

Supplementary Report on the proposed insurance business transfer from Scottish Boatowners Mutual Insurance Association to TT Club Mutual Insurance Limited

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Introduction

1. Section 109 of the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012 ('FSMA') requires that a scheme report must accompany an application to the High Court of England and Wales ('the Court') to approve an insurance business transfer scheme.
2. My report (the 'Scheme Report') on the proposed insurance business transfer (the 'Transfer') from Scottish Boatowners Mutual Insurance Association ('SBO') to TT Club Mutual Insurance Limited ('TTI') entitled 'Transfer of business from Scottish Boatowners Mutual Insurance Association to TT Club Mutual Insurance Limited – Scheme Report of the Independent Expert under Part VII Section 109 of the Financial Services and Markets Act 2000' dated 11 March 2019 was submitted in evidence to the Court.
3. The purpose of this document (the 'Supplementary Report') is to briefly document for the Court any developments since the date of the Scheme Report and outline the additional information I have considered to be able to do this. In particular, I have considered whether any of the developments since the Scheme Report have been sufficiently different from my expectations for my conclusions as presented in the Scheme Report to change.
4. The Supplementary Report must be read in conjunction with the Scheme Report in order to be taken in its proper context. It represents an addition to the Scheme Report and does not contain the full background to the Transfer as contained within that document. Therefore, considering the Supplementary Report in isolation may be misleading. All terms used in the Supplementary Report are as defined in the Scheme Report. In combination with the Scheme Report, it complies with the actuarial guidance and standards set out in sections 1.15 to 1.19 of the Scheme Report. In line with the Scheme Report (section 1.32), the work documented in this Supplementary Report has been peer reviewed by a suitably qualified person (an Actuary within my own firm who has acted as the Independent Expert in other insurance business transfer schemes) and so complies with Actuarial Standard of Practice X2.
5. I note the reliance and limitations described in Section 1 and Section 5 of the Scheme Report, as these apply equally to the Supplementary Report. In particular, the parties that may have access to this Supplementary Report and those who may place reliance on this Supplementary Report, and the extent to which they may do so, are identical to those described in the Scheme Report.
6. Note that figures within this Supplementary Report have been rounded, and therefore there may be rounding differences within tables.

Overview of the Transfer

7. SBO is an insurance company incorporated in Scotland. SBO wrote policies covering marine hull, personal accident and protection and indemnity insurance to fishing vessels. Currently no new policies are being written and all existing policies are beyond their expiration date.
8. TTI is an insurance company incorporated in England and Wales. It is the sole member of SBO.
9. Through Transport Mutual Insurance Association Limited ('TTB') is the parent of TTI. TTB is a mutual association insurance company incorporated in Bermuda. Together, TTI and TTB operate as a single business unit with trading name 'The TT Club'.
10. The Transfer involves transferring all of the policyholders of SBO to TTI. The Transfer is intended to be effected on 28 June 2019 (the 'Transfer Date'), after the sanctions hearing scheduled for 17 June 2019.
11. Post Transfer, current policyholders of SBO will have their policies administered and claims paid by TTI.
12. SBO will apply to be deauthorised as an insurer immediately after the Transfer is approved by the High Court.

Updated information considered

13. I have based my findings in this Supplementary Report on the following information supplied by SBO and TTI, together with the information used in preparing the Scheme Report:
 - ▶ Audited TTI and TT Club accounts as at 31 December 2018 (audited by PricewaterhouseCoopers ('PWC'))
 - ▶ Unaudited SBO balance sheet as at 31 December 2018
 - ▶ SBO bank statements as at 31 December 2018
 - ▶ SBO claims files as at 31 December 2018
 - ▶ WTW report on TT Club reserves as at 30 November 2018
 - ▶ Internal TT Club reserves report as at 30 November 2018
 - ▶ Report on the effect on the standard formula SCR of the Transfer of SBO
 - ▶ Details of the pensions scheme apportionment
14. My assessment of the information received has been supplemented by discussions with staff from SBO and TTI.
15. The table below shows a summary of the information reviewed as part of the Scheme Report and that used as part of the Supplementary Report.

Table 1: Comparison of information reviewed when producing the Scheme Report and the Supplementary Report

Data item / modelling area	Used for Scheme Report	Used for Supplementary Report
Balance sheets for SBO, TTI and the TT Club	In the Scheme Report I set out the audited financial statements based on data as at 31 December 2017.	In the Supplementary Report I used financial statements as at 31 December 2018. The TTI and TT Club financial statements were audited by PWC. The SBO financial statements were not audited. I have undertaken additional procedures to verify material items on the SBO balance sheet which are described in paragraph 21.
Claims reserving studies used as part of my review	For TTI and TT Club, I used internal and external reserving studies as at 30 November 2017. The ultimate position was held for year end reporting. For SBO, I used the internal reserving report and the companies own records of case reserves as at 31 December 2017.	I have used the same sources for the Supplementary Report except at 30 November 2018 and 31 December 2018 respectively.
Capital modelling work and SCR calculation	I have reviewed the TTI and TT Club Standard Formula calculation spreadsheets and ORSA reports as at 31 December 2017. I also reviewed the ORSA Report dated November 2018 to ensure no additional risks had been identified. SBO hold a regulatory minimum capital requirement under Solvency I rules.	I have reviewed the TTI and TT Club Standard Formula documentation as at 31 December 2018. SBO hold a regulatory minimum capital requirement under Solvency I rules.

Developments since the issue of the Scheme Report

16. The information presented in the Scheme Report was based on various analysis that had been carried out on data as at different points in time (typically 31 December 2017). In this section I describe the main changes from that information to the updated information described above.
17. The expected impact of the Transfer on policyholders of SBO and TTI was shown in Section 3.6 to 3.26 in the main Scheme Report. Following the developments since 31 December 2017, my opinion is unchanged as the updated financial positions of SBO and TTI do not affect my conclusion on the Transfer. This is explained in the following sections.

Balance sheet position of SBO

18. The table below shows how the SBO balance sheet has changed from year end 2017 to year end 2018.

Table 2: Change in balance sheet positions of SBO (£m). Note these figures have been rounded.

	SBO		
	YE 2017	YE 2018	Change
[1] Cash and Other Financial Investments	2.6	2.3	-0.3
[2] Unearned Premium - Reinsurance	0.0	0.0	0.0
[3] Claims Reserve - Reinsurance	1.9	2.2	0.3
[4] Receivables and Other Assets	0.2	0.1	-0.1
[5] Total Assets	4.6	4.6	-0.0
[6] Unearned Premium - Gross	0.0	0.0	0.0
[7] Claims Reserve - Gross	1.9	2.2	0.3
[8] Payables and Other Liabilities	0.1	0.0	-0.1
[9] Total Liabilities	2.0	2.2	0.2
[10] Net Assets ([5] - [9])	2.6	2.4	-0.2

19. The cash and outstanding balances have reduced slightly over the year, as shown in line [1]. This is to be expected as expenses are paid.
20. The reserves have increased slightly over the year, as shown in line [7]. This is due to an increase of £250k in the case estimate for a particular protection and indemnity claim based on updated information from the claims handler. There have been no new claims over the year, and the general IBNR provision of £250k for new claims remains in place as it was last year. The reserving practices and governance have not changed since my previous review.
21. The reserves continue to be 100% reinsured, and so an increase in reinsurance claims reserves is visible in line [3] corresponding to the increase in claims reserves mentioned above.
22. Overall, the net assets have slightly reduced due to the reduction in cash. In my opinion this is not material in the context of the Transfer because the reduction in assets is only £0.2m, whereas the current TTI net assets are £48.3m. This means that the protection of the TTI policyholders is relatively unchanged, and the improvement in protection seen by the SBO policyholders will be greater.

23. The balance sheet that I have been provided for SBO as at 31 December 2018 is unaudited. I have therefore checked the largest items on the balance sheet, the cash balance and the claims reserves, reconcile to the underlying data. The procedures I reviewed were:

- ▶ I have checked that the cash balances reconcile to the bank statements provided to us by SBO.
- ▶ I have also checked that the case reserves reconcile to SBO's records.
- ▶ I have compared the balance sheet to the audited 2017 year end balance sheet to ensure there were no unexpected movements.

24. Based on this review, I have not identified any issues regarding the preparation of the accounts.

Balance sheet position of TTI and TT Club

25. These tables show the change in the balance sheet position of TTI and TT Club from 2017 year end to 2018 year end. The column 'YE 2017 @2017 FX' indicates the 31 December 2017 balance sheet using the 31 December 2017 USD to GBP exchange rate and it was this position which was shown in my original report. The column 'YE 2017 @2018 FX' indicates the 31 December 2017 balance sheet using the 31 December 2018 USD to GBP exchange rate and the column 'YE 2018 @2018 FX' indicates the 31 December 2018 balance sheet using the 31 December 2018 USD to GBP exchange rate. The column 'Change excluding FX' shows what the movements in the balance sheet with both figures at 31 December 2018 FX rates.

Table 3: Change in balance sheet positions of TTI (£m)

	TTI				
	YE 2017 @2017 FX	YE 2017 @2018 FX	YE 2018 @2018FX	Change	Change excluding FX
[1] Cash and Other Financial Investments	82.4	90.0	107.7	25.3	17.7
[2] Unearned Premium - Reinsurance	38.9	42.5	43.8	4.9	1.3
[3] Claims Reserve - Reinsurance	184.6	201.6	202.7	18.1	1.1
[4] Receivables and Other Assets	46.9	51.2	42.1	-4.8	-9.1
[5] Total Assets	352.8	385.3	396.3	43.5	11.0
[6] Unearned Premium - Gross	46.1	50.3	51.8	5.7	1.5
[7] Claims Reserve - Gross	202.2	220.8	220.8	18.6	-0.0
[8] Payables and Other Liabilities	59.6	65.1	75.4	15.8	10.3
[9] Total Liabilities	307.9	336.3	348.0	40.1	11.7
[10] Net Assets ([5] - [9])	44.9	49.1	48.3	3.4	-0.8

Table 4: Change in balance sheet positions of TT Club (£m)

	TT Club				
	YE 2017 @2017 FX	YE 2017 @2018 FX	YE 2018 @2018FX	Change	Change excluding FX
[1] Cash and Other Financial Investments	327.8	358.0	369.8	42.0	11.8
[2] Unearned Premium - Reinsurance	13.4	14.6	14.5	1.1	-0.1
[3] Claims Reserve - Reinsurance	26.6	29.1	40.5	13.9	11.4
[4] Receivables and Other Assets	50.9	55.6	49.7	-1.2	-5.9
[5] Total Assets	418.7	457.3	474.6	55.9	17.3
[6] Unearned Premium - Gross	49.6	54.1	55.8	6.2	1.7
[7] Claims Reserve - Gross	212.3	233.9	232.1	19.8	-1.8
[8] Payables and Other Liabilities	20.9	23.1	25.1	4.2	2.0
[9] Total Liabilities	282.8	311.2	313.0	30.2	1.8
[10] Net Assets ([5] - [9])	135.9	148.5	161.6	25.7	13.1

26. Since my previous review the gross reserves have increased from £202m to £221m for TTI and £212m to 232m for TT Club. This increase has been driven by exchange rate ('FX') movements, where the pound has become weaker against the dollar. In USD the gross reserves have slightly decreased.
27. The overall reserves are set at a TT Club level and then allocated down between TTI and TTB. There has been overall good experience for both large and attritional claims.
28. Offsetting this, there has been an early single, large claim on the 2018 policy year, and an increased frequency of claims on the 'Container and Chassis' class of business in the second half of the year. A previously held management margin of £3.4m for some specific events has been removed because these are now reflected within the claims data, and so are already included in the reserves. After allowing for movements in exchange rates, overall these changes have led to the TTI reserves remaining the same and a £1.8m decrease in reserves for TT Club.
29. The reinsurance recoveries for TTI have increased broadly in line with the gross reserves. This is because the majority of TTI's reinsurance consists of a continuous 90% quota share agreement with TTB, after external reinsurance.
30. The reinsurance recoveries for TT Club have increased over the year. This is due to the increased cession on the TT Club's whole account quota share with Swiss Re. The 2018 policy year cession with Swiss Re was 25% compared with 10% in 2017. This quota share is a long-standing agreement between TT Club and Swiss Re. In 2018, they entered a multi-year agreement covering the period from 2018 to 2022. The agreement is a variable cession, between 20% and 50% for each policy year, to be agreed in advance of each policy year.

Pre and Post Transfer Balance Sheet as at 31 December 2018

31. Table 5 below shows the changes in the balance sheet positions of SBO and TTI as at 31 December 2018. The equivalent table was in section 4.33 of the Scheme Report.

Table 5: Estimated positions following the Transfer for both SBO and TTI (£m)

	Pre-Transfer		Post-Transfer	
	SBO [A]	TTI [B]	SBO [C]	TTI [D]=[A]+[B]
[1] Cash and Other Financial Investments	2.3	107.7	0.0	110.0
[2] Unearned Premium - Reinsurance	0.0	43.8	0.0	43.8
[3] Claims Reserve - Reinsurance	2.2	202.7	0.0	204.9
[4] Receivables and Other Assets	0.1	42.1	0.0	42.2
[5] Total Assets	4.6	396.3	0.0	400.9
[6] Unearned Premium - Gross	0.0	51.8	0.0	51.8
[7] Claims Reserve - Gross	2.2	220.8	0.0	223.0
[8] Payables and Other Liabilities	0.0	75.4	0.0	75.4
[9] Total Liabilities	2.2	348.0	0.0	350.2
[10] Net Assets ([5] - [9])	2.4	48.3	0.0	50.7

32. Table 6 below shows the changes in the balance sheet positions of SBO and TT Club as at 31 December 2018. The equivalent table was in section 4.38 of the Scheme Report.

Table 6: Estimated positions following the Transfer for both SBO and TT Club (£m)

	Pre-Transfer		Post-Transfer	
	SBO [A]	TT Club [B]	SBO [C]	TT Club [D]=[A]+[B]
[1] Cash and Other Financial Investments	2.3	369.8	0.0	372.1
[2] Unearned Premium - Reinsurance	0.0	14.5	0.0	14.5
[3] Claims Reserve - Reinsurance	2.2	40.5	0.0	42.7
[4] Receivables and Other Assets	0.1	49.7	0.0	49.8
[5] Total Assets	4.6	474.6	0.0	479.2
[6] Unearned Premium - Gross	0.0	55.8	0.0	55.8
[7] Claims Reserve - Gross	2.2	232.1	0.0	234.3
[8] Payables and Other Liabilities	0.0	25.1	0.0	25.1
[9] Total Liabilities	2.2	313.0	0.0	315.2
[10] Net Assets ([5] - [9])	2.4	161.6	0.0	164.0

33. The relative movements are similar to my previous review, and so does not change my opinion of the Transfer. There is a very small increase in the value of net assets (which is favourable). There is no change to the amount of net claims reserves and no material change to the mix of assets held. This is explained in more detail in section 4.31 to 4.39 of the Scheme Report.

SBO Capital Requirements

34. SBO set their capital requirements using Solvency I. Under this regulation insurers hold a percentage of premium or reserves as their capital requirement. This is subject to an absolute minimum charge of £2.25m for non-life insurers. Due to the low premium volumes, SBO hold the absolute minimum of £2.25m. This has not changed since our previous review and SBO still have £2.4m net assets to cover this requirement, therefore they have a surplus of £0.15m, as shown in table 2.

TTI Capital Requirements

35. These tables show the change in the capital position pre and post Transfer on a Solvency II basis. The columns 'YE 2017 @2017 FX' indicates the 31 December 2017 position using the 31 December 2017 USD to GBP exchange rate and it was this position which was shown in my original report. The equivalent table was in section 4.55 of the Scheme Report. The column 'YE 2017 @2018 FX' indicates the 31 December 2017 position using the 31 December 2018 USD to GBP exchange rate and the column 'YE 2018 @2018 FX' indicates the 31 December 2018 position using the 31 December 2018 USD to GBP exchange rate.

Table 7: Estimated SCR for TTI before and after the Transfer (£m)

	YE 2017 @2017FX		YE 2017 @2018FX		YE 2018	
	TTI Pre-Transfer	TTI Post-Transfer	TTI Pre-Transfer	TTI Post-Transfer	TTI Pre-Transfer	TTI Post-Transfer
[1] Underwriting Risk	11.0	11.0	12.0	12.0	12.4	12.4
[2] Market Risk	8.6	9.0	9.4	9.8	6.4	5.9
[3] Counterparty Default Risk	12.9	13.0	14.1	14.2	12.5	12.6
[4] Operational Risk	5.2	5.3	5.7	5.8	5.9	5.9
[5] Diversification	-7.9	-8.0	-8.6	-8.7	-7.1	-6.9
[6] Solvency Capital Requirement	29.8	30.2	32.5	33.0	30.1	30.0
[7] Own Funds	46.4	48.8	50.7	53.3	51.5	53.8
[8] Capital Adequacy Ratio ([7] / [6])	156%	162%	156%	162%	171%	179%

36. The capital requirements remain broadly the same since my last report. The reduction in capital requirements after allowing for movements in exchange rates is mostly driven by changes in the currency risk. Whereas previously TTI held a large surplus in net assets in GBP, now they have a small deficit. This means that the currency risk has decreased, and additionally, now the overall effect on the SCR of including SBO is a decrease to the SCR rather than an increase to the SCR.
37. Note that the pro-forma in table 7 assumes that the pension scheme is not transferred, whereas currently the pension scheme will be transferred at a similar time to the Transfer. This will not make a significant difference to the SCR because the pension payment risks (such as longevity and expense risk) are not considered under Solvency II, only the market (asset) risk. The market risk related to the pension scheme would be very small because the scheme only holds £0.06m of assets. I would therefore expect the SCR to be increased by significantly less than £0.1m by the pension scheme. The pension scheme transfer is separate from the Transfer, and therefore is not reliant on the outcome of my work. More details of the pension scheme transfer are in paragraphs 41 and 42.
38. Overall, the inclusion of SBO leads to an increase in own funds, and the capital adequacy ratio. This is because the assets have increased more than the liabilities as a result of the Transfer, as I concluded in the Scheme Report.

Other aspects of the Transfer

Direct and reinsurance policyholders

39. In section 4.77 to 4.80 of my Scheme Report I concluded that there would be no issue in the change in mix of TTI between direct in reinsurance policyholders. This is because the SBO policyholders are all direct and so would rank ahead of the reinsurance policyholders of TTI. The relatively small number of SBO policy holders would also not materially affect the protection of the reinsurance policyholders at TTI. This situation remains unchanged since my previous review.

Customer Service

40. In section 4.81 to 4.82 of the Scheme Report I concluded that the customer service provided to policyholders after the Transfer would remain the same, because TTI would continue to manage the policy and claim administration for SBO. This situation remains unchanged since my previous review.

Pension arrangements

41. SBO has a defined benefit pension scheme which has 6 current annuity policies and one deferred member. At the time of writing the Scheme Report, TTI planned to transfer the current annuity policies, which have a total current value of around £300k, into the pensioners own names, and transfer the deferred member to a third party (Section 4.83 to 4.86 of the Scheme Report). However, TTI has been unable to transfer the deferred member to a third party provider, since third party providers have been unwilling to quote for such a small benefit. Additionally, due to uncertainty about Guaranteed Minimum Pension ('GMP') equalisation, the Trustee is concerned that the current pension providers would not agree to the original plan. Therefore, it has instead been decided that the pension scheme will be apportioned to TTI, which effectively transfers the pension liabilities. This transfer, and the transfer of the annuity policies, are currently pending whilst awaiting guidance from the Department of Work and Pensions around GMP following the High Court Judgement on this issue in October 2018.

42. Due to the small number of pension holders involved, and the small size of the benefits, this does not impact my view of the Transfer. The pension scheme has assets of £0.06m and liabilities of £0.04m. This is a significant reduction compared to the figures quoted in the Scheme Report, as since the time of writing the original report three deferred members have transferred out of the Pension Scheme. Given the relative size of the TTI balance sheet (the transferring liability accounts for less than 0.1% of TTI's net assets of £48.3m), I believe that the apportionment should add additional protection to the current pension holders without adding material risk to the policyholders of TTI. TTI does not currently have a pension scheme.

Tax implications of the Transfer

43. TTI has considered the tax effects of the Transfer. The surplus of assets over liabilities transferred from SBO to TTI on the Transfer Date will be treated as investment income by TTI, and this will give rise to a small tax liability. This was discussed in paragraphs 4.87 to 4.88 of the Scheme Report.

44. I believe that the tax liability is small relative to the size of TTI, and therefore do not believe that there are any tax implications which will materially affect the policyholders or the financial position of TTI.

Investment Management implications of the Transfer

45. I understand that there are no planned changes to the investment policy of TTI. The assets that will be transferred into TTI (other than the reinsurers' share of claims reserves) are largely made up of

cash with a small amount of land and buildings. This was discussed in paragraphs 4.89 to 4.90 of the Scheme Report.

46. Therefore, I do not believe any investment management changes affect my conclusion on the Transfer.

Implications of the Transfer on ongoing expense levels

47. TTI will bear the cost of the Transfer; however, given the size of TTI, no material change is anticipated in its ongoing expense levels.
48. The PRA and the FCA will be asked to revoke SBO's permission following the completion of the Transfer, thus completing its run off such that no further expense can be incurred.
49. I therefore do not anticipate that this will create any adverse impact to TTI or SBO policyholders as a consequence of the Transfer. This was discussed in paragraphs 4.91 to 4.93 of the Scheme Report.

Liquidity position

50. As a result of the Transfer I do not anticipate any change to the liquidity position of the companies involved in the Transfer. I therefore conclude that the existing policyholders are not likely to be adversely affected as a result of the Transfer in relation to liquidity issues. This was discussed in paragraphs 4.94 of the Scheme Report.

Set-off rights

51. 'Set-off' is a right that allows parties to cancel or offset mutual debts with each other by subtracting one from the other, and paying only the balance. I do not believe that there are any material set-off rights that can be exercised by cedants or reinsurers. I have not identified any set-off issues as part of my work, and so this does not affect my conclusion on the Transfer. This was discussed in paragraphs 4.95 of the Scheme Report.

Policyholder representations and notifications

52. I have reviewed logs held by TTI of any queries made by policyholders about the Transfer. So far there have been 11 general enquiries, and no objections. The queries were:
- ▶ One query advising of a change of address
 - ▶ One query asking if there was a pension policy in their name. They were advised there were no live policies.
 - ▶ One response that the policyholder did not live at the address.
 - ▶ 2 policyholders enquired about action on their part. They were advised that unless they wanted to object there was nothing to do.
 - ▶ 5 respondents informed SBO that the policyholder had died.
 - ▶ One policyholder requested to be removed from the mailing list.

53. These have all been classified as 'General Enquiries', except for the policyholder who did not live at the address who was classified as a 'Return'. TTI were unable to contact this policyholder.
54. Communications with policyholders are described in Section 4.96 to 4.103 of the Scheme Report.
55. SBO and TTI club are also required by the Court to post notice of the Transfer in the newspapers 'The London Gazette', 'The Edinburgh Gazette', 'The Belfast Gazette', 'Fishing News' and 'The Herald' not less than 21 days before the date fixed for the hearing of the petition. These notices have appeared in the 12 April 2019 editions of these papers, except for the 'Fishing News' article which was in the 18 April 2019 edition.
56. The usual requirement for a firm effecting an insurance business transfer scheme under FSMA is to publish a notice in two national newspapers in each EEA country in which a risk is situated, and one business newspaper in each EEA country in which a reinsured policyholder is established. However, SBO and TTI requested, and the Court granted, a waiver in respect of these requirements, so that SBO and TTI were instead required to only publish a notice in the 'Financial Times (International edition)'. This notice appeared in the edition on 12 April 2019.
57. For the purposes of a Part VII transfer, it is normally required that all policyholders involved are notified. At the time of writing my main report SBO and TTI intended to request a waiver such that they would not have to directly notify three sets of policyholders, due to potential issues with contacting them. It is not unusual for waivers to be requested for this reason. The policyholders that waivers were requested for were the TTI policyholders, policyholders of SBO before 2008 and policyholders of SBO after 2008 where SBO does not have contact details of the policyholders. I have received confirmation from TTI that since writing my report this waiver has been granted by the High Court of Justice. SBO and TTI have since confirmed that they have contacted all known policyholders, interested persons and representatives in respect of SBO policies issues since 1 January 2008.
58. SBO and TTI have been provided with a similar waiver with respect to reinsurers (and persons authorised to act on behalf of reinsurers, such as brokers). They have contacted either their reinsurers directly, or the brokers who placed reinsurance on their behalf, for all reinsurance policies written since 1 January 2008 (all of the relevant reinsurers and brokers are located in the UK).
59. SBO and TTI club are required to provide copies of the Scheme Report, a statement setting out the terms of the Scheme and a summary of the Scheme Report free of charge to any person that requests it. It has been confirmed that no person has requested these.
60. They are also required to provide the claim form to the Judge of the Chancery Division on 17 June 2019. They have confirmed that they are prepared for this.
61. I am not aware of any issues or objections raised by any policyholders following the communications from SBO and TTI that affect my conclusion on the Transfer.

Effect of the UK's decision to leave the European Union ('Brexit')

62. In paragraphs 4.102 to 4.104 of the Scheme Report I discussed the potential uncertainty due to the UK's vote to leave the European Union in the referendum in June 2016, and the possible implications of this for the Transfer. Since the SBO policyholders likely to make a claim are all UK based and TTI is subject to UK regulation I concluded that this uncertainty would not affect my view of the Transfer, and this remains the case.

63. The uncertainty around the operating environment for insurers and around market volatility remains large. Since the writing of my original report the exit from the EU has been delayed until 31 October 2019, and the terms of exit are still to be resolved.
64. I am not aware of any developments relating to Brexit which lead me to change my conclusions in the Scheme Report.

Policyholders in jurisdictions outside the EEA

65. In paragraphs 4.107 to 4.111 of the Scheme Report I discussed the effect of the Transfer on policyholders in jurisdictions outside the EEA. I concluded that because these policies are fully run-off, they would not be materially affected by the Transfer. Additionally, I do not believe there is material danger of the Transfer not being recognised outside of the EEA. In the case the Transfer were not recognised, I have received confirmation that TTI has declared it will not use non-recognition as a defence for not paying valid claims from a non-EEA policyholder after the Transfer.
66. Therefore, the existence of policyholders outside of the EEA still does not affect my conclusion on the Transfer.

Governance

67. Through Transport Mutual Services ('TTMS') is the company responsible for the administration and management of TTI and SBO. TTMS has provided individuals to carry out key management functions at SBO. After the Transfer, the portfolio of policies that has been transferred from SBO will continue to be managed by TTMS as part of TTI.
68. The directors of SBO are also the executive directors of TTI (the other directors of TTI are all non-executive directors). This means that the same executive directors are responsible for the SBO policyholders before and after the Transfer.
69. I do not, therefore, anticipate any changes to the Governance of SBO after the Transfer. This was discussed in paragraphs 4.112 to 4.114 of the Scheme Report.

Financial Services Compensation Scheme ('FSCS')

70. Consumer protection is provided by the Financial Services Compensation Scheme ('FSCS') in the UK. This is a statutory 'fund of last resort' which compensates customers in the event of the insolvency of a financial services firm. Insurance protection exists for private policyholders and small businesses (with annual turnover of less than £1 million) in the situation where an insurer is unable to meet its liabilities. The FSCS will pay 100% of any claim incurred for compulsory insurance (e.g., motor third party liability insurance or professional indemnity insurance) and 90% of the claim incurred for non-compulsory insurance (e.g., home insurance), without any limit on the amount payable. The FSCS is funded by levies on firms authorised by the PRA and the FCA. No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance. Contracts of reinsurance are also not protected.
71. After the Transfer, the protection provided by the FSCS will apply to all UK policyholders and potential claimants of SBO to whom it currently applies. The Transfer does not affect the availability of compensation under the FSCS so the same protection from the FSCS would continue to exist for these policyholders after the Transfer. The TTI policyholders would also continue to be protected in the current way and the Transfer would not affect this protection. I have therefore concluded that no policyholders are adversely affected by the Transfer in relation to the FSCS arrangements. This was discussed in paragraphs 4.115 to 4.116 of the Scheme Report.

Financial Ombudsmen Service

72. The Financial Ombudsman Service ('FOS') provides private individuals and micro-enterprises with a free, independent service for resolving disputes with financial companies with the FOS having the power to make binding recommendations relating to disputes up to £150,000. Micro-enterprises are defined to be businesses with less than €2m annual turnover and fewer than ten employees.
73. It is not necessary for the private individual or micro enterprise to live or be based in the UK for a complaint regarding an insurance policy to be dealt with by the FOS. However, it is necessary for the insurance policy concerned to be, or have been, administered from within the UK and/or issued from within the UK.
74. The UK-based Transferring Policyholders that qualify for the FOS will continue to be eligible following the Transfer and as a result I do not believe any policyholders will be affected by the Transfer in relation to the FOS. This was discussed in paragraphs 4.117 to 4.119 of the Scheme Report.

Other issues

75. I am not aware of any other issues arising since the Scheme Report which require comment in this Supplementary Report or which lead me to change my conclusions stated in the Scheme Report.
76. I also note that this the Supplementary Report has been reviewed by representatives of SBO and TTI for factual accuracy.

Overall Conclusion

77. I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules and the Protocol for Instruction of Experts to give Evidence in Civil Claims. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court, I have complied with that duty and I will continue to comply with that duty.
78. I have considered the Transfer and its likely effects on the policyholders that I believe could be affected, or potentially affected, by the Transfer. I have considered each of the different groups of policyholders which I identified in the Scheme Report. In particular, I have considered:
- ▶ The current policyholders of TTI; and
 - ▶ The current policyholders of SBO.
79. I have considered the possible effects on the Transfer of developments such as changes in the balance sheet, the capital position, policyholder relations and the political environment that have occurred since the date of the Scheme Report, and my conclusion is unchanged from that stated in the Scheme Report.

Signatory



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07 June 2019