longer trading. Accordingly, the Parties propose to request that each employer insured pursuant to an employers' liability policy forming part of the transferring business: (a) places prominent notices explaining the Scheme in the offices where the relevant beneficiaries work (to the extent possible given the current disruption caused by the COVID-19 pandemic) and on the company intranet; and (b) sends an email communication to all relevant beneficiaries (including those who are absent from the office, whether on maternity or other long-term leave, but remain employed by the employer).

17.7.2. *I have concluded that the arguments for this waiver put forward by the Parties are appropriate.*

17.8. High-level approach to Notification Arrangements – reinsurers and reinsurance brokers

17.8.1. QBE UK has determined that it benefits from reinsurance treaties underwritten by 146 reinsurers (both lead and follow market), directly with QBE UK or through reinsurance brokers, that will transfer, in whole or in part, under the Transfer.

17.8.2. The Parties have identified all the reinsurance contracts and listed them in a Schedule attached to the Scheme. They propose to notify each of the 146 reinsurers directly rather than through their reinsurance brokers on the basis that QBE UK already has the most up-to-date contact details for all reinsurers.

17.8.3. They are seeking a waiver from notifying all reinsurers where there are gaps in the operational computer records of QBE UK. This includes cases where the information is missing or where a change has arisen that has not been notified to QBE UK.

17.8.4. The Parties are seeking a waiver from contacting all reinsurers of the Transferring Policies. This is because:

- The operational computer records of QBE UK do not necessarily identify each and every reinsurer; and
- QBE UK cannot rule out the possibility that some of the contact details for the reinsurers may be incorrect or out of date.

17.8.5. This waiver is being sought because in each case it would be impossible for the Parties to be certain that it had notified all the relevant reinsurers. In essence, the Parties are seeking this waiver to avoid being in breach of their notification obligations owing to gaps or errors that may exist in their operational computer records, despite the Parties' endeavours.

17.8.6. *I have concluded that the arguments for this waiver put forward by the Parties are appropriate.*

17.9. Method of communication

17.9.1. Other than where a waiver is being sought, the Parties intend to notify every Affected Policyholder or Reinsurer. This will either be performed in the following manner:

- For policyholders categorised by the Parties as part of its British Marine business and for claimants with claims that are being managed by a third party administrator, notification will be carried out with the assistance of the relevant Broker [47] (approximately 16.5% of policyholders) or third party administrator (approximately 50% of claimants).
- For the remaining Transferring Policyholders both those where the relationship is normally managed by QBE UK directly and those where other Brokers manage the relationship (approximately 83.5%) and the remaining claimants (approximately 50%) notification will be carried out directly by QBE EO Staff.
- For reinsurers, notification will be carried out directly by QBE EO Staff.

17.9.2. The rationale for this approach is that:

- For policyholders where the relationship is normally managed by QBE UK this is the normal channel of communication.
- For policyholders categorised by the Parties as part of its British Marine business this is the normal channel of communication.
- For claimants with claims that are being managed by a third-party administrator this is the normal channel of communication.
- For those other policyholders where the relationship is normally managed by the relevant Broker, QBE EO Staff received limited support from Brokers to carry out this activity. As QBE UK believes that it has up-to-date contact details for 92% of these policyholders and in light of the disruption caused by the COVID-19 pandemic, the Parties felt it would be pragmatic to avoid protracted discussions with Brokers and proceed in this manner.

17.9.3. QBE EO Staff have told me that following initial communication of plans regarding the Transfer, they have not received any negative response regarding the willingness of the Brokers for the

[47] Other than third-party claims administrators

British Marine business and the third party claim administrators to assist with this communication exercise.

17.9.4. The Parties will provide a tracking schedule and request that the Brokers for the British Marine Business and the third-party claims administrators provide regular updates and written confirmation that they have sent the communication material to the Affected Policyholders by 24 July 2020. The Parties will assess any requests from the Brokers for the British Marine Business and the third-party claims administrators to meet the costs in conducting this communication exercise. Where the Parties believe that it is reasonable to do, they will meet these costs.

17.9.5. For communication with Affected Policyholders, the Parties will work with the Brokers for the British Marine Business and third-party claims administrators to assist them to match up policy names and contact details, to the extent that they require such assistance. Where the relevant Broker is no longer in existence, QBE EO Staff will attempt to trace the relevant Transferring Policyholder's contact details using a third-party tracing agent.

17.9.6. The Parties recognise that they may be unable to compel all of the Brokers for the of the British Marine Business and third-party claims administrators to assist with notification of the Transfer. They will seek to overcome any resistance by offering logistical and financial support where reasonable to do so.

17.9.7. In cases where Brokers for the British Marine Business and third-party claims administrators are unable to or refuse to assist the Parties, or have not provided written confirmation by 24 July 2020 that they have notified the relevant Affected Policyholders, the Parties have confirmed to me that they will seek to identify the contact details of the Affected Policyholders from their own systems and contact them directly.

17.9.8. QBE EO Staff anticipate using posted mail for the communications exercise, but recognise that some policyholders have email as the preferred or only means of communication. Posted mail is the preferred approach because:

- For QBE UK's own communications, postal communication is the most prevalent form of communication used.
- For communication by Brokers for the British Marine Business and third-party claims administrators, it is anticipated that this will be the customary means of communication with these policyholders and claimants.

17.9.9. Where posted mail is returned, it is proposed that QBE EO Staff will:

- Check records to verify whether the intended recipient has received the communication material by another means.
- If they have not received it by another means, they will check the postal address for obvious errors.
- Where no errors are identified, or if the posted mail is re-sent and is again returned, the policyholder in question will be informed by email (to the extent that an email address is available).
- Where no email address is available, the Companies House register will be used to confirm the address details (for England and Wales recipients) or a tracing agent will be retained (otherwise) to locate the relevant recipient.

17.9.10. Where no postal address is available, the Companies House register will be used to confirm the address details (for England and Wales recipients) or a tracing agent will be retained (otherwise) to locate the relevant recipient.

17.9.11. Where an email is the preferred approach, or email is used when postal mail has proved unsuccessful (after following the steps in paragraph 17.9.9,) and an email is "bounced back", it is proposed that QBE EO Staff will:

- Check records to verify whether the intended recipient has received the communication material by another means.
- If they have not received it by another means, they will check the email address for obvious errors.
- Where no errors are identified, or if the email is re-sent and is again "bounced back", the Companies House register will be used to confirm the address details (for England and Wales recipients) or a tracing agent will be retained (otherwise) to locate the relevant recipient.

17.9.12. For employers' liability policy beneficiaries, the Parties will follow the process described in paragraph 17.7.1 above.

17.9.13. Where the principal method of communication will be through postal mail, QBE EO Staff have told me that they believe that UK post is, generally speaking, operating as normal. Although it is acknowledged by the Parties that, due to the COVID-19 pandemic, there may be delays in respect of postal delivery to certain international destinations, I have no reason to believe that international post is now unreliable. I therefore believe that this approach will continue to satisfy the notification requirements for the Transfer.

17.9.14. Equally, for those policyholders where the principal method of communication will be through email, I do not anticipate that the COVID-19 pandemic will disrupt this from satisfying the notification requirements for the Transfer.

17.9.15. *I have concluded that the method of communication proposed by the Parties is appropriate.*

17.10. Content of communication

17.10.1. QBE UK intends to send the following communication pack (in English only) to notify Affected Policyholders and Reinsurers:

- A covering letter containing the prescribed information stating that the application for the Transfer has been made by QBE UK and QBE Europe to the Court;
- A copy of the formal legal notice setting out the details of the Court hearing;
- A statement setting out a summary of the terms of the proposed Transfer and containing a summary of the report prepared by the Independent Expert; and
- A question-and-answer booklet relating to the Transfer.

17.10.2. All of the communication packs to be sent to the Affected Policyholders will be in English because this is the language used in all of the policy documentation for those Transferring Policyholders who are to receive these packs.

17.10.3. Owing to uncertainties surrounding the reopening of face-to-face Court hearings during the COVID-19 pandemic, the communication documents ask policyholders wishing to attend the hearing to check the details on Brexit section of QBE EO's website and provides a link to access this page. The Brexit section of QBE EO's website (https://qbeeurope.com/about-us/brexit/) is already operational.

17.10.4. *I have reviewed the near-final draft communication pack documents and satisfied myself that they are appropriate.*

17.11. Proposed approach to publicity surrounding Transfer

17.11.1. The Parties propose to publicise the Transfer by means of a notice in the London, Edinburgh and Belfast Gazettes, the Financial Times (International Edition), and an additional quality newspaper in the UK and every EEA member state (as the Transferring Policies include risks in all EEA member states). For those countries where the Financial Times (International Edition) circulation is below 2,000, notices will be placed in two quality newspapers (rather than one).

17.11.2. The Parties have sought a waiver from the requirement to publish in two national newspapers in those EEA member states in which a risk covered by a Transferring Policy is situated. This is to provide the Parties with the flexibility to publicise the Transfer using the Financial Times (International Edition) in place of one of the national newspapers required, other than in those countries where the Financial Times (International Edition)'s circulation is less than 2,000. This waiver is being sought to avoid the risk that the proposed approach may fail to meet a reading of the advertising requirements that interprets the words "national newspaper" as requiring a publication of the nation state in question, rather than an interpretation of it being a publication that is available nationally.

17.11.3. In my opinion, this waiver request is appropriate as it is seeking to avoid a risk of breaching the requirements as a result of different possible interpretations of the advertising requirements.

17.11.4. As described in Section 17.3, the Parties are placing a targeted advert in TradeWinds in order to compensate for difficulties in notifying P&I policyholders with Active Policies who may give rise to future claims. This is as a result of limitations that QBE EO Staff have identified in the QBE UK policy data held on the computer systems for very old policies.

17.11.5. For Project Fall, notices were placed in industry-specific trade publications i.e. the Insurance Times, Machinery, New Civil Engineer and Construction Plant News. The Parties have told me that they intend to publicise the Transfer in these same publications.

17.11.6. Additionally, notices are to be placed in Belgium in one French language quality newspaper and one Flemish language quality newspaper, and in one English language quality newspaper each in Bermuda and Dubai.

17.11.7. QBE EO Staff have provided me with a copy of a report[48] prepared by Courts Advertising Limited, a company specialising in providing legal and public notice advertising services to professional services clients, including lawyers, accountants, insurance companies and official bodies studying the effect of the COVID-19 pandemic on European national newspaper circulations.

17.11.8. This study concludes that while there was an initial drop in circulation, in the vast majority of EEA member states, circulations appear to be at or close to normal levels. While I anticipate that there will be a degree of disruption arising, this suggests to me that the publicity arrangements proposed by the Parties remain appropriate.

17.11.9. *I consider that the approach taken to publicising the Transfer is appropriate with the Parties taking reasonable steps to avoid the risk of breaching the requirements of FSMA 2000 as a result of different possible interpretations of the advertising requirements.*

[48] Coronavirus COVID-19: effect on European national newspaper circulations – Courts advertising research briefing, Applicable to Part VII business transfers, restructuring and insolvency. Edition 2, 27 April 2020.

E. Appendices

Appendix 1. Scope of services

Below is an extract from our engagement letter dated 24 July 2019 regarding the scope of services. Note that some defined terms in this extract may differ slightly from those used in the Report.

Scope and purpose of Your Project

You would like Alex Marcuson to act as independent expert for the Proposed Transfer and prepare a report for the Court on its effects in accordance with the requirements described in Part VII of the Financial Services and Markets Act 2000, the Prudential Regulation Authority's ("**PRA**") Statement of Policy issued on 1 April 2015 and section SUP18 of the Financial Conduct Authority's ("**FCA**") Handbook.

Currently, QBE UK services some business written in respect of EEA risks on a Freedom of Services basis. The purpose of Your Project is to consolidate this remaining EEA business with Your other European business in QBE Europe. This will enable You to continue to service and settle claims relating to these policies and minimise the risk of disruption in the event that the current negotiations for the United Kingdom to leave the European Union do not result in a continuation of the current legal framework.

Services

We will carry out a review of the effects of the Proposed Transfer on:

- The policyholders of QBE UK transferring into QBE Europe;
- The policyholders of QBE UK that will remain with QBE UK;
- The existing policyholders of QBE Europe.

In doing so, we will consider the effect of the financial and non-financial implications of the Proposed Transfer to determine whether we can be satisfied that no group of policyholders will be materially adversely affected. We will also consider the communications and publicity arrangements associated with the Proposed Transfer.

As necessary, we will correspond and liaise with the PRA and FCA when carrying out the role as the independent expert to the Proposed Transfer.

We will arrange for the independent expert to attend Court for the sanction hearing as reasonably required.

We will prepare the Deliverables set out later in this letter.

Our team will be led by Alex Marcuson, assisted by other consultants and sub-contractors as necessary.

This assistance will take place from the date of this letter and it is intended that the Proposed Transfer will be approved by the Court during 2020.

Appendix 2. Reliances & limitations

E.2.1 Reliances

E.2.1.1 In preparing this Report I have relied on various sources of information, including:

- Data and information provided to me by QBE EO Staff. This information includes spreadsheet models, internal and externally prepared reports and matters described to me in meetings;
- Publicly available data and information.

E.2.1.2 In doing so, I have considered the reasonableness of this information, but I have not independently verified all sources, nor have I carried out any form of audit of the data and information supplied. Should any of these sources prove unreliable or inaccurate, my findings may change, potentially materially.

E.2.1.3 In particular, I have not reviewed the case estimates established for individual claims and have relied upon the quality of case estimates in the data supplied by QBE EO Staff.

E.2.1.4 I have relied upon the statements made on behalf of QBE UK and QBE Europe in the Witness Statement (at paragraph 59) that confirm the accuracy and reliability of the data and other information supplied to me as part of this project. I discuss why I believe it is appropriate for me to rely upon these statements in Section 6.

E.2.2 Limitations and uncertainty

E.2.2.1 General insurance and general insurance processes are by their nature uncertain. In the case of long-tail liabilities, particularly those with exposure to latent claims, this uncertainty is acute. The reader is cautioned regarding the high degree of uncertainty surrounding the quantitative analysis, and the consequences for my conclusions. The analysis in this Report seeks at various points to provide an indication of the potential for alternative legitimate results to be obtained and their consequences, but these should not be taken as the upper boundary below which estimates of ultimate claims should lie. In particular, events could give rise to outcomes beyond the higher scenarios indicated, and the scope and consequences of adverse experience are generally greater than those of favourable experience.

E.2.2.2 General insurance gives rise to a wide range of potential uncertainties, particularly in times of extreme events. They rely on an assumption that the past provides a useful guide to the future. In practice changes and the possibility of change can lead to uncertainty. Matters that could affect the outcome in unexpected ways include, but are not limited to:

- Legal, judicial, regulatory and social changes;
- New types of claim or sources of claim that are interpreted as covered under policies;
- Economic effects – including significant exchange rate movements and hyper-inflation scenarios.
- Operation / control breaches by (re)insurers or any of their agents;
- New environmental effects, including the effects of climate change; and
- Technological changes.

E.2.2.3 Unless I have indicated otherwise, I have not made an explicit allowance for any of these effects or other new classes of claims that give rise to significant levels of claims.

E.2.2.4 Estimation of Reserves and capital requirements, while based on quantitative analysis, remain inherently subjective exercises, based on experience, internal and external data and a number of critical judgements. The use of the techniques set out in this Report is intended to provide an independent, quantitative and evidence-based approach to preparing these estimates.

E.2.2.5 Where provided, the estimates set out in this Report are intended to provide an alternative view to those of the company considered. There may be factors of which the managers and directors of that company are aware that I have not taken into account.

E.2.2.6 The estimates prepared should be considered in their totality. While I have tried not to cross-subsidise between different segments other than where indicated, individual estimates of segments are provided to assist the reader in understanding the analysis performed and may contain over-estimates or under-estimates that are not material to the estimates in aggregate.

E.2.2.7 Certain parts of the work presented in this Report provide estimates of variability in the future outcome of insurance companies. These estimates are not themselves accompanied by explicit statements or quantification regarding the uncertainty in them; rather I seek to include what I consider to be an appropriate allowance within them.

LIMITATION RELATING TO REVIEW OF TECHNICAL PROVISIONS

E.2.2.8 My role as Independent Expert is not to provide an independent estimate of the Technical Provisions of any of the companies. Both QBE UK and QBE Europe have large portfolios of liability reserves for whom it may take many years before the ultimate cost of claims is known. As a result, there is a wide range of estimates that might be considered to be appropriate.

E.2.2.9 The uncertainties inherent in liability reserves are increased in the current soft market conditions (where profit margins are being squeezed in many lines of business): profitability of more recent underwriting periods may have fallen further and faster than in earlier years and policy terms may have widened in ways that are not easy to capture on data systems and as a result can be difficult to quantify.

E.2.2.10 My opinions regarding the Transfer relate to the totality of the positions of the companies and their abilities to meet policyholder claims as they fall due, and should not be taken as providing an opinion or assurance regarding the accuracy or adequacy of the Technical Provisions. My testing of the effect of the Transfer has sought to take into account the sources and scale of uncertainty arising from the estimation of QBE UK and QBE Europe's Technical Provisions.

Appendix 3. Data Received

In writing this Report, I relied upon the accuracy of certain documents and information provided by QBE EO Staff. These included but were not limited to the following:

Balance sheet

- Audited Statutory accounts for QBE UK and QBE Europe as at 31 December 2019
- Solvency II balance sheets for QBE EO, QBE UK and QBE Europe as at 31 December 2019
- GAAP balance sheets for QBE UK and QBE Europe as at 31 December 2019
- Investment funds composition (currency, duration, credit rating) as at 31 December 2019
- Finance Reports at 19 March 2020 and 1 May 2020

Reserving

- Internal and external reserve review for QBE EO as at 30 September 2019
- Premium and claims triangulations and summaries for QBE UK and QBE Europe as at 30 September 2019
- Roll-forward of 30 September 2019 actuarial estimates to 31 December 2019 year-end balance sheets
- Actuarial function reports for QBE EO (including all its legal entities) for Technical provisions as at 31 December 2019
- Actuarial function reports for QBE EO (including all its legal entities) for Underwriting and Reinsurance as at 30 November 2019
- Sensitivity tests regarding PPOs and the Ogden discount rate as at 31 March 2019
- Sample DLRC modelling files as at 31 December 2019

Capital

- Information relating to the QBE EO Internal Model for major model change submission in August 2019:
    - Capital Model Design and Operation documentation
    - SCR Report for QBE EO, QBE UK and QBE Europe
    - Internal Model Validation reports and test plans as at 31 December 2018
- Information and testing related to the QBE EO Internal Model SCR results used for my analysis, including:
    - Internal Model summary output for QBE UK and QBE Europe as at 31 December 2019 and 31 December 2018
    - Methodology description and models to derive insurance risk parameters affected by the Transfer
    - Analysis of the SCR impact of the COVID-19 pandemic (May 2020)
    - Additional quantitative testing (sensitivity, scenario and reverse stress tests)
- The Annual ORSA Report for QBE Europe, approved by the Board on 31 May 2019
- The Capital Appetite Framework for QBE EO (May 2020)
- Summary business plans for the 2019 and 2020 underwriting years
- Realistic Disaster Scenario (RDS) modelling for QBE UK and QBE Europe as at January 2020
- Capital Solvency and Liquidity Plan at May 2020

Policyholder communications

- Communication Plan proposals to the PRA/FCA (dated 15 October 2019)

- Estimated costings of the notification exercise (in Witness Statement)
- Active policy analysis as at 30 September 2019
- Letter to PRA/FCA (dated 15 October 2019) informing of the intention to request a waiver from certain notification requirements

Other Non-Financials

- Final draft scheme documents and Court Order
- Governing law analysis (in Witness Statement)
- Near final draft of first witness statement of Mr David Winkett provided to me on 19 June 2020
- Draft communications documents

Other Specialist Advice

- Copy of legal advice from Norton Rose Fulbright LLP, a UK law firm, to QBE EO regarding the application of the Financial Ombudsman Service to the Transfer.

Other information available in the public domain

- Solvency Financial Condition Reports (SFCR) for QBE EO, QBE UK and QBE Europe as at 31 December 2018
- QBE Group annual report as at 31 December 2019
- QBE Group and entity credit ratings as at 31 July 2019

Appendix 4. Curriculum Vitae of Alex Marcuson

Professional summary

Alex Marcuson is a general insurance consulting actuary. He has over 20 years' experience of advising non-life insurers and reinsurers both UK-based and overseas, and including companies, mutuals, Lloyd's syndicates, captives, P&I clubs, brokers and other similar operations.

He has expertise across the lines of non-life insurance business written in the UK and overseas: personal, commercial and specialty lines. His advice has spanned a wide range of areas of actuarial involvement.

Between 2008 and 2013, Alex chaired the Institute and Faculty of Actuaries' General Insurance Professional Standards Committee and was a member of its General Insurance Board. He is currently a member of its Professional Support Service, a team of recognised experts who provide confidential assistance and responses to members of the Institute and Faculty of Actuaries on ethical and technical questions, and the General Insurance Reserve Oversight Committee.

Alex is managing director of Marcuson Consulting Ltd. a team of ten general insurance consulting actuaries.

Professional specialisms

- Reserving and liability valuations
- Capital and financial modelling, including Solvency II internal models
- Expert witness work and Part VII insurance business transfer schemes
- Corporate restructuring and M&A transaction support

Career history

1994 – 2000	Bacon & Woodrow – actuarial trainee
2000 – 2002	Trowbridge Deloitte, Australia – actuary
2002 – 2010	Deloitte – Associate Partner
2010 – present	Marcuson Consulting Ltd, Managing Director

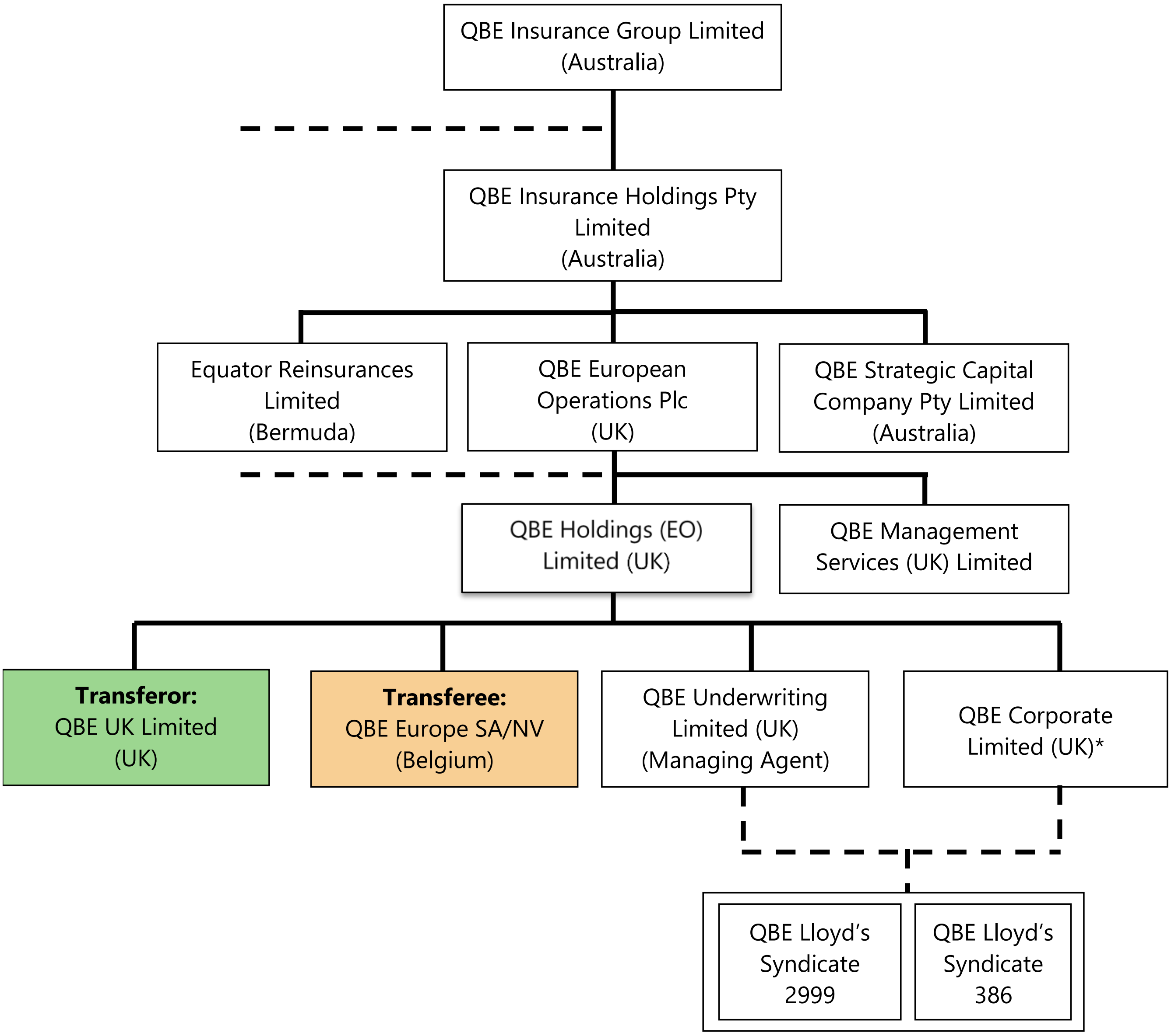
Education and professional qualifications

1991 – 1994	Queens' College, Cambridge University. Mathematics – MA Hons. Double 1st
1998	Fellow of the Institute and Faculty of Actuaries
1999 – 2015	Holder of Lloyd's signing actuary practising certificate

Appendix 5. Simplified Group Structure Chart

The following figure provides a simplified corporate structure chart for the QBE Group, showing the ownership chain of key operational companies in QBE European Operations. This highlights the major companies that are referred to in this Report. All the lines in the chart represent 100% shareholdings.

Figure: QBE Group - simplified structure chart



* QBE Corporate Limited (UK) provides 100% of Syndicate 2999's capacity and about 70% of Syndicate 386's capacity, with the remaining capital contributed by other third parties.

Appendix 6. Descriptions of additional tests of financial strength

This appendix sets detailed descriptions of the additional tests performed on QBE UK and QBE Europe. My findings from the results of these tests are summarised in Sections 13 and Section 14.

E.6.2 Sensitivity tests

Table E.6.1 shows the sensitivity tests performed. These tests assess the impact of the sensitivity on Adjusted-SCR only.

Table E.6.1 – Sensitivity Tests Performed

A	Increase earned reserve risk CVs by 10% (multiplicative)
B	Increase underwriting risk CVs by 10% (multiplicative)
C	Increase natural catastrophe frequency and severity by 10% (multiplicative)
D	Reduce expected premium rates by 10% (additive)
E	Increase 1-year insurance risk emergence by 10% (additive)
F	Increase correlation between classes by 10% (additive) for reserve and underwriting risk
G	Increase correlation between risk types by 10% (additive)

E.6.3 Low Return-Period Scenario Tests

Table E.6.2 shows the low return period scenario tests performed. Note that scenarios S.1 to S.9 and S.13 assess the direct impact on EOF only and do not evaluate any second order effects on capital requirements, while S.10-S.12 assess the impact on both the EOF and capital requirements.

Table E.6.2 – Low Return-Period Scenario Tests Performed

	Short description	Detail on scenario
S.1	Underwriting losses	Using the last 15 years of underwriting for each firm, the underwriting loss from the worst year is selected for each firm.
S.2	Reinsurer failure – Equator Re	Equator Re is assumed to default under this scenario, with an assumed 50% loss given default and allowance for collateral held by QBE UK.
S.3	Reinsurer failure – external reinsurer	For each firm, the reinsurer with the largest expected reinsurance recovery (apart from Equator Re) is assumed to default under this scenario, with an assumed 50% loss given default.
S.4	UK Bodily injury claims increase	Combined impact of both the assumed UK Personal Injury discount rate and assumed UK PPO net discount rate reducing by 1.25% pa to -1% pa.
S.5	Natural catastrophe scenario – North America	This scenario selects the largest loss for each firm from a list of pre-defined natural catastrophe scenarios in North America. These natural catastrophe scenarios typically have insurance industry losses of over USD 50 billion. The selected scenarios are: • QBE UK: Gulf of Mexico windstorm, industry loss c. USD 120 billion • QBE Europe: Florida windstorm, industry loss c. USD 200 billion
S.6	Natural catastrophe scenario – UK / Europe	This scenario selects the largest loss for each firm from a list of pre-defined natural catastrophe scenarios in UK and Europe. These natural catastrophe scenarios typically have insurance industry losses of over GBP 20 billion. The selected scenarios are: • QBE UK: UK windstorm, industry loss c. USD 30 billion • QBE Europe: European windstorm, industry loss c. GBP 40 billion.
S.7	Major emerging risk event	This scenario selects the largest loss for each firm from a list of pre-defined emerging risk events related to man-made catastrophes. These emerging risk events typically have insurance industry losses of over USD 20 billion. The selected scenario is a FSA Pandemic, resulting in

Table E.6.2 – Low Return-Period Scenario Tests Performed		
	Short description	**Detail on scenario**
		losses from employers' liability, general liability, professional indemnity and life reinsurance policies, industry loss c. USD 40 billion.
S.8	Life catastrophe	This scenario considers the impact of a pandemic to the life portfolio in QBE Europe, where 20% of the population is infected (based on the Spanish Flu) with an average increase of mortality by 0.1%. This scenario is related to a return period of c. 23 years on the net underwriting claims distribution.
S.9	Claims inflation stress	This scenario considers the impact of increasing the Reserves for each firm by assuming higher inflation in the future. This higher inflation assumption is selected by considering the 1-in-100 worst output for each currency from the Economic Scenario Generator used by the QBE EO Internal Model. As a result, the Reserves are assumed to increase c. 9% for each firm.
S.10	Stress on Reserves related to casualty classes	This scenario assesses the impact on EOF and Adjusted-SCR of the following stresses applied to liability and casualty: • Increasing the planned loss ratio for the new underwriting year by 10%; • Increasing the mean Reserves by 10%.
S.11	FoS Reserve allocation under-stated by 20%	This scenario assesses the impact on both EOF and Adjusted-SCR post-Transfer if the Reserves allocation for Freedom of Services business was under-stated by 20%. Post-Transfer, QBE Europe is forced to strengthen its reserves and its Adjusted-SCR increases due to greater reserve risk.
S.12	FoS reserve allocation over-stated by 20%	This scenario assesses the impact on both EOF and Adjusted-SCR post-Transfer if the Reserves allocation for Freedom of Services business was over-stated by 20%. Post-Transfer, QBE UK has to strengthen its reserves and its Adjusted-SCR increases due to greater reserve risk.

E.6.4 High return Period Scenario Tests

Table E.6.3 shows the high return-period scenario tests performed. Note that each of these scenario tests assess the direct impact on EOF, and do not evaluate any second order on the capital requirements.

Table E.6.3 – High Return-Period Scenario Tests Performed		
	Short description	**Detail on scenario**
S.13	Combined stress due to COVID-19	This scenario assesses the impact of a combination of effects that could be caused by COVID-19: • An increase to premium provisions by approximately 15%. • Reduction to underwriting profits forecast by QBE allowing for a 2-3% reduction in premium income and 5-6% reduction in premium rates. • Projected investment losses equating to approximately 7% reduction in investment values.
S.14	Severe reinsurer failure – Equator Re	Equator Re is assumed to default under this scenario, with an assumed 100% loss given default and no allowance for its collateral.
S.15	Severe reinsurer failure – external reinsurer	For each firm, the reinsurer with the largest expected reinsurance recovery (apart from Equator Re) is assumed to default under this scenario, with an assumed 100% loss given default.
S.16	Eurozone economic crisis	This scenario assesses the impact of a Eurozone crisis, which assumes: • 100% write-off of Eurozone investments rated BBB and lower • 50% write-off of Eurozone investments with unknown rating, including high yield debt assets, all equities and most unlisted property trust assets.

Table E.6.3 – High Return-Period Scenario Tests Performed		
	Short description	**Detail on scenario**
S.13	Combined stress due to COVID-19	This scenario assesses the impact of a combination of effects that could be caused by COVID-19: • An increase to premium provisions by approximately 15%. • Reduction to underwriting profits forecast by QBE allowing for a 2-3% reduction in premium income and 5-6% reduction in premium rates. • Projected investment losses equating to approximately 7% reduction in investment values.
S.17	Net reserve deteriorates by 10% followed by Equator Re failure	This scenario assesses the combined EOF impact of: • The net of reinsurance reserves deteriorate by 10%; and • The default of Equator Re allowing for the collateral held by QBE UK, with an allowance for collateral held by QBE UK followed by an assumed 50% loss given default.
S.18	Extreme combined stress due to COVID-19	This scenario assesses the impact of a combination of extreme effects that could be caused by COVID-19: • An increase to premium provisions by approximately 30%, coupled with a 20% increase in mortality. • Reduction to underwriting profits allowing for a 10% reduction in premium income and 10% reduction in premium rates. • Projected investment losses equating to 7-8% reduction in investment values. • Failure of second largest reinsurer with 50% loss of recoverables and receivables. • Failure of a broker with a loss of 2.5% of the broker balance. • An operational risk event due to the remote working environment.

Appendix 7. GAAP to Solvency II Technical Provisions translations as at 31 December 2019

E.7.1 Pre-Transfer entities

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

Pre-Transfer	QBE UK, £m			QBE Europe, €m			Calculation #
	Gross	RI	Net	Gross	RI	Net	
GAAP Technical Provisions	**2,874**	**856**	**2,019**	**2,831**	**362**	**2,469**	**1**
Future premium receipts on incepted contracts	(95)	(43)	(52)	(227)	(55)	(172)	2
Unearned premium (incepted and unincepted) and associated claims costs	(204)	(65)	(140)	(366)	(64)	(302)	3
Other SII adjustments	(11)	12	(22)	(45)	5	(51)	4
Discounting	(113)	(59)	(54)	(45)	(18)	(28)	5
SII Technical Provisions excl. SII Risk Margin	**2,450**	**701**	**1,750**	**2,147**	**230**	**1,917**	**6 = sum 1 to 5**
SII Risk Margin	313	0	313	376	0	376	7
SII Technical Provisions	**2,764**	**701**	**2,063**	**2,523**	**230**	**2,293**	**8 = 6+7**

E.7.2 Post-Transfer entities (shown assuming Transfer had taken place on 31 December 2019)

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

Post-Transfer	QBE UK, £m			QBE Europe, €m			Calculation #
	Gross	RI	Net	Gross	RI	Net	
GAAP Technical Provisions	**2,571**	**762**	**1,810**	**3,189**	**473**	**2,716**	**1**
Future premium receipts on incepted contracts	(89)	(39)	(50)	(234)	(59)	(175)	2
Unearned premium (incepted and unincepted) and associated claims costs	(207)	(63)	(145)	(363)	(66)	(296)	3
Other SII adjustments	(17)	10	(27)	(38)	7	(45)	4
Discounting	(102)	(53)	(48)	(59)	(24)	(35)	5
SII Technical Provisions excl. SII Risk Margin	**2,156**	**616**	**1,540**	**2,495**	**330**	**2,165**	**6 = sum 1 to 5**
SII Risk Margin	272	0	272	445	0	445	7
SII Technical Provisions	**2,428**	**616**	**1,812**	**2,939**	**330**	**2,609**	**8 = 6+7**

Appendix 8. Glossary

Defined terms, abbreviations and acronyms	
Active Policy	An Active Policy is a policy where either: • there is a claim recorded on QBE UK's operational computer records that is either open, or has an outstanding indemnity claim amount recorded against it; or • it is within a cohort of policies for which QBE UK is holding an IBNR reserve amount, gross of reinsurance.
Active Underwriting Year	An underwriting year for a particular line of business meeting one or more of the following criteria: • Non-zero IBNR; • New claims notified during the last five years; or • Determined as such by the QBE EO Actuarial Function.
Adequately-capitalised	A company with a margin or buffer of EOF in excess of a CCR of 100%.
Adjusted-SCR	The Indicative Internal Model SCR that reflects Technical Provisions as at 31 December 2019 and 2020 business plans. I believe that the Adjusted-SCR is a more satisfactory representation of the risk profile of the Parties than the Approved Internal Model SCR, as it allows for more up to date business developments.
Affected Policyholders	All of the policyholders affected by the Transfer. This comprises the Transferring Policyholders, the Existing Policyholders and the Remaining Policyholders. The policyholders have **Affected Policies** with one or both of the Parties.
AOF	Ancillary Own Funds.
Approved Internal Model SCR	Output from the QBE EO Internal Model using agreed methodology and parameters (including Technical Provisions, balance sheets and business plans) and having received approval for use as the **SCR** from the college of supervisors (led by the PRA). At the time of writing, the Approved Internal Model SCRs for QBE EO, QBE UK and QBE Europe are based on the model version which obtained supervisory approval in January 2020, and subsequently updated for minor model changes which did not require supervisory approval.
APS	Actuarial Professional Standard. The APSs set out the requirements placed on all IFoA members, regardless of location. They are mandatory ethical standards issued by the Regulation Board of the IFoA.
APS X2	An APS which calls for the exercise of judgement in relation to the review of actuarial work. It is intended to assist members of the IFoA in deciding when and how to apply a review process.
Board	Board of Directors of the company being discussed.
Bornhuetter-Ferguson method	Commonly used actuarial projection technique to estimate ultimate claims. It typically consists of a blend of the **Chain-ladder method** and an expected ultimate claims amount. Usually, the expected ultimate claims amount is derived through a combination of historical experience and the underwriter's views of profitability of the business written.
BMA	Bermuda Monetary Authority
Brexit	The departure of the UK from the European Union; or the date of departure (i.e. 31 January 2020).

Defined terms, abbreviations and acronyms	
Broker	A broker, agent, coverholder or other third party intermediary in respect of policies, and third party administrator (or TPA) in respect of claims.
CAF or **Capital Appetite Framework**	QBE's framework for capital targets and planned treatment of future capital surpluses and shortfalls.
CCR or **Capital Cover Ratio**	A quantitative measure of financial strength used in this Report, formally: $$Capital\ cover\ ratio\ \% = \frac{financial\ resources}{capital\ requirements}$$ EOF is normally used for measuring financial resources, while SCR is used for capital requirements.
Chain-ladder method	Commonly used actuarial projection technique to estimate ultimate claims. Subject to actuarial judgement, this method assumes that future claims development will follow the pattern of previous claims development.
Class 3B insurer	(Re)insurer classification used by BMA. Class 3B insurers are large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or net loss and loss expense provisions and where the unrelated business net premiums are more than $50 million. (http://www.bma.bm/insurance/licensing/SitePages/Home.aspx)
Contingent Capital Facility or **CCF**	A contractual arrangement between QBE EO and QSCC under which QSCC will promptly provide up to £175 million of additional Eligible Own Funds in the event that QBE EO requires it to enable it and its subsidiaries to meet the Capital Appetite Framework.
Court	The High Court of Justice of England and Wales, which is responsible for approving the Transfer.
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.
Cross-Border Merger	The cross-border merger by absorption in accordance with the Companies (Cross-Border Mergers) Regulations 2007 (SI 2007/2974) and other laws of QBE Re into QBE Europe.
Dommages-Ouvrage	Dommages-Ouvrage is taken out by private individuals, landlords, developers or sellers of a building in France. It compensates the client for any damage revealed after the end of the handover period until the end of the 10-year policy period. Dommages-Ouvrage contracts usually cover a building, whereas **Decennial Liability** contracts are for all work undertaken by a particular construction worker
Decennial Liability	This insurance is taken out by the contractor or principal and covers costs associated with the potential collapse or fault in the construction project after completion for a period of 10 years. This insurance is mandatory in France for business/corporate entities.
DAR1 or DAR2	Divisional Aggregate Recoveries, an intra-group reinsurance of QBE EO entities by Equator Re.
DLRC	Divisional Large Risk and Catastrophe reinsurance, an intra-group reinsurance provided by Equator Re.
EEA	The European Economic Area
EL	Employers' Liability Insurance
ELTO	Employers' Liability Tracing Office. Statutory body established to assist employees to trace statutory employers' liability insurers.

Defined terms, abbreviations and acronyms	
EOF or **Eligible Own Funds**	This is the surplus of assets over liabilities as determined under Solvency II. There are limits on the proportion of the SCR that can be met by certain types of Eligible Own Funds.
Equator Re	Equator Reinsurances Limited (Bermuda). QBE's captive reinsurer, which provides reinsurance protection to all divisions in the QBE Group in conjunction with other external reinsurance programs
Economic Scenario Generator	This is a component of the Internal Model and contains stochastic models of key economic variables including interest rates, inflation and equity returns.
European Business	Business currently written by QBE UK in EEA States on a Freedom of Services basis.
EWICL	East West Insurance Company Limited, a UK (re)insurance company. EWICL is not part of the QBE Group.
Excluded Policies	Excluded Policies are those policies that would otherwise fall within the definition of the Transferring Policyholders but the Parties to the Transfer have agreed should be excluded or which cannot be transferred for another reason. **Excluded policyholders** are policyholders that hold Excluded Policies.
Existing Policyholders	The policyholders of the Transferee prior to the Transfer. QBE Europe has no Existing Policyholders. Existing Policyholders have **Existing Policies** with QBE Europe prior to the Transfer.
Expected EOF	*Pre-Transfer:* The EOF as at 2019 year-end allowing for estimated impacts of the COVID-19 pandemic and capital actions already planned for 2020. *Post-Transfer:* 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.
FCA	Financial Conduct Authority, a statutory body established by Act of Parliament and responsible for conduct regulation of insurers operating in the UK.
Financial Services Register	Public record maintained by FCA of firms, individuals and other bodies that are, or have been, regulated by the PRA, FCA and/or their predecessor the Financial Services Authority
First QBE Brexit Transfers	Part VII transfers and an associated cross merger executed by QBE EO, which took effect on 1 January 2019. Together, these were a Part VII transfer of the (re)insurance business of the EEA branches of QBE Insurance Europe Limited (since renamed QBE UK) into QBE Europe, a Part VII transfer of the entirety of the (re)insurance business of QBE Re (Europe) Limited into QBE Europe, and a cross-border merger of QBE Re (Europe) Limited into QBE Europe.
Framework for FRC technical actuarial standards	This framework document explains the authority, scope and application of the FRC's technical actuarial standards and guidance.
FRC	Financial Reporting Council
Freedom of Establishment	In the context of (re)insurance business, the permission for a firm to establish a branch office anywhere within the EEA to underwrite (re)insurance business while remaining supervised by the prudential regulator of its home state
Freedom of Services	In the context of (re)insurance business, the permission for a firm to underwrite (re)insurance business anywhere within the EEA as if they were a locally authorised firm.
FSCS	Financial Services Compensation Scheme. Statutory body responsible for meeting claims of individuals and small businesses in the event of UK insurer insolvency through the **Policyholder Protection Scheme**.

Defined terms, abbreviations and acronyms	
FSMA 2000	The Financial Services and Markets Act 2000. The UK legislation enabling the Transfer to take place, together with its supporting regulations and statutory instruments.
FSMA Order	FSMA 2000 (Meaning of "Policy" and "Policyholder") Order 2001 (SI 2001/2361)
GAAP	Generally Accepted Accounting Principles
GDPR	The General Data Protection Regulations; Regulation (EU) 2016/679
GWP	Gross written premium.
Handbook	Regulatory rules for firms regulated by the FCA. Formally, the FCA's Financial Services Handbook.
High Court	See Court
IBNR	Incurred But Not Reported. An estimate of the liability for claims arising from events that have taken place but have not yet been reported to the insurer. In practice, the IBNR reserve also allows for an estimate of the deterioration on existing claims.
IFoA	Institute and Faculty of Actuaries, the UK Actuarial Professional Body.
Implementation Period	The short period after Brexit during which all pre-Brexit arrangements will continue and the UK and EU will negotiate future arrangements. The Implementation Period is currently scheduled to expire at 11pm GMT on 31 December 2020.
Independent Expert	The independent expert approved pursuant to section 109(2)(b) of FSMA 2000
Indicative Internal Model SCR	Output of the QBE EO Internal Model at a given point in time, as distinct from the Approved Internal Model SCR. The Adjusted-SCR is the Indicative Internal Model SCR that reflects Technical Provisions as at 31 December 2019 and 2020 business plans.
Internal Model (IM)	Subject to regulatory approval, a model used to determine a company's regulatory SCR (as well as for wider business planning purposes), developed especially for the company to supplement or use in place of the Standard Formula.
Major Model Change or **MMC**	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. A **Major Model Change SCR** is an SCR submitted at an indicated point in time (normally yearly) for supervisory approval.
MCR (Solvency II)	Minimum Capital Requirement. Under Solvency II (with effect from 1 January 2016), the MCR is calculated using a linear formula and must fall between 25% and 45% of the SCR. The MCR is also subject to an absolute floor defined in the PRA's Rulebook.
NBB	National Bank of Belgium (*Banque Nationale de Belgique / Nationale Bank van België*). Belgium's central bank, headquartered in Brussels. The Belgian insurance regulator.
Ogden Rate or **Ogden Discount Rate**	The rate of interest used in calculation of compensation for future losses in UK personal injury and fatal accident cases.
Ombudsman des Assurances / Ombudsman van de Verzekeringen	The Belgian equivalent of the UK Financial Ombudsman Service for (re)insurance undertakings in Belgium.

Defined terms, abbreviations and acronyms	
ORSA	Own Risk and Solvency Assessment. Under Solvency II, all firms must prepare an ORSA annually for submission to the national supervisory body (in the UK this is the PRA). Amongst other elements, the ORSA sets out a firm's own assessment of the risks it faces and the capital it needs to support its business over a suitable time-horizon, often in the range of 3 – 5 years. Firms should consider the risks that may affect the business arising from the run-off of their existing liabilities.
P&I	Protection & Indemnity.
Part VII Transfer	An insurance business transfer under the legal mechanism established in Part VII of FSMA 2000.
Parties	QBE UK and QBE Europe.
Passporting Regulations	FSMA 2000 (EEA Passport Rights) Regulations 2001 (SI 2001/2511)
Pillar 1 (Solvency II)	This sets out the quantitative requirements, including the rules to value assets and liabilities, and to calculate capital requirements.
Pillar 2 (Solvency II)	This sets out the qualitative requirements for governance, risk management, and supervisory interactions.
Pillar 3 (Solvency II)	This focusses on public disclosure and transparency requirements.
Policyholder Protection Scheme	See FSCS.
PPO	Periodical Payment Order, a type of settlement arrangement used in the UK for some severe personal injury cases under which the insurer makes annuity payments instead of a lump sum compensation payment. The valuation of these annuities has proved particularly difficult for general insurers and increases the uncertainty in affected Reserves.
PRA	Prudential Regulation Authority, part of the Bank of England. Responsible for prudential regulation of UK insurers.
Project Fall	The proposed Part VII Transfer of a portfolio of business from QBE UK to EWICL. Project Fall was due to have been completed in late-2019, but was postponed shortly prior to its being sanctioned by the Court, and has now been cancelled.
Project Fall Business	The policies, assets and liabilities originally proposed to transfer under Project Fall, prior to its postponement and subsequent cancellation. This includes the share of existing associated outwards reinsurance policies.
Project Fall European Business	The policies originally proposed to transfer under Project Fall, prior to its postponement and subsequent cancellation, that cover non-UK EEA risks written and administered under QBE UK's Freedom of Services permissions. QBE EO Staff have told me that these policies include risks in Ireland, Italy and the Netherlands.
QBE EO	QBE European Operations plc, a wholly-owned subsidiary of QBE Limited. A UK regulated insurance holding company. **QBE EO Group** refers to QBE EO and all of its wholly-owned subsidiaries.
QBE EO Internal Model	See SCR
QBE EO Staff	Employees of QBE UK, QBE Europe, QMIL and QMSUK acting on behalf of QBE EO.
QBE Europe	QBE Europe SA/NV, a wholly-owned subsidiary of QBE EO, a Belgian regulated non-life insurance and life and non-life reinsurance company, the **Transferee**.

Defined terms, abbreviations and acronyms	
QBE Group Services Pty Limited	QBE Group entity that contracts with QBE EO and its subsidiaries to provide investment management services.
QBE Limited	QBE Insurance Group Limited, ultimate owner of the **QBE Group** which includes QBE EO, QBE UK and QBE Europe
QBE UK	QBE UK Limited, a wholly-owned subsidiary of QBE EO. A UK regulated non-life insurance company, the **Transferor**.
QBE UK	QBE Insurance (Europe) Limited. Following the **QBE UK Transfer**, it will be renamed QBE UK Limited ("**QBE UK**").
QMIL	QBE Management (Ireland) Limited, a wholly-owned subsidiary of QBE EO.
QMSUK	QBE Management Services (UK) Limited, a wholly-owned subsidiary of QBE EO.
QSCC	QBE Strategic Capital Company Pty Limited, the central treasury entity for the QBE Group. An Australia-domiciled company. QBE EO has a £175 million **Contingent Capital Facility** from QSCC 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.
QUL	QBE Underwriting Limited, a wholly-owned subsidiary of QBE EO and managing agent of QBE EO's two Lloyd's syndicates 386 and 2999.
RDS	Realistic Disaster Scenario, a plausible but unlikely loss event. Used to test financial resilience of an insurer or reinsurer.
Reciprocal Financing	Reciprocal financing exists at least where a Solvency II undertaking, or any of its related undertakings, holds shares in, or makes loans to, another undertaking which, directly or indirectly, holds Eligible Own Funds of the first undertaking.
Remaining Policyholders	The policyholders of the Transferor(s) that will not be transferred to the Transferee under the Transfer. In this case these are the policyholders of QBE UK prior to the Transfer who will remain with QBE UK. Remaining Policyholders have **Remaining Policies** that will stay with QBE UK after the Transfer.
Report	This report prepared by the PRA-approved Independent Expert for submission to the Court. It has been prepared following the guidance set out in SUP18 and the SoP and is made available to any party requesting a copy.
Reserves	See Technical Provisions
Residual Policies	Residual Policies are policies that it is not possible to transfer at the Transfer Date, for example because further steps need to be taken by the Parties prior to their being transferred. **Residual Policyholders** are policyholders that hold Residual Policies.
RST or Reverse Stress Test	Reverse stress test – a method of testing insurer capital strength by increasing / decreasing one or more assumptions until a threshold (typically insurer default) is reached.
Rulebook	Regulatory rules for firms regulated by the PRA. Formally, the PRA's Rulebook.
Sanction Hearing	Final Court hearing at which Court approval for the Transfer is sought by the Parties to the Transfer.
Scheme	The legal mechanism by which the Transfer are brought about under Part VII of FSMA 2000.

Defined terms, abbreviations and acronyms	
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. When QBE EO, QBE UK and QBE Europe obtain approval from the PRA and the NBB to use the results of the QBE EO Internal Model to determine their SCR, these SCRs are referred to as the **Approved Internal Model SCRs**. At the time of writing, the latest supervisory approval on the QBE EO Internal Model was granted in January 2020.
SF SCR or **Standard Formula SCR**	A formula-based approach to calculating a firm's SCR using a methodology and parameters specified in the Solvency II Directive implementing measures.
SFCR	Solvency and Financial Condition Report. These are publicly disclosed narrative reports, alongside data in standardised reporting templates, which form part of insurers' Pillar 3 disclosure obligations under Solvency II.
SME	Small and medium-sized enterprises
Solvency II	Europe-wide Insurance Directive which came into force from 1 January 2016. Solvency II sets out wide-ranging requirements on firms and supervisors relating to financial resources, risk and governance and reporting requirements. The Solvency II framework consists of three main areas (pillars) which are described in the relevant glossary items.
Solvency II Balance Sheet	A risk-based view of the balance sheet on a given date, where assets and liabilities are valued using a methodology specified in the Solvency II Directive implementing measures.
SoP	Statement of Policy, entitled *"The Prudential Regulation Authority's approach to insurance business Transfer"*, issued by the PRA in April 2015 and replacing the guidance in SUP18 of the PRA's Handbook.
Supplemental Report	Additional report prepared by the PRA-approved independent expert for submission to the Court prior to the final hearing at which the Court's approval of the Transfer is sought.
SUP18	The section of the FCA's Handbook setting out requirements and guidance for insurance business Transfer.
TAS	Technical Actuarial Standard. The TASs are professional standards which are set and maintained by the FRC. They are intended to be "applicable to work which involves the use of actuarial principles and/or techniques and the exercise of judgement or is presented as such, including for example financial models used in insurance and pensions and projections of contingent events. Compliance with the TASs for work in their scope is required for members of the IFoA and encouraged when such work is undertaken by non-actuaries, consulting firms or financial institutions."
TAS 100	Technical Actuarial Standard 100: Principles for Actuarial Work. A generic TAS which promotes high quality technical actuarial work. It establishes high-level principles and outcomes which users and the public can expect to be followed and achieved for all technical actuarial work in the UK.
TAS 200	Technical Actuarial Standard 200: Insurance. It promotes high quality technical actuarial work in insurance on matters where there is a high degree of risk to the public interest.

Defined terms, abbreviations and acronyms	
Technical Provisions	Technical Provisions, sometimes referred to as Reserves, are essentially the amounts set aside by insurance companies, at a given date, to pay for all potential 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).
Transfer	The proposed Part VII Transfer of certain assets and liabilities from QBE UK to 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.
Transfer Date	The time and date on which it is intended that the Transfer shall take place.
Transferee	QBE Europe
Transferor	QBE UK
Transferred QBE UK Reinsurance Agreements	Means all contracts, agreements, policies and other arrangements of whatsoever nature made between QBE UK and a third party or a related party of QBE UK in the nature of reinsurance under or in connection with liabilities of the Transfer.
Transferring Policies	The policies of QBE UK which will transfer to QBE Europe under the Transfer. Essentially these will be the policies written by QBE UK on a Freedom of Services basis in certain EEA member states prior to the 1 January 2019.
Transferring Policyholders	The policyholders of QBE UK who will transfer to QBE Europe under the Transfer. Essentially these will be the policyholders whose policies were written by QBE UK on a Freedom of Services basis in certain EEA member states prior to 1 January 2019.
Witness Statement	A draft version of the first witness statement of Mr David Winkett, CFO of QBE UK and director of QBE Europe. QBE EO Staff have told me that they do not expect any material changes to the draft I have received at the time of finalising this Report.