

## SUMMARY OF INDEPENDENT EXPERT'S REPORT

### Transfer of business from Excess Insurance Company Limited, Hartford Fire Insurance Company UK Branch and Aviva Insurance Limited to Hartford Financial Products International Limited

## INTRODUCTION

The proposed transfer (henceforth referred to as the **Transfer**) involves transferring the following three groups of policyholders to Hartford Financial Products International Limited (**HFPI**):

- ▶ The policyholders of Excess Insurance Company Limited (**EICL**).
- ▶ Certain policyholders of Hartford Fire Insurance Company (**Hartford Fire**); specifically, the policyholders of Hartford Fire's UK Branch (which I will refer to by its trading name, **Hart Re**).
- ▶ Certain policyholders of Aviva Insurance Limited (**AIL**); specifically, the policyholders of AIL who were formerly policyholders of London and Edinburgh Insurance Company Limited (**LEIC**) and were defined as "excluded business" as part of the sale by The Hartford of LEIC to Aviva in 1998. I will refer to this group of transferring policies as **L&E**. The Hartford retained the economic cost of the L&E policies as part of the sale of LEIC.

After the Transfer the current policyholders of EICL, Hart Re and L&E will have their policies administered by, and claims paid by, HFPI.

HFPI, EICL and Hartford Fire are a part of the Hartford group of companies (the '**Hartford Group**' or '**The Hartford**') with The Hartford Financial Services Group ('**HFSG**'), Inc. as parent company. AIL is a part of the Aviva group of companies (the '**Aviva Group**' or '**Aviva**') with Aviva Plc as parent company.

The Transfer is intended to be effected on 15 October 2015 (the **Transfer Date**).

## 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, including the security of their policies and the levels of service that policyholders could expect to receive after the Transfer. 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 would be equivalent or improved 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 Hartford Group's intention by effecting the Transfer is to simplify and consolidate the Hartford Group's legal structure in the UK in line with the existing operational, administrative and functional arrangements. This will reduce costs and achieve greater capital efficiency in preparation for the implementation of the new European capital regulations, Solvency II.

Also, the Hartford is currently providing full reinsurance to AIL in respect of the L&E business. By transferring the L&E business from AIL to HFPI, the Transfer will align the transferring L&E policyholders' contractual rights with the insurer that will ultimately meet the economic cost of their insurance claims.

## REASONS FOR REACHING MY CONCLUSION

I have carried out various analyses on the financial statements and data of EICL, Hart Re and L&E and HFPI in relation to the Transfer. These tested the financial strength of each portfolio and were performed to understand and quantify the risks that they face both before and after the Transfer.

### *Security provided to policyholders post-Transfer*

The work I have carried out shows that all of the policyholders of HFPI will have a good level of security after the Transfer. There will be a capital injection into HFPI from The Hartford Group which will increase the level of capital in HFPI. Furthermore, there will be full reinsurance with Hartford Fire. Hartford Fire is a very large and diversified insurer, with an A credit rating provided by Standard and Poor's (**S&P**). I believe that the post-Transfer policyholders of HFPI will have a good level of security through a combination of the increased capital in HFPI and the reinsurance in place with Hartford Fire.

### *Assets transferring to HFPI*

I have reviewed the profile of the assets transferring to HFPI as part of the Transfer, and am satisfied that these are appropriate for the risks inherent in the enlarged HFPI.

### *Guarantees from HFSG*

HFSG currently provides guarantees that potentially benefit those policyholders of L&E and EICL who satisfy the criteria to be able to rely on them. In the event that full payment to a qualifying policyholder is not made, HFSG would pay the outstanding balance. Although these guarantees will not be in place after the Transfer, I believe that an equivalent level of protection will be provided through the combination of the capital in HFPI and the reinsurance with Hartford Fire. I also believe that there would be many uncertainties for policyholders wishing to pursue a claim under one of those guarantees, and that on balance, policyholders would be better off with the more certain protection structure in place after the Transfer.

### *ILU guarantees*

Some policies of EICL and L&E were written through the Institute of London Underwriters, and HFSG provides separate guarantees to those policyholders. In the event that full payment to the policyholder is not made, HFSG would pay the outstanding balance. These guarantees will remain in place after the Transfer and will provide the same level of additional protection.

### *Claims reserves and capital modelling work*

I have reviewed the claims reserves of EICL, Hart Re, L&E and HFPI and believe that they are set on a reasonable basis. I have reviewed the capital modelling work carried out by, or on behalf of, The Hartford; I believe that this is an appropriate model with which to measure the effect of the Transfer on the policyholders. The findings of that modelling work are that all groups of policyholders would have a better security position after the Transfer.

### *Regulatory capital*

I have carried out a high-level review of the regulatory capital position for HFPI after the Transfer under the new European capital regulations, Solvency II. I am satisfied that that calculation is appropriate. The capital injection into HFPI from HFSG will be at a level such that HFPI will have capital equal to the regulatory amount under the Solvency II Standard Formula.

I have considered the impending implementation of Solvency II on 1 January 2016, and this does not affect my conclusion on the Transfer.

### *Trust funds and segregated assets*

Certain policyholders have trust fund or segregated asset arrangements in place prior to the Transfer. After the Transfer, these will continue to be in place or will be replaced by arrangements that I consider to be equivalent:

- (i) The current policyholders of HFPI have a trust fund in place which covers the reinsurance in place with Hartford Fire.
- (ii) EICL wrote some business in the United States of America which is covered by a circa \$3m Surplus Lines Trust Fund. HFPI is specifically setting up a new trust fund as a replacement. The legal advice I have received is that it is highly probable that a US Court would recognise an EICL policyholder's right to claim against this replacement trust fund.
- (iii) FINMA, the regulator of the insurance industry in Switzerland, requires funds to be held in a Swiss tied asset account. This provides some additional protection to the Swiss Branch policyholders of HFPI.

### *Policyholder administration arrangements*

All of the business of HFPI, EICL, Hart Re and L&E is currently managed and administered by Hartford Group subsidiary companies. After the Transfer there will be no change to the way in which claims are administered or paid.

## **POLICYHOLDERS POTENTIALLY AFFECTED BY THE TRANSFER**

I have considered the effect of the Transfer upon all policyholders that I believe could be affected, or potentially affected, by the Transfer. I have identified six main groups of policyholders potentially affected by the Transfer:

- (1) Policyholders of EICL – I believe that all EICL policyholders will have improved security after the Transfer; in the case of EICL policyholders who are not beneficiaries of the HFSG Guarantee, I believe that the level of security will be significantly improved. Before the Transfer the capital strength of EICL is relatively low; as part of the Transfer there will be a capital injection to HFPI, and there will be full reinsurance with Hartford Fire.
- (2) Policyholders of Hart Re – I believe that the level of security will be improved. These policyholders currently have good security through being covered by Hartford Fire. After the Transfer they will have additional protection from the capital in HFPI.
- (3) Policyholders of L&E – I believe that those policyholders of L&E who are beneficiaries of the HFSG guarantee will have equivalent security after the Transfer – for those policyholders without the benefit of this guarantee I believe that the security position is improved. Before the Transfer the L&E policyholders have good security from being insured by AIL, which is a very large and diversified insurer, with an A credit rating provided by S&P. After the Transfer they will be insured by HFPI, but with full reinsurance from Hartford Fire (with an equivalent A rating from S&P).
- (4) Original policyholders of HFPI – I believe that the level of security will be equivalent after the Transfer. These policyholders have the same, full, reinsurance with Hartford Fire both before and after the Transfer.
- (5) Non-transferring policyholders of AIL - I believe that the level of security will be equivalent after the Transfer. The size of the portfolio transferring from AIL to HFPI is immaterial in the context of the size of AIL.
- (6) Non-transferring policyholders of Hartford Fire - I believe that such policyholders have equivalent protection after the Transfer. The size of the portfolio transferring from Hartford Fire to HFPI is immaterial in the context of the size of Hartford Fire.

## **ABOUT THE INDEPENDENT EXPERT**

I, Michael Barkham, 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 25 years' experience in the general insurance industry. I have been nominated by The Hartford to act as the Independent Expert for the Transfer. This nomination has been approved by the Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA').

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## **ABOUT THE INDEPENDENT EXPERT'S REPORT**

Section 109 of the FSMA requires that an application under section 107 of the FSMA 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. 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.



**Michael Barkham**

**29 June 2015**

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

A copy of the Report is available to be downloaded from [www.downlandsliaability.com](http://www.downlandsliaability.com). Alternatively, it can be requested by contacting Downlands Liability Management Limited in writing at DLM House, Downlands Business Park, Lyons Way, Worthing, West Sussex, BN14 9RX, or by emailing [HartfordPartVII@downlandsliaability.com](mailto:HartfordPartVII@downlandsliaability.com).