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

25 June 2018

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1 Introduction

1.1 Zurich Insurance plc ("ZIP"), an Irish regulated non-life insurance company which is authorised by the Central Bank of Ireland ("CBI") and part of the Zurich Insurance Group ("ZIG"), underwrites property; motor; liability; marine, aviation and transport; and other non-life classes of insurance.

1.2 Catalina Insurance Ireland DAC ("Catalina"), an Irish regulated non-life insurance run-off company which is authorised by the CBI and part of the Catalina Group, has property; motor; liability; creditor and professional indemnity portfolios comprising its liabilities.

1.3 ZIP has decided to transfer a portfolio of German Medical Malpractice ("German MedMal") liabilities ("the Transferring Portfolio") to Catalina. It is proposed that this business will be transferred under the provisions of 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 ("the Scheme"). The Scheme is intended to be effected on 30 November 2018 ("the Effective Date").

1.4 As part of the agreement to transfer the portfolio from ZIP to Catalina, the parties have entered into a Loss Portfolio Transfer Agreement ("LPTA") whereby Catalina has agreed to provide 100% reinsurance of the Transferring Portfolio to ZIP from 21 September 2017. Should the Scheme become effective, this reinsurance will be cancelled.

1.5 The application to the Irish High Court ("the Court") for the transfer of long term (or life insurance) business must be accompanied by a report on the scheme by an Independent Actuary. There is no equivalent legal requirement for such a report for the transfer of non-life insurance business. However, ZIP and Catalina have jointly nominated Simon Sheaf ("I", "me") of Grant Thornton UK LLP ("Grant Thornton", "we", "us") to act in a similar and broadly comparable capacity for the Scheme.

1.6 The terms of my engagement are set out in a letter dated 18 January 2018. An extract of this letter setting out the scope of my work is included in Appendix E.

1.7 ZIP and Catalina are bearing the costs of producing this report equally.

1.8 Appendices B and C to this report contain definitions of technical terms and explanations of abbreviations used in this report respectively.

Layout of this report

1.9 My report is structured as follows:

- This section sets out an introduction to the Scheme and to this report.
- The second section is an executive summary, which summarises the Scheme and the various analyses conducted and describes my conclusions.
- Section 3 sets out the scope of this report.
- Section 4 provides a summary of the methodology I have employed in order to assess the Scheme.
- Section 5 describes the background to the entities involved and the Scheme.
- Section 6 describes the regulatory background.
- Section 7 describes the work that I have carried out to assess the claims reserves of the Transferring Portfolio, ZIP and Catalina.
- Section 8 describes the work that I have carried out to assess the capital requirements of ZIP and Catalina.
- Section 9 provides my assessment of the policyholder security considerations.
- Section 10 provides my assessment of other financial considerations.
- Section 11 provides my assessment of other non-financial considerations.
- Section 12 sets out the reliances and limitations that apply to my analysis and this report.
- Section 13 sets out my conclusions on the Scheme.

Professional experience

1.10 I am a Fellow of the Institute and Faculty of Actuaries ("IFoA") and a Fellow of the Society of Actuaries in Ireland. I currently hold a Chief Actuary (non-life with Lloyd's) Practising Certificate and a Lloyd's Syndicates Practising Certificate, both issued by the IFoA. In addition, I have previously held an Irish Signing Actuary Practising Certificate (issued by the Society of Actuaries in Ireland) and have previously been recognised as a Responsible Actuary by the financial regulator in Liechtenstein.

1.11 I joined Grant Thornton's Financial Services Group as General Insurance Practice Leader in 2006. My current job title is Head of General Insurance Actuarial and Risk and I lead the provision of actuarial and risk consulting services to the general insurance sector. Prior to joining Grant Thornton, I held senior roles at Tillinghast – Towers Perrin (now part of Willis Towers Watson) and Travelers Insurance Company Limited.

1.12 I have experience in all areas of general insurance actuarial work (including reserving, capital, pricing, transactions, etc.), and have previously acted as Independent Actuary/Expert for five other insurance business transfer schemes.

1.13 Full details of my experience can be found in Appendix D.

Independence

1.14 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.

1.15 I do not believe these previous assignments impair my independence to act as the Independent Actuary on the Scheme.

1.16 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.

1.17 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

1.18 The purpose of this report is to inform the Court of the likely effect of the Scheme upon policyholders. This report is not necessarily suitable for any other purpose.

1.19 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.

1.20 However, Grant Thornton does not accept any liability to any party other than ZIP, Catalina, or the Court who chooses to act on the basis of any of our reports.

1.21 Copies of the final version of this report and my Supplementary 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.

1.22 I also consent to the final versions of this report and my Supplementary Report (and copies translated into German) being made available on a dedicated web page as a subpage to the main German Zurich site. In addition, I consent to final versions of this report and my Supplementary Report (and copies translated into German) being made available on a Catalina web page, which Catalina has informed me will replicate the Zurich web page.

1.23 Judgements about the conclusions drawn in this report should only be made after considering the report in its entirety as any part or parts read in isolation may be misleading.

1.24 The underlying figures 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.

Professional guidance

1.25 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.

1.26 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.

1.27 This report has also been produced in line with the requirements of “APS X3: The Actuary as an Expert in Legal Proceedings” issued by the Institute and Faculty of Actuaries.

1.28 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 reasonable to consider it in my work.

1.29 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.

2 Executive Summary

Overview of the Scheme

2.1 This report considers the impact of the proposed transfer of the German MedMal business from ZIP to Catalina. The transferring policyholders are German hospitals, clinics and individual doctors' practices.

2.2 In November 2017, agreement was reached between Catalina and ZIP that Catalina would purchase the Transferring Portfolio. ZIP was seeking to dispose of this non-core portfolio that it no longer underwrites. The purpose of the Scheme is to transfer the legal obligations relating to the Transferring Portfolio from ZIP to Catalina. The group of companies to which Catalina belongs specialises in the acquisition and management of non-life insurance and reinsurance companies and portfolios in run-off with a view to achieving a competitive return on equity for its long-term institutional investor shareholders. I understand from Catalina that it has identified the acquisition of the Transferring Portfolio as being consistent with its business model.

2.3 As part of the agreement to transfer the portfolio from ZIP to Catalina, the parties have entered into a Loss Portfolio Transfer Agreement ("LPTA") whereby Catalina has agreed to provide 100% reinsurance of the Transferring Portfolio to ZIP from 21 September 2017. Should the Scheme become effective, this reinsurance will be cancelled.

2.4 The policyholders remaining in ZIP are a mixture of individual and corporate clients. ZIP offers a wide variety of products to its policyholders.

2.5 The existing policyholders of Catalina are also a mixture of individual and corporate clients. The liabilities are all in run-off and stem either from portfolios written by Catalina or from other transfers into Catalina. These portfolios include property; motor; liability; creditor and professional indemnity business.

2.6 Catalina has the necessary permissions to write the class of business being transferred into it.

Background to the companies

2.7 ZIP, under a previous name, was originally incorporated in 1950. It underwrites a wide variety of classes of business through its wide branch network in the EEA.

2.8 ZIP, acting through its German branch or its legal predecessors, wrote German Medical Malpractice policies for hospitals, clinics and individual doctors' practices between 1946 and 2012. The overall level of underwriting (policies and premiums) was reduced between 2007 and 2012. In 2012, ZIP took the decision to withdraw from the German Medical Malpractice market. This portfolio currently accounts for an immaterial part of ZIP's overall reserves.

2.9 Catalina was purchased from the HSBC Group in 2012 by Catalina Holdings (Bermuda) Limited ("CHBL"), the ultimate parent of Catalina. At the time of purchase Catalina had been in an orderly run-off for two years. Although a sizeable book of business from Quinn Insurance Ltd (Under Administration) was transferred into Catalina in 2015 the reserves in the Transferring Portfolio are significantly larger than the current reserves within Catalina.

My approach

2.10 My approach to assessing the likely effects of the Scheme on policyholders is to:

- Understand the nature and structure of the Scheme
- Identify the groups of policyholders that would be affected
- Assess the financial positions of the companies involved
- Consider the implications of the Scheme on the level of security provided to the affected policyholders
- Consider the potential impact on levels of customer service
- Consider other financial factors that might affect policyholders
- Consider other non-financial factors that might affect policyholders
- Consider the implications of the Scheme on reinsurers.

2.11 In order to consider the effect of the proposed Scheme on each of the entities and groups of policyholders concerned, I have been provided with comparative information for each legal entity, including:

- Balance sheet information based on figures as at 30 September 2017 for ZIP and as at 31 December 2017 for Catalina
- Actuarial reserve review for the Transferring Portfolio undertaken by ZIP as at 30 September 2017
- Actuarial reserve review for the Transferring Portfolio undertaken by Catalina as at 30 September 2017
- Internal actuarial reserve review for ZIP as at 31 December 2016
- External actuarial review of the reserves for Catalina as at 31 December 2016
- Internal actuarial review of the reserves for Catalina as at 31 December 2016
- Estimates of the regulatory capital required for ZIP as at 30 September 2017
- Estimates of the regulatory capital required for Catalina as at 31 December 2017
- 2017 Own Risk and Solvency Assessments for ZIP and Catalina
- Internal management information for ZIP and Catalina.

2.12 I will issue a Supplementary Report based on the most up to date information available to me prior to the final Court hearing.

2.13 In forming my opinion, I have conducted a number of interviews with key personnel responsible for core functions in ZIP and Catalina.

2.14 In forming my opinion, I have also placed reliance on, amongst other information, estimates of the reserves provided by each of ZIP and Catalina. In Section 7, I describe what information I relied on in relation to the reserves of the Transferring Portfolio, ZIP and Catalina and the analyses I have undertaken to assure myself that it is reasonable to rely on that information.

2.15 In order to form an opinion based on this information, I have considered:

- The appropriateness of the methods used by each of ZIP and Catalina to calculate the reserves for the Transferring Portfolio as well as their wider businesses
- My assessment of the appropriate level of reserves for the Transferring Portfolio.

2.16 In addition, in forming my opinion, I have also placed reliance on, amongst other information, estimates of the capital required provided by each of ZIP and Catalina. In Section 8, I describe what information I relied on in relation to the capital requirements of ZIP and Catalina and the analyses I have undertaken to assure myself that it is reasonable to rely on that information.

2.17 In order to form an opinion based on this information, I have considered:

- The appropriateness of the methods used by each of ZIP and Catalina to calculate the estimates of capital requirements
- The relative capital strength of the two companies
- The absolute capital strength of each of the two companies
- The stress and scenario testing undertaken by ZIP and Catalina in relation to their respective capital bases.

Findings

2.18 The findings of my report are summarised in this section. The detailed explanation behind these conclusions follows in the body of this report.

2.19 I have identified three distinct groups of policyholders. These are:

- The transferring ZIP policyholders
- The policyholders remaining in ZIP
- The existing policyholders of Catalina.

2.20 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.

2.21 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.

2.22 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 I believe that Catalina has a sufficient level of capital in order to meet policyholder obligations following the Scheme.

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

2.24 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

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

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

Conclusion

2.27 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 Scope

3.1 There is a legal requirement that the application to the Court for the transfer of long term (or life insurance) business in Ireland must be accompanied by a report on the scheme by an Independent Actuary. There is no equivalent legal requirement for such a report for the transfer of non-life insurance business. However, this report is intended to act in a similar fashion to a report by an Independent Actuary on the transfer of long term business.

3.2 I have considered the likely effects of the Scheme on policyholders, including whether the Scheme will result in material detriment to any policyholders affected by the Scheme, relative to their current situation. The purpose of this report is to set out my considerations. For the purposes of this report, policyholders include the insured hospitals, clinics and individual doctors' practices as well as existing and future beneficiaries under the policies (ie those people who could potentially receive compensation under the policies).

3.3 Material detriment in the context of this report means any material adverse effect on:

- the security of policyholders' contractual rights
- the levels of service provided to policyholders.

3.4 My report considers the effect on the following groups of policyholders:

- the policyholders in the Transferring Portfolio
- the policyholders remaining within ZIP following the Scheme
- the existing policyholders of Catalina.

3.5 I have not considered the impact of the Scheme on any policyholders that subsequently effect policies with either ZIP or Catalina.

3.6 I have also considered the impact of the Scheme on any reinsurers transferring, and any existing reinsurers of both ZIP and Catalina.

3.7 I am not aware of any alternative scheme or proposal, so I have not considered it necessary to discuss alternative proposals within this report.

3.8 Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a Supplementary Report covering any relevant matters which have arisen since the date of this report.

3.9 I have not considered any future changes of ownership of either ZIP or Catalina. I am not aware of any proposals to change ownership at the time of writing this report.

Exchange rates

3.10 Unless otherwise stated, the figures used throughout this report are shown in Euros, and, where necessary, have been converted at the following exchange rates:

Table 1: Exchange rates

Date	€1 =
30 September 2017	£0.88178
31 December 2017	£0.88723

These are the exchange rates taken from the CBI website as at the respective dates, or the closest previous dates.

Reliance on data

3.11 I have not audited nor have I independently verified the data and information supplied to me. However, I have reviewed it for reasonableness and for internal consistency.

3.12 A summary of the data provided to me can be found in Appendix A.

Peer review process

3.13 In accordance with the requirements of APS-X2 as well as the internal control process of Grant Thornton, the work documented in this report has been peer reviewed by a suitably qualified person (an Actuary within my own firm who has considerable experience working in capital modelling and reserving in the general insurance market as well as with insurance business transfers of general insurance portfolios).

4 Methodology

4.1 In this section, I describe my approach to assessing the Scheme.

4.2 My conclusions have been drawn by undertaking the following activities:

- review of documentation received from ZIP and Catalina and their advisers;
- discussions with key personnel at both ZIP and Catalina and their advisers; and
- undertaking my own analysis, where necessary.

4.3 In particular:

- my view on the insurance liabilities of the Transferring Portfolio is based upon my review of the documentation provided to me by ZIP and Catalina and discussions with the relevant individuals at ZIP and Catalina
- my view on the insurance liabilities for ZIP is based upon my review of the calculations and documentation provided to me by ZIP and discussions with the relevant individuals at ZIP
- my view on the insurance liabilities for Catalina is based upon my review of the calculations and documentation provided to me by Catalina and discussions with the relevant individuals at Catalina
- my view on the capital assessments for ZIP is based upon my review of the calculations and documentation provided to me by ZIP and discussions with the relevant individuals at ZIP
- my view on the capital assessments for Catalina is based upon my review of the calculations and documentation provided to me by Catalina and discussions with the relevant individuals at Catalina.

4.4 My approach to assessing the Scheme has been to undertake the activities described below.

Understand the nature and structure of the Scheme and identify the groups of policyholders that would be affected

4.5 I have discussed the nature and the structure of the Scheme with ZIP and Catalina, and reviewed the documentation I have received.

Assess the financial positions of ZIP and Catalina

4.6 The level of security provided to policyholders of an insurance company depends on the available capital of the company and, in particular, the probability that this level of capital is sufficient to make claim payments as they fall due.

4.7 Insurers are subject to capital requirements imposed by the regulator, in this case the CBI. These capital requirements are discussed in more detail in paragraphs 6.4 to 6.7. The level of available capital compared to regulatory capital requirements is a measure of the security provided to the policyholders.

4.8 Insurers are also required to undertake an assessment of their own risks and solvency needs. Another measure of the security provided to policyholders is the level of available capital compared to the insurer's view of required capital.

4.9 I have considered the balance sheets of ZIP and Catalina as part of my assessment of their relative financial strength, including the net assets and level of capital.

4.10 I have compared the balance sheets of ZIP based on data as at 30 September 2017 and Catalina based on data as at 31 December 2017, being the most recent dates at which financial information was available.

Assess the claims reserves of ZIP and Catalina

4.11 An important part of the security provided to policyholders is the strength of the claims reserves - the amount of money the insurer holds to make future claim payments in respect of policies already sold. The claims reserves generally form the largest part of the liabilities for an insurer.

4.12 I have therefore considered the claims reserves included on the balance sheet for each of ZIP and Catalina, as well as the claims reserves expected to be included on their balance sheets following the Scheme. This is discussed in detail in Section 7.

Assess the capital modelling undertaken and the capital positions of ZIP and Catalina

4.13 To further review the financial strength of ZIP and Catalina, I have reviewed the modelling undertaken to assess the required regulatory capital.

4.14 In addition, I have reviewed the analysis and stress and scenario testing undertaken by ZIP and Catalina to test the robustness of their capital strength.

4.15 These reviews are discussed further in Section 8.

Consider the implications of the Scheme for the level of security being offered to each group of policyholders

4.16 I have considered each group of policyholders both before and after the Scheme and the relative level of security available to them. This is discussed further in Section 9.

Consider the potential impact on levels of customer service

4.17 I have considered how the level of customer service, specifically claims handling and policy servicing, experienced by each group of policyholders could change following the Scheme, through discussions with ZIP and Catalina and review of documentation. This is discussed in paragraphs 11.13 to 11.27.

Consider other financial factors that might affect policyholders

4.18 I have also considered other financial factors that might affect policyholders, such as liquidity, tax implications etc. through discussions with ZIP and Catalina and review of documentation. These matters are discussed in Section 10.

Consider other non-financial factors that might affect policyholders

4.19 I have also considered other non-financial factors that might affect policyholders, such as management and governance frameworks, claims handling etc. through discussions with ZIP and Catalina and review of documentation. These matters are discussed in Section 11.

Consider the implications of the Scheme for reinsurers.

4.20 I have considered the implications of the Scheme on any reinsurers transferring, and any existing reinsurers of both ZIP and Catalina through discussions with ZIP and Catalina and review of documentation. This is discussed in paragraphs 10.22 to 10.25.

5 Background

History of ZIP

5.1 ZIP is a wholly owned indirect subsidiary of ZIG, a Swiss company which is the ultimate holding company of the Zurich group of companies. ZIP is an Irish insurance company, authorised by the CBI, and is the Zurich group's principal European Economic Area ("EEA") general insurance risk carrier.

5.2 ZIP writes general insurance business through its network of 12 European branches, including in Germany. In addition, ZIP writes general insurance business in Ireland.

5.3 ZIP was incorporated in Ireland (initially as a private limited company) on 19 July 1950. It was originally incorporated as Shield Insurance Company Limited. Its name was changed to Eagle Star Insurance Company (Ireland) Limited on 31 December 1991 and to Zurich Insurance Ireland Limited ("ZIIL") on 13 May 2005. ZIIL was re-registered as a plc under the name Zurich Insurance plc on 2 January 2009.

5.4 ZIP wrote total gross written premium of €8.1bn in 2016. An analysis of the business written by ZIP in 2016 by product line is set out in the table below:

Table 2: Breakdown of ZIP's business by gross written premium

Line of business	Percentage of business
Property	36%
Motor	29%
Third party liability	23%
Marine, aviation and transport	3%
Other	9%

The Transferring Portfolio

5.5 ZIP acting through Zurich Insurance plc Niederlassung für Deutschland, its German branch or its legal predecessors, wrote German MedMal policies for hospitals and clinics and individual doctors' practices between 1946 and 2012.

5.6 The majority of policies written were annual policies. Hospitals were often insured for many years (although coverage would have changed over time as the number of beds insured increased or decreased).

5.7 The overall level of underwriting (policies and premiums) was reduced between 2007 and 2012. In addition, during this period ZIP ceased underwriting a number of hospitals which were experiencing the highest volume of claims and had higher claim limits. In 2012, ZIP took the decision to withdraw from the German MedMal market.

5.8 Policies were written through specialist German MedMal brokers. Approximately 80% of ZIP's premium income for German MedMal was written through Ecclesia Versicherungsdienst GmbH, which is responsible for approximately 45% of the German MedMal market.

5.9 In 2012 and 2013, ZIP undertook an extensive exercise to reassess every existing claim. I understand from ZIP that this exercise resulted in case reserves for this portfolio being strengthened by €346m at that time. I have seen from ZIP's data that, since this exercise, there is evidence of claims settling at levels below case reserves for the portfolio as a whole, and case reserve reductions on open claims in light of new information. This has been observed most clearly to date on claims reported prior to 31 December 2013. The estimated cost of these claims has reduced from €1,035m to €946m between 31 December 2013 and 30 September 2017.

5.10 Zurich Legacy Solutions ("ZLS"), the specialist run-off team within ZIP, became involved with the German MedMal portfolio in 2015. ZLS provided advisory support to ZIP's management team and a number of activities were undertaken to enhance the claims and actuarial processes and reduce uncertainties relating to the portfolio.

5.11 Claims arising from policies in this portfolio can be notified up to 30 years after the occurrence of the incident. Each policy has an annual claim limit, and certain policies also contain an aggregate policy limit.

5.12 The policies indemnify hospitals and medical professionals from liability associated with wrongful practices as well as the cost of defending lawsuits related to such claims. The following four categories of claims are settled separately:

- Past care, and pain and suffering – Past medical costs resulting from the direct negligence by the insured hospital or individual medical practitioner including;
  - Loss of earnings and pension contributions
  - Expended medical costs for health treatment, nursery costs and homecare
  - Non-pecuniary damages for pain and suffering
- Future care - Any future costs as a result of direct negligence by the insured hospital or individual medical practitioner. These costs tend to be reimbursed on an ongoing basis as they are incurred by the claimant;
- Loss of salary or pension contributions – Compensates for both future and past (since the claim incident) loss of earnings where, as a consequence of the negligent treatment, there is a reduction in earnings capacity, fewer hours, more time off through sickness etc. and/or if the injuries give rise to a change of career; and
- Other costs - All other costs and incurred expenses caused by the negligence including cost of medical aids, adaptation of home, travel expenses and both ZIP and the Claimant's legal costs.

5.13 In addition to the above, I understand from ZIP that the terms of the policies also provided general liability cover against a range of other risks including, for example, property damage; construction and environmental risks; public and employers' liability; damage to personal property belonging to employees, patients and other third parties; liability arising out of the use of vehicles, equipment, machinery and materials; data protection breaches; legal expenses. I understand from ZIP that there are only two claims outstanding under these additional coverages, both of which were reported a number of years ago. I further understand from ZIP that the most recent claim of these types was reported in 2014 and that no claims have been reported under the employers' liability cover (which does not include cover for disease claims). I further understand from ZIP that it does not expect further claims in relation to any of these claim types. I have discussed the reasons for this with ZIP and I am satisfied that it is unlikely that claims will be reported in the future against these additional coverages.

5.14 I understand from ZIP that approximately 6,000 policies were written within this portfolio.

5.15 The table below shows the number of open claims for each of the claim types as at 30 September 2017.

Table 3: Number of open claims as at 30 September 2017

Claim type	Number of open claims
Attritional	3,188
Large	719
Non-bodily injury	5
Total	3,912

Coinsurance

5.16 ZIP wrote a proportion of the book through coinsurance arrangements with other insurers. For the vast majority of coinsurance contracts, ZIP is the designated lead and, therefore, handles the claims.

5.17 As at 30 September 2017, ZIP had a number of open claims that relate to policies written on a coinsurance basis. A breakdown of the claims showing the numbers of claims on policies with ZIP as sole insurer, ZIP as the leading coinsurer and ZIP as the following coinsurer is shown below.

Table 4: Number of open claims by coinsurance status as at 30 September 2017

Coinsurance status	Number of open claims
ZIP only	2,402
ZIP leads	1,270
ZIP follows	240
Total	3,912

Reinsurance

5.18 Historically, the Transferring Portfolio benefited from internal reinsurance provided from other companies ultimately owned by ZIG.

5.19 This reinsurance has now been commuted following the LPTA that has been put in place with Catalina as discussed in paragraph 1.4.

5.20 Historically, the Transferring Portfolio had limited protection from external reinsurance. This reinsurance was commuted following the LPTA.

History of Catalina

5.21 Catalina, an Irish authorised non-life insurer, is a member of the Catalina Group and is ultimately owned by CHBL. Catalina was purchased from the HSBC Group in 2012 by CHBL. All of Catalina's portfolios are in run-off and it is no longer underwriting insurance products.

5.22 Catalina provided general insurance products through independent intermediaries and to external customers in the UK and other markets. The products included high net worth property insurance for HSBC customers in the UK and the Republic of Ireland. Catalina also underwrote direct business in the Irish and UK markets for retail home and motor products, some school fee protection business and the non-life element of a creditor product in the Italian market.

5.23 Motor and property business were written in the UK and Northern Ireland from 2001 to 2004, and also from 2007 to 2009. During the latter period, Catalina also wrote business in the Republic of Ireland.

5.24 The Italian creditor class of business was written from 2003 to 2009, and consisted of two separate products, CPI and CQS. CPI is a single premium protection product covering claims arising from unemployment, sickness and accident. CQS is single premium payroll based lending protection product whereby the bank is insured for the remaining payment on loans granted in the event of unemployment of the insured person(s).

5.25 For the purposes of this report, the portfolios described in paragraphs 5.22 to 5.24 are known as "the Legacy Catalina Portfolios".

5.26 During 2015, Catalina acquired a portfolio of insurance liabilities from Quinn Insurance Limited (Under Administration) ("QIL"). The portfolio ("the QIL Portfolio") comprises business in the UK, Northern Ireland and Europe (Germany, Belgium and the Netherlands). The business is predominantly UK and Northern Ireland motor insurance and UK solicitors' professional indemnity, with some employer's liability and public liability business. Following approval from the CBI and the High Court of Ireland, the acquisition closed on 30 June 2015. The majority of the classes of business transferred by QIL have been in run-off since 2012. The QIL Portfolio represented 96.7% of Catalina's total gross Technical Provisions at the end of 2016.

5.27 As Catalina's business model is to acquire portfolios and run them off they may acquire further portfolios in the future. However, this would be subject to the approval of the CBI.

Reinsurance

5.28 The Italian creditor business is 100% reinsured to a third party reinsurer.

5.29 During 2016, Catalina entered into an intra-group reinsurance arrangement ("IGRA") with Catalina General Insurance Ltd., a Bermuda based reinsurance company in the same corporate group. The IGRA is a 65% quota share reinsurance arrangement on Catalina's entire portfolio (after allowance for the reinsurance on the Italian creditor business), effective from 1 January 2016.

Catalina Holdings (Bermuda) Ltd

5.30 CHBL is a specialist consolidator of non-life general insurance and reinsurance companies and portfolios in run-off. CHBL acquires and manages portfolios in run-off with the purpose of achieving a competitive return on equity and consistent growth in net tangible assets. CHBL is based in Bermuda and currently has offices in Bermuda, the United Kingdom, the Republic of Ireland, the United States of America and Switzerland.

Catalina General Insurance Limited

5.31 Catalina General Insurance Limited ("CGIL") is licensed by the Bermuda Monetary Authority ("BMA") as a Class 3A general business and Class C long-term insurer in Bermuda. CGIL's ultimate owner is CHBL.

5.32 CGIL reinsures related parties and third parties through quota share, facultative and excess of loss reinsurance agreements as well as providing loss portfolio transfer agreements.

Pro InsuranceSolutions GmbH

5.33 Operational migration of claims handling and administration for the Transferring Portfolio transferred on 26 March 2018 to Pro InsuranceSolutions GmbH ("Pro"), a Third Party Administrator ("TPA") for Catalina located in Germany. Catalina and Pro's claims handling obligations are governed by a detailed outsourcing agreement.

5.34 Pro is owned by Pro Global Insurance Solutions plc ("the Pro Group") which is a global service provider and consulting company focused solely on the insurance and reinsurance industries. It has over 20 years' experience in the provision of claims management services in continental Europe including extensive experience in Germany, and specialises in the health and accident insurance industries.

5.35 The Pro Group also operates Pro InsuranceSolutions Ltd, Pro IS, Inc., Chiltington International Holding GmbH, Chiltington Internacional S.A. and Chiltington International Limited among others.

5.36 Before selecting Pro as the TPA for the Scheme, I understand from Catalina that it undertook due diligence to ensure that Pro had:

- The ability, capacity and any authorisation required by law to deliver the required functions and activities satisfactorily
- No explicit or potential conflict of interests that could jeopardise the fulfilment its responsibilities
- The necessary financial resources to perform the required tasks in a proper and reliable way and that all staff who will be involved in providing the outsourced functions and activities are sufficiently qualified and reliable
- Adequate contingency plans in place to deal with emergency situations or business disruptions and that it periodically tests backup facilities where necessary, taking into account the outsourced functions and activities.

Overview of LPTA

5.37 Catalina has entered into an agreement with ZIP, whereby Catalina has agreed to provide 100% reinsurance of the Transferring Portfolio to ZIP from 21 September 2017. Catalina will continue to provide this reinsurance until the Scheme becomes effective.

5.38 In addition to the LPTA, ZIP and Catalina have also signed a Migration Agreement and a Post Migration Administration Agreement ("PMAA"), which provide for the operational migration and the outsourcing of the administration of the Transferring Portfolio to Catalina. Operational migration and the outsourcing to Catalina under those agreements took place with effect from 26 March 2018 ("the Migration Date").

5.39 The majority of the premium paid for this reinsurance is held in two custody accounts (together known as "the Custody Account") in the name of Catalina, with a third party custodian. This amount was transferred to the Custody Account when the LPTA became effective. ZIP holds security over the Custody Account.

5.40 Prior to the Migration Date, the remainder of the premium for the reinsurance was held by ZIP ("the Withheld Amount"). The purpose of this amount was to facilitate the settlement of claims by ZIP until operational migration of the portfolio took place.

5.41 Following the Migration Date, the Withheld Amount transferred to another secured account in the name of Catalina, over which ZIP has security ("the Claims Account").

5.42 As part of the LPTA, Catalina is required to place collateral to the minimum value of 130% of the reserves for the Transferring Portfolio, as determined by ZIP and agreed by Catalina, into the Custody Account. Catalina is required to maintain collateral to the value of 130% of the reserves for the Transferring Portfolio, as determined by ZIP and agreed by Catalina, in the Custody Account for the lifetime of the LPTA. If the LPTA is not terminated by 21 March 2019, Catalina is required to maintain collateral to the value of 140% (or even 150% in case of specific trigger events) of the reserves for the Transferring Portfolio, as determined by ZIP and agreed by Catalina, from that date for the lifetime of the LPTA.

5.43 Under the LPTA, following the Migration Date, Catalina must maintain a minimum amount in the Claims Account. ZIP and Catalina can jointly instruct the custodian to transfer funds from the Custody Account in order to top up the Claims Account. If claims in a particular month are greater than the amount specified in the LPTA, Catalina may request an additional transfer from the Custody Account by notifying ZIP, after which ZIP and Catalina will jointly instruct the custodian to release the funds to the Claims Account.

5.44 Catalina's IGRA has been extended to cover the Transferring Portfolio from the effective date of the LPTA and CGIL will provide 65% of the collateral required under the LPTA. This represents CGIL's share of the collateral.

5.45 ZIP has the option to terminate the LPTA in the following circumstances:

- if Catalina becomes insolvent
- if Catalina ceases to hold the required registration or permissions.

5.46 Catalina has the option to terminate the LPTA in the following circumstances:

- if ZIP violates its obligation to pay the reinsurance premium agreed in the LPTA and such default has not been remedied within a period of time as set out in the LPTA
- if ZIP violates its obligation to pay any balancing payment as set out in the LPTA and such default has not been remedied within a period of time as set out in the LPTA
- if ZIP becomes insolvent before the reinsurance premium is paid
- if ZIP ceases to hold the required registration or permissions before the reinsurance premium is paid.

5.47 Either of ZIP or Catalina may terminate the LPTA immediately by notice in writing to the respective other party if at any time it is unlawful for ZIP or Catalina to perform all or any material part of the LPTA.

5.48 If the LPTA is terminated, monies from the Custody Account and the Claims Account will be distributed to Catalina and ZIP in accordance with the provisions set out in the LPTA

5.49 Should the Scheme become effective, ZIP will release security over the Custody Account and the Claims Account. In addition, an amount representing any shortfall in value of the cash and the securities held in the Custody Account and the Claims Account compared to the collateral requirement as at the Effective Date will be transferred to Catalina by applying the set-off mechanism as set out in the LPTA.

Overview of structure

Outline of the Scheme

5.50 It is proposed that the Transferring Portfolio described in paragraphs 5.5 to 5.15 will transfer from ZIP to Catalina on the Effective Date. At this point the Transferring Portfolio will cease to be 100% reinsured by Catalina (under the LPTA) and Catalina will take on ultimate legal liability for Transferring Portfolio.

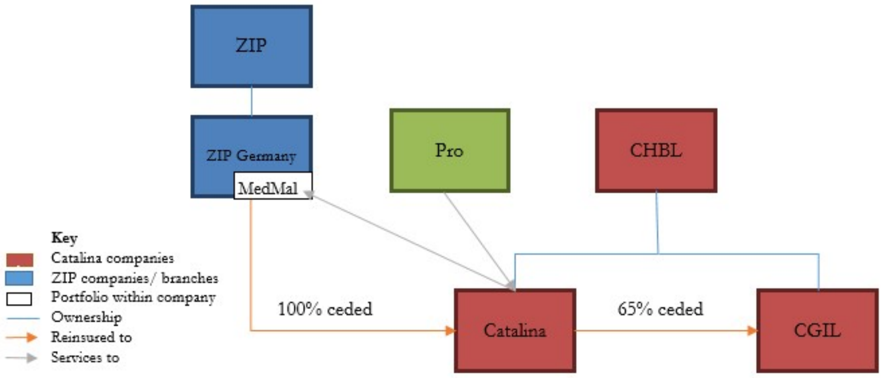
5.51 Once transferred to Catalina the Transferring Portfolio will continue to be subject to 65% intragroup reinsurance ceded to CGIL.

5.52 Pro is the TPA that currently services the policies and it will continue to do so if the Scheme becomes effective.

Overview of structure prior to the Scheme

5.53 The diagram below illustrates the structure of the businesses prior to the Scheme, assuming that the LPTA is in place and following the Migration Date.

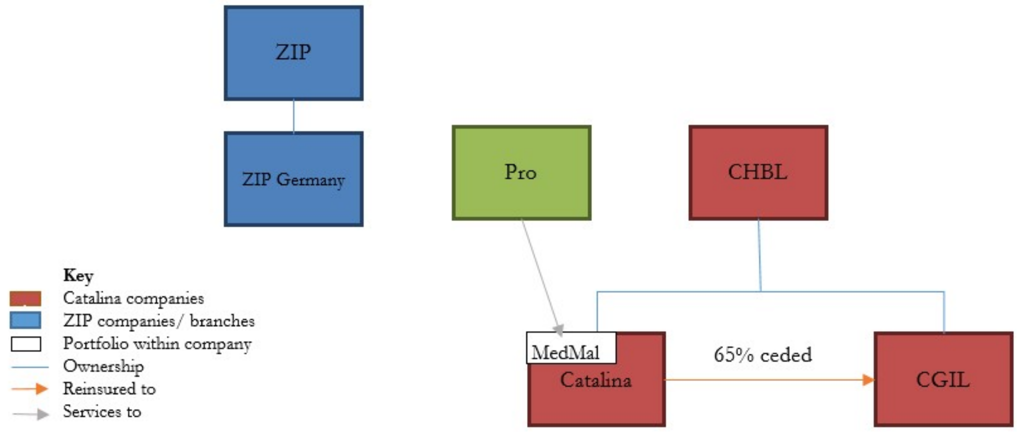
Figure 1: Simplified structure of businesses prior to the Scheme (showing main entities only)



Overview of proposed structure following the Scheme

5.54 The diagram below illustrates the proposed structure of the businesses following the Scheme.

Figure 2: Simplified structure of businesses following the Scheme (showing main entities only)



Purpose of the Scheme

5.55 I understand from ZIP and Catalina that the purpose of the Scheme is to transfer the legal obligations relating to the Transferring Portfolio from ZIP to Catalina. I understand from ZIP that the purpose of the LPTA and the resulting Scheme from its perspective is to dispose of a portfolio which it is no longer underwriting.

5.56 The group of companies to which Catalina belongs specialises in the acquisition and management of non-life insurance and reinsurance companies and portfolios in run-off with a view to achieving a competitive return on equity for its long-term institutional investor shareholders. I understand from Catalina that it has identified the acquisition of the Transferring Portfolio as being consistent with its business model..

6 Regulatory background

6.1 In this section, I provide some background on the regulatory requirements in Ireland and Germany (as relevant to the branch of an EEA regulated company).

Solvency II

6.2 In recent years insurance regulation in Europe has undergone a major overhaul. Since 1 January 2016, all EU insurers are now required to meet a new common set of requirements developed by the European Commission ("Solvency II").

6.3 Solvency II is a principles-based regime set around three pillars:

- Pillar 1 – quantitative requirements
- Pillar 2 – qualitative requirements
- Pillar 3 – reporting and disclosure requirements.

6.4 Under Solvency II, there are two sets of capital requirements to allow for different levels of supervisory intervention.

6.5 The usually higher of these two is the Solvency Capital Requirement ("SCR"). This is the amount of capital required in excess of liabilities in order to ensure continued solvency over a one year time frame in 99.5% of cases.

6.6 The SCR can be calculated using one of four approaches; the Standard Formula, the Standard Formula with undertaking specific parameters, an Internal Model, or a Partial Internal Model:

- the Standard Formula approach uses a prescribed set of formulae and parameters in order to work out the SCR.

- within the Standard Formula framework, entities are able to use undertaking specific parameters ("USPs") in order to refine certain parameters, subject to regulatory approval.

- the Internal Model approach involves the entity using its own capital model to calculate the SCR. The model requires regulatory approval.

- the Partial Internal Model approach is a combination of the Standard Formula and Internal Model approaches. An approved Internal Model is used to calculate parts of the SCR and the Standard Formula is used to calculate the remaining parts of the SCR.

6.7 The Minimum Capital Requirement ("MCR") defines the point of severe supervisory intervention and is calculated using a prescribed formula.

6.8 I have been provided with the approaches used in calculating the SCR and MCR by both ZIP and Catalina.

6.9 Further to calculating the SCR, insurers are required to calculate the level of capital ("Own Funds") available to meet the SCR. This requires the calculation of a balance sheet according to Solvency II requirements. The Own Funds are then assessed and allocated into tiers depending on their eligibility to meet the SCR and MCR.

6.10 It is important to note that even if an insurer does not have sufficient Own Funds to meet its SCR, this does not necessarily mean that it would not be able to settle all the claims in full.

6.11 An additional requirement for all insurers to which Solvency II applies is that, each year, every insurer must undertake an Own Risk and Solvency Assessment ("ORSA"). This sets out its current and future risk profile and the level of capital the insurer expects to require over the next three to five years.

Ireland

Overview of regulation

6.12 Irish insurers are regulated by the CBI. The Central Bank Reform Act 2010 created the single unitary body, the CBI, which replaced the previous related entities, the Central Bank and the Financial Services Authority of Ireland and the Irish Financial Service Regulatory Authority.

6.13 The CBI's mission statement is 'Safeguarding Stability, Protecting Consumers' and its strategic responsibilities are as follows:

- Eurosystem effectiveness and price stability
- stability of the financial system
- protection of consumers of financial services
- regulatory policy development
- efficient and effective payment and settlement systems and currency services
- independent economic advice and high quality financial statistics
- recovery and resolution of financial institutions.

Current capital requirements

6.14 Since 1 January 2016, insurance companies in Ireland have been required to maintain capital in line with the Solvency II requirements as discussed in paragraphs 6.4 to 6.7.

Capital extraction

6.15 For insurers that are a going concern, there is no requirement placed on the insurer by the CBI with regards to capital extraction, other than that it must maintain its SCR. However, it is commonplace for insurers to hold a buffer above its SCR. Catalina is a going concern.

Consumer protection

6.16 The CBI has a role in ensuring that the best interests of consumers of financial services are protected.

6.17 One of its objectives is to have a financial services industry where consumers' interests are protected. This means that:

- consumers should be provided with relevant and accurate information, including on cost, during the sales process
- consumers should be recommended a product/service appropriate to their needs and suitable for them
- consumers should receive a high standard of follow-up services, e.g., when making a claim, making a complaint, switching product, dealing with errors, renewing a policy, obtaining follow-up advice on investments/pensions, etc.

Security under wind up

6.18 Part 18 of the European Union (Insurance and Reinsurance) Regulations 2015 applies to the winding up of insurance undertakings in Ireland. Under these regulations, insurance claims take precedence over other claims on the insurance undertaking with respect to the assets representing the technical provisions.

Compensation

6.19 The Insurance Compensation Fund ("ICF") is a fund of last resort in Ireland. The ICF is primarily designed to facilitate payments to policyholders in relation to risks situated in Ireland where an Irish authorised non-life insurer or a non-life insurer authorised in another European Member State goes into liquidation. It does not cover risks written by an insurer regulated by the CBI that are situated in another EEA state. Note that any payments from the ICF are subject to approval from the High Court and not all policyholder liabilities are covered by the ICF.

6.20 Payments made by the ICF are limited to the lesser of 65% of the sum due to the policyholder and €825,000. Note that commercial policyholders are not covered by the ICF unless the claim is in respect of a liability to an individual.

Financial Services and Pensions Ombudsman

6.21 Complaints against a financial services firm in Ireland can be made through the Financial Services and Pensions Ombudsman ("FSPO"). The FSPO is a statutory officer who deals independently with unresolved complaints from consumers about their individual dealings with all financial service providers.

6.22 Eligible claimants, subject to turnover limitations, are defined to be:

- Private individuals – personal policy or account holders
- Limited companies
- Sole traders
- Trusts
- Clubs
- Charities
- Partnerships.

6.23 The FSPO is discussed further in paragraphs 11.29 to 11.31.

Regulation in respect of German branches

Overview of relevant regulation

6.24 This section describes German insurance regulation as it applies to German branches of an EU authorised insurer, focussing particularly on run-off portfolios. This is relevant insofar as ZIP has a German Branch and the Transferring Portfolio was underwritten from this branch. I understand from Catalina that it has received confirmation from the Federal Financial Supervisory Authority ("BaFin") that it is not required to set up a German Branch.

6.25 As ZIP is an insurance undertaking located and regulated within the EU, its home regulator, the CBI, is the main regulator that is, amongst other things, in charge of the financial supervision and the governance of ZIP and its branches. BaFin exercises additional supervision of the branch business conducted in Germany. This includes consumer protection and compliance with applicable laws (in particular compliance of the terms of insurance with the German Insurance Contracts act and compliance with insurance distribution regulation).

6.26 Another aspect of BaFin's supervisory authority is the handling of complaints by policyholders or other beneficiaries. For this purpose, BaFin supervises whether sufficient complaints management is in place and receives yearly complaints reports, which have to be filed with BaFin by the branch in accordance with a BaFin circular. These reports outline the number and kind of complaints, how long it took to process them and in how many cases a complaint was successful. In cases where complaints are filed directly with BaFin, BaFin will pass those on to the branch and also request a statement from the branch to be submitted to BaFin.

6.27 With regard to a run-off portfolio, such as the Transferring Portfolio, the complaints management is the main focus of BaFin's on-going supervision because there are no new policies distributed any longer.

7 Claims reserves

7.1 In this section, I discuss the claims reserve strength of the various portfolios. I discuss the portfolios in the following order:

- the Transferring Portfolio
- the remainder of ZIP
- the remainder of Catalina.

7.2 The tables below show the reserves of ZIP and Catalina, both gross and net of reinsurance, prior to the LPTA, post the LPTA and post the Scheme as at 30 September 2017. The position post the LPTA but prior to the Scheme is hypothetical on the basis that the LPTA was effective at that date. The position post the Scheme is hypothetical on the basis that the Scheme had become effective on 30 September 2017.

Table 5: Reserves of ZIP

€m	Prior to the LPTA	Post the LPTA	Post the Scheme
Gross	19,374	19,363	19,020
Net	8,256	8,180	8,180

Table 6: Reserves of Catalina

€m	Prior to the LPTA	Post the LPTA	Post the Scheme
Gross	104.9	417.4	417.4
Net	36.6	146.0	146.0

7.3 As can be seen from the tables above, ZIP's gross reserves reduce by more than Catalina's reserves increase as a result of the LPTA and the Scheme. This is discussed in further detail in paragraphs 7.6 to 7.59 below.

7.4 There is a limitation upon the accuracy of any estimate of claims reserves in that there is an inherent uncertainty in any estimate of future liabilities. This is due to the fact that the claims will be subject to the outcome of events yet to occur, such as judicial decisions, legislative actions, claim consciousness amongst potential claimants, claims management, claim settlement practices, changes in inflation, and economic decisions. As a result, it should be recognised that future claim emergence will likely deviate, perhaps materially, from any estimate of claims reserves.

7.5 The uncertainty is exacerbated in this instance by the review of all outstanding claims undertaken by ZIP in 2012 and 2013, which resulted in an increase of case estimates at that time as described in paragraph 5.9. Since then, it has been evident that there have been redundancies in these case estimates, as claims are settling for lower values than the amounts that had been held.

Transferring Portfolio

7.6 I have been provided with reports documenting two actuarial reserve reviews undertaken on the Transferring Portfolio. The first has been provided by ZIP and was conducted as at 30 June 2017. The other was conducted by Catalina as at 30 September 2017.

7.7 As at 30 September ZIP booked reserves in its accounts in line with the analysis as at 30 June 2017, reduced by claim payments made between 30 June 2017 and 30 September 2017 and updated for those changes in assumptions in relation to settled annuity claims that would be required each quarter such as an update to the discount rate.

7.8 The table below shows the gross reserves (excluding unallocated loss adjustment expenses ("ULAE")) of the Transferring Portfolio as at 30 September 2017, as booked by ZIP and as estimated by Catalina as at that date. The gross reserves in the table below include estimates for claims that have already occurred, whether reported or not.

Table 7: Estimates of the gross reserves (excl. ULAE) for the Transferring Portfolio as at 30 September 2017

€m	ZIP's booked reserves	Catalina's estimate
Total	**343.8**	**307.9**

7.9 As can be seen from the table above, there is a difference between the reserves booked by ZIP and those estimated by Catalina. However, as discussed in paragraph 5.42, the Custody Account under the LPTA will be collateralised based on ZIP's booked reserves at each quarter end for the period prior to the Scheme. It should be noted that some of the difference in the estimates in the table above is a result of Catalina reviewing the reserves at a later date and therefore being able to reflect savings evidenced in case estimates between 30 June 2017 and 30 September 2017.

7.10 Because of the uncertainty discussed in paragraphs 7.4 and 7.5, it should be noted that it is possible that the ultimate outcome of claims could be higher than ZIP's estimate or lower than Catalina's estimate.

7.11 In this section, I will discuss:

- ZIP's approach to reserving for the Transferring Portfolio in paragraphs 7.12 to 7.34.
- Catalina's approach to reserving for the Transferring Portfolio in paragraphs 7.35 to 7.54.
- My consideration of the appropriate reserves for the Transferring Portfolio and the conclusions I have drawn in paragraphs 7.55 to 7.59.

ZIP's estimate of the claims reserves for the Transferring Portfolio

7.12 As described in paragraph 7.6, I have been provided with a report documenting an actuarial reserve review as at 30 June 2017 undertaken by a senior actuary at ZIP.

7.13 I am satisfied that the actuary at ZIP has the necessary experience and expertise to undertake a review of this nature and for me to rely on this review.

7.14 Below I have summarised the methodologies and major assumptions used by ZIP to estimate the claims reserves for the Transferring Portfolio.

7.15 The report covers all exposure in relation to the Transferring Portfolio business gross of reinsurance, excluding allowance for ULAE.

7.16 The claims data used in the review was as at 30 June 2017. ZIP's booked reserves as at 30 September 2017 are based on the reserves estimated in its analysis as at 30 June 2017, reduced by claim payments made between 30 June 2017 and 30 September 2017.

7.17 I understand from ZIP that it notes that redundancy in the reserves has been evident over the past year and it has reduced its reserves as this redundancy has been evidenced.

7.18 Following the execution of the LPTA, the net of reinsurance reserves of ZIP in respect of the Transferring Portfolio are nil.

7.19 The methodology and assumption used by ZIP to estimate the reserves for the Transferring Portfolio are set out in paragraphs 7.20 to 7.32 below. Based on my experience and knowledge of the market, I consider the approach used by ZIP to estimate the reserves for the Transferring Portfolio to be reasonable. The conclusion of my review of the estimate provided by ZIP is that it lies within in a reasonable range of possible outcomes.

Methodology and assumptions for estimating gross reserves

7.20 The claims reserves have been estimated using the following splits of data:

- Non-injury claims
- Bodily injury attritional claims (defined as claims below €125k)
- Bodily injury large claims (defined as claims above or equal to €125k)
- Annuities

Non-injury claims

7.21 The non-injury claims include those claim types outlined in paragraph 5.13.

7.22 As at 30 June 2017, there were only seven non-injury claims outstanding with case reserves of €151k. ZIP has estimated no IBNR for these claims.

Bodily injury attritional claims

7.23 ZIP has used standard actuarial techniques in order to estimate the reserves for the attritional bodily injury claims.

7.24 It has selected the following methods as its estimate of ultimate claims:

- current incurred value for reported years prior to 2007
- a combination of the paid development method, reported development method and a frequency-severity method for reported years 2007 to 2012
- frequency-severity method for reported years 2013 and later.

7.25 In determining the expected number of attritional claims for future periods, ZIP has estimated the total number of claims (attritional and large) expected to be reported in each future period. It has then applied a percentage to this based on the proportion of those claims it expects to be attritional. This percentage decreases year by year into the future for the following reasons:

- ZIP expects the proportion of large claims to grow as a result of the threshold of €125k remaining static but the cost of claims expected to increase as a result of claims inflation
- more complex claims are generally larger and take longer to settle than simpler claims meaning that, over time, it is expected that the proportion of remaining claims that are complex will increase.

Bodily injury large claims

7.26 ZIP has used standard actuarial techniques in order to estimate the reserves for the large bodily injury claims.

7.27 It has selected the following methods as its estimate of ultimate claims:

- an average of the paid development method and the reported development method for reported years prior to 2011
- frequency-severity method plus an allowance for claims currently reported as large to ultimately settle as attritional for reported years 2011 to 2016 and the first half of 2017
- frequency-severity method for the second half of 2017 and reported years 2018 and later.

7.28 In order to estimate the number of large claims to be reported in the second half of 2017 and reported years 2018 and later, ZIP uses the approach described in paragraph 7.25, but instead applies a percentage based on the proportion of claims ZIP expects to settle as large claims. This percentage is 100% minus the percentage of claims expected to settle as attritional claims.

7.29 In order to estimate the ultimate number of large claims for reported years 2011 to 2016 and for the first half of 2017, ZIP applies the same approach as described in paragraph 7.28. For these reporting periods this results in a lower number of claims expected to ultimately settle as large compared to those currently reported as large. This is because ZIP expects some of the claims currently reported as large to ultimately reduce in size.

7.30 In order to allow for the fact that ZIP expects that a number of claims currently reported as large will ultimately settle as attritional claims, ZIP makes an adjustment to the frequency-severity method. For reported years 2011 to 2016 and for the first half of 2017, it assumes that the difference between the number of large claims reported to date and the ultimate number of large claims is the number of currently large claims which will settle as attritional. It adds a loading for these claims into its large estimate, assuming they will settle as attritional. At 30 June 2017, this loading was €1.3m.

Annuities

7.31 Claims that have already settled as annuities are included in the reserves with future payment amounts discounted to allow for the time value of money.

7.32 ZIP has also implicitly made an allowance for additional claims to settle as annuities as part of its bodily injury large claims estimate.

Solvency II Technical Provisions

7.33 ZIP has made a number of adjustments to its estimated reserves for the Transferring Portfolio to derive the Solvency II Technical Provisions. These adjustments are as follows:

- removal of any margins for prudence
- allowance for Events Not In Data ("ENIDs")
- allowance for expenses associated with the run-off of claims
- allowance for reinsurance bad debt
- discounting the payments to allow for the time value of money, using the term structures published by EIOPA at the relevant date
- allowance for a risk margin, calculated assuming the SCR decreases in line with best estimate Technical Provisions.

7.34 I have reviewed these adjustments and based on my experience and knowledge of the market, I consider the approach used by ZIP to be reasonable.

Catalina's estimate of the claims reserves for the Transferring Portfolio

7.35 As described in paragraph 7.6, I have been provided with a report documenting an actuarial reserve review as at 30 September 2017 undertaken by a senior actuary at Catalina.

7.36 I am satisfied that the actuary at Catalina has the necessary experience and expertise to undertake a review of this nature and for me to rely on this review.

7.37 In preparing the review, Catalina relied on information provided by ZIP. I understand that the data provided was not audited by the report author although it was reviewed for consistency at a higher level.

7.38 Below I have summarised the methodologies and major assumptions used by Catalina to estimate the claims reserves for the Transferring Portfolio as at 30 September 2017.

7.39 The report covers all exposure in relation to the Transferring Portfolio gross of reinsurance, excluding allowance for ULAE.

7.40 The net reserves of the Transferring Portfolio for Catalina are 35% of the gross reserves as a result of the IGRA.

7.41 Based on my experience and knowledge of the market, I consider the approach used by Catalina to estimate the reserves for the Transferring Portfolio to be reasonable. The conclusion of my review of the estimate provided by Catalina is that it lies within in a reasonable range of possible outcomes.

Methodology and assumptions

7.42 The gross claims reserves have been estimated using the following splits of data:

- Non-injury claims
- Bodily injury claims
- Annuities

7.43 Catalina has also estimated the reserves for bodily injury claims separately for attritional and large claims using the same definitions as ZIP. The results of this analysis are quite similar to, but slightly lower than, the results from its analysis using combined bodily injury data. Given this, it has relied on the results from using the combined data.

Non-injury claims

7.44 Catalina has estimated no IBNR for these claims and so the reserves for these claims are equal to the case estimates.

Bodily injury claims

7.45 Catalina has used standard actuarial techniques in order to estimate the reserves for the attritional bodily injury claims.

7.46 Catalina has estimated the results using a variety of methods based on paid and incurred claims, both on an accident year basis and a reported year basis.

7.47 Catalina has selected an average of a number of the methods based on paid claims for all years. Its rationale for relying on paid claims is that there is too much movement in the incurred claims for the reasons discussed in paragraph 5.9 to make the incurred claims a reliable data set. I do believe that there is some merit in this argument. In some cases relying purely on paid methods might be unwise as it does not take account of all of the information that is available and has the potential to be volatile. However, my review of the analysis undertaken suggests that the paid claims data is sufficiently reliable for Catalina to rely on these methods.

Annuities

7.48 I understand from Catalina that it is unable to review the estimate for settled annuity claims at this stage as a result of data protection laws in Germany. As a result, it has relied on the estimate provided by ZIP for these claims.

7.49 As with ZIP, Catalina has implicitly made an allowance for future annuity claims in its estimate of bodily injury claims.

Solvency II Adjustments

7.50 Catalina has made a number of adjustments to its estimated reserves for the Transferring Portfolio to derive the Solvency II Technical Provisions. These adjustments are as follows:

- allowance for ENIDs
- allowance for expenses associated with the run-off of claims
- allowance for reinsurance bad debt
- discounting the payments to allow for the time value of money, using the term structures published by EIOPA at the relevant date
- allowance for a risk margin, calculated assuming the SCR decreases in line with best estimate Technical Provisions.

7.51 Catalina believes that it has no margin for prudence within its estimate and, as a result, has no need to remove any margin.

7.52 I have reviewed the adjustments made and based on my experience and knowledge of the market, I consider the approach used by Catalina to be reasonable.

Future governance of reserve reviews

7.53 I understand from Catalina that the results of any reserve review are subject to review from its loss reserving committee. This committee provides review and challenge to results presented to it by the Chief Actuary.

7.54 In addition, Catalina has informed me that, in 2018, and every subsequent year, it will commission an independent review of the reserves for the Transferring Portfolio in the same way that a review is currently undertaken for the existing Catalina business. This review is also presented to the loss reserving committee along with the internal results. This independent review will provide challenge to the results produced by the internal assessment and therefore to the booked reserves.

My opinion on the reserves of the Transferring Portfolio

7.55 I have performed an analysis to determine what I believe to be an appropriate reserve for the Transferring Portfolio as at 30 September 2017. This analysis involved:

- a review of the reserve report as at 30 June 2017 provided by ZIP's actuaries
- a review of the reserve report as at 30 September 2017 provided by Catalina's actuaries
- a review of the methods used by ZIP to estimate the reserves compared with industry best practice
- a review of the methods used by Catalina to estimate the reserves compared with industry best practice
- discussions with individuals at ZIP and Catalina to understand the approaches to setting reserves.

7.56 Based on my experience and knowledge of the market, whilst it is evident that there are different approaches used by each of ZIP and Catalina, the conclusion of my review of the estimates provided by ZIP and Catalina is that both lie within a reasonable range of possible outcomes.

7.57 It follows that I consider the approaches used by both ZIP and Catalina to estimate the reserves for the Transferring Portfolio to be reasonable. In addition, I consider the approaches used by both ZIP and Catalina to estimate the Solvency II Technical Provisions to be reasonable.

7.58 As discussed in paragraph 5.42, 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.

7.59 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 have described in paragraphs 7.53 and 7.54 above the process by which reserves for the Transferring Portfolio will be determined and booked. 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 is discussed further in Section 8.

The remainder of ZIP

7.60 I have been provided with a consolidated report on the Solvency II Technical Provisions of ZIP covering its entire portfolio as at 31 December 2016. This report also discusses the reserves of ZIP as at 31 December 2016 on an IFRS basis. I am comfortable that this consolidated report is sufficient to form an opinion given the scale of ZIP's wider portfolio in comparison to the Transferring Portfolio.

7.61 I am satisfied that the actuaries at ZIP have the necessary experience and expertise to undertake a review of this nature and for me to rely on this review.

7.62 ZIP's approach is to book IFRS reserves comprising the sum of the following two components:

- A best estimate derived by ZIP's actuaries
- A margin to allow for uncertainty within the actuarial estimate.

7.63 The table below shows the actuarial best estimate IFRS reserves and the booked IFRS reserves as at 31 December 2016, both gross and net of reinsurance:

Table 8: Estimate of ZIP's IFRS reserves, gross and net of reinsurance, as at 31 December 2016

€m	Booked reserves
Gross	19,379
Net	8,479

7.64 It should be noted that as at 31 December 2016, the gross reserves of the Transferring Portfolio were €354.5m, which represents 1.8% of ZIP's gross reserves, and is included in the above table.

7.65 In determining the reserves, I understand from ZIP that there is discussion between the actuarial team and other functions within the business, such as claims and underwriting. I further understand from ZIP that the reserves are discussed in detail through reserve committee meetings and other deep dives into various aspects.

7.66 ZIP makes a number of adjustments to its IFRS reserves to derive its Solvency II Technical Provisions. These adjustments are as follows:

- remove any margins for prudence
- allowance for ENIDs
- allowance for business that is yet to be incepted but that ZIP is legally obligated to underwrite at the valuation date
- allowance for expenses associated with the run off of claims
- allowance for reinsurance bad debt
- discounting the payments to allow for the time value of money
- allowance for a risk margin.

7.67 The table below shows the Solvency II Technical Provisions as at 31 December 2016, both gross and net of reinsurance:

Table 9: Estimates of ZIP's Solvency II Technical Provisions, gross and net of reinsurance, as at 31 December 2016

€m	Best estimate	Risk margin	Solvency II Technical Provisions
Gross	16,943	304	17,247
Net	7,372	304	7,676

7.68 I have performed an analysis to satisfy myself that the insurance liabilities are consistent with my expectations for an insurance business of this scale and nature. This analysis involved:

- a review of the report as at 31 December 2016 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 level to which key uncertainties are allowed for within the reserving process
- discussions with individuals at ZIP to understand the approach to setting IFRS reserves and Solvency II Technical Provisions.

7.69 The approach and methodology used appear robust and I have no reason to believe that the reserves for ZIP lie outside a range of reasonable estimates.

Catalina's existing portfolio

7.70 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 2016
- Memo from Catalina on the reserves as at 31 December 2016
- Report from Catalina on its Solvency II Technical Provisions as at 31 December 2016.

7.71 I am satisfied that the actuaries at Firm A and Catalina have the necessary experience and expertise to undertake reviews of this nature and for me to rely on these reviews. In addition, I understand from Catalina that the results from these reviews have been reviewed and challenged by the loss reserving committee described in paragraphs 7.53 and 7.54.

7.72 The table below shows the claims reserves booked by Catalina on an accounting basis as at 31 December 2016, alongside the estimate provided by Firm A, both gross and net of reinsurance.

Table 10: Catalina's reserves, gross and net of reinsurance, as at 31 December 2016

€m	Firm A's estimate	Booked reserves
Gross	123.7	143.7
Net	41.2	48.2

7.73 The substantial majority (around 95%) of the net reserves arise from the QIL portfolio. I discuss the approach taken by Firm A in estimating the reserves for this business in paragraphs 7.75 to 7.78 below.

7.74 The table below shows Catalina's Solvency II Technical Provisions as at 31 December 2016, gross and net of reinsurance.

Table 11: Estimate of Catalina's Solvency II Technical Provisions, gross and net of reinsurance, as at 31 December 2016

€m	Best estimate	Risk margin	Solvency II Technical Provisions
Gross	139.0	7.9	146.9
Net	47.1	7.9	55.0

Summary of key elements of Firm A's approach

QIL Portfolio

7.75 Reserving has been performed for the following classes of business: private motor, commercial motor, motorcycle, household and liability. The motor classes are split by comprehensive and non-comprehensive and further by bodily injury and non-bodily injury claims. For private motor the business is split further by full and provisional licence. The liability class is split by employers' liability, public liability, professional indemnity and other liability.

7.76 Firm A has applied standard actuarial techniques to triangulations of paid and incurred claims in order to estimate the reserves for each of these risk groups. Judgement is applied to select the most appropriate reserving technique(s) for each risk group.

7.77 The projections have been performed on data without adjustment for Periodic Payment Orders ('PPOs'). Firm A has then separately analysed the data and adjusted for known PPOs and high probability PPOs using benchmarks provided by the Institute and Faculty of Actuaries' PPO working party.

Legacy Catalina Portfolio

7.78 The Legacy Catalina Portfolios make up only 3.9% of the total gross claims reserves of Catalina Ireland and 0.5% net of reinsurance. Therefore Firm A has performed a high level review of historic liabilities and a movement analysis from the booked reserves at 31 December 2015.

Summary of Catalina's reserving approach

7.79 Catalina performs internal investigations to check the reasonableness of Firm A's reserving estimates. Catalina applies standard actuarial techniques to triangulations of paid and incurred claims and claims count triangles. A blend of these methods is judgementally selected for each class of business to project the ultimate claims.

Solvency II Adjustments

7.80 In order to derive its Solvency II Technical Provisions, Catalina makes similar adjustments to its reserves on an accounting basis to those described in paragraph 7.50.

My review of Catalina's reserve strength

7.81 I have performed an analysis to satisfy myself that the insurance liabilities are consistent with my expectations for an insurance business of this scale and nature. This analysis involved:

- a review of the report as at 31 December 2016 provided by Firm A
- a review of the memo produced by Catalina on the reserves as at 31 December 2016
- 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
- discussions with individuals at Catalina to understand the approach to setting reserves and Solvency II Technical Provisions.

Conclusions

7.82 The approaches and methodologies used appear robust and I have no reason to believe that the reserves for Catalina lie outside a range of reasonable estimates.

8 Capital requirements

8.1 In considering the solvency position, I have considered the following:

- the position of ZIP in respect of its regulatory capital requirements both before and after the Scheme
- the latest ORSA report produced by ZIP
- the position of Catalina in respect of its regulatory capital requirements both before and after the Scheme
- the latest ORSA report produced by Catalina.

ZIP

Capital strategy

8.2 ZIP has informed me that it has a detailed strategy with regards to capital requirements. In its strategy, it considers both its coverage of the SCR and capital required in order to maintain its current credit rating. Currently the measure that is the higher of the two is its coverage of the SCR.

8.3 I understand from ZIP that it has a long term aim to maintain a buffer above its SCR at a target level and this is set out in its capital strategy, which is reviewed annually. In addition, the Capital Management Policy sets out what actions to take if the coverage of its SCR drops below its long term target and what actions to take if the coverage of the SCR drops below 100%.

8.4 As per its Capital Management Policy there are a number of options available to ZIP to improve its coverage of the SCR, including requesting additional capital from its shareholders.

SCR and MCR

8.5 ZIP uses an Internal Model approach to calculate its SCR and MCR. Its Internal Model has been approved for use by the CBI.

8.6 The following key risks, arising in the next 12 months, are modelled within ZIP's Internal Model:

- **Reserve risk –** the risk of the best estimate claims reserves deteriorating i.e. the reserves are insufficient to cover the unpaid claims that have already occurred
- **Unearned premium risk** – the additional risk that the expected claims related to the unearned exposure in the closing balance sheet at year end is higher than expected at the beginning of the year.
- **Premium risk** – the risk that claims arising from premium earned over the following 12 months deviate adversely from the expected claims at the beginning of the year
- **Natural catastrophe risk** – the risk of claims arising due to natural catastrophes affecting multiple insurance policies e.g. floods, windstorms, earthquakes etc.
- **Man-made catastrophe risk** - the risk of claims arising due to man-made catastrophes such as fire or aggregation of liability claims
- **Market risk** – the risk of adverse changes in ZIP's net asset value as a result of movements in market risk variables such as interest rates, exchange rates, equity values etc. It also

includes the exposure to investment credit risk (the risk of default or adverse movements in credit ratings of the assets)

- **Reinsurance credit risk** - the risk that losses due to credit defaults and deteriorations in the credit quality of outstanding third party reinsurance balances will be larger than expected
- **Receivables credit risk** – the risk that Own Funds will be impacted due to unexpected failure to collect from counterparties (other than reinsurers) in the next year
- **Operational risk** - the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events
- **Pension risk** - the risk that assets in the staff defined benefit pension funds are insufficient to meet the obligations to the members of the pension funds when they become due
- **Expense risk** - the risk of changes in the net asset value of ZIP resulting from adverse changes in maintenance expenses
- **Intra group risk** – the risk of loss in value on amounts due from group counterparties.

8.7 I have reviewed the Internal Model Summary document provided by ZIP, which sets out its Internal Model approach, the governance around the Internal Model, the methodology and key assumptions for the key risk areas, and details of the use test.

8.8 I have considered the approach used to perform the Internal Model calculations for ZIP and consider the approach to be reasonable and proportionate to the scale and complexity of its operations.

8.9 I note that, whilst I have considered the methodology for each element described above, I have not reviewed the calculations or the assumptions used in detail.

8.10 In addition, I have reviewed the 2017 independent validation report for the Internal Model, which was produced by the Model Risk Management team in Zurich Group Risk Management under a service level agreement with ZIP. This team is independent of the operation of the Internal Model. The independent validation report, a requirement for having an approved Internal Model, sets out in detail the validation that has been carried out on the Internal Model in order to ensure the results are appropriate.

8.11 As is to be expected, there are a number of limitations that have been highlighted in the independent validation report. However, there is nothing in the independent validation report that makes me believe that the SCR or MCR, as derived by the Internal Model, is materially misstated.

8.12 I am satisfied that the capital and validation teams at ZIP have the necessary experience and expertise to respectively develop and validate an internal model and for me to rely on their work.

8.13 The table below shows the coverage ratios of ZIP as at 30 September 2017, on the following bases:

1 Prior to the LPTA
2 Hypothetical on the basis that the LPTA was in place at that date, but the Scheme had not become effective
3 Hypothetical on the basis that the Scheme had become effective

Table 12: Coverage ratios for ZIP as at 30 September 2017 (€m)

	1	2	3
SCR	**1,941.0**	**1,937.8**	**1,917.6**
Eligible Own funds	**2,897.1**	**2,926.2**	**2,926.2**
Coverage ratio	**149.3%**	**151.0%**	**152.6%**

8.14 As can be seen from the above table, ZIP currently has substantial Own Funds in comparison to its regulatory capital requirements. I understand from ZIP that, since 30 September 2017, it has paid a dividend such that its coverage ratio has reduced from that shown in the table above; however, it has remained above its target coverage ratio.

8.15 The table above shows that the coverage ratio of ZIP increases slightly as a result of the LPTA and again as a result of the Scheme.

Solvency II balance sheet

8.16 The following simplified Solvency II balance sheets for ZIP as at 30 September 2017 are shown below:

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

	1	2	3
Assets:			
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
Total assets	**22,284.4**	**22,317.8**	**21,966.6**
Liabilities:			
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
Total liabilities	**19,387.3**	**19,391.6**	**19,040.4**
Own Funds	**2,897.1**	**2,926.2**	**2,926.2**

8.17 I have considered the approach used to calculate the Solvency II balance sheets for ZIP, including the Technical Provisions, and consider the approach and results to be reasonable.

8.18 ZIP has confirmed that the significant majority of Own Funds are Tier 1 (around 96%), the highest tier of Own Funds. The remainder have been classified as Tier 3, the lowest tier of Own Funds. I have reviewed this allocation of Own Funds to the tiers and consider it to be reasonable.

8.19 As can be seen from the table above, there is a marginal increase in the Own Funds for ZIP as a result of the LPTA. This arises primarily due to the reinsurance asset from the LPTA being greater than the premium paid under the LPTA.

8.20 There is no change in the Own Funds of ZIP as a result of the Scheme. This is because the economic risk of the Transferring Portfolio has been removed from ZIP as a result of the LPTA.

ORSA

8.21 I have been provided with a copy of the report outlining ZIP's most recent ORSA. The document is dated 24 November 2017 and has been approved by ZIP's Board. This represents a forward looking assessment of ZIP's risk profile and capital requirements.

8.22 ZIP's ORSA projected that the coverage of its SCR will be maintained above its long term target for the three years considered in the ORSA. I have reviewed the process by which ZIP has projected the coverage of its SCR and believe it to be reasonable. It follows that I consider the projected coverage of the SCR to be reasonable.

8.23 ZIP has conducted various stress and scenario tests within its ORSA to test the robustness of its capital base. The stress and scenario testing covers a wide range of risks that ZIP is exposed to. The stress and scenario testing that ZIP has undertaken demonstrates that only in extreme scenarios does it fail to have sufficient capital to meet its SCR. There were no stresses identified that reduce the level of assets below the level of liabilities. I consider the range of stresses and scenarios that ZIP has considered to be reasonable.

Catalina

Capital strategy

8.24 Catalina has a documented capital management strategy with regards to capital requirements. In its strategy, it considers both its coverage of the SCR and the capital required in order to maintain a prudent cushion of equity to protect Catalina's economic viability and to finance new growth opportunities.

8.25 Catalina's capital management strategy policy states that it has a management target to hold a buffer against the SCR. I understand from Catalina that this management target has been refined and agreed with the CBI, as part of the process of the CBI providing approval for the LPTA. Catalina has also agreed with the CBI that, should its coverage of its SCR fall beneath a certain level (that is above 100%, but below the management target), CHBL will provide additional funds in order to restore the coverage ratio to the level of the management target.

8.26 Secondary to fulfilling Catalina's regulatory requirements the Board aims to maximize the employment of capital, subject to the conditions imposed by the investment policy. Further to this, excess capital may be distributed by dividend or potentially redeployed.

SCR and MCR

8.27 Catalina uses a Standard Formula approach to calculate its SCR and MCR.

8.28 The following key risks are modelled within Catalina's calculation of the Standard Formula:

- **Non-life reserve risk –** the risk of the best estimate claims reserves deteriorating i.e. the reserves are insufficient to cover the unpaid claims on earned exposure
- **Life risk** – the risk that the value of annuities deviates adversely from the expected value at the beginning of the year
- **Market risk** – the risk of adverse changes in Catalina's net asset value as a result of movements in market risk variables such as interest rates, exchange rates, equity values etc. This risk also includes the exposure to investment credit risk (the risk of default or adverse movements in credit ratings of the assets)
- **Counterparty default risk** – the risk of losses due to default or downgrade of reinsurers or due to non-payment of receivables from other third parties
- **Operational risk** - the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

8.29 Catalina has provided me with its assessment of the appropriateness of the Standard Formula for its business. It has concluded that the Standard Formula is appropriate for its business. Having reviewed this assessment, my opinion is that the use of the Standard Formula is appropriate for Catalina. The risks covered by the Standard Formula are reflective of the risks that Catalina is exposed to. In addition, given Catalina manages portfolios in run-off, there is a danger that the costs of building an approved internal model would be disproportionate to the size of Catalina.

8.30 I have considered the approach used to perform the Standard Formula calculations for Catalina and consider the approach to be reasonable and proportionate to the scale and complexity of its operations.

8.31 I note that, whilst I have considered the methodology for each element described above, I have not reviewed the calculations in detail. I have considered the final results of the calculations, and I have not identified any reason to believe that the calculated SCR materially understates the capital required by Catalina or that the calculated MCR is materially misstated.

8.32 The table below 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 14: Coverage ratios for Catalina (€m)

	1	2	3
SCR	**23.3**	**61.4**	**62.7**
Eligible Own funds	**46.9**	**86.6**	**86.6**
Coverage ratio	**201.4%**	**141.0%**	**138.2%**

8.33 As can be seen from the above table, Catalina currently has substantial Own Funds in comparison to its SCR. In addition, it is expected to have substantial Own Funds in comparison to its SCR following the Scheme.

8.34 It can be seen from the table above that this coverage ratio falls as a result of the LPTA. The primary reason for this is because, prior to the LPTA Catalina had been setting aside capital in order to fund the acquisition of the Transferring Portfolio. I understand from Catalina that, had this transaction not been taking place, then it would have released some of this capital in the form of a dividend, which would have reduced the coverage ratio shown in column 1 above to approximately the level expected following the Scheme.

8.35 It can be seen from the table above that Catalina's coverage ratio also falls slightly as a result of the Scheme. This is due to an increase in the SCR resulting from an increase in market risk. This increase is due to assets being invested in line with Catalina's investment policy rather than the guidelines set out in the LPTA.

Capital requirements over the next three years

8.36 The table below shows the projected coverage of Catalina's SCR over the next three years, assuming the Scheme becomes effective during 2018. These figures have been provided to me by Catalina. I have considered the results of these calculations and their derivation and consider them to be reasonable.

Table 15: 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	**201.3%**	**234.1%**	**266.4%**

8.37 The table above illustrates the SCR is expected to reduce over the course of the next few years as claims are paid. As a result, the coverage ratio increases rapidly following the Scheme.

8.38 The Own Funds in the table above assume that Catalina does not pay any dividends. I understand from Catalina that it will seek to pay dividends over this period and that, as result, it expects it coverage ratios of its SCR to be lower than those shown in table above. However, as discussed in paragraph 8.24, Catalina has agreed with the CBI to hold a management buffer above its SCR and will maintain capital in excess of this buffer.

Solvency II balance sheet

8.39 The following simplified Solvency II balance sheets for Catalina are shown below:

1 prior to the execution of the LPTA as at 31 December 2017
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 16: Solvency II balance sheets for Catalina (€m)

	1	2	3
Assets:			
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
Total assets	**170.1**	**817.4**	**535.9**
Liabilities:			
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
Total Liabilities	**111.5**	**730.9**	**449.3**
Available Own funds	**58.6**	**86.6**	**86.6**
Eligible Own funds	**46.9**	**86.6**	**86.6**

8.40 As a result of the LPTA, the gross Technical Provisions increase between columns 1 and 2 above. In addition, as described in paragraph 5.44, the IGRA has been extended to cover the Transferring Portfolio, and as a result the reinsurance assets also increase. Further to this, as part of the extension of the IGRA, CGIL has provided Catalina with funds in order to meet its share of the LPTA collateral requirements in respect of the Transferring Portfolio. Whilst the LPTA is in force, these funds are contained in both 'Cash and Investments' and 'Other Liabilities' as they are both assets and liabilities.

8.41 Following the Scheme, Catalina will return the funds provided by CGIL as described in paragraph 8.40.As a result, 'Cash and investments' reduces by the same amount as the 'Other Liabilities' with no impact on Own Funds. The risk margin also reduces slightly as a result of the Scheme.

8.42 I have considered the approach used to calculate the Solvency II balance sheets for Catalina, including the Technical Provisions, and consider the approach and results to be reasonable.

8.43 Catalina has confirmed that the majority of Eligible Own Funds at 30 September 2017 are Tier 1 (c.76%), the highest tier of Own Funds. The remainder have been classified as Tier 2, the middle tier of Own Funds. I have reviewed this allocation of Own Funds to the tiers and consider it to be reasonable.

8.44 The Solvency II regulations has a limit on the amount of Tier 2 Own Funds that are eligible to meet the SCR. This is why there is a difference in the table above between Available Own Funds and Eligible Own Funds for the position prior to the LPTA. Following the LPTA and following the Scheme, the SCR is higher and as a result this limit no longer engages.

ORSA

8.45 I have been provided with a copy of the report outlining Catalina's most recent ORSA. The document is dated 30 September 2017 and has been approved by Catalina's Board. This represents a forward looking assessment of Catalina's risk profile and capital requirements.

8.46 Catalina's ORSA projects that the coverage of its SCR will be maintained at or above its management target for the three years considered in the ORSA.

8.47 Catalina has conducted various stress and scenario tests within its ORSA to test the robustness of its capital base. The stress and scenario testing covers a wide range of risks that Catalina is exposed to.

8.48 The list below sets out the stress testing that Catalina has conducted:

1. A 10% deterioration in the gross reserves for the Transferring Portfolio and Catalina's existing portfolio
2. A 10% deterioration in the gross reserves for Catalina's existing portfolio
3. A 10% deterioration in the gross reserves for the Transferring Portfolio
4. A 50% increase in the reserve risk charge applied to both the Transferring Portfolio and Catalina's existing portfolio
5. A 50% increase in the reserve risk charge applied to Catalina's existing portfolio
6. A 50% increase in the reserve risk charge applied to the Transferring Portfolio
7. A 50% increase in the likelihood of reinsurer default applied to both the Transferring Portfolio and Catalina's existing portfolio
8. A 50% increase in the likelihood of reinsurer default applied to Catalina's existing portfolio
9. A 50% increase in the likelihood of reinsurer default applied to the Transferring Portfolio
10. A doubling of the loss given default of reinsurers applied to both the Transferring Portfolio and Catalina's existing portfolio
11. A doubling of the loss given default of reinsurers applied to Catalina's existing portfolio
12. A doubling of the loss given default of reinsurers applied to the Transferring Portfolio
13. An investment downgrade of one rating for all investments and all external reinsurers default, applied to both the Transferring Portfolio and Catalina's existing portfolio
14. An investment downgrade of one rating for all investments and all external reinsurers default, applied to Catalina's existing portfolio
15. An investment downgrade of one rating for all investments and all external reinsurers default, applied to the Transferring Portfolio
16. A reduction in the Pound Sterling interest rate of 1 percentage point applied to both the Transferring Portfolio and Catalina's existing portfolio
17. A reduction in the Pound Sterling interest rate of 1 percentage point applied to Catalina's existing portfolio
18. A reduction in the Pound Sterling interest rate of 1 percentage point applied to the Transferring Portfolio
19. A reduction in the Euro interest rate of 1 percentage point applied to both the Transferring Portfolio and Catalina's existing portfolio
20. A reduction in the Euro interest rate of 1 percentage point applied to Catalina's existing portfolio
21. A reduction in the Euro interest rate of 1 percentage point applied to the Transferring Portfolio
22. An operational risk event costing £1.5m across the Transferring Portfolio and Catalina's existing portfolio
23. An operational risk event costing £1.5m applied to Catalina's existing portfolio
24. An operational risk event costing £1.5m applied to the Transferring Portfolio

8.49 In addition to the above, Catalina undertook the following scenario testing:

25 All of Catalina's investments are downgraded by one credit rating applied to both the Transferring Portfolio and Catalina's existing portfolio
26 All of Catalina's investments are downgraded by one credit rating applied to Catalina's existing portfolio
27 All of Catalina's investments are downgraded by one credit rating applied to the Catalina's existing portfolio
28 Increase in gross reserves of 10% combined with a default by CGIL applied to both the Transferring Portfolio and Catalina's existing portfolio
29 Increase in gross reserves of 10% combined with a default by CGIL applied to Catalina's existing portfolio
30 Increase in gross reserves of 10% combined with a default by CGIL applied to the Transferring Portfolio

8.50 I have reviewed the stress and scenario testing that Catalina has undertaken. There were no stresses identified that reduce the level of assets below the level of liabilities.

8.51 In stresses 1, 3, 4 and 6 and scenarios 28 and 30 listed above, Catalina coverage of its SCR reduces below 100%. Whilst I consider these stresses and scenarios to be possible, my opinion is that these scenarios are unlikely. In any case, should Catalina's coverage of its SCR fall below 100%, it will be provided with further funds from CHBL as described in paragraph 8.25. For all other stresses and scenarios, the coverage of the SCR remains above 100%.

8.52 I consider the range of stresses and scenarios that Catalina has considered to be reasonable. I am satisfied that the stress and scenario testing undertaken by Catalina demonstrates that it has sufficient capital to meet policyholder obligations under a wide variety of potential stresses.

9 Policyholder security

9.1 In this section, I describe the effect of the Scheme on each group of policyholder with regards to security, including under insolvency, and explain how I have reached my conclusions.

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

9.2 The capital requirements and the approach to capital modelling are discussed in Section 8.

9.3 ZIP's coverage of its SCR is materially unchanged by the Scheme becoming effective. There are two reasons for this:

- The Transferring Portfolio is immaterial in the context of ZIP
- The economic risk in relation to the Transferring Portfolio has already transferred out of ZIP as a result of the LPTA. The Scheme simply provides ZIP with the legal transfer of these liabilities.

9.4 As discussed in paragraph 8.25, Catalina has agreed with the CBI to maintain a buffer in excess of its SCR. As discussed in paragraph 8.34, Catalina's coverage of its SCR falls as a result of the LPTA as capital was set aside to fund the acquisition of the Transferring Portfolio. As discussed in paragraph 8.35, Catalina's coverage of its SCR also falls slightly as a result of the Scheme. However it remains above the management target agreed with the CBI. In addition, as described in paragraph 8.25, Catalina has agreed with the CBI that CHBL will provide additional funds should the buffer in excess of the SCR fall below a certain level. Further to this, as described in paragraphs 8.45 to 8.52, the testing that Catalina has conducted as part of its ORSA demonstrates the robustness of Catalina's capital base.

9.5 As a result, based on the analysis conducted in Section 8, I am of the opinion that Catalina is sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the existing liabilities of Catalina.

Impact of the Scheme on the security of the transferring policyholders

9.6 The transferring policyholders currently benefit from the security of ZIP as the insurer plus Catalina as a reinsurer.

9.7 Should the Scheme become effective, the transferring policyholders would lose the protection of ZIP. As a result, the amount of funds that the transferring policyholders have access to would reduce in monetary terms following the Scheme.

9.8 However, they would continue to benefit from the security of Catalina. As described in paragraph 9.5, I am of the opinion that Catalina is sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the existing liabilities of Catalina.

9.9 Both ZIP and Catalina are incorporated in Ireland and so are both subject to the same insolvency regime. The transferring policyholders are direct policyholders of ZIP pre-Scheme and will become direct policyholders of Catalina post-Scheme. As a result, the transferring policyholders would benefit from the same legal protections in the event of wind-up of ZIP pre-Scheme compared to the event of wind-up of Catalina post-Scheme.

9.10 It follows from the preceding paragraphs that, even though the monetary value of the funds that the transferring policyholders will have access to will reduce, my opinion is that I do not expect there to be a material adverse impact on the transferring policyholders in relation to security as a result of the Scheme.

Impact of the Scheme on policyholders remaining in ZIP

9.11 As discussed in paragraphs 8.14 and 8.15, ZIP's coverage of its SCR is materially unchanged by the Scheme becoming effective. In addition, the Scheme will have no material impact on the protections afforded to the policyholders remaining in ZIP in the event of insolvency of ZIP. As a result, the policyholders remaining in ZIP will be unaffected by the Scheme in terms of security.

Impact of the Scheme on the existing policyholders in Catalina

9.12 When comparing the position after the Scheme to that prior to the LPTA, Catalina's coverage of its SCR is expected to improve in monetary terms but decrease in percentage terms. When comparing the position after the Scheme to that following the LPTA, Catalina's coverage of its SCR is expected to decrease slightly both in monetary terms and percentage terms.

9.13 However, as described in paragraph 9.5, I am of the opinion that Catalina is sufficiently capitalised in order to meet policyholder obligations over the course of the run-off of the Transferring Portfolio and the existing liabilities of Catalina. This is supported by the testing that Catalina has conducted as part of its ORSA.

9.14 The Scheme will have no impact on the legal protections afforded to the existing policyholders of Catalina in the event of insolvency of Catalina.

9.15 It follows from the preceding paragraphs that, even though the coverage ratio of Catalina's SCR reduces as a result of acquiring the Transferring Portfolio, my opinion is that I do not expect there to be a material adverse impact on the existing policyholders of Catalina in relation to security as a result of the Scheme.

10 Other financial considerations

10.1 In this section, I discuss the following items in turn:

- 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
- Impact of other transfers.

Tax implications

10.2 ZIP and Catalina have informed me that they do not believe there are likely to be any material tax implications as a result of the Scheme. ZIP and Catalina have received advice from their external advisors on this, and they have provided me with copies of this advice. ZIP and Catalina have also received a binding ruling from the German tax authorities that there is no value added tax due as a result of the transfer of the legal obligations relating to the Transferring Portfolio. I have been provided with a copy of this ruling.

10.3 I have taken advice from the tax experts at Grant Thornton who specialise in the insurance sector. They have reviewed the information provided to me and do not believe there to be any material tax implications that affect the Scheme.

Investment strategy implications

10.4 I understand from ZIP that its investment strategy is to maximise the economic risk-adjusted excess return of assets relative to its internal liability benchmark taking into account its risk tolerance as well as local regulatory constraints. It has policies and limits to manage investment risk and keep its strategic asset allocation in line within its risk tolerance. It sets limits on what type of investments should be invested in and how much should be invested with each counterparty. Its investment committee meets quarterly to review and monitor asset allocation and asset/liability exposure. ZIP's investments are fixed income securities, real estate, cash, equities, mortgages and derivatives.

10.5 The goals as set out in Catalina's investment policy are:

- to preserve invested capital
- to maintain the ability to meet liability payoff obligations and operating expenses as they become due
- to always manage the portfolios in conformity to the CBI regulatory framework and agreed investment guidelines
- simultaneously with the goals set out above, to earn the best possible risk adjusted total return on invested capital.

10.6 The investment policy sets out the key responsibilities in the oversight and management of the investments. The Board is responsible for the overall investments, with the Chief Investment Officer responsible for implementing the Board's strategy. The Chief Investment Officer is responsible for preparing a report quarterly which allows the Board to review and monitor investments.

10.7 The policy sets limits on what type of investments should be invested in and how much should be invested with each counterparty.

10.8 I do not expect that Catalina's investment strategy will have a material adverse impact on the transferring policyholders as both Catalina's and ZIP's investment strategies are aiming to maximise return, subject to controls to ensure no excess investment risk is taken. I am satisfied that both companies have sufficient control over their investment strategies.

10.9 There will be no change in the investment strategy that the existing policyholders of Catalina are exposed to as a result of the Scheme.

10.10 There will also be no change to the investment strategy that the policyholders remaining in ZIP are exposed to as a result of the Scheme.

Liquidity position

10.11 I have reviewed the asset allocation and investment strategies of both ZIP and Catalina. Both have sufficiently liquid assets to meet liabilities as they fall due, both before and after the Scheme. This includes any liabilities Catalina may have to meet ahead of being reimbursed by following coinsurers. Coinsurers are discussed further in paragraphs 10.18 to 10.21.

10.12 As a result, I do not anticipate that the Scheme will create any material adverse impact with respect to liquidity for the transferring policyholders, the policyholders remaining within ZIP or the existing policyholders of Catalina.

Implications of the Scheme on ongoing expense levels

10.13 The ongoing expense levels of Catalina will not increase as a result of the Scheme, as it already finances the services provided by Pro as part of the LPTA. These expenses have been allowed for in the projections provided to me in relation to capital and, as discussed in paragraph 9.5, I expect Catalina to have sufficient capital to meet policyholder obligations. Therefore, I do not believe that any changes in the expenses of Catalina will have a material adverse impact on either the transferring policyholders or the existing policyholders of Catalina.

10.14 I do not anticipate that there will be material changes in expense levels as a result of the Scheme that will create an adverse impact to the policyholders remaining within ZIP because of the Transferring Portfolio's immaterial size in the context of ZIP.

Compensation schemes

10.15 The transferring policyholders do not currently have access to any compensation schemes in the event of insolvency of ZIP as they are not eligible for compensation from the ICF and there is no compensation scheme in place in Germany. Following the Scheme, these policyholders will still not have any access to any compensation schemes in the event of insolvency of Catalina as they will still not be eligible for compensation from the ICF and there is no compensation scheme in place in Germany. As a result there will be no change in terms of access to a compensation scheme for the transferring policyholders.

10.16 The position of the existing Catalina policyholders and the remaining ZIP policyholders with regard to compensation will not be impacted by the Scheme.

10.17 It follows that I do not expect any of the groups of policyholders to be materially adversely affected in relation to their access to compensation schemes as a result of the Scheme.

Impact on coinsurers

10.18 As discussed in paragraph 5.16 and 5.17, ZIP wrote a proportion of the book through coinsurance arrangements with other insurers.

10.19 Currently, in line with current best practice, ZIP pays out under coinsurance contracts for which ZIP is the lead insurer. At the point at which the Scheme becomes effective, Catalina shall continue to settle claims in line with current practice. As discussed in paragraph 10.11, I believe Catalina has sufficiently liquid assets to meets these liabilities as they fall due.

10.20 Where ZIP is a following coinsurer on a transferring policy any claims will be paid by the lead insurer and reimbursed by ZIP. At the point at which the Scheme becomes effective Catalina will reimburse the lead insurer.

10.21 As a result, my opinion is that the Scheme will have no material adverse impact on coinsurers associated with the Transferring Portfolio.

Impact on reinsurers

10.22 As discussed in paragraph 5.18 to 5.20, the internal and external reinsurance that previously benefited the Transferring Portfolio has been commuted and replaced by the LPTA.

10.23 At the point at which the Scheme becomes effective, the LPTA will be commuted as the portfolio will become part of Catalina rather than being reinsured by Catalina. As described in paragraph 5.44, the IGRA with CGIL was expanded to include protection of the Transferring Portfolio at the same time as the LPTA became effective. The IGRA will remain in place following the Scheme. As a result, I see no change in coverage for the existing reinsurers of Catalina following the Scheme.

10.24 The coverage provided by the existing reinsurers of ZIP will not change as a result of the Scheme.

10.25 As a result, my opinion is that the Scheme will have no material adverse impact on the existing reinsurers of either Catalina or ZIP.

Impact of new business strategy

10.26 ZIP's new business strategy will not change as a result of the Scheme. It follows that I have not identified any material adverse impact to the policyholders remaining in ZIP as a result of the Scheme in relation to the new business strategy that they are exposed to.

10.27 Catalina does not write new business and will not do so following the Scheme. As discussed in paragraph 5.27, Catalina's business model is to acquire books of non-life insurance that are in run-off and this model will not change following the Scheme. Any further acquisitions are subject to approval from the CBI.

10.28 It follows that I have not identified any material adverse impact to the existing Catalina policyholders as a result of the Scheme in relation to the new business strategy that they are exposed to.

10.29 ZIP and Catalina have different new business strategies. I do not envisage that this will have a materially adverse impact on the transferring policyholders for the following reasons:

- Both ZIP and Catalina are regulated by the CBI
- Both ZIP and Catalina are authorised to operate in the way that they do
- Both ZIP and Catalina hold capital to support the risks that they are exposed to. In addition, as concluded in Section 8, I am of the opinion that both companies have sufficient capital to meet policyholder obligations
- As I have concluded in Section 11, both ZIP and Catalina have appropriate management frameworks in place to support their respective businesses.

10.30 It follows that I have not identified any material adverse impact to the transferring policyholders as a result of the Scheme in relation to the new business strategy they are exposed to.

Impact of other transfers

10.31 I understand from Catalina that there are no planned transfers into or out of Catalina.

10.32 I understand from ZIP that there are a number of small portfolio transfers planned into and out of ZIP. Given their size, I do not consider that these transfers will have a material impact on the Scheme.

10.33 I am not currently aware of any confirmed material transfers into or out of ZIP that might impact the Scheme.

11 Other non-financial considerations

11.1 In this section, I discuss the following items in turn:

- Management and governance framework
- Claims handling
- Policy servicing
- Changes in regulatory regime
- Complaints
- Brexit
- Should the Scheme not become effective
- Policyholder notification
- Reinsurer notification
- Coinsurer notification.

Management and governance framework

11.2 As at the date of this report, the day to day management of the Transferring Portfolio has been outsourced by ZIP to Catalina under the PMAA, although ZIP remains responsible for the Transferring Portfolio as insurer. Catalina has, in turn, subcontracted certain services, including claims handling, to Pro. Following the transfer, Catalina will become the insurer of the Transferring Portfolio and Pro will continue to perform these services on behalf of Catalina.

11.3 A management committee has been set up to oversee the Transferring Portfolio until the Scheme becomes effective. This committee has an equal number of members from ZIP and Catalina. Following the Scheme, this management committee will no longer exist, and the Transferring Portfolio will be governed in line with Catalina's management and governance framework as set out in paragraphs 11.4 to 11.8.

11.4 The Board of Catalina comprises six members made up of one executive director, three non-executive directors and two independent non-executive directors. Each of these members has been approved to act as Board members by the CBI.

11.5 I understand from Catalina that the Board has established the four key control functions required under the Corporate Governance Requirements for Insurance Undertakings 2015, namely risk management, actuarial, compliance and internal audit.

11.6 The Board has established the following sub-committees:

- Board Risk Committee
- Audit Committee
- Loss Reserving Committee

11.7 Catalina outsources some of its operations where appropriate, such as the claims handling on the Quinn portfolio. Any outsourcing is subject to its outsourcing policy and audits are conducted on at least an annual basis. Ultimate responsibility for outsourced services remains within Catalina.

11.8 I have reviewed the management and governance framework and, in my opinion, it is proportionate to the size and complexity of Catalina's business.

11.9 ZIP's Board is ultimately responsible for all of ZIP's business activities. ZIP's business strategy and operations are given direction and oversight by ZIP's Board through the application of its governance structure. The Board is comprised of a mix of ZIP executive directors, independent non-executive directors and directors from the Zurich Group senior management team. It has a number of Board sub-committees (Audit Committee, Board Risk Committee and Human Resources Committee).

11.10 ZIP has embedded an enterprise risk management system within its system of governance. This system is designed to support the decision making procedures and ensure the business operates within the tolerances it has defined in relation to the risk it is willing to take.

11.11 I have reviewed the management and governance framework of ZIP and, in my opinion, it is proportionate to the size and complexity of ZIP's business.

11.12 I have not identified any material adverse impact to any of the groups of policyholders as a result of the Scheme in relation to the management and governance frameworks they are exposed to.

Claims handling

11.13 Prior to the Migration Date, the claims for the Transferring Portfolio were outsourced by ZIP to Zurich Service GmbH, a ZIG company. I understand from ZIP and Catalina that the administration of the claims transferred to Catalina on the Migration Date. I further understand from ZIP and Catalina that the claims handling employees that were servicing the Transferring Portfolio prior to the Migration Date were given the opportunity to transfer to Pro who Catalina is outsourcing claims handling to. One of the nine staff servicing the Transferring Portfolio has chosen to transfer to Pro.

11.14 Following the Migration Date, the transferring claims handling employee that was servicing the Transferring Portfolio is supported by additional employees from Pro.

11.15 In addition to the one person transferring from the team servicing the Transferring Portfolio, the initial team is made up of two senior Pro staff who have significant German MedMal experience and have been involved with Catalina in relation to this portfolio since October 2017. They have also been involved in the knowledge transfer meetings with the team at Zurich Service GmbH. Pro has also recruited three new staff, all of whom have significant German MedMal experience. I understand from Catalina that not all of these staff at Pro will be working full time on the Transferring Portfolio.

11.16 I understand from Catalina that Pro has a resourcing plan in place to build the team up from five and a half full time equivalent employees at the Migration Date to nine full time equivalent employees by October 2018.

11.17 Prior to the Scheme, ZIP will continue to have oversight of claims handling activities through the management committee described in paragraph 11.3. I understand from Catalina that Pro will report directly to Head of Claims at Catalina and will provide Catalina with the management information to retain oversight of claims handling. I further understand that there are also a series of controls in place to ensure claims are managed proactively and in a timely manner to conclusion.

11.18 Following the Scheme, I understand from Catalina that Pro, under instruction from Catalina, will also be responsible for the claims handling of the Transferring Portfolio.

11.19 I further understand from Catalina that Pro will continue to report directly to Head of Claims at Catalina and will provide Catalina with the management information to retain oversight of claims handling. The same series of controls will be in place following the Scheme as prior to the Scheme.

11.20 Following the Scheme, there will no longer be oversight from ZIP. However, I am satisfied that Catalina will have adequate claims handling procedures in place following the Scheme. As a result, I am satisfied that there will continue to be robust oversight of claims handling following the Scheme.

11.21 Based on the fact that some of the personnel currently handling the claims will continue to be available to handle them after the Scheme, the number of personnel available to handle the claims will increase between the Migration Date and the Effective Date of the Scheme, and there will continue to be robust oversight and governance of the outsourcing of claims handling, I do not anticipate any material adverse impact to the claims handling provided to the transferring policyholders following the Scheme.

11.22 There will be no change in claims handling for the policyholders remaining within ZIP.

11.23 There will be no change in claims handling for the policyholders remaining within Catalina.

Policy servicing

11.24 Prior to the Migration Date, policy servicing was outsourced by ZIP to Zurich Service GmbH, a ZIG company. I understand from ZIP that policy servicing queries that are distinct from claims queries arise very infrequently.

11.25 From the Migration Date, the Transferring Portfolio's administration has transferred to Catalina on behalf of ZIP. Pro, on Catalina's behalf, deals with all policy servicing queries following the Migration Date. Pro will continue to provide policy servicing following the Scheme.

11.26 Based on the fact that some of the personnel currently servicing policies will continue to be available to service them after the Scheme, the number of personnel available to service the policies will increase between the Migration Date and the Effective Date of the Scheme, policy servicing queries are infrequent, and there will continue to be robust oversight and governance of the outsourcing of policy servicing, I do not anticipate any material adverse impact to the policy servicing provided to the transferring policyholders following the Scheme.

11.27 There will be no change in policy servicing for the policyholders remaining within ZIP or the existing policyholders of Catalina.

Changes in regulatory regime

11.28 As both ZIP and Catalina are regulated by the CBI, there will be no change in regulator as a result of the Scheme.

Complaints

11.29 At present eligible claimants from the Transferring Portfolio can refer any complaint not dealt with satisfactorily by ZIP to either FSPO or potentially BaFin, although BaFin may subsequently refer complaints it receives to the FSPO. Should the Scheme become effective, eligible claimants from the Transferring Portfolio will still have the same access to the FSPO and BaFin.

11.30 As a result, I have concluded that the transferring policyholders will not be materially adversely affected with respect to their access to adequate complaints handling procedures as a result of the Scheme.

11.31 The position of the existing Catalina policyholders and the remaining ZIP policyholders with regard to complaints will not be impacted by the Scheme.

Brexit

11.32 On 23 June 2016, the UK voted to leave the European Union ("EU"). On 29 March 2017, the UK officially notified the European Commission of its intention to withdraw from the EU. It will take some time for the full implications of this decision to become clear. Nevertheless, it has introduced or exacerbated a number of risks for insurers in the UK, and those insurers in the EEA that have policyholders in the UK. Some areas of potential concern are exchange rate volatility and a changing regulatory environment.

11.33 Some of the existing policyholders of Catalina are UK-based and, as a result, the exact terms of Brexit may have an impact on these policyholders although it is not yet clear what that impact might be.

11.34 I understand from Catalina that it has submitted its contingency plans to the CBI, including setting out its preferred option. At this stage, these plans are confidential and Catalina is in discussions with the CBI. Catalina has provided me with its contingency plans in relation to Brexit. Having reviewed these plans, I can confirm that Catalina is aiming to put in place a solution which will avoid any interruption of licensing coverage and which will not have a detrimental impact on policyholders.

11.35 Some of the existing policyholders of ZIP are UK-based and, as a result, the exact terms of Brexit may have an impact on these policyholders although it is not yet clear what that impact might be.

11.36 I understand from ZIP that it has submitted its contingency plans to the CBI and the PRA, including setting out its preferred option. At this stage, these plans are confidential and ZIP is in discussions with the CBI and the PRA. ZIP has provided me with an outline of the options being considered. Having reviewed these options, I can confirm that ZIP is aiming to put in place a solution which will avoid any interruption of licensing coverage and which will not have a detrimental impact on policyholders.

Should the Scheme not become effective

11.37 I have considered the likely effects on the transferring policyholders, the existing policyholders of Catalina and the policyholders remaining within ZIP should the Scheme not become effective.

11.38 If the Scheme were not to become effective, I understand that Catalina would continue to provide 100% reinsurance in respect of the Transferring Portfolio under the existing LPTA and would run-off the existing liabilities until the earliest of expiry of those liabilities, the Scheme becoming effective at a subsequent date, the LPTA being commuted, or the LPTA being terminated for one of the reasons described in paragraphs 5.45 and 5.46.

11.39 In the case where Catalina continues to provide 100% reinsurance until the expiry of the liabilities, there would be no change from the position following the Migration Date for the Transferring Portfolio should the Scheme not become effective. I have concluded in paragraph 9.5 that I believe Catalina has sufficient funds to meet policyholder obligations both following the LPTA and following the Scheme. As a result, I do not believe the transferring policyholders would be in a materially better situation should the Scheme not become effective and the LPTA remains in place.

11.40 Should the LPTA be commuted or terminated the liabilities in relation to the Transferring Portfolio would remain with ZIP and the transferring policyholders would be in a similar position to the one prior to the LPTA. I have concluded in paragraph 9.5 that I believe Catalina has sufficient funds to meet policyholder funds following the Scheme. In addition, I have concluded in paragraph 8.14 that I believe ZIP has sufficient funds to meet policyholder obligations prior to the implementation of the LPTA. As a result, I do not believe the transferring policyholders would be in a materially better situation should the Scheme not become effective and the LPTA is commuted or terminated.

11.41 If the Scheme were not to become effective, the existing policyholders of Catalina would either remain in the position they are currently in, if the LPTA remains in force, or revert to the position prior to the execution of the LPTA. I have concluded in paragraph 9.5 that I believe Catalina has sufficient funds to meet policyholder obligations prior to the LPTA, following the LPTA and following the Scheme. As a result, I do not believe Catalina's existing policyholders would be in a materially better situation should the Scheme not become effective.

11.42 If the Scheme were not to become effective, the policyholders remaining in ZIP would either remain in the position they are currently in, if the LPTA remains in force, or revert to the position prior to the execution of the LPTA, where the Transferring Portfolio would be part of ZIP. I have concluded in paragraphs 8.14 and 8.15 that I believe ZIP has sufficient funds to meet policyholder obligations prior to the LPTA, following the LPTA and following the Scheme. As a result, I do not believe the policyholders remaining in ZIP would be in a materially better situation should the Scheme not become effective.

Policyholder notification

11.43 Irish legislation requires that, unless the Court orders otherwise, notice shall be published in:

- The Iris Oifigiúil (Irish official gazette)
- Two daily national Irish newspapers
- In each EEA Member State in which the risks are situated in accordance with the law of that Member State.

11.44 ZIP and Catalina have informed me that they intend to comply with these requirements.

11.45 I understand from ZIP and Catalina that there are no requirements under German law to publish notice prior to the Scheme becoming effective. However, ZIP and Catalina will publish notices in publications should BaFin request that they do so.

11.46 I understand from ZIP and Catalina that the German Insurance Supervisory Act requires Catalina to notify the transferring policyholders following the Scheme informing them of the reasons for the Scheme, the form of the Scheme and its consequences. Catalina has informed me that it intends to comply with these requirements.

11.47 In addition to the publication requirements set out above, ZIP and Catalina intend to:

- publish notice in the international edition of the Financial Times
- make relevant Scheme documentation available at their respective registered offices in Ireland
- make relevant Scheme documentation available on their respective websites.

11.48 For transfers of non-life insurance business, there is no requirement to directly notify any policyholders under the regulations around Section 13 Transfers.

11.49 However, ZIP intends to send a communication pack to the following:

- the insured hospitals, clinics and individual doctors' practices whose German MedMal policy will be transferring to Catalina
- brokers and other insurance intermediaries in Germany through whom the German MedMal policies were distributed to the Transferring Portfolio
- the recipients of periodic payments from ZIP arising from German MedMal policies under settlement agreements entered into between ZIP and those recipients.

11.50 In my view, the notification policy outlined above is proportionate and reasonable and, as discussed above, in places goes further than is required.

11.51 I have reviewed the drafts of the proposed communications materials and in my opinion:

- The material is straightforward, provides sufficient information for the policyholders to understand and details any required actions where relevant
- It explains to the policyholders their right to object and the ways in which they can exercise this right
- The access to the available documentation and relevant information is clear.

11.52 I believe the proposed approach to policyholder notification to be reasonable.

Reinsurer notifications

11.53 For transfers of non-life insurance business, there is no requirement to directly notify any reinsurers under the regulations around Section 13 Transfers.

11.54 The only reinsurers of the Transferring Portfolio are Catalina and CGIL. As a result, the current reinsurers of the Transferring Portfolio will know about the Scheme.

11.55 The are no other reinsurers of Catalina that the Scheme will impact, and as such there is no intention to notify any other reinsurers of Catalina

11.56 As discussed in paragraphs 5.19 and 5.20, the reinsurance that applied to the Transferring Portfolio prior to the LPTA has been commuted. Given this, the Scheme will not impact any existing reinsurers of ZIP. Consequently, there is no intention to notify any reinsurers of ZIP.

11.57 I believe the proposed approach to reinsurer notification to be reasonable.

Coinsurer notification

11.58 For transfers of non-life insurance business, there is no requirement to directly notify any coinsurers under the regulations around Section 13 Transfers.

11.59 As discussed in paragraphs 10.18 to 10.21, I do not expect there to be a material adverse impact on the coinsurers related to the Transferring Portfolio.

11.60 I understand from ZIP and Catalina that there is no intention to notify these coinsurers. Given the absence of an adverse impact and the fact that there is no requirement for coinsurer notification, I believe this proposed approach to coinsurer notification to be reasonable.

12 Reliances and limitations

Events following the as at dates

12.1 The conclusions in this report are based on analyses that have been undertaken on data as at different points in time. I have been informed by ZIP and Catalina that there have been no material changes between the modelling dates and the date of this report apart from those discussed in this report. However, future events could occur between the date of this report and the Effective Date that could change my conclusions. I will provide a Supplementary Report prior to the sanction of the Scheme to update the Court on whether there have been any material changes since the issue of this report.

Reliance on other parties

12.2 In developing the conclusions in this report, I have relied on the data and accompanying explanations provided to me by and on behalf of ZIP and Catalina. I have not specifically reviewed the data for accuracy and completeness, but I have reviewed it for reasonableness.

12.3 I have carried out investigations, as detailed in this report, to gain comfort on the appropriateness of the methodology and conclusions for the most significant liabilities and capital requirements.

12.4 For ZIP, my review has not amounted to a full re-estimation of the liabilities for every class of business or a detailed calculation of the capital requirements. Instead, I have relied upon reserving work and estimation of capital requirements performed by ZIP. I believe this is reasonable given the experience and professional qualifications of the authors of the reserving and capital documents provided to me by ZIP, the testing that I have done and the immateriality of the Transferring Portfolio in the context of ZIP as a whole. The reviews that I have carried out give no indication of any significant deficiency and I believe that appropriate methodologies have been adopted throughout.

12.5 For the Transferring Portfolio, my review has not amounted to a full re-estimation of the liabilities or a detailed calculation of the capital requirements. Instead, I have relied upon reserving work and estimation of capital requirements performed by ZIP and Catalina. I believe this is reasonable given the experience and professional qualifications of the authors of the reserving and capital documents provided to me and the testing that I have done. The reviews that I have carried out give no indication of any significant deficiency and I believe that appropriate methodologies have been adopted throughout.

12.6 For Catalina prior to the Scheme, my review has not amounted to a full re-estimation of the liabilities for every class of business or a detailed calculation of the capital requirements. Instead, I have relied upon reserving work and estimation of capital requirements performed by Catalina. I believe this is reasonable given the experience and professional qualifications of the authors of the reserving and capital documents provided to me by Catalina and the testing that I have done. The reviews that I have carried out give no indication of any significant deficiency and I believe that appropriate methodologies have been adopted throughout.

12.7 I have also relied on discussions that I have had with the managements of ZIP and Catalina and with their legal advisers. Where appropriate, I have sought documentation from them to evidence the assertions made to me in those discussions.

Other

12.8 In my judgement, the results and conclusions contained in this report are reasonable given the information made available to me.

12.9 However, there is a limitation upon the accuracy of any estimate of claims reserves or capital requirements in that there is an inherent uncertainty in any estimate of future liabilities. This is due to the fact that the claims will be subject to the outcome of events yet to occur, such as judicial decisions, legislative actions, claim consciousness amongst potential claimants, claims management, claim settlement practices, changes in inflation, and economic decisions. As a result, it should be recognised that future claim emergence will likely deviate, perhaps materially, from any estimate of claims reserves. In addition, it should be recognised that the actual capital required will likely deviate, perhaps materially from any estimate of the capital requirements.

12.10 The underlying figures 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.

13 Conclusions

13.1 I have considered the Scheme and its likely effects on the transferring policyholders, the policyholders remaining in ZIP and the existing policyholders of Catalina.

13.2 In reaching the conclusions set out below, I have applied the following principles as set out in relevant professional guidance. I have sought to:

- Exercise my judgement in a reasoned and justifiable manner
- Describe the impact on all policyholders. For the purposes of this report policyholders includes existing and future claimants and the policyholders considered are;
    - the transferring policyholders,
    - the policyholders remaining in ZIP,
    - and the existing policyholders of Catalina.
- Indicate how the Scheme might lead to any changes to the risks to the benefits of the different classes of beneficiaries
- Assess the impact on all the classes of beneficiaries
- Indicate the proposed rationale for the Scheme to proceed
- Include (in summary) the most material information on which my opinion is based
- Describe the rationale for my opinion.

13.3 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.

13.4 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.

13.5 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.

13.6 In addition, I identify no reinsurers or coinsurers that will be materially adversely affected by the Scheme.

13.7 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.

13.8 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 that I have expressed and conclusions that I have drawn represent my true and complete professional opinions on the matters to which they refer.

13.9 I hereby confirm that I understand my duty to the Court, I have complied with that duty and I will continue to comply with that duty.

13.10 I do however consider it necessary that I review the most recent information prior to the sanctions hearing when this becomes available later in the year, before confirming my conclusions and opinions.

Simon Sheaf FIA, FSAI

Head of General Insurance Actuarial & Risk, Grant Thornton UK LLP

A Information received

Information provided by ZIP

- Company structure chart for ZIP
- Signed report and accounts for ZIP as at 31 December 2016
- Management accounts for ZIP as at 30 September 2017 and 31 December 2017
- ZIP reserving analysis for the Transferring Portfolio as at 30 June 2017
- Summary of reserves for the Transferring Portfolio as at 30 September 2017
- ZIP's Actuarial Report on Technical Provisions as at 31 December 2016
- ZIP Internal Model Solvency II SCR summary
- ZIP Internal Model Validation Report
- ZIP's Solvency II balance sheets as at 30 September 2017
- ZIP's Solvency II SCR and Own Funds as at 30 September 2017
- ZIP's 2017 ORSA Report
- ZIP's Solvency and Financial Condition Report as at 31 December 2016
- A summary of the historic reinsurance in place for the Transferring Portfolio
- A summary of ZIP's investment risk policy
- ZIP's asset allocation and strategic target allocation at June 2016
- ZIP's complaints management procedure for the Transferring Portfolio
- Tax advice from ZIP's external advisors
- Binding tax ruling from German tax authorities, along with a translation to English
- Draft Scheme communications strategy and communications pack

Information provided by Catalina

- Structure chart for Catalina
- 2016 audited report and accounts for Catalina
- Catalina's Solvency and Financial Condition Report as at 31 December 2016
- Catalina's Regular Supervisory Report as at 31 December 2016
- CHBL's Financial Condition Report as at 31 December 2016
- Catalina's reserving report and exhibits for the Transferring Portfolio
- An external reserving report on the reserves of Catalina's existing portfolio as at 31 December 2016
- A report produced by Catalina on the reserves of its existing portfolio as at 31 December 2016
- Solvency II balance sheet and SCR calculations as at 30 September 2017
- Solvency II balance sheet and SCR calculations as at 31 December 2017
- Catalina's ORSA Report, dated 30 September 2017
- Quantitative Reporting Templates for Catalina as at 30 September 2017
- Catalina's Investment Policy
- Catalina's Capital Management Policy
- Catalina's Dividend Policy
- Catalina's Brexit contingency plans
- Tax advice from Catalina's external advisors

- Catalina's business plans for the next three years
- Documentation on the management and governance framework for Catalina

Information provided by ZIP's legal advisers

- Custody Agreement
- Security Agreement
- Collateral Monitoring Agent Agreement
- Framework Agreement
- Loss Portfolio Transfer Agreement
- Post Migration Administration Agreement
- Draft Affidavit for ZIP
- Draft Affidavit for Catalina
- Draft Petition
- Draft policyholder letter
- Draft broker letter
- Draft third party letter
- Draft co-insurer letter

Other

- I also relied on information arising from correspondence and discussions with ZIP and Catalina.

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.

B Definitions

Admissible assets	Assets of an insurance company that are permitted by law to be included in the company's financial statements.
Asset	Generally, any item of property whether tangible or intangible, that has financial or monetary value.
Attritional claims	Claims which are not considered 'large' claims. Generally these are claims with relatively low value.
Available capital	Total assets less total liabilities.
Available Own Funds	The portion of Own Funds that can be used to meet capital requirements after taking account of any restrictions.
Booked reserve	The claims reserve shown in the financial statements.
Branch	A representative office of a firm in another country, which is not a separate legal entity.
Brexit	The term used to describe the UK's exit from the EU, following the vote taken in the EU referendum on 23 June 2016.
Capital requirements	The level of funds that an insurance or reinsurance undertaking is required to hold.
Chain Ladder Method	This reserving method can be applied to both paid and incurred claims data. The method is based upon the assumption that the relative change in a given accident year's paid or incurred claims from one evaluation point to the next is similar to the relative change in prior accident years' paid or incurred claims between the same evaluation points.
Claims Account	A secured account into which, following the Migration Date, the Withheld Amount will be transferred. It is in the name of Catalina, but ZIP has security over it.
Claims reserve	Funds held for the payment of claims in the future.
Coinsurance	A common insurance contract where the risk is shared based on percentages between a group of insurance companies. Often, one insurance company will lead. The leading the insurance company will be responsible for administering various aspects of the insurance policy, such as the premium, any claims and the insurance documents.
Coverage ratio	The quantum of assets an insurer has to meet its regulatory (or economic) capital requirements, expressed as a percentage of its regulatory (or economic) capital requirements.
Credit rating	A measure of the financial security of a company provided by a third party agency.
Custody Account	An account, in the name of Catalina, which has been set up as part of the LPTA, into which the reinsurance premium for the LPTA has been transferred from ZIP. ZIP maintains the security over the account. Withdrawals can only be made in circumstances specified within the LPTA and the custodian has been instructed to facilitate any withdrawals required from this account.

Direct policyholders	Policyholders of an insurance undertaking who are not themselves insurers or reinsurers.
Diversification	A risk-management technique employed by a business entity, to widen the variety of investments it holds or business in which it participates, in order to reduce the overall risk to which it is exposed.
Effective Date	The date on which the Scheme becomes legally binding.
Exposure	The period in which claims can either be incurred or reported depending on the scope of the insurance policy.
Frequency/ Severity Method	The Frequency/ Severity Method is an actuarial reserving method for determining the cost of future claims based on the expected number of future claims in a given time period and their expected average cost.
Gross	Excluding the effect of reinsurance arrangements. For example, 'gross insurance liabilities' refers to insurance liabilities before taking into account any offsetting reinsurance assets.
Incurred but not enough reported ("IBNER")	Future developments on claims that have already been reported to the insurer.
Incurred but not reported ("IBNR")	Claims that have occurred prior to a particular date but have not yet been reported to the insurer plus future developments on claims that have already been reported to the insurer.
Incurred claims	The sum of the paid and outstanding claims
Independent Actuary	The suitably qualified actuary who produces an independent report on the Scheme
Internal model	A bespoke model developed by an insurance or reinsurance undertaking to calculate its Solvency Capital Requirement under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either an Internal Model or the Standard Formula.
Large claims	Individual claims with a relatively high value, which may be modelled at an individual level for reserving and capital modelling.
Liability	A claim against the assets, or legal obligations of a person or organisation, arising out of past or current transactions or actions.
Longstop Date	The date included within the LPTA, before which it is expected that the Scheme will become effective. There are provisions within the LPTA which set out what will happen should the Scheme not become effective prior to the Longstop Date.
Loss Portfolio Transfer Agreement	An agreement between ZIP and Catalina setting out the terms of the 100% reinsurance of the German MedMal portfolio ceded to Catalina.
Material adverse impact	A negative change that is considered to have a material impact on policyholders. A material impact is one that could cause a policyholder to take a different view on the future performance of its policy. When considering policyholder security these would include changes to the assets or liabilities of the company such that there was a shift in the probability of a policyholder's claim being paid substantially larger than that which would be observed through the day-to-day fluctuation of the value of assets in company's investment portfolio, or from the reporting of a particularly large but not extreme claim to a company's liabilities. In terms of non-financial impacts, an assessment of materiality is more subjective, but as an example a change in the claims handling process that added a few hours to the customer response time is probably not material, but if it added a few days then it could be, depending on the type of claim.

Medical Malpractice policy	A type of liability insurance which protect medical providers from liability associated with wrongful practices resulting in bodily injury, medical expenses and property damage, as well as the cost of defending lawsuits related to such claims.
Migration Agreement	An agreement providing for the terms of the operational migration of the Transferring Portfolio to Catalina.
Migration Date	26 March 2018, being the date when the operational migration and the outsourcing of the administration of the Transferring Portfolio to Catalina took place.
Minimum Capital Requirement ("MCR")	The lower level of regulatory capital requirements under the Solvency II regime.
Net	Including the effect of reinsurance arrangements. For example, 'net insurance liabilities' refers to insurance liabilities after deducting any offsetting reinsurance assets from the gross insurance liabilities.
Outstanding claims	The estimate of the claims made by the claims handling team of an insurer for claims that have been reported but not yet been paid.
Own Funds	The excess of an insurer's admissible assets over its liabilities on a Solvency II basis.
Own Risk and Solvency Assessment ("ORSA")	The insurance or reinsurance undertaking's own assessment of the risks to which it is exposed and its solvency, as required under Solvency II.
Parent	An enterprise that controls another through ownership of 50 percent or more of its voting stock
Periodic Payment Orders	These are awarded by courts instead of a lump sum to certain claimants. They comprise of an index linked amount payable to a claimant annually for the rest of their lives.
Post Migration Administration Agreement	An outsourcing agreement that details the terms of the claims handling and administration services for the Transferring Portfolio between ZIP and Catalina as of the Migration Date.
Pure IBNR	Claims that have occurred prior to a particular date but have not yet been reported to the insurer. This excludes any future developments on claims that have already been reported to the insurer.
Reinsurance	An arrangement with another insurer or reinsurer whereby risks are shared (or passed on).
Reserve strength	A measure of the likelihood that the claims reserve will be sufficient to meet future claims
Risk Margin	Under Solvency II insurers must hold a risk margin in excess of their best estimate of liabilities. This risk margin is designed to represent the amount of capital a third party would require to take on the obligations of a given insurance company. It effectively means that if an insurer were, as a result of a shock, to use up all its free surplus and capital, then it would still have sufficient assets to safely wind-up and transfer its obligations to a third party.
Run-off	A line of insurance business or an insurance undertaking that no longer accepts new business but continues to provide coverage for claims arising on its policies still in force and that makes payments for claims that have occurred on written policies.
Solvency II	A regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising regulation across all EU and EEA countries.

Solvency Capital Requirement ("SCR")	The higher level of capital regulatory requirements under the Solvency II regime.
Standard Formula	A standardised calculation for the Solvency Capital Requirement of an insurance or reinsurance undertaking, as prescribed under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either the Standard Formula or an Internal Model.
Stress and scenario testing	An analysis to test the robustness of a financial quantity by varying a number of underlying assumptions (either one at a time or in various combinations) and observing the resulting change in the quantity of interest.
Subsidiary	An enterprise controlled by another (called the Parent) through the ownership of greater than 50 percent of its voting stock.
Technical Provisions	The insurance liabilities of an insurer, as determined for regulatory purposes. These are calculated as the provisions for the ultimate costs of settling all claims arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for claims arising on unexpired periods of exposure less any premium in respect of the business written that has not yet been received.
Transferring Portfolio	The portfolio of German Medical Malpractice liabilities transferring from ZIP to Catalina
Ultimate claims	The final settlement cost of claims
Unallocated Loss Adjustment Expenses ("ULAE")	Expenses for an insurer that are not attributed to a specific insurance claim.
Undertaking Specific Parameter ("USPs")	Within the Standard Formula framework, entities are able to use USPs in order to refine certain parameters and make them more appropriate for the insurer's risk profile. They have to be calculated in a prescribed manner and are subject to regulatory approval.
Withheld Amount	An amount held by ZIP after the LPTA is in force to facilitate the settlement of claims by ZIP until operational migration of the portfolio takes place.

C Abbreviations

APS	Actuarial Professional Standards
BaFin	Federal Financial Supervisory Authority for Germany
BMA	Bermuda Monetary Authority
CBI	Central Bank of Ireland
CGIL	Catalina General Insurance Limited
CHBL	Catalina Holdings (Bermuda) Limited
the Court	the Irish High Court
EEA	European Economic Area
EU	European Union
ENIDs	Events Not In Data
FIA	Fellow of the Institute and Faculty of Actuaries
FRC	Financial Reporting Committee
FSAI	Fellow of the Society of Actuaries in Ireland
FSPO	Irish Financial Services and Pensions Ombudsman
GBP	British Pound
Grant Thornton	Grant Thornton UK LLP
IBNER	Incurred but not enough reported
IBNR	Incurred but not reported
ICF	Irish Insurance Compensation Fund
IFoA	Institute and Faculty of Actuaries
IGRA	Intra-group reinsurance arrangement
LPTA	Loss Portfolio Transfer Agreement
MCR	Solvency II Minimum Capital Requirement
German MedMal	German Medical Malpractice
ORSA	Own Risk and Solvency Assessment
PMAA	Post Migration Administration Agreement
PPO	Periodic Payment Order
PRA	UK Prudential Regulation Authority
Pro	Pro InsuranceSolutions GmbH

QIL	Quinn Insurance Limited
SCR	Solvency II Solvency Capital Requirement
TAS	Technical Actuarial Standards
TPA	Third Party Administrator
the Scheme	Insurance Business Transfer Scheme of the MedMal portfolio from ZIP to Catalina
UK	United Kingdom
ULAE	Unallocated Loss Adjustment Expenses
USP	Undertaking specific parameters
ZIIL	Zurich Insurance Ireland Limited
ZIG	Zurich Insurance Group
ZIP	Zurich Insurance Plc
ZLS	Zurich Legacy Solutions

D My experience

My professional experience is set out below:

- I have worked in or consulted to the general insurance industry for more than 25 years.
- I currently lead Grant Thornton's provision of actuarial and risk services to the general insurance sector.
- I have fulfilled the role of Independent Expert for several Part VII Transfers and Section 13 Transfers of insurance liabilities, with my other transaction experience including acting as Scheme Actuary for several schemes of arrangements; independent expert assignments; and due diligence for mergers and acquisitions.
- I am currently fulfilling the role of Independent Expert on a Part VII transfer of general insurance liabilities from the UK entity of a large insurance group to a newly authorised Luxembourg subsidiary of the group.
- I am currently fulfilling the role of Independent Expert on a Part VII transfer of general insurance liabilities from the UK entity of a large insurance group to a newly authorised Irish subsidiary of the group.
- Most recently, I fulfilled the role of Independent Actuary for a transfer of non-life insurance liabilities from Zurich Insurance plc to East West Insurance Company Limited under Section 13 of the Assurance Companies Act 1909 in Ireland which was sanctioned in March 2018.
- Prior to this, I fulfilled the role of Independent Expert on the Part VII transfer of non-life insurance liabilities from Congregational & General Insurance plc to International Insurance Company of Hannover SE which was sanctioned in November 2017.
- Prior to that, I fulfilled the role of Independent Expert on the Part VII transfer of non-life insurance liabilities from Colbourne Insurance Company Limited to NRG Victory Reinsurance Limited which was sanctioned in July 2017.
- Prior to that, I fulfilled the role of Independent Expert on the Part VII transfer of non-life insurance liabilities from Guardian Assurance Limited to R&Q Insurance (Malta) Limited which was sanctioned in September 2016.
- Prior to that, I fulfilled the role of Independent Expert on the Part VII transfer of non-life insurance liabilities from Harworth Insurance Company Limited to Royal & Sun Alliance Insurance plc.
- I have substantial reserving experience for an extensive variety of classes of business, including personal and commercial lines, and for a very wide range of companies.

- My other experience in the general insurance sector includes: producing skilled persons reports under s166 of FSMA 2000; Solvency II including all three pillars; design and construction of capital models; provision of strategic advice; design and implementation of management information systems; rating of portfolios and individual risks; reviews of rating adequacy; development of pricing models; and review and design of reinsurance programmes.

- In 2010, I set up an actuarial team for Quinn Insurance Limited (Under Administration) ("Quinn"). Between 2010 and 2012, I acted as the de facto Chief Actuary and Chief Underwriting Officer for Quinn.

- Prior to joining Grant Thornton in 2006, I was the Chief Actuary for Travelers Insurance Company Limited in the UK and Ireland.

- Before that, I was a senior consultant in the general insurance division of Towers Perrin.

- I hold a Chief Actuary (Non-life with Lloyd's) Practising Certificate and a Lloyd's Syndicates Practising Certificate. I have previously also held an Irish Signing Actuary Practising Certificate and been recognised as a Responsible Actuary by the financial regulator in Liechtenstein.

- My professional experience includes terms on the Institute and Faculty of Actuaries' Council, Management Board, General Insurance Board, Education Board, General Insurance Reserving Oversight Committee, General Insurance Education and CPD Committee (including a term as chairman), and Education Committee.

E Extract from engagement letter

Terms of engagement between Zurich Insurance PLC, Catalina Insurance Ireland DAC and Grant Thornton UK LLP

Acting as the Independent Actuary on the proposed Section 13 Transfer from Zurich Insurance PLC, to Catalina Insurance Ireland DAC

We write to acknowledge your instructions to act in the above matter and set out below our understanding of the work that you wish us to perform and the terms on which we shall undertake it.

Our instructions

You have asked us to provide an Independent Actuary to report on the proposed insurance business transfer scheme to transfer business from Zurich Insurance PLC ("ZIP") to Catalina Insurance Ireland DAC ("Catalina") ("the Scheme"). The Independent Actuary's report will be prepared in accordance with 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.

We understand that the business that is proposed to be transferred is a portfolio of approximately 6,000 German medical malpractice policies.

The scope of our work

As part of this assignment, the Independent Actuary will produce the following reports:

- the main Independent Actuary report prior to the Irish High Court Directions Hearing
- the summary report prior to the Irish High Court Directions Hearing
- the supplementary report prior to the Final Irish Court Hearing

The Independent Actuary's analysis and formal reports will follow the relevant guidance. His reports will consider the Scheme as a whole and its effect on the policyholders of ZIP and Catalina. In particular, it will include, but not be limited to, an opinion on:

- the impact of the Scheme on the different groups of policyholders affected by the scheme, namely:
    - the transferring policyholders
    - the policyholders who remain with ZIP following the transfer
    - the policyholders with Catalina prior to the transfer.

- the adequacy of any safeguards in the Scheme intended to protect the interests of the affected policyholders

We will also provide any other information required to be included by Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 or regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015, and any guidance issued by the Central Bank of Ireland ("CBI"). Where relevant, we will also adhere to any guidance issued by the Federal Financial Supervisory Authority ("BaFin").

Note since the engagement letter

Since the engagement letter was signed, ZIP and Catalina have provided us with confirmation that they no longer require a summary report.

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Grant Thornton