

## Transfer of business from Steamship Mutual Underwriting Association Limited to Steamship Mutual Underwriting Association (Europe) Limited

### INTRODUCTION

The proposed transfer (the **Transfer**) involves transferring various policies (the **Transferring Policies**) of Steamship Mutual Underwriting Association Limited (**SMUAL**) to Steamship Mutual Underwriting Association (Europe) Limited (**SMUAE**):

- ▶ The Transfer is intended to be effected on 20 December 2020 (the **Transfer Date**), after the sanctions hearing scheduled for 2 December 2020.
- ▶ Post Transfer, transferring policyholders of SMUAL will have their policies administered and claims paid by SMUAE.

SMUAL is part of a regulatory group of companies with Steamship Mutual Underwriting Association (Bermuda) Limited (SMUAB) and Steamship Mutual Underwriting Association (Bermuda) Trust Limited (SMUAT). SMUAT is the designated insurer for regulatory purposes. The regulatory group and SMUAE trades under the name Steamship Mutual (the Club). The Bermuda Monetary Authority (BMA) and the Insurance Companies Control Service (ICCS) in Cyprus are in the process of entering into a Memorandum of Understanding which will include SMUAE within the regulatory group. SMUAL and SMUAE are located in the UK and Cyprus respectively.

There are various intra-group reinsurance contracts in place within the Club. The overall effect of these contracts is that a very high proportion (over 90%) of the net liabilities of SMUAL and SMUAE are ultimately reinsured to SMUAB and then SMUAT.

### PURPOSE OF THE TRANSFER

The purpose of the Transfer is to reorganise the European operations of the Club in such a way as to comply with the relevant insurance regulations. There is considerable uncertainty in the UK with regard to the future regulatory landscape as a result of Brexit. In particular, I believe that it is

unlikely that SMUAL would be able to continue to write insurance business in the EEA post-Brexit. There is also uncertainty for the status of the existing policyholders of SMUAL in the EEA, where SMUAL would be required to administer the remainder of the policy and make any claim payments due. The regulations governing this process after Brexit are uncertain.

Therefore, the Club has elected to place all EEA risks into a European insurance carrier, SMUAE, so that continuity of operations can be guaranteed. This will enable the Club to service the existing European client base, and also to write new business. The Club is also transferring business written in Monaco and Switzerland for operational efficiency reasons.

### WHICH POLICIES WILL TRANSFER

The Transferring Policies are those where the purchasing policyholder has its country of management prior to the Transfer Date within the EEA (excluding UK), Switzerland or Monaco. Even where a policyholder is managed in an EEA country (or Switzerland and Monaco), there may be parts of the insured risk which are located outside of those countries; for the avoidance of doubt, policies held by those policyholders are included in the definition of Transferring Policies.

### 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 and any other parties affected by 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 and any other parties affected by the Transfer of SMUAL and SMUAE.

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.

**I conclude that the security provided to policyholders will not be materially adversely affected 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.**

**I also conclude that there are also no other parties (e.g. reinsurers) who will be materially adversely affected by the Transfer.**

**As a result, I conclude that there is no reason that the Transfer should not go ahead.**

### REASONS FOR REACHING MY CONCLUSION

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

I believe that both SMUAL and SMUAE 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 do not anticipate any material adverse impact to any group of policyholders following the Transfer as a result of claims handling and policy servicing.

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

#### **Policyholders of SMUAL's non-transferring policies (read this section if your policy is not being transferred)**

There will be minimal change to the balance sheet and financial strength of SMUAL after the Transfer because the Transferring Policies are only approximately 20% of the overall SMUAL net technical provisions.

Based on my review, I conclude that the technical provisions of SMUAL are set on a reasonable basis, and that SMUAL would meet its regulatory capital requirement after the Transfer.

The non-transferring policyholders will belong to the same legal entity, with exactly the same governance structure, regulatory framework, policy terms and conditions, and their policies will be serviced in the same manner as prior to the Transfer.

## **Policyholders of SMUAL's transferring policies (read this section if your policy is being transferred)**

The policies will move from SMUAL to SMUAE; based on my review, I conclude that SMUAL and SMUAE are both strongly capitalised companies, and that they provide a broadly equivalent level of security.

Based on my review, I conclude that the technical provisions of SMUAE are set on a reasonable basis, and that SMUAE would meet its regulatory capital requirement after the Transfer.

The policy terms and conditions will be the same, and the policies will be serviced in the same manner as prior to the Transfer. The policyholders will belong to a different legal entity; but the governance structure and regulatory framework, including Financial Services Compensation Scheme (FSCS) and Financial Ombudsman Service (FOS) protection, is not materially different, in my opinion.

Without the Transfer, I believe that there are some key risks related to Brexit; in particular, that SMUAL could be prevented by law from paying claims and servicing policies. This would be detrimental to policyholders.

A significant number of the transferring policyholders have already renewed their 2020 policy with SMUAE (and there were no complaints from policyholders after this change). The Transfer is simply bringing their policies from prior years to the same insurance entity.

## **Existing policyholders of SMUAE (read this section if you are a policyholder of SMUAE)**

Based on my review, I conclude that SMUAE will be strongly capitalised and provide a high level of security. I also conclude that the technical provisions of SMUAE are set on a reasonable basis, and that SMUAE would meet its regulatory capital requirement after the Transfer.

The policyholders will belong to the same legal entity, with exactly the same governance structure, regulatory framework, policy terms and conditions, and their policies will be serviced in the same manner as prior to the Transfer.

## **ANALYSIS CARRIED OUT**

### ***Claims reserve assessment***

I have reviewed the technical provisions of SMUAL and SMUAE pre and post Transfer. My review has included an assessment of the approach, methodology and governance that are used to determine the technical provision levels. I have also assessed key assumptions used in determining the technical provisions

and also carried out a benchmark review for the most material and uncertain aspects of the technical provisions.

I have concluded that the technical provisions are set on an appropriate and consistent basis for both SMUAL and SMUAE, both before and after the Transfer. The technical provisions of SMUAB and SMUAT are also set in a consistent manner with SMUAL and SMUAE.

### ***Assets and regulatory capital requirements***

I have reviewed the regulatory capital position of SMUAL and SMUAE pre and post Transfer. I have also reviewed the regulatory capital position of SMUAB and SMUAT pre and post Transfer given the significant reinsurance relationship with SMUAL and SMUAE. Post-Transfer, all entities would meet regulatory capital requirements by a margin. The regulatory capital is calibrated at a 1 in 200 level of sufficiency. This suggests that the overall level of security provided to the policyholders of the Club is good.

The Steamship Group (SMUAL, SMUAE, SMUAB and SMUAT) has an 'A' rating with a stable outlook by Standard & Poor's ('S&P'), and I would expect that this would be maintained after the Transfer. This suggests a good level of financial strength. A significant proportion of the assets held by SMUAL and SMUAE will be in the form of collateralised reinsurance assets with SMUAB and SMUAT. I note that the use of reinsurance reduces insurance risk which more than offsets the small increase in counterparty default risk for SMUAL and SMUAE.

I believe that the assets transferring from SMUAL to SMUAE (mostly reinsurance assets and cash) are appropriate for SMUAE, and do not materially affect the mix of assets held by SMUAE after the Transfer.

### ***Servicing of policyholder and Brexit***

There will be no material changes to the way that policies are administered and claims paid, and I do not anticipate any changes to the level of customer care provided.

Not proceeding with the Transfer gives the potential, depending on the outcome of ongoing Brexit negotiations, of policyholders not legally being able to have their claims paid or policies serviced. Therefore, I believe that the most pragmatic solution to the Brexit related issues is to effect the Transfer.

### ***Transferring Reinsurance arrangements***

There are no additional liabilities being created as part of the Transfer and I did not identify any set-off rights. Therefore, other than the change of legal entity for transferring reinsurance arrangements, I conclude that these reinsurers are not materially affected.

## **ABOUT THE INDEPENDENT EXPERT**

I, Ruth Nelmes, am a partner in the 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 20 years' experience in all areas of general insurance actuarial work (including reserving, capital, Solvency II compliance, pricing, and transactions). I have been nominated by SMUAL to act as the Independent Expert for the Transfer. This nomination has been approved by the Prudential Regulation Authority (**PRA**) in consultation with the Financial Conduct Authority (**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 FCA Supervision Handbook, FG18/4: The FCA's approach to the review of Part VII insurance business transfers and the PRA's Statement of Policy: the PRA's approach to insurance business transfers April 2015. 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**

**23 June 2020**

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

A copy of the Report is available to be downloaded from the Club's website at <http://www.steamshipmutual.com/About-Us/restructure.htm>. Alternatively, it can be requested by emailing [graham.jones@simsi.com](mailto:graham.jones@simsi.com), calling him on +44 (0)20 7650 6534 during normal office hours or writing to Graham Jones at Steamship Insurance Management Services Limited, Aquatical House, 39 Bell Lane, London E1 7LU.