



**SUMMARY INDEPENDENT EXPERT REPORT
OF PHILIP TIPPIN FIA
In the matters of**

RIVERSTONE INSURANCE LIMITED
AND
RIVERSTONE INSURANCE (UK) LIMITED

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

IN THE HIGH COURT OF JUSTICE

DATED 10 MAY 2018

Introduction

I, Philip Tippin, am a partner in the actuarial practice of KPMG LLP ('KPMG'). I have been a Fellow of the Institute and Faculty of Actuaries for 19 years. I have been appointed by RiverStone Insurance (UK) Limited ('RIUK') and RiverStone Insurance Limited ('RIL') (together, the 'Transfer Companies') to act as the Independent Expert in connection with the proposed transfer described below. My appointment was approved by the Prudential Regulation Authority ('PRA') in consultation with the Financial Conduct Authority ('FCA') on 9 June 2017.

This summary report covers the main conclusions of my Independent Expert's Report. As noted in the Independent Expert's Report I have not considered any alternative arrangements to those set out in the Transfer documents submitted to the High Court of Justice of England and Wales ('the Court'). I have relied on data and other information made available to me by the Transfer Companies. While I have received written confirmation from the Transfer Companies of the accuracy of the information provided to me, I have not sought independent verification and my work does not constitute an audit of the financial or other information provided to me.

This summary must be considered in conjunction with the Independent Expert's Report and reliance must not be placed solely on this summary. Both this summary and the Independent Expert's Report must be considered in their entirety, including the limitations on their use as set out in the Independent Expert's Report. In the event of any real or perceived conflict between this summary and the Independent Expert's Report, the latter shall be definitive.

RIUK is a wholly-owned subsidiary of RiverStone Holdings Limited ('RHL') and is part of the Fairfax Financial Holdings Limited group, a Canadian based holding company engaged in property and casualty insurance and reinsurance business and investment management. RIUK is a non-life insurer which has not written new business since 1999, instead focusing on the acquisition of run-off business. It has had a diverse portfolio of run-off business which has included Marine, Aviation, Transport, Property, Casualty, Fire, Liability, Excess of Loss, Personal Lines, Professional Indemnity, Financial Institutions, Accident & Health and Motor classes. The majority of the remaining exposure exists on the longer tailed classes such as European Motor, US Asbestos and Italian Medical Malpractice.

RIL was acquired by RHL under its former name Brit Insurance Limited and is a non-life insurer with several lines of business. It was incorporated in 1992 and started writing business in 1994. It ceased writing new business in 2012 and is now in run-off. The remaining exposure on this book mainly relates to claims such as medical malpractice claims and classes such as Financial Institutions, Employers' Liability ('EL') and Public Liability ('PL').

The staff that manage the business of RIUK and RIL are employed by RiverStone Management Limited ('RSML'), which is also a wholly-owned subsidiary of RHL, and is authorised by the FCA.

This transfer will take place under the provision of Part VII of the Financial Services and Markets Act 2000 ('FSMA') under a transfer, known as Project Fandango, to be sanctioned by the Court.

It is proposed that the (re)insurance policies of RIL (together with their associated reinsurance protections) will be transferred to RIUK as a reorganisation of the RiverStone Europe Group in order to simplify it. The RiverStone Europe Group consists of RHL and its subsidiaries, which include RIUK and RIL.

I refer to the transfer of business from RIL to RIUK as the 'Transfer' or as 'Project Fandango'. I refer to RIL and RIUK as the 'Transfer Companies'.

The proposed date for Project Fandango to become effective is 28 September 2018. I refer to this as the 'Effective Date'.

To the best of my knowledge, information and belief, I have no conflicts of interest in connection with the parties involved in the proposed Transfers, either through my professional work, my personal relationships or my financial relationships. I therefore consider myself able to act as an Independent Expert on this transaction. In reporting to the Court on the proposed Transfers my overriding duty is to the Court. This duty applies irrespective of any person or firm from whom I have been instructed or paid.

Copies of the Independent Expert's Report are available at the following links: www.riltoriuk.co.uk

Overview of my analysis

In considering the impact of the proposed Transfer on the security of policyholders, I have considered both the impact of the Transfer on the financial resources available to support policyholders and also a number of non-financial impacts on how a customer's experience may change as a result of the Transfer.

My approach to considering the effect of the Transfer on service levels experienced by policyholders has been to determine if a change in service arrangements would occur if the Transfer were to proceed, and to compare any changes with the arrangements that would be in place were the Transfer not to take place.

I have identified the following groups of policyholders and have considered the interests of each group separately:

- i) Existing RIUK policyholders; and
- ii) Transferring RIL policyholders.

What is the non-financial impact of the Transfer?

In the Independent Expert's Report I have considered the impact of any changes as a result of the Transfer to each of:

- i) the FCA's Treating Customers Fairly principles;
- ii) the ease of presenting a new claim;
- iii) protection of customer data;
- iv) the impact of 'Brexit'; and
- v) other considerations including regulatory framework, executive management and governance.

Treating Customers Fairly

Claims and policy administration

RSML currently provides the claims service to RIUK and RIL and will continue to provide the same service to the same standard and with the same staff after RIL policyholders transfer to RIUK.

Therefore there will be no anticipated impact on RIUK or RIL policyholders with regard to claims administration.

Conduct risk

Conduct risk is low both for RIUK and RIL as all policies are expired. The Transfer does not expose RIUK or RIL policyholders to materially greater conduct risk.

Conduct risk is also monitored in the same way over both RIUK and RIL.

I do not believe there will be any adverse impact upon RIUK or RIL policyholders due to conduct risk as a result of the Transfer.

The ease of presenting a new claim

As discussed above, there is no change in the way that claimants present a new claim as a result of the Transfer.

I note however that claims under EL policies are not usually presented by policyholders themselves, but by the solicitors representing the third party claimants. These solicitors use the Employers' Liability Tracing Office ('ELTO') to identify the insurers to pursue claims against.

ELTO is set up to provide claimants, insurers, policyholders, and other interested parties with access to a database of EL policies through an online search engine. The system can be used, for example, to find the insurer of a previous employer where the claimant has suffered from injury or disease caused by previous employment. ELTO requires all insurers to upload the details on all new and renewed EL policies post April 2011 and any policies prior to that which have had new claims made against them.

Both RIUK and RIL are members of ELTO and use the same systems for monitoring and control purposes, provided by RSML.

RIL and RIUK meet their ELTO obligations and the same underlying ELTO compliance framework including controls, processes, personnel and governance operates across both RIL and RIUK.

There will therefore be no detriment to policyholders or claimants from the Transfer.

Protection of customers' data

Cyber security risk is a relatively new and increasing threat to businesses today. Cyber-attacks on companies are becoming more frequent. These attacks can take forms such as gaining access to and selling or publicising customers' data, or preventing the business from operating as usual. Cyber security is therefore becoming ever more paramount. It is a reasonable expectation of a customer that their insurer should take appropriate steps to protect their confidential data.

RIUK and RIL both have the same IT/cyber security team and carry out ongoing training and reviews, multiple audits, and have received annual re-accreditation of the UK Government 'Cyber Essential Plus' standard.

There is no expectation that the protection of customers' data will diminish as a result of the Transfer and I conclude that there is no risk of any material adverse impact on policyholders resulting from the Transfer. Cyber-attacks are attempted on businesses all the time, so there is always the risk that one may be successful, but the Transfer does not appear to increase that risk in any way.

I therefore identify no impact on either RIUK or RIL policyholders as a result of the Transfer.

The impact of 'Brexit'

On 23 June 2016, the UK held a nationwide referendum which asked the electorate whether they wanted the UK to remain part of or to leave the EU. The referendum resulted in a majority vote to leave the EU, a situation commonly referred to as 'Brexit', and the consequences of this vote are still uncertain. The UK formally served notice under Article 50 of the Lisbon Treaty on 29th March 2017 and has now entered a prescribed period of up to two years to negotiate on the terms of their exit from the EU. In the unlikely event of the UK leaving the EU before the Effective Date, I assume that the UK will still follow the EU-wide prudential regulatory regime known as Solvency II, or an equivalent, going forward.

At the time of my Independent Expert's Report there remains much political and economic uncertainty within the UK. Whilst there are many potential consequences (including the stock market and foreign exchange market instability witnessed during June and July of 2016), the one with the most potential to affect the business models of the Transfer Companies is the risk that UK insurance businesses would lose their 'passporting rights' to do business across the European single market (and that European insurance businesses could lose their right to trade in the UK).

As the invoking of Article 50 triggered a negotiation period of up to two years, it is unlikely to be clear what the ultimate position on 'passporting' will be before the Effective Date of the proposed Transfer.

None of the policyholder groups is any more exposed to the risk of not being able to have their policies or claims serviced as a consequence of Brexit after the Transfer than they would have been before it.

As such, I conclude that no policyholder group is materially adversely affected over this issue as a consequence of the Transfer.

Other considerations (regulatory framework, executive management and governance)

Each of the Transfer Companies is domiciled in the UK and regulated by the PRA and FCA. As such the same regulatory framework applies to each of the Transfer Companies both before and after the Transfer. There is no change in entitlement to protection under the Financial Services Compensation Scheme for any group of policyholders, and there is no change in access to the Financial Ombudsman Service.

Currently both RIUK and RIL have the same executive management teams, aside from the chairs of various committees for each one, as the two entities have slightly different non-executive directors to

meet independence requirements. The Transfer will result in a reduction from two boards of directors to one board; there will be very little change aside from the roles of the non-executive directors, which may change which committees they chair under the combined entity.

I therefore identify no adverse impact upon RIUK or RIL policyholders as a result of the Transfer.

Will the Transfers impact the security of policyholders?

I identify no material adverse change in the economic circumstances of any of the main groups of policyholders.

As a result of the Transfer, RIUK policyholders see an increase in the ratio of available capital to the regulatory capital requirement ('Capital Cover Ratio'). RIL policyholders see a decrease, however their Capital Cover Ratio will still be comfortably greater than 100% indicating that the probability that policyholder benefits may not be paid in full is remote. They will also benefit from a larger balance sheet and larger pool of capital than previously. RIUK will remain a well-capitalised company after the Transfer.

As the RIUK Capital Cover Ratio improves after the Transfer, I conclude that existing RIUK policyholders are not materially adversely affected (and indeed they benefit slightly) from the Transfer from a capital security perspective. For RIL policyholders the Transfer moves their policies to a larger balance sheet which remains well-capitalised after the Transfer. Whilst the coverage ratios drop for RIL policyholders, the drop does not materially decrease the probability of their claims being paid in full, so I conclude that the transferring RIL policyholders are not materially adversely affected by the Transfer.

Other transfers

Separately from Project Fandango, but running concurrently, it is proposed that a separate Part VII transfer along with an associated reinsurance agreement is being carried out. It involves the transfer of a portfolio of EL and PL policies (together with their associated reinsurance protections that were underwritten in 2001 and prior from AXA to RIUK). In addition, RIUK and AXA have signed a reinsurance agreement for all Disease, Abuse and Stress claims (as agreed by RIUK and AXA) from the EL and PL policies of AXA written between 1 January 2002 and 31 December 2014 to be reinsured to RIUK. This reinsurance is conditional on the Arven Part VII transfer being sanctioned by the Court. This transfer will similarly take place under the provisions of Part VII of the FSMA under a transfer to be sanctioned by the Court, referred to as Project Arven.

For the avoidance of doubt, the sanction of Project Fandango by the Court is not conditional on its sanction of Project Arven, nor is the sanction of Project Arven by the Court conditional on the sanction of Project Fandango. As Project Fandango and Project Arven are expected to happen within a short time of each other, I consider in my Independent Expert's Report my conclusions as to the impact on policyholders of the proposed Project Fandango Part VII transfer both in the case that Project Arven is sanctioned by the Court, and in the case that it is not.

For all policies involved in Project Fandango (i.e. that remain within RIUK or transfer from RIL), the potential sanction of Project Arven at or around the same time as Project Fandango provides a boost to the overall level of net assets. The capital coverage decreases but remains substantially above 100%, and policyholders will benefit from a larger balance sheet and a larger pool of capital than previously.

Therefore, I conclude that the further sanction of Project Arven alongside Project Fandango would not materially adversely affect any groups of policyholders involved in Project Fandango.

Overall conclusion

I have considered the Transfer and its likely effect on each of the policyholder groups. I have concluded that the risk of any policyholder being adversely affected by the proposed Transfer is sufficiently remote for it to be appropriate to proceed with the proposed Transfer as described in my report.

I will issue a supplemental report containing the most up-to-date financial information prior to the final hearing at which the Court's sanction for the Transfer will be sought. This report will also address any market developments, any updates on Brexit, and any policyholder responses following communications in respect of the Transfer to policyholders (as referred to in my Independent Expert's Report).



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10 May 2018