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Supplementary Report by Simon Sheaf FIA FSAI,  
Independent Actuary, on the Proposed Transfer of  
a Portfolio of Policies from Zurich Insurance plc to  
Catalina Insurance Ireland DAC

24 September 2018

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# 1 Introduction

- 1.1 Zurich Insurance plc ("ZIP") and Catalina Insurance Ireland DAC ("Catalina") have jointly nominated Simon Sheaf ("I", "me") of Grant Thornton UK LLP ("Grant Thornton", "we", "us") to act as the Independent Actuary for the proposed insurance business transfer scheme ("the Scheme") of elements of the insurance business of ZIP to Catalina. The Scheme is intended to be effected on 30 November 2018 ("the Effective Date").

## **Scope of this report**

- 1.2 I prepared a report addressed to the Irish High Court ("the Court") dated 25 June 2018 and entitled "Report by Simon Sheaf FIA FSAI, Independent Actuary, on the Proposed Transfer of a Portfolio of Policies from Zurich Insurance plc to Catalina Insurance Ireland DAC" ("the Report"). The Report set out my considerations as to the likely effects of the proposed Scheme on the policyholders of ZIP and Catalina. This included my assessment as to whether the Scheme will result in material detriment to any policyholders affected by the Scheme relative to their current situation.
- 1.3 The conclusions within the Report were based on financial information as at various dates between 31 December 2016 and 31 December 2017 and other information available to me when I prepared the Report. Since submitting the Report to the Court, I have been provided with more recent information. A list of the additional information that I have been provided with is contained within Appendix A.
- 1.4 This report ("the Supplementary Report") provides an update to the conclusions I set out in the Report in light of this additional information. It also considers any other changes that have occurred since the Report was submitted and provides an update to the conclusions set out in the Report in the light of those changes. In addition, this report also provides my opinion on the communications received from policyholders and other interested parties of ZIP and Catalina.
- 1.5 I am not aware of any further matters not discussed in this report that have the potential to change the conclusions in the Report.

## **Layout of this report**

1.6 This report is structured as follows:

- This section sets out an introduction to this report.
- The second section is an executive summary, which summarises the various additional analyses conducted and describes my conclusion.
- Section 3 sets out significant changes to each of ZIP and Catalina since the Report, along with any relevant developments external to ZIP and Catalina.
- Section 4 describes the work that I have carried out to review my conclusions in respect of the claims reserves of ZIP and Catalina.
- Section 5 describes the work that I have carried out to review my conclusions in respect of the capital requirements of ZIP and Catalina.
- Section 6 describes the work that I have carried out to review my conclusions in respect of policyholder security.
- Section 7 describes the work that I have carried out to review my conclusions in respect of my assessment of other financial considerations.
- Section 8 describes the work that I have carried out to review my conclusions in respect of my assessment of other non-financial considerations.
- Section 9 describes the work I have done to consider the communications process.
- Section 10 sets out my conclusions on the Scheme.

## **Independence**

- 1.7 I have no financial interest in ZIP or the group of companies to which ZIP belongs. I acted as the Independent Actuary on a Section 13 insurance portfolio transfer from ZIP to East West Insurance Company Limited which was sanctioned in March 2018. In addition, in 2016, I was involved in a project advising ZIP in a professional capacity.
- 1.8 I do not believe that these previous assignments impair my independence to act as the Independent Actuary on the Scheme.
- 1.9 I have no financial interest in Catalina or the group of companies to which Catalina belongs. Over the last few years, I have been involved in three projects advising companies in the group to which Catalina belongs in a professional capacity. I do not believe these previous assignments impair my independence to act as the Independent Actuary on the Scheme.
- 1.10 I have reviewed all current and past business relationships between Grant Thornton UK LLP or other member firms of Grant Thornton International Ltd and ZIP or Catalina, or the groups of companies to which they belong, and I do not believe that any of these business relationships create a conflict with my acting as the Independent Actuary on the proposed Scheme.

## **Use of this report**

- 1.11 This Supplementary Report should be read in conjunction with the Report as reading this Supplementary Report in isolation may be misleading. In particular, this report has an analogous scope and is subject to the same reliances and limitations and restrictions on distribution and use as the Report. All abbreviations and technical terms used in this Supplementary Report have the same meaning as in the Report.
- 1.12 This report is provided for the use of the Court, the ZIP Board, the Catalina Board, ZIP's policyholders, Catalina's policyholders, the CBI and any other relevant regulator for the sole purpose of considering the impact of the Scheme on the affected policyholders.

- 1.13 Copies of the final version of this report may be made available for inspection by policyholders and copies may be provided to any person requesting the same in accordance with legal requirements. The final version of this report may also be made available on the websites hosted by ZIP and Catalina in connection with the Scheme.
- 1.14 Grant Thornton does not assume any responsibility nor accept any liability to any party other than ZIP, Catalina, or the Court who chooses to act on the basis of any of the reports we have issued in connection with the Scheme.
- 1.15 Judgements about the conclusions drawn in this report should only be made after considering this report in its entirety as any part or parts read in isolation may be misleading.
- 1.16 The underlying figures contained in this report are calculated to many decimal places. In the presentation of the figures in the various tables, there may be reconciliation differences due to the effect of rounding.
- 1.17 Unless otherwise stated, the figures used throughout this report are shown in Euros. The information I have been provided with for this report has been presented in Euros. As a result, I have not needed to convert any of the financial information provided for this report into any other currency.

### **Professional guidance**

- 1.18 In producing this report, I have taken into consideration the provisions contained in Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015 in relation to the transfer of long term (or life insurance) business. Even though parts of this legislation and regulations relate to life business, I consider it appropriate to consider it all in my work.
- 1.19 In my opinion, this report has been produced in line with the requirements of the Technical Actuarial Standards (“TASs”) issued by the Financial Reporting Council (“FRC”). In particular, this report has been prepared in accordance with TAS 100: Principles of Technical Actuarial Work and TAS 200: Insurance.
- 1.20 This report has also been produced in line with the requirements of APS X3: The Actuary as an Expert in Legal Proceedings produced by the Institute and Faculty of Actuaries.
- 1.21 In producing this report, I have taken into consideration the Actuarial Standard of Practice issued by the Society of Actuaries in Ireland, ASP-L6, “Transfer of long-term business of an authorised insurance company – role of the Independent Actuary.” Even though this standard is related to life business, I consider it appropriate to consider it in my work.
- 1.22 This report has also been produced in line with the requirements of “APS X2: Review of Actuarial Work” issued by the Institute and Faculty of Actuaries.

### **Statement of truth**

- 1.23 I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge, I confirm to be true. The opinions I have expressed represent my true and complete professional view on the matters to which they refer.

## 2 Executive Summary

### **My approach**

2.1 In preparing this report, I have considered relevant events and experience since completing the Report and their impact on the conclusions set out in the Report. In particular, I have sought to:

- Understand changes to ZIP and Catalina since the Report, both financial and non-financial
- Understand the impact of changes in the external environment on ZIP and Catalina
- Consider the implications of these changes on the level of security provided to the affected policyholders
- Consider the potential impact of changes since the Report on levels of customer service
- Consider the changes in other factors that might affect policyholders since the Report
- Consider the implication of changes since the Report on reinsurers.

2.2 Since the Report was issued, I have been provided with additional comparative information for each legal entity, including:

- Balance sheet information based on figures as at 30 June 2018
- Internal actuarial review of reserves for the Catalina as at 31 December 2017
- External actuarial review of reserves for the Catalina as at 31 December 2017
- Internal actuarial review of reserves for ZIP as at 31 December 2017
- Estimates of the regulatory capital required for ZIP and Catalina as at 30 June 2018
- Information on claims handling since the Migration Date
- Internal management information for both ZIP and Catalina.

2.3 I have also considered the correspondence with policyholders of ZIP and Catalina that has taken place in connection with the Scheme and the responses received up to 12 September 2018.

### **Findings**

2.4 The findings set out in this report are summarised in this section. The detailed explanation behind these conclusions follows in the body of this report and within the Report.

2.5 With respect to the transferring policyholders, I do not expect any material adverse impact on policyholder security as a result of the Scheme. These policyholders would be moving to a company that I believe has a sufficient level of capital in order to meet policyholder obligations.

2.6 With respect to the policyholders remaining in ZIP, I do not expect any material adverse impact on policyholder security as a result of the Scheme as the Transferring Portfolio is immaterial in the context of ZIP's overall business.

2.7 With respect to the existing policyholders of Catalina, I do not expect any material adverse impact on policyholder security as a result of the Scheme as the coverage ratio of Catalina is expected to improve as a result of the Scheme.

2.8 I do not anticipate any material adverse changes to the level of service provided to any of the groups of policyholders following the Scheme.

2.9 I do not expect any material adverse impact to any group of policyholders following the Scheme as a result of the other financial and non-financial factors considered. The other financial factors that I have considered are:

- Tax implications
- Investment strategy implications
- Liquidity
- Implications of the Scheme on ongoing expense levels
- Compensation schemes
- Implications under insolvency
- New business strategy
- Other transfers

The other non-financial factors that I have considered are:

- Management and governance framework
- Regulatory regime
- Complaints
- Brexit

2.10 I expect no material adverse impact on the coinsurers that are related to the Transferring Portfolio as a result of the Scheme.

2.11 I expect no material adverse impact on the reinsurers of ZIP or Catalina as a result of the Scheme.

### **Conclusion**

2.12 I conclude that the risk of any group of policyholders, coinsurers or reinsurers being materially adversely affected by the Scheme is sufficiently remote that there is no reason why the Scheme should not proceed.

## 3 Business Developments

### **ZIP**

- 3.1 ZIP has informed me that there have been no material changes to its business since the Report was issued. I understand from ZIP that there are a number of portfolio transfers planned into or out of ZIP, the details for some of which remained confidential at the time of writing this report. ZIP has informed me that it does not expect any material change to its financial strength or its solvency coverage as a result of these transfers. Having discussed these matters with ZIP and reviewed information which ZIP has provided to me, I do not expect these transfers to affect the conclusions contained in the Report.

### **Catalina**

- 3.2 I understand from Catalina that there have been no material changes in its business since the Report was issued.

### **Regulatory developments**

#### **Brexit**

- 3.3 As at the time of writing this report, nothing has been decided on the future relationship of the UK with the EU following Brexit.
- 3.4 It follows that there have not been any changes in relation to Brexit that give me reason to change the conclusions in the Report.

## 4 Claims Reserves

### Reserve strength of the Transferring Portfolio

- 4.1 I understand from ZIP and Catalina that the rate of closure of claims in the two month period following the migration of claims handling services to Pro InsuranceSolutions GmbH (“Pro”) was lower than the pre-migration claims closure rate for the portfolio. This is because the Pro team would not have initially had the same depth of familiarity with the portfolio as the ZIP claims handlers and therefore needed more time to close claims to ensure that the claims were processed correctly. This resulted in lower claims closure rates in April and May 2018 although I understand from ZIP and Catalina that no policyholder was materially affected nor was service delivery to policyholders materially delayed. The claims closure rate has since returned to a level consistent with the pre-migration rate.
- 4.2 As a result of the above, updated claims data was not available as at 30 June 2018. Consequently, neither ZIP nor Catalina conducted a full reserve review in respect of the Transferring Portfolio as at that date.
- 4.3 Because of this, as at 30 June 2018, ZIP has maintained its estimate of the ultimate cost of claims in respect of the Transferring Portfolio that it calculated as at 30 September 2017.
- 4.4 There has been a reduction in the booked reserves since 30 September 2017. This is predominantly driven by claims settling and therefore payments being made. The table below sets out an analysis of the movements in booked reserves for ZIP in respect of the Transferring Portfolio between 30 September 2017 and 30 June 2018.

**Table 1: Analysis of movement in booked reserves in respect of the Transferring Portfolio between 30 September 2017 and 30 June 2018**

€m	Total
<b>Booked reserves as at 30 September 2017</b>	<b>343.8</b>
<i>plus</i> Claims paid between 30 September 2017 and 30 June 2018	(30.8)
<i>plus</i> Unwind and change in yield curve in respect of annuity claims	2.1
<i>plus</i> Economic assumption change in respect of annuity claims	0.1
<b>Booked reserves as at 30 June 2018</b>	<b>315.2</b>

- 4.5 Catalina conducted a review of the reserves in respect of the Transferring Portfolio as at 31 March 2018. I have been provided with this review. These calculations resulted in a similar estimate of ultimate claims to that estimated by Catalina in its review as at 31 December 2017.

4.6 Since the Report, a reserve review of the Transferring Portfolio as at 31 December 2017 has been conducted by an external third party (referred to as Firm B in this report for confidentiality reasons) on behalf of ZIP. The result of this review is that Firm B estimated an ultimate cost of claims that is approximately €30m higher than that estimated by ZIP. The scope of Firm B's assignment was substantially wider than just the Transferring Portfolio and, because of this, I have not been provided with the report setting out the results of this review. Instead, I have held a discussion with Firm B to understand its approach and its reasons for selecting an estimate that is higher than ZIP. I have discussed this further in paragraphs 4.14 to 4.16.

#### **My opinion of the reserve strength of the Transferring Portfolio**

4.7 In the Report, I performed an analysis to determine what I believed to be an appropriate reserve for the Transferring Portfolio as at 30 September 2017. At that time, I concluded that the estimates provided by ZIP and Catalina both lay within a reasonable range of possible outcomes.

4.8 In order to satisfy myself that it is reasonable to maintain the ultimate cost of claims in respect of the Transferring Portfolio at the level that was estimated by ZIP as at 30 September 2017, I have undertaken the following:

- Held discussions with actuaries at both ZIP and Catalina
- Held discussions with those responsible for claims oversight in each of ZIP and Catalina
- An analysis of claim movements between 30 September 2017 and 30 June 2018
- Reviewed Catalina's estimate of ultimate claims as at 31 March 2018
- Held discussions with Firm B in relation to its estimate of ultimate claims as at 31 December 2017

4.9 As can be seen in table 1 above, claims paid between 30 September 2017 and 30 June 2018 were €30.8m. During that period, outstanding claims were reduced by €33.4m. This suggests that it would be reasonable to reduce the ultimate cost of claims as claims appear to have settled below the case estimates. However, the IBNR has been increased between these two dates in order to keep the ultimate cost of claims the same.

4.10 As discussed in paragraph 4.1, there was a temporary reduction in the claims closure rate following the Migration Date. The result of this has been two fold:

- Substantially fewer claims were closed in April and May and, consequently, the redundancies in case estimates that had been seen in prior periods were not evidenced in these two months. However, the information provided by Pro indicates that closure rates in June returned to levels seen prior to the Migration Date
- As a result of the above point and new claims that have been reported in the second quarter of 2018, incurred claims increased by €0.7m in the second quarter of 2018. This compares to reductions in incurred claims of €2.7m, €10.3m and €11.3m in the preceding three quarters.

4.11 I have reviewed the information provided by Pro in respect of claims since the Migration Date, including information provided from June to August 2018. It is evident from that information that claim closure rates from June to August 2018 have returned to levels consistent with those prior to the Migration Date. In addition, incurred claims have reduced by €3.4m in July 2018 and €5.8m in August 2018.

- 4.12 After considering the claim closure rates from June to August 2018 and the incurred claim movements in July and August 2018, I am satisfied that the reduction in claims closure rates experienced by Pro in April and May 2018 appears to have been resolved.
- 4.13 As discussed in paragraph 4.5, Catalina's estimate of ultimate claims has not changed between 31 December 2017 and 31 March 2018.
- 4.14 As discussed in paragraph 4.6, Firm B conducted a reserve review as at 31 December 2017, which resulted in a higher estimate of ultimate claims than that estimated by ZIP. Based on my discussion with Firm B, I consider the approach used by Firm B to estimate the reserves for the Transferring Portfolio to not be unreasonable. However, I understand from ZIP that there are a number of key differences between the approaches taken by ZIP and Firm B which drive the differences in the results. I have set out below those key differences and my opinion on them:
- ZIP has separately analysed attritional and large claims, whereas I understand from Firm B that it has analysed the information in aggregate
  - For more recent reporting periods, I understand from Firm B that it has used different projection techniques from those used by ZIP
  - I understand from Firm B that it has relied purely on the incurred claims history whereas ZIP has given some credit to the paid claims history.
- 4.15 For the first two differences above, the approaches used by ZIP and those used by Firm B each have their own advantages and disadvantages, however each one is a standard, well-recognised actuarial projection approach. For the third point above, I understand from ZIP that its reason for adopting this approach was that the incurred claims history is somewhat distorted by the increases in case estimates that occurred in 2012 and 2013, as discussed in paragraph 5.9 of the Report. Whilst I would generally expect that the greater volume of information captured within incurred claims would mean that estimates based on them are likely to be more reliable than those based on paid claims, I believe that the distortions in the incurred claims data mean that there is merit in this instance in additionally placing reliance on paid claims.
- 4.16 My conclusion is that I believe Firm B's estimate of the reserves of the Transferring Portfolio to lie within a reasonable range of possible outcomes. As a result, I have three estimates of the reserves for the Transferring Portfolio (provided by ZIP, Catalina and Firm B) which I believe lie within a reasonable range of possible outcomes. I therefore consider it reasonable to base my conclusions in respect of the Scheme on ZIP's assessment of the reserves, which is broadly in the middle of these three estimates.
- 4.17 Based on the fact that incurred claims have reduced relative to expected since 30 September 2017 and that the temporary reduction in claims closure rates since the Migration Date appears to have been resolved, there would be an argument for booking claims reserves lower than those booked by ZIP. As a result, I am satisfied that maintaining the ultimate cost of claims in respect of the Transferring Portfolio lies in a reasonable range of possible outcomes and there continues to be sufficient reserve strength within the Transferring Portfolio.
- 4.18 As discussed in paragraph 5.42 of the Report, the Custody Account under the LPTA is collateralised based on ZIP's booked reserves as at each quarter end for the period prior to the Scheme.

- 4.19 Following the Scheme, Catalina will have the flexibility to book reserves in line with its own view. It is possible that Catalina will seek to release any margin that it believes is contained in the reserves at that point. However, I described in paragraphs 7.53 and 7.54 of the Report the process by which reserves for the Transferring Portfolio will be determined and booked. In addition, Catalina has agreed with the CBI that its reserves will be booked at least at the level provided by an independent external actuary on an annual basis. As a result, I am satisfied that reserves for the Transferring Portfolio will continue to be booked within a reasonable range of possible outcomes. In addition, Catalina will be required by the CBI to maintain capital above its reserves to provide protection against deteriorations in reserves. This was discussed further in paragraphs 8.24 to 8.26 of the Report and is discussed further in paragraph 5.12 of this report.
- 4.20 I understand from Catalina that it has used the same approach to its Solvency II Technical Provisions as described in the Report, and as a result I consider the Solvency II Technical Provisions for the Transferring Portfolio as at 30 June 2018 to be reasonable.

### **Reserve strength of ZIP**

- 4.21 I have been provided with a consolidated report on the Solvency II Technical Provisions of ZIP covering its entire portfolio as at 31 December 2017. This report also discusses the reserves of ZIP as at 31 December 2017 on an IFRS basis. For the Report, I was provided with the equivalent information as at 31 December 2016.
- 4.22 The table below shows the reserves for ZIP on an IFRS basis at each of 31 December 2016 and 31 December 2017, both gross and net of reinsurance.

**Table 2: Reserves of ZIP on an IFRS basis as at 31 December 2016 and 31 December 2017**

€m	31 December 2016	31 December 2017
Gross	19,379	19,254
Net	8,479	8,088

- 4.23 The table below shows the Solvency II Technical Provisions for ZIP at each of 31 December 2016 and 31 December 2017, both gross and net of reinsurance.

**Table 3: Solvency II Technical Provisions of ZIP as at 31 December 2016 and 31 December 2017**

€m	31 December 2016	31 December 2017
Gross	17,247	16,900
Net	7,676	7,386

- 4.24 As can be seen from the tables above, the gross and net IFRS reserves and the gross and net Solvency II Technical Provisions have all reduced between 31 December 2016 and 31 December 2017. There have been a number of different reasons for movements, some acting to increase the reserves and some acting to decrease the reserves. I have reviewed the movements in the reserves between these two dates and I am satisfied that they are reasonable.
- 4.25 I have received confirmation from ZIP that the process for setting IFRS reserves and Solvency II Technical Provisions within ZIP has not changed materially since described in the Report.

- 4.26 I have performed an analysis to satisfy myself that the valuation of insurance liabilities is consistent with my expectations for insurance business of this nature. This analysis involved:
- a review of the Technical Provisions report as at 31 December 2017 that has been provided by ZIP's actuaries
  - a review of the methods used to estimate the IFRS reserves and Solvency II Technical Provisions compared with industry best practice
  - a review of the movements in IFRS reserves and Solvency II Technical Provisions between 31 December 2016 and 31 December 2017
  - discussions with individuals at ZIP to understand the approach to setting reserves.
- 4.27 As a result of my review, I have no reason to change the conclusions contained within the Report with respect to the reserve strength of ZIP.

### **Reserve strength for Catalina's existing portfolio**

- 4.28 I have been provided with the following documentation from Catalina on the reserves (on an accounting basis) and the Solvency II Technical Provisions for its existing portfolio:
- Report from an independent actuarial firm ("Firm A") on the reserves for Catalina as at 31 December 2017
  - Memo from Catalina on the reserves as at 31 December 2017
  - Report from Catalina on its Solvency II Technical Provisions as at 31 December 2017.
- 4.29 For the Report, I was provided with the equivalent information as at 31 December 2016.
- 4.30 The table below shows the reserves for Catalina on an Irish GAAP basis at each of 31 December 2016 and 31 December 2017, both gross and net of reinsurance.

**Table 4: Reserves of Catalina on an accounting basis as at 31 December 2016 and 31 December 2017**

€m	31 December 2016	31 December 2017
Gross	143.7	103.0
Net	48.2	34.3

- 4.31 The table below shows the Solvency II Technical Provisions for Catalina at each of 31 December 2016 and 31 December 2017, both gross and net of reinsurance.

**Table 5: Solvency II Technical Provisions of Catalina as at 31 December 2016 and 31 December 2017**

€m	31 December 2016	31 December 2017
Gross	146.9	112.7
Net	55.0	44.0

- 4.32 As can be seen from the tables above, the gross and net reserves on an accounting basis and the gross and net Solvency II Technical Provisions have all reduced between 31 December 2016 and 31 December 2017. The key reasons for the reductions are as follows:
- Claim payments between 31 December 2016 and 31 December 2017
  - Favourable claims development in the period leading to a reduction in the estimated ultimate cost of claims for these liabilities.
- 4.33 I have received confirmation from Catalina that the process for setting reserves within Catalina has not changed materially since described in the Report.
- 4.34 I have performed an analysis to satisfy myself that the valuation of insurance liabilities is consistent with my expectations for insurance business of this nature. This analysis involved:
- a review of the report as at 31 December 2017 provided by Firm A
  - a review of the memo produced by Catalina on the reserves as at 31 December 2017
  - a review of the report produced by Catalina on its Solvency II Technical Provisions as at 31 December 2017
  - a review of the methods used by Firm A to estimate the reserves compared with industry best practice
  - a review of the methods used by Catalina to estimate the reserves and Solvency II Technical Provisions compared with industry best practice
  - a review of the level to which key uncertainties are allowed for within the reserving process
  - a review of the movements in reserves and Solvency II Technical Provisions between 31 December 2016 and 31 December 2017
  - discussions with individuals at Catalina to understand the approach to setting reserves and Solvency II Technical Provisions.
- 4.35 As a result of my review, I have no reason to change the conclusions contained within the Report with respect to the reserve strength of Catalina.

## 5 Capital Requirements

### ZIP

#### Capital strategy

- 5.1 I understand from ZIP that there has been no change in its capital strategy as set out in paragraphs 8.2 to 8.4 of the Report. It continues to monitor its long term target coverage of its SCR and reviews the appropriateness of this annually.

#### Regulatory capital requirements

- 5.2 The table below shows the solvency position as at 30 June 2018 and the comparison to 30 September 2017 (column 2 of table 12 of the Report).

**Table 6: Coverage ratio for ZIP**

€m	30 September 2017	30 June 2018
SCR	1,937.8	1,920.3
Eligible Own Funds	2,926.2	2,528.9
Coverage	151.0%	131.7%

- 5.3 As can be seen from the table above, ZIP's coverage ratio has reduced between 30 September 2017 and 30 June 2018. I understand from ZIP that the main reason for the reduction in Eligible Own Funds was a result of a dividend paid in the fourth quarter of 2017.
- 5.4 However, it can be seen that ZIP continues to have substantial Eligible Own Funds in comparison to its SCR.
- 5.5 I continue to be satisfied that the actuaries and accountants at ZIP have the necessary experience and expertise to undertake capital analyses and for me to rely on these analyses.
- 5.6 As described in paragraph 9.3 of the Report, the solvency position for ZIP following the Scheme will be materially unchanged.

### Solvency II balance sheet

5.7 I have repeated below Table 13 of the Report, which showed the simplified Solvency II balance sheet of ZIP as at 30 September 2017 on the following bases:

- 1 prior to the execution of the LPTA
- 2 hypothetical on the basis that the LPTA had become effective at that date, but the Scheme had not
- 3 hypothetical on the basis that the Scheme had become effective at that date.

**Table 7: Solvency II balance sheet for ZIP as at 30 September 2017 (€m)**

	1	2	3
<b>Assets:</b>			
Financial assets	9,729.3	9,688.2	9,688.2
Reinsurance assets	9,527.0	9,601.5	9,250.3
Cash	463.5	463.5	463.5
Insurance activities and other debtors	800.7	800.7	800.7
Other assets	1,763.9	1,763.9	1,763.9
<b>Total assets</b>	<b>22,284.4</b>	<b>22,317.8</b>	<b>21,966.6</b>
<b>Liabilities:</b>			
Technical Provisions (excl. risk margin)	16,830.5	16,820.6	16,469.3
Risk margin	265.2	265.2	265.2
Other liabilities	2,291.6	2,305.9	2,305.9
<b>Total liabilities</b>	<b>19,387.3</b>	<b>19,391.6</b>	<b>19,040.4</b>
<b>Own Funds</b>	<b>2,897.1</b>	<b>2,926.2</b>	<b>2,926.2</b>

5.8 The table below shows the equivalent of columns 2 and 3 above as at 30 June 2018. However, I have not shown the equivalent of Column 1 from the table above as the LPTA was in place at 30 June 2018. The table therefore shows the simplified Solvency II balance sheet for ZIP as at 30 June 2018 on the following bases:

- 4 actual Solvency II balance sheet as at that date, where the Scheme had not become effective
- 5 hypothetical on the basis that the Scheme had become effective at that date.

**Table 8: Solvency II balance sheet for ZIP as at 30 June 2018 (€m)**

	4	5
<b>Assets:</b>		
Financial assets	9,057.7	9,057.7
Reinsurance assets	9,760.1	9,438.0
Cash	324.4	324.4
Insurance activities and other debtors	1,169.1	1,169.1
Other assets	1,689.9	1,689.9
<b>Total assets</b>	<b>21,999.2</b>	<b>21,677.1</b>
<b>Liabilities:</b>		
Technical Provisions (excl. risk margin)	16,758.2	16,436.1
Risk margin	285.1	285.1
Other liabilities	2,427.0	2,427.0
<b>Total liabilities</b>	<b>19,470.3</b>	<b>19,148.2</b>
<b>Own Funds</b>	<b>2,528.9</b>	<b>2,528.9</b>

- 5.9 As can be seen from the tables above, the Scheme only has a minor impact on the Solvency II balance sheet for ZIP and does not impact Own Funds.
- 5.10 Between 30 September 2017 and 30 June 2018, the Own Funds for ZIP have decreased, as described in paragraph 5.3.

### Conclusions

- 5.11 It follows from the above that I have no reason to change the conclusions in the Report with respect to the capital requirements for ZIP.

### Catalina

#### Capital strategy

- 5.12 I described Catalina's capital strategy in paragraphs 8.24 to 8.26 of the Report. I have received confirmation from Catalina that there have been no changes to this since the Report.

#### SCR

- 5.13 Below, I have reproduced Table 14 of the Report which shows the coverage ratio of Catalina on the following bases:
- 1 as at 31 December 2017, prior to the LPTA
  - 2 on the basis the LPTA had become effective by 31 December 2017, but the Scheme had not
  - 3 hypothetical on the basis that the Scheme had become effective at 31 December 2017.

**Table 9: Coverage ratios for Catalina as at 31 December 2017 (€m)**

	1	2	3
<b>SCR</b>	<b>23.3</b>	<b>61.4</b>	<b>62.7</b>
<b>Eligible Own funds</b>	<b>46.9</b>	<b>86.6</b>	<b>86.6</b>
<b>Coverage ratio</b>	<b>201.4%</b>	<b>141.0%</b>	<b>138.2%</b>

- 5.14 The table below shows the equivalent of columns 2 and 3 above as at 30 June 2018. However, I have not shown the equivalent of column 1 from the table above as the LPTA was in place at 30 June 2018. The table therefore shows the coverage ratio of Catalina as at 30 June 2018 on the following bases:
- 4 actual coverage ratio as at that date, where the Scheme had not become effective
  - 5 hypothetical on the basis that the Scheme had become effective at that date.

**Table 10: Coverage ratios for Catalina as at 30 June 2018 (€m)**

	4	5
<b>SCR</b>	<b>57.9</b>	<b>59.3</b>
<b>Eligible Own funds</b>	<b>82.6</b>	<b>82.6</b>
<b>Coverage ratio</b>	<b>142.8%</b>	<b>139.2%</b>

- 5.15 It can be seen from the above tables that the coverage ratio of Catalina following the Scheme as at 30 June 2018 is broadly similar to that displayed in the Report.

5.16 The SCR and Eligible Own Funds have both reduced slightly since 31 December 2017. The reduction in the SCR is due to a combination of:

- a reduction in the Solvency II Technical Provisions as discussed in Section 4, which has reduced reserve risk
- a parental guarantee that was put in place in the first quarter of 2018 which protects Catalina against falls in the value of equity and property investments. This has the effect of reducing market risk although the reduction is partially offset by an increase in counterparty default risk

5.17 The main items driving the change in Own Funds are lower investible assets, partially offset by lower net technical provisions (including the risk margin).

#### **Capital requirements over the next three years**

5.18 Below, I have reproduced Table 15 of the Report which shows the projected coverage of Catalina's SCR over the next three years, assuming the Scheme becomes effective during 2018.

**Table 11: Catalina's projected coverage of its SCR over the next three years.**

€m	31 December 2018	31 December 2019	31 December 2020
SCR	47.9	41.2	35.7
Eligible Own funds	96.4	96.4	95.2
Coverage ratio	<b>201.3%</b>	<b>234.1%</b>	<b>266.4%</b>

5.19 Given that the coverage ratio following the Scheme has not changed materially between 31 December 2017 and 30 June 2018, Catalina has not produced a revised projection of the SCR over the next three years. It follows that I have no reason to change the comments in paragraphs 8.37 and 8.38 of the Report.

#### **Stress testing**

5.20 In paragraphs 8.45 to 8.51 of the Report, I discussed the stress and scenario testing that Catalina had undertaken as part of its ORSA. Given that the coverage ratio following the Scheme has not changed materially between 31 December 2017 and 30 June 2018, Catalina has not undertaken these stress and scenario tests again as it believes that they would be likely to yield similar results. I agree with this assessment.

5.21 It follows from the above that I have no reason to change the conclusion in paragraph 8.52 of the Report.

### Solvency II balance sheet

5.22 Below, I have reproduced Table 16 of the Report which shows simplified Solvency II balance sheets for Catalina on the following bases:

- 1 as at 31 December 2017, prior to the LPTA becoming unconditional and effective
- 2 on the basis that the LPTA had become effective by 31 December 2017, but the Scheme had not
- 3 hypothetical on the basis that the Scheme had become effective at 31 December 2017.

**Table 12: Solvency II balance sheets for Catalina (€m)**

	1	2	3
<b>Assets:</b>			
Cash and investments	95.4	528.5	247.0
Reinsurance assets	69.8	279.6	279.6
Other assets	4.8	9.3	9.3
<b>Total assets</b>	<b>170.1</b>	<b>817.4</b>	<b>535.9</b>
<b>Liabilities:</b>			
Gross Technical Provisions	104.7	427.4	427.4
Risk margin	5.4	20.5	20.4
Other Liabilities	1.4	282.9	1.4
<b>Total Liabilities</b>	<b>111.5</b>	<b>730.9</b>	<b>449.3</b>
<b>Available Own funds</b>	<b>58.6</b>	<b>86.6</b>	<b>86.6</b>
<b>Eligible Own funds</b>	<b>46.9</b>	<b>86.6</b>	<b>86.6</b>

5.23 The table below shows the equivalent of columns 2 and 3 above as at 30 June 2018. However, I have not shown the equivalent of column 1 from the table above as the LPTA was in place at 30 June 2018. The table therefore shows the coverage ratio of Catalina as at 30 June 2018 on the following bases:

- 4 actual Solvency II balance sheet as at that date, where the Scheme had not become effective
- 5 hypothetical on the basis that the Scheme had become effective at that date.

**Table 13: Solvency II balance sheets for Catalina (€m)**

	4	5
<b>Assets:</b>		
Cash and investments	510.0	230.8
Reinsurance assets	247.8	247.8
Other assets	17.3	17.3
<b>Total assets</b>	<b>775.1</b>	<b>496.0</b>
<b>Liabilities:</b>		
Gross Technical Provisions	391.0	391.0
Risk margin	21.4	21.4
Other Liabilities	280.2	1.1
<b>Total Liabilities</b>	<b>692.4</b>	<b>413.4</b>
<b>Available Own funds</b>	<b>82.6</b>	<b>82.6</b>
<b>Eligible Own funds</b>	<b>82.6</b>	<b>82.6</b>

- 5.24 The Solvency II balance sheets as at 30 June 2018 are consistent with those displayed in the Report as at 31 December 2017. The movements in Own Funds are discussed in paragraph 5.17.
- 5.25 The movements in 'Cash and investments' and 'Other liabilities' as a result of the Scheme are discussed in paragraph 8.41 of the Report.

**Conclusions**

- 5.26 It follows from the above that I have no reason to change the conclusions in the Report with respect to the capital requirements for Catalina.

## 6 Policyholder Security

### **Impact of the Scheme on the solvency positions of the affected companies**

- 6.1 The changes to the capital requirements of ZIP and Catalina since the Report are discussed in Section 5 of this report.
- 6.2 As discussed in paragraph 5.5, ZIP's coverage ratio of its SCR is materially unchanged by the Scheme.
- 6.3 I discussed in paragraph 9.4 of the Report my conclusions with respect to the impact of the Scheme on Catalina's solvency. As discussed in paragraph 5.26, I have no reason to change those conclusions.

### **Impact of the Scheme on the security of the transferring policyholders**

- 6.4 Based on the information I have seen since the Report was issued, I have no reason to change the conclusions set out in paragraphs 9.6 to 9.10 of the Report in respect of the security of the transferring policyholders.

### **Impact of the Scheme on policyholders remaining in ZIP**

- 6.5 Based on the information I have seen since the Report was issued, I have no reason to change the conclusion set out in paragraph 9.11 of the Report in respect of the security of the policyholders remaining in ZIP.

### **Impact of the Scheme on the security of existing policyholders in Catalina**

- 6.6 Based on the information I have seen since the Report was issued, I have no reason to change the conclusions set out in paragraphs 9.12 to 9.15 of the Report in respect of the security of the existing policyholders in Catalina.

## 7 Other Financial Considerations

### **Impact of other transfers**

- 7.1 As discussed in paragraph 3.1, ZIP has informed me that there are a number of portfolio transfers planned into and out of ZIP. ZIP has further informed me that it does not expect any material change to its financial strength or its solvency coverage as a result of these transfers. Having discussed these matters with ZIP and reviewed the information that it has provided to me, I do not expect these transfers to affect the conclusions contained in the Report.

### **Other financial considerations**

- 7.2 In addition to the point discussed in the section above, I considered the following additional financial aspects in the Report:

- Tax implications
- Investment strategy implications
- Liquidity position
- Implications of the Scheme on ongoing expense levels
- Compensation schemes
- Impact on coinsurers
- Impact on reinsurers
- Impact of new business strategy.

- 7.3 Based on my discussions with ZIP and Catalina, there have been no changes with respect to the above financial aspects since the Report that would give me reason to change the conclusions contained in the Report with respect to these aspects.

## 8 Other Non-Financial Considerations

### **Claims handling**

- 8.1 I discuss the events that have occurred in respect of claims handling in relation the Transferring Portfolio in paragraph 4.1.
- 8.2 I understand from Catalina that no complaints in respect of claims handling related to the Scheme or the Migration have been received from policyholders or claimants in the Transferring Portfolio since the Migration Date.
- 8.3 As a result, I am satisfied that there are appropriate claims handling procedures in place.
- 8.4 In addition, the claims handling procedures following the Scheme are detailed in the Report and I understand from Catalina that the only change since the Report is to increase the headcount to 10.9 full time equivalent employees. It follows that I remain satisfied that there will be appropriate claims handling procedures in place following the Scheme.
- 8.5 Based on my discussions with ZIP and Catalina, there have been no other material changes in the claims handling of ZIP or Catalina. I therefore have no reason to change the conclusions contained in the Report with respect to claims handling.

### **Other non-financial considerations**

- 8.6 In addition to the point discussed in the section above, I considered the following additional non-financial aspects in the Report:
- Management and governance framework
  - Policy servicing
  - Changes in regulatory regime
  - Complaints
  - Brexit
- 8.7 Based on my discussions with ZIP and Catalina, there have been no changes of a material nature with respect to the above non-financial aspects since the Report that would give me reason to change the conclusions contained in the Report with respect to these aspects.

## 9 Considerations of the communication process and objections and representations received

### **Policyholder and third party communications**

- 9.1 I understand from ZIP and Catalina that the approach to policyholder notifications set out in the Report proceeded as planned. The advertisements were placed in accordance with the Directions Order and the voluntary policyholder communications were undertaken as planned. As a result, I am satisfied that that the communications exercise was appropriate.
- 9.2 As part of the Scheme, ZIP identified the following groups to notify:
- The transferring policyholders (there are 5,872 of these);
  - The distributors of the transferring policies (there are 1,272 of these) (“the Distributors”); and
  - The recipients of annuity claim payments (“the Payees”) (there are 64 unique payees).
- 9.3 As a result, ZIP identified 7,208 communications to be sent out to organisations or individuals in relation to the Scheme.
- 9.4 In total, ZIP identified and validated addresses for 6,135 of these organisations and individuals. In order to ensure that as many of the transferring policyholders, the Distributors and the Payees were notified as possible, I understand from ZIP that it took the additional step of advertising the proposed transfer in the Frankfurter Allgemeine Zeitung (one of the most widely circulated daily newspapers in Germany) and in the International Edition of the Financial Times.
- 9.5 Of the 6,135 letters dispatched, 446 were returned to ZIP. At the time of writing this report, ZIP had engaged a third party to investigate whether alternative addresses could be identified.

### **Policyholder and third party correspondence**

- 9.6 At 12 September 2018, I understand from Catalina that it has received no objections to the Scheme from policyholders.
- 9.7 ZIP has provided me with a summary of the written (including email) and telephone correspondence from policyholders to 12 September 2018 relating to the Scheme. In addition, it has provided me with copies of the relevant correspondence in respect of objections and concerns received from policyholders or claimants.

9.8 I understand from ZIP that the correspondence can be categorised as follows:

- requests for confirmation that no further action is required;
- requests for copies of documentation;
- queries seeking further clarification;
- queries as to why they have been written to;
- requests for policy documents or information in relation to what cover they still have under a transferring policy;
- queries relating to various other miscellaneous matters; and
- business as usual queries unrelated to the Scheme.

9.9 I further understand from ZIP that there have been six objections or concerns relating to the Scheme raised by policyholders up to 12 September 2018. These relate to:

- whether there was a need to transfer the data
- whether a 'live' policy, outside of the Transferring Portfolio, was being transferred

9.10 In addition to the above, I understand from ZIP that an objection was raised on behalf of a Payee but that ZIP has made arrangements to accommodate and address the concerns raised and, as a result, the objection has been withdrawn.

9.11 The sub-sections below address the principal areas of concern raised by policyholders.

#### **Transfer of data**

9.12 There were concerns raised by policyholders on the basis that there was no need to transfer their data because the policy had expired. I understand from ZIP that it has explained to these policyholders that, whilst the policies had expired, claims can still be made and therefore coverage is still provided in respect of those expired policies. As a result, it is necessary to transfer the data to Catalina. I agree with ZIP's assessment and am therefore satisfied that this concern gives me no reason to change the conclusions from those in the Report.

#### **Transferring other policies**

9.13 Concern was raised that a 'live' policy (ie a policy where insurance coverage is currently in place) that does not cover medical malpractice was being transferred. I understand from ZIP that it reviewed this and concluded that this is not the case. I further understand from ZIP that it is in the process of explaining this to the policyholder and is expected to be resolved before the Effective Date. I am therefore satisfied that this concern gives me no reason to change the conclusions from those in the Report.

#### **Conclusion**

9.14 I have considered the objections raised by the policyholders and confirm that I see no reason to alter the conclusions set out in the Report and this report.

#### **Reinsurer communication**

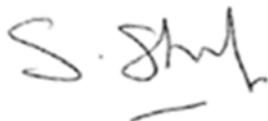
9.15 As described in paragraphs 11.53 to 11.57 of the Report, there was no notification of the Scheme to any reinsurer. Further to this, I understand from ZIP that, as at 12 September 2018, there had been no communications received from reinsurers in respect of the Scheme.

#### **Coinsurer communication**

9.16 I understand from ZIP that it wrote to each of its coinsurers. I further understand from ZIP that, as at 12 September 2018, there had been no communications received from coinsurers in respect of the Scheme.

## 10 Conclusions

- 10.1 I have further considered the effect of the proposed Scheme on the different groups of policyholders. I confirm that my overall opinion and conclusions as set out in Section 13 of the Report are unchanged. For ease of reference, I repeat them in the following paragraphs.
- 10.2 I have concluded that there will be no material adverse impact to the service provided to the transferring policyholders and no material adverse impact on the security provided to them. Therefore, I do not expect that the transferring policyholders would be materially adversely affected by the Scheme.
- 10.3 I have also concluded that there will be no material adverse impact to the service provided to the policyholders remaining in ZIP and no material adverse impact on the security provided to them. Therefore, I do not expect that the policyholders remaining in ZIP would be materially adversely affected by the Scheme.
- 10.4 In addition, I have concluded that there will be no material adverse impact to the service provided to the existing policyholders of Catalina and no material adverse impact on the security provided to them. Therefore, I do not expect that the existing policyholders of Catalina would be materially adversely affected by the Scheme.
- 10.5 In addition, I identify no reinsurers or coinsurers that will be materially adversely affected by the Scheme.
- 10.6 Given the above, I conclude that the risk of any group of policyholders, coinsurers or reinsurers being materially adversely affected by the Scheme is sufficiently remote that there is no reason why the Scheme should not proceed.



Simon Sheaf FIA, FSAI

Head of General Insurance Actuarial and Risk  
Grant Thornton UK LLP

## A Additional Information Received

### Information provided by ZIP

- IFRS balance sheet for ZIP as at 30 June 2018
- Solvency II balance sheet for ZIP as at 30 June 2018
- Analysis of changes in reserves of Transferring Portfolio between 30 September 2017 and 30 June 2018
- ZIP's actual versus expected analysis of incurred claims for the Transferring Portfolio for the fourth quarter of 2017
- ZIP's actual versus expected analysis of incurred claims for the Transferring Portfolio for the first quarter of 2018
- ZIP's Actuarial Report on Technical Provisions as at 31 December 2017
- Update from Pro on claims in respect of the Transferring Portfolio in each of July and August 2018
- Claims governance report undertaken by ZIP to ensure that Pro was maintaining ZIP's governance standards in respect of the Transferring Portfolio
- Information on policyholder correspondence

### Information provided by Catalina

- Catalina's Solvency and Financial Condition Report as at 31 December 2017
- An external reserving report by Firm A on the reserves of Catalina's existing portfolio as at 31 December 2017
- A report produced by Catalina on the reserves of its existing portfolio as at 31 December 2017
- Calculations produced by Catalina on the reserves of the Transferring Portfolio as at 31 March 2018
- Solvency II balance sheet and SCR calculations as at 30 June 2018
- Management information provided by Catalina on the claims activity in relation to the Transferring Portfolio since the Migration Date
- Information on resourcing of Pro
- Catalina's Capital Management Policy
- Catalina's Dividend Policy
- Guarantee between CHBL and Catalina
- Signed extension of the IGRA
- Data reconciliations following the Migration Date

### Information provided by ZIP's legal advisers

- Draft affidavit of Ian Smith, Operations Manager at ZIP
- Draft third affidavit of Matthew O'Neill, Director at ZIP

### Other

- I also relied on information arising from correspondence and discussions with ZIP, Catalina and their legal advisers. In addition, I relied on a discussion with Firm B.

I have checked that all of the above information has been supplied by persons appropriately qualified to provide such information and I am satisfied that it is reasonable for me to rely on this information.



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