

# **Project River – Summary of Transfer Report**

## *The Independent Expert and the Independent Expert's Report*

Mr Gregory Overton of PricewaterhouseCoopers LLP, a Fellow of the Institute of Actuaries, has been appointed as an independent expert (the “Independent Expert” or “IE”) to provide an Independent Expert’s Report (the “Transfer Report”) on the effects of the proposed transfers of insurance business to River Thames (the “Transfers”) on the policyholders of Bosworth, Brampton, Knapton, Marlon, Mercantile, Unionamerica and River Thames (collectively the “River Companies”). Mr Overton’s appointment has been approved by the Prudential Regulation Authority (“PRA”) in consultation with the Financial Conduct Authority (“FCA”) in accordance with Part VII of the Financial Services and Markets Act 2000.

The Transfer Report sets out the analysis that the Independent Expert has performed in order to form his opinion as to what the effect of the Transfers will be on the interests of policyholders of the River Companies, and the conclusions he has reached. It also sets out the purpose of the Transfer Report and the terms of use of the Transfer Report. Those terms apply equally to this summary.

A copy of the Transfer Report is available to view and/or download at [www.project-river-transfers.com](http://www.project-river-transfers.com). This summary highlights the key aspects of the Transfer Report and the conclusions reached by the Independent Expert. Anyone wishing to understand the analysis that has led to these conclusions should refer to the full Transfer Report.

## *The Independent Expert's work*

The IE has reviewed the terms of the Transfers and considered their impact on the security of policyholders of the River Companies and on the service that they receive.

Mr Overton has reviewed financial information relating to the River Companies including audited accounts, reserve studies and capital assessment reports. He notes that he has received all the information that he has requested in order to prepare the Transfer Report. He also notes that the River Companies have confirmed that the information provided is accurate in the witness statements made on their behalf to the Court as part of the transfer process.

The IE has considered the following groups of policyholders, including third parties who rely on their policies:

- The policyholders of Bosworth, transferring to River Thames.
- The policyholders of Brampton, transferring to River Thames.
- The policyholders of Knapton, transferring to River Thames.
- The policyholders of Marlon not covered by ILU guarantee (described below), transferring to River Thames.
- The policyholders of Marlon covered by ILU guarantee, transferring to River Thames.
- The policyholders of Mercantile, transferring to River Thames.
- The policyholders of Unionamerica transferring to River Thames.
- The current River Thames policyholders not covered by ILU guarantee.
- The current River Thames policyholders covered by ILU guarantee.

Some of the business within Marlon and River Thames was written through the Institute of London Underwriters (“ILU”). These policyholders benefit from a guarantee that was a condition of writing ILU business. As policyholders protected by this guarantee have access to an additional level of security, the IE has considered this group of policyholders separately.

Some of the River Companies contain a mix of direct and inwards reinsurance policyholders. Direct and inwards reinsurance policyholders have different rights in the unlikely event that a River Company is declared insolvent and the IE has considered these different rights in forming his opinion.

In assessing the impact upon the security of these groups the IE has considered: -

- the nature and duration of the policyholder liabilities;
- the impact of the Transfers on the assets and liabilities of the River Companies;
- the operation of the Marlon and River Thames ILU guarantees which provide an additional level of security to those policyholders protected by those guarantees;
- The operation of the Marlon and Unionamerica US Trust Funds which provide an additional level of security to those policyholders protected by those funds;
- the operation of the Fitzwilliam internal reinsurance agreements which provide reinsurance protection to business within River Companies;
- the operation of the Overseas Re internal reinsurance agreement which provides reinsurance protection to business already existing in River Thames;
- the impact of the Transfers on the capital position of the River Companies as assessed against a consideration of the risks inherent within the business of each of the River Companies, including the impact of adopting alternative plausible assumptions.

Some of the River Companies are in the process of making a formal dividend request to the PRA in accordance with the PRA's Supervisory Statement SS4/14 "Capital extractions by run-off firms within the general insurance sector". These dividend requests are part of business as usual operations and are subject to separate approval from the PRA. The IE has considered the capital position assuming these requests are approved and concluded on the impact on policyholders both with and without the proposed dividend declaration. The IE has assumed that the dividends are paid before the date on which the Transfers become effective (the "Effective Date").

## *Conclusion*

In his Report the IE concludes as follows:

*"I have considered the proposed Transfers and their likely effect on the policyholders of the River Companies.*

*I have concluded that the Transfers do not lead to any policyholders (or third parties who rely on their policies) being materially adversely affected.*

*In relation to my conclusions above I note that:-*

- *There will be no reduction in the overall capital as a result of the Transfers themselves as all the capital from the River Companies will be transferred along with the insurance liabilities.*
- *I have based my analysis on the assumption that dividends, requested as part of Enstar's normal business practice, are paid before the Effective Date of the Transfers. These dividends are subject to separate approval from the PRA.*
- *I have also considered the position if the dividends are not paid before the Transfers take effect and concluded that my overall conclusion would be the same."*

## *Other Considerations*

The business affected by the Transfers will continue to be administered in the same manner as it has been before the Transfers. As such, the IE does not expect any material adverse impact to the policyholder experience as a result of the Transfers. River Thames has no current intention to make changes to the operational arrangements in respect of the policies transferring under the Transfers.

After the Transfers there will be a number of governance changes to River Thames. The board of River Thames will have two Independent Non-Executive Directors and an audit committee will be formed as a sub-committee of the board, which will consist entirely of Non-Executive Directors, with a majority being Independent Non-Executive Directors. The chair will also be independent. The IE believes these governance changes will benefit policyholders and the greater ease with which this objective can be achieved if the Transfers succeed implies a benefit for policyholders from the Transfers.

The implications of the impending implementation of Britain's exit from the European Union are currently uncertain and will be considered as part of the IE's supplementary report.