

CLAIM NO CR-2018-003733
IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS
INSOLVENCY AND COMPANIES LIST (ChD)

**IN THE MATTER OF PART VII OF THE FINANCIAL SERVICES AND MARKETS
ACT 2000**

AND IN THE MATTER OF:

(1) THE SCOTTISH BOATOWNERS' MUTUAL INSURANCE ASSOCIATION

First Applicant

(2) TT CLUB MUTUAL INSURANCE LIMITED

Second Applicant

**SUMMARY STATEMENT OF THE
TERMS OF THE SCHEME AND
SUMMARY OF THE SCHEME REPORT**

SUMMARY OF THE TERMS OF THE SCHEME

1. The Scottish Boatowners' Mutual Insurance Association ('**SBO**') is a mutual insurance company incorporated under the laws of England which has permission under Part 4A of the Financial Services and Markets Act 2000 (the '**Act**') to carry out certain contracts of general insurance in the United Kingdom.
2. TT Club Mutual Insurance Limited ('**TTI**') is a mutual insurance company incorporated under the laws of England which has permission under Part 4A of the Act.
3. The risks insured by SBO are fully reinsured by third party reinsurance and, in addition, are 100 per cent. reinsured on an ultimate net loss basis by TTI.
4. SBO and TTI have entered into a scheme for the transfer of the insurance business of SBO from SBO to TTI under Part VII of the Financial Services and Markets Act 2000 (the '**Scheme**'). The Scheme requires the approval of the High Court of Justice in England (the '**Court**').
5. The Scheme will result in the transfer from SBO to TTI of the whole of the insurance business carried on by (or on behalf of) SBO at noon (London time) 28 June 2019, including all activities carried on by (or on behalf of) SBO in connection with or for the purposes of such business but excluding certain assets and liabilities (the '**Transferred Business**'). TTI will assume all rights and obligations under any policies of insurance which remain unsatisfied or outstanding which have been written by (or on behalf of) SBO other than those policies which are excluded from the Scheme.
6. The Scheme will also result in the transfer of the assets of SBO to TTI (including rights under or by virtue of policies of insurance which are transferring under the Scheme) but in each case excluding all rights under any policies excluded from the Scheme. Certain assets and liabilities will be excluded from the transfer under the Scheme. Such excluded assets include the rights and obligations of SBO arising out of or in connection with a reinsurance agreement entered into between SBO and TTI dated 30 June 2017 and, to the extent any such assets or liabilities exist as at the effective date of the Scheme, or at any time after such date, all assets or liabilities relating to SBO's defined pension plan known as the 'Scottish Boatowners' Mutual Association Pension and Life Assurance Scheme (1971)' (the '**Pension Plan**').

7. The liabilities and obligations of SBO under policies of insurance which are transferring under the Scheme will also transfer to TTI. In addition, all other liabilities attributable to the Transferred Business will transfer to TTI save where they relate to excluded policies or where those liabilities have otherwise been excluded from the terms of the Scheme.
8. The rights, benefits, powers and claims of SBO under any of the transferred policies or reinsurances will transfer to TTI pursuant to the Scheme.
9. References to SBO in any contract of insurance (or other contract relating to the Transferred Business) transferring under the Scheme shall be read as references to TTI.
10. Any judicial, quasi-judicial or arbitration proceedings or any complaint or claim to any ombudsman or similar or other proceedings for the resolution of a dispute or claim (whether current or future) relating to the policies of insurance, assets or liabilities which are transferring under the Scheme or which otherwise relate to the Transferred Business which are pending at, or are commenced after, the effective date of the Scheme will be continued or commenced by or against TTI, and TTI shall be entitled to the same defences, claims, counterclaims and rights of set-off that would have been available to SBO and SBO shall have no liability under those proceedings.
11. Subject to the approval of the Court at a hearing due to be held on 17 June 2019, the Scheme is expected to come into effect at noon (London time) on 28 June 2019.

SUMMARY OF THE SCHEME REPORT

1. Ruth Nelmes of Ernst and Young LLP (the '**Independent Expert**') has been appointed to act as an independent expert to prepare a report (the '**Scheme Report**') in respect of the Scheme. Her appointment has been approved by the Prudential Regulation Authority in accordance with section 109 of the Financial Services and Markets Act 2000 ('**FSMA**').
2. Appended hereto is a brief summary of the Scheme Report which has been prepared by the Independent Expert. This summary does not cover all matters dealt with in the Scheme Report, which should be read in full by anyone wishing to have a detailed understanding of its content.

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(ChD)

In the matter of Part VII of the Financial
Services and Markets Act 2000

and in the matter of

(1) The Scottish Boatowners' Mutual
Insurance Association

(2) TT Club Mutual Insurance Limited

SUMMARY OF INSURANCE
BUSINESS TRANSFER SCHEME

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Transfer of business from Scottish Boatowners Mutual Insurance Association to TT Club Mutual Insurance Limited – Summary of Independent Expert’s Report

INTRODUCTION

The proposed transfer (**the Transfer**) involves transferring the policyholders of Scottish Boatowners Mutual Insurance Association (**SBO**) to TT Club Mutual Insurance Limited (**TTI**):

- ▶ The Transfer is intended to be effected on 28 June 2019 (the **Transfer Date**), after the sanctions hearing scheduled for 17 June 2019.
- ▶ Post Transfer, current policyholders of SBO will have their policies administered and claims paid by TTI.

TTI is part of a wider group of companies, with Through Transport Mutual Insurance Association Limited (**TTB**) as the parent. 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**.

APPROVAL OF THE TRANSFER

The Transfer is subject to sanction by the High Court of England and Wales (the **Court**).

A report produced by a suitably qualified person (the **Independent Expert**) is required under Section 109 of the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012 (together the **FSMA**) in order that the Court and all affected policyholders may properly assess the impact of the Transfer. The report describes the Transfer and addresses its likely effect on all affected policyholders. This document is a summary of that report.

INDEPENDENT EXPERT’S CONCLUSIONS

I have considered the Transfer and its likely effects on policyholders.

I conclude that the security provided to policyholders will not be materially adversely effected after the Transfer, that no group of policyholders would be adversely affected to a material extent by the Transfer, that the level of customer service provided to policyholders would be unaffected by the Transfer, and that therefore there is no reason that the Transfer should not go ahead.

I will provide a Supplementary Report identifying any issues that have arisen between the date of the Independent Expert Report and the final court hearing.

PURPOSE OF THE TRANSFER

The purpose of the Transfer is to complete the run-off process of SBO.

SBO ceased writing new policies in November 2016. At that time a run-off plan was agreed with the UK insurance regulator, the Prudential Regulation Authority (**PRA**). As part of this plan TTI became the controller and sole member of SBO (effectively making TTI the owner of SBO). TTI also provided additional reinsurance protection to SBO, enabling SBO to meet its regulatory capital requirement. TTI has since been responsible for the run-off of SBO, including policy and claim administration.

The Transfer will be the concluding step in the run-off plan, after which SBO will be de-authorised as an insurance company.

REASONS FOR REACHING MY CONCLUSION

I have carried out various analyses on the financial statements and data of SBO, TTI and TTB in relation to the Transfer. Specifically this included testing the reasonableness of the claims reserves for SBO and TTI, and the ability of each to meet regulatory capital requirements as separate entities before and after the Transfer.

I believe that both SBO and TTI policyholders have a good level of security before the Transfer and that they would continue to have a good level of security after the Transfer.

I have considered the effect of the Transfer upon all policyholders that I believe could be affected by the Transfer. There are two groups of policyholders that I believe could be affected by the Transfer:

- ▶ The existing policyholders of TTI.
- ▶ The policyholders of SBO.

Existing policyholders of TTI (read this section if you are a policyholder of TTI)

There will be very little change to the financial position of TTI after the Transfer. This is because the amount of business transferring from SBO is small compared to the size of TTI, around 6% of net assets. The business transferring is also fully reinsured, so that there is no additional liability to TTI as a result of the Transfer. There will be a small injection of capital from SBO to TTI which will strengthen the balance sheet of TTI slightly.

Based on my analysis, TTI would continue to meet the regulatory capital requirement after the Transfer.

The policy and claims administration will be unchanged for policyholders of TTI after the Transfer.

For these reasons I conclude that the security provided to the existing TTI policyholders will be equivalent after the Transfer.

Policyholders of SBO (read this section if you are a policyholder of SBO)

Following the Transfer, the SBO policyholders will be insured by TTI. The policies will be administered and claims paid by TTI.

TTI is a larger company than SBO, and has greater amounts of capital and diversification. Other things being equal, this means that TTI provides a better level of security than SBO alone.

TTI has a number of external reinsurance contracts in place, notably with its parent company, TTB. This gives additional protection to TTI. The reinsurance with TTB means that protection is effectively provided by the TT Club as a whole.

The TT Club has a rating of A- from rating Agency A.M. Best, demonstrating a good level of security.

The TT Club is a mutual association with a set of mutual policyholders as its effective owners. TTI can request the payment of further premium from those mutual policyholders in the event that the company requires additional funds. This provides an additional layer of security to the policyholders of TTI. The transferring policyholders of SBO will not become mutual policyholders of TTI, and so would not be required to pay any additional premium, but would benefit from this additional layer of security.

As controller of SBO, TTI is already responsible for paying claims and administering the policies of SBO. After the Transfer, there will be no change to this arrangement.

For these reasons I conclude that the security provided to the SBO policyholders transferring to TTI will not be materially affected after the Transfer.

ANALYSIS CARRIED OUT

Claims reserve assessment

I have carried out a variety of actuarial analyses in order to review the claims reserves held by SBO and TTI.

Based on my review I conclude that the approaches used by SBO and TTI are reasonable and that the reserve analysis has been carried out in an appropriate way. My conclusion is that the claims reserves for SBO and TTI (as shown in their respective statutory accounts) lie within a range of reasonable best estimates.

Assets and regulatory capital requirements

SBO currently meets their regulatory capital requirement. However, should the Transfer not go ahead, then I believe that there is a risk that the level of capital would fall below that requirement, as SBO would continue to incur ongoing expenses.

I have carried out a high-level review of the regulatory capital position for TTI before and after the Transfer. I am satisfied that the capital amount for TTI has been calculated in an appropriate way.

There will be an increase in the capital requirement of TTI following the Transfer, but this increase will be small, and is expected to be covered by the assets transferring from SBO as

part of the Transfer. Therefore, I believe that TTI will continue to meet the requirement after the Transfer.

Effect on the balance sheets of SBO and TTIs

The investment assets and reinsurance assets of SBO will transfer to TTI as part of the Transfer. The impact on the TTI balance sheet is very small. The claims reserve of TTI net of reinsurance will not change. The mix of assets held by TTI will also be very similar.

Other factors that might affect policyholders

Pension scheme: SBO operates a defined benefit plan which currently has one deferred member remaining who will begin receiving a pension upon retirement age. SBO intends to offer a transfer of the member's pensions to a third party. Failing this, responsibility for pension payment will be taken over by TTI in due course. This does not affect my conclusion on the Transfer. The pension scheme is small relative to the size of TTI, and would not adversely affect the financial position of TTI.

Impact of Brexit: The UK intends to leave the EU in March 2019. This presents some uncertainties to the insurance market as a whole. Despite these risks, I do not believe that any changes will affect my conclusions relating to the Transfer because TTI will remain in the UK, subject to the UK regulatory regime and TTI will comply with all industry requirements post-Brexit.

Ongoing expense levels: TTI will bear the cost of the Transfer. However, given the size of TTI in relation to this cost, no material change is anticipated in its ongoing expense levels.

ABOUT THE INDEPENDENT EXPERT

I, Ruth Nelmes, am a partner in the Insurance Risk and Actuarial Services practice of Ernst & Young LLP, a global leader in assurance, tax, transaction and advisory services. I am a Fellow of the Institute and Faculty of Actuaries, and have over 17 years' experience in all areas of general insurance actuarial work (including reserving, capital, Solvency II compliance, pricing, and transactions). I have been nominated by TTI to act as the Independent Expert for the Transfer. This nomination has been approved by the PRA and the FCA.

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ABOUT THE INDEPENDENT EXPERT'S REPORT

Section 109 of the FSMA requires that an application in respect of an insurance business transfer is accompanied by a report on the terms of the scheme (the **Report**). This document is a summary of the Report, but should not replace a full reading of the Report. This is because the Report contains more detailed information that is not shown in this summary document. The Report complies with the applicable rules on expert evidence and with the guidance for scheme reports set out in Chapter 18 of the PRA/FCA Supervision Handbook and the FCA's Finalised Guidance FG18/4. The form of the Report has been approved by the PRA in accordance with section 109 of the FSMA and in the context of the Transfer. This summary and the Report have been prepared solely for the purposes of the FSMA requirements for insurance business transfers. This summary is subject to the same limitations as those set out in the Report and in the event of any real or perceived conflict between this summary and the Report, the Report shall prevail.



Ruth Nelmes

11 March 2019

Fellow of the Institute and Faculty of Actuaries
Partner - Ernst & Young LLP

A copy of the Report is available to be downloaded from TTI's website at www.ttclub.com. Alternatively, it can be requested by contacting TT Club Mutual Insurance Limited in writing at 90 Fenchurch Street, London, EC3M 4ST, or by emailing contactus@thomasmiller.com.