



Proposed Part VII Insurance Business  
Transfer of  
**Travelers Casualty and Surety Company  
of Europe Limited**  
to  
**Travelers Insurance Company Limited**  
Supplemental Report of the Independent  
Expert  
12 February 2019

Prepared by: Alex Marcuson, Marcuson Consulting Ltd

Version: FINAL

[www.marcuson.co](http://www.marcuson.co)

Prepared for: The High Court of Justice of England and Wales

*This document must always be considered in the context of and subject to the reservations with which it is given. It should not be disclosed to third parties without the prior written consent of Marcuson Consulting Ltd. We accept no liability to any third party who, having received it without our prior written consent, relies upon the results or advice contained in this document. No person may place any reliance on draft versions of this report as their findings may be subject to material change. We accept no liability to any party placing reliance on or taking any irrevocable decisions on the basis of draft versions of this report. This report (including the appendices) should be considered in its entirety as parts taken out of context could be misleading.*

## Key acronyms and definitions

This report contains a number of acronyms, shorthand names for companies and technical terms. To aid readability, I have not defined each in the text, but prepared a consolidated glossary in Appendix 5 of my Report dated 23 October 2018. Where defined terms are used in the text, the first letter has been capitalised. The bold items below are key items from the glossary. The shaded entry below indicates a change from and supersedes the definition contained in the Report.

<b>TCSCE</b>	Travelers Casualty and Surety Company of Europe Limited, a company within the Travelers Group, the <b>Transferor</b> or company from which insurance business is being transferred.
<b>TICL</b>	Travelers Insurance Company Limited, a company within the Travelers Group, the <b>Transferee</b> or company into which insurance business is being transferred.
<b>TIDAC</b>	Travelers Insurance DAC, a newly established Irish-domiciled company within the Travelers Group to which TICL intends to transfer all of all of its business written on a Freedom of Services basis and business written by its Irish Branch established using TICL's Freedom of Establishment passporting rights.
<b>TML</b>	Travelers Management Limited, a company within the Travelers Group. It employs all UK-based Travelers staff and provides management services to its UK operations, including TICL and TCSCE.
<b>Travelers / TCI</b>	A term used to refer to one or more companies within the <b>Travelers Group</b> , the group of companies whose ultimate parent is The Travelers Companies, Inc (" <b>TCI</b> ").
<b>TRV Pool</b>	An intercompany pooling arrangement under which TCI's major insurance subsidiaries reinsure one another to share loss experience. The lead company of the TRV Pool is The Travelers Indemnity Company (" <b>TIC</b> "), and other participating companies include St. Paul Fire & Marine Insurance Company Limited (" <b>SPFMIC</b> ") and Travelers Casualty and Surety, Inc. (the parent of Travelers Casualty and Surety Company of America (" <b>TSCA</b> ")).
<b>Brexit</b>	The departure of the UK from the European Union; or the date of departure.
<b>Court</b>	The High Court of Justice of England and Wales, responsible for approving the Transfers.
<b>FCA and PRA</b>	The two insurance regulators in the UK: the Financial Conduct Authority and the Prudential Regulation Authority. Both are consulted extensively prior to the Transfer going ahead. <b>SUP18</b> and the <b>SoP</b> are regulatory guidance that set out respectively the expectations of each regulator for the Report of the Independent Expert.
<b>Freedom of Services</b>	In the context of insurance business, the permission for a firm authorised in one EEA state to underwrite insurance business anywhere within the EEA as if it were an authorised firm in the EEA state where the risk is underwritten.
<b>Freedom of Establishment</b>	In the context of insurance business, the permission for a firm authorised in one EEA state to establish a branch office in any other state within the EEA to underwrite insurance business while remaining supervised by the prudential regulator of its home state.
<b>FSMA 2000</b>	The UK legislation enabling the Transfer to take place. Its full name is the Financial Services and Markets Act 2000.
<b>Report and Supplemental Report</b>	Under FSMA 2000, an <b>Independent Expert</b> must prepare a report for the Court setting out the effect of the Transfer on policyholders affected by it. It is normal practice for the independent expert to prepare a Supplemental Report shortly before the Court approves the Transfer. This is to update the Court on any significant matters arising in the months between when the Report was prepared and when the Court approves the Transfers.
<b>Second Witness Statement</b>	The second witness statement of Mr Michael John Gent, Chief Financial Officer (Europe) for Travelers, and a director of both TICL and TCSCE. This will be submitted as evidence for the Sanction Hearing. Travelers has supplied me with a final draft of this document and told me that it does not expect any material changes to the version I have received at the time of finalising this Supplemental Report.
<b>Transfer</b>	The proposed insurance business transfer scheme moving certain assets and liabilities from TCSCE to TICL.

<b>Affected Policyholders</b>	These comprise the Existing Policyholders and the Transferring Policyholders.
<b>Existing Policyholders</b>	Policyholders of TICL prior to the Transfer.
<b>Transferring Policyholders</b>	Policyholders of TCSCE whose <b>Transferring Policies</b> will move to TICL under the Transfer.
Terms describing financial strength	I use in my analysis four qualitative terms to describe the position of firms reviewed, assigning increasing levels of financial strength: <b>Under-capitalised, adequately-capitalised, well-capitalised</b> and <b>strongly-capitalised</b> . I give these self-descriptive terms precise definitions in the glossary in my Report but, as a guide: an <i>adequately-capitalised</i> firm has financial resources that exceed a firms' capital requirements by an appropriate margin or buffer. An under-capitalised firm has financial resources falling below this level.

## Contents

<b>Key acronyms and definitions .....</b>	<b>2</b>
<b>A. Introduction and Executive Summary.....</b>	<b>5</b>
1. Introduction.....	5
2. Executive Summary.....	6
<b>B. Updates Arising .....</b>	<b>8</b>
3. Financial matters.....	8
4. Non-financial matters and other significant issues .....	12
5. Communications.....	15
<b>C. Appendices.....</b>	<b>18</b>
Appendix 1. List of additional data items received for the Supplemental Report .....	18
Appendix 2. Balance sheet updates – TICL and TCSCE.....	20
Appendix 3. Indicative <i>as-if</i> update to TICL’s Capital ratio % and Surplus Own Funds .....	22

## A. Introduction and Executive Summary

### 1. Introduction

- 1.1.1. I, Alex Marcuson, prepared a Report for the Court dated 23 October 2018 entitled “Proposed Part VII Transfer of the Insurance Business of Travelers Casualty and Surety Company of Europe Limited to Travelers Insurance Company Limited – Report of the Independent Expert”. A copy of the Report has been available since 6 November 2018 on this web-site: <https://www.travelers.co.uk/tcsce-part-vii>.
- 1.1.2. This Supplemental Report has been prepared since I completed my Report to update the Court with more recent information surrounding the actual positions of TICL and TCSCE before and after the Transfer. In addition, I highlighted various matters in my Report that I would revisit in this Supplemental Report. I also comment on any other developments that I believe would be of interest to the Court, including my opinion on any issues raised by the Affected Policyholders. This work enables me to confirm that there have not been any changes to the main conclusions set out in my Report.
- 1.1.3. This Supplemental Report should be read together with the Report as its findings relate to the conclusions of the Report. The important reliances, limitations, assumptions and sources of uncertainty in the Report also apply to this Supplemental Report. Appendix 5 of the Report contains definitions of certain terms used throughout this Supplemental Report.
- 1.1.4. Data provided to me for the purpose of compiling my Supplemental Report is set out in Appendix 1. I am satisfied that it is appropriate for me to rely upon it, based upon the representations made to the Court in paragraph 6 of the Second Witness Statement, which confirms the accuracy of the facts set out in this Supplemental Report.
- 1.1.5. This Supplemental Report, when read together with the Report dated 23 October 2018, has been prepared in compliance with the Financial Reporting Council’s Framework for FRC Technical Actuarial Standards and relevant Technical Actuarial Standards (TAS 100 and TAS 200) together with the relevant Actuarial Profession Standard of the Institute and Faculty of Actuaries (APS X2: Review of Actuarial Work).
- 1.1.6. This Supplemental Report contains the following sections:

<p><b>Section A: Introduction and Executive Summary</b></p> <p>1. Introduction</p> <p>2. Executive Summary</p>
<p><b>Section B: Updates arising</b></p> <p>3. Financial matters</p> <p>4. Non-financial matters and other significant issues</p> <p>5. Communications</p>
<p><b>Section C: Appendices</b></p>

## 2. Executive Summary

### 2.1. Changes to the Scheme and other developments

- 2.1.1. There have been no changes to the Scheme since my Report.
- 2.1.2. As indicated in the Report, TICL has commenced another Part VII transfer related to Brexit, and its Directions Hearing occurred on 13 December 2018. I have obtained and reviewed the independent expert report related to this Brexit transfer, and am satisfied that it does not change my overall conclusions regarding the TCSCE Transfer.

2.1.3. *There have been no changes to the Scheme, nor material developments on other Part VII transfers, that change my conclusions regarding the Transfer.*

### 2.2. Changes to financial strength of the companies considered in my Report

- 2.2.1. For TICL and TCSCE, I have reviewed their unaudited summary financial statements and reserve movements for the three quarters ending 30 September 2018, revised business plans and key changes in risk profile.
- 2.2.2. During 2018, TICL's regulatory capital requirements reduced as a result of it purchasing more outward reinsurance. It also received a capital injection from Travelers Group and pledged increased Funds at Lloyd's. In Section 3.4 I have discussed each of these further. The net effect of these and other changes to its financial strength has led me to conclude that the overall position of TICL is similar to the assessment shown in my Report.
- 2.2.3. Travelers has confirmed that TICL has not approved any dividends since year-end 2017 and has no dividends planned for 2019.
- 2.2.4. I have also considered the unaudited summary financial statements at 30 September 2018 for TIC, TCSCA, SPFMIC and the Travelers Group as a whole and the year-end disclosures for the group results issued on 22 January 2019.
- 2.2.5. Based on my review and discussion with Travelers, I am satisfied that there have been no material financial developments that cause me to change any of my conclusions.

2.2.6. *I have concluded that changes to the financial strength of these companies since the position set out in my Report do not change my overall conclusions regarding the Transfer.*

### 2.3. Other matters revisited for this Supplemental Report

2.3.1. *In my Report I indicated that there were a number of matters that I would revisit if necessary. I have provided comments on these and other emerging matters in Section 4 and have satisfied myself that my conclusions in the Report are unchanged.*

### 2.4. Communications

- 2.4.1. At the Directions Hearing, the Court agreed to three additional dispensations from notification and publication requirements beyond those described in the Report. I have discussed each of these in Section 5.1 and provided my opinion on them. In each case I do not believe that there has been any material change in the way Travelers has performed its communications exercise from the approach I had anticipated.

2.4.2. *I have concluded that there have been no material changes in the approach to notification and publicity arrangements from those set out in the Report.*

2.4.3. I have reviewed the implementation of the policyholder communications work carried out by Travelers. While I have not carried out a detailed audit of this exercise, I have reviewed information provided by Travelers regarding the communication exercise carried out. Details of this review are set out in Section 5.

2.4.4. I am aware that some individual notifications and notices in 2 publications were made around 4 to 5 weeks before the Sanction Hearing, which is a shorter notice period than the 6 to 8 weeks typically expected by the FCA. For the reasons outlined in Section 5.4, I am satisfied that there is sufficient time for the Affected Policyholders and the relevant reinsurers to review the notification material, consider whether they may be adversely affected and if necessary raise concerns and objections with TICL and TCSCE.

2.4.5. Information provided to me as at 6 February 2019 shows that there have been no objections or material policyholder complaints raised regarding the Transfer.

2.4.6. *Based on my review I am satisfied that the work has been carried out in line with the descriptions in the First Witness Statement and that no material issues have arisen that have led me to change my conclusions.*

## 2.5. Expert's declaration

2.5.1. I confirm that I fully understand my overriding duty to the Court and that I must help the Court on matters within my expertise. My duty to the Court overrides any obligation to those from whom I have received instructions or by whom I am paid. I believe that I have complied, and will continue to comply, with this duty.

2.5.2. I confirm that I am aware of the requirements of Part 35 and Practice Direction 35 of the Civil Procedure Rules, and the Guidance for the Instruction of Experts in Civil Claims 2014.

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

  
.....

Alex Marcuson MA FIA

12 February 2019

## **B. Updates Arising**

### **3. Financial matters**

#### **3.1. Introduction**

3.1.1. This section covers the following matters:

- Updated financial performance and financial positions of TCSCE and TICL.
- Updated financial performance of Travelers Group, TIC, TCSCA and SPFMIC.
- Updated financial strength of TCSCE and TICL.
- Chain of Security.
- Updated Financial Strength Ratings.

3.1.2. Prior to setting out my conclusions relating to these financial matters, I confirm that there have been no material developments in TCSCE or TICL since the data received for my analysis.

3.1.3. Note that while the financial position of the various companies contained in the Report was as at 31 December 2017, I took into account developments arising subsequently in reaching my conclusions, having confirmed that none of them materially changed any of my conclusions relating to the companies' financial strength<sup>1</sup>.

3.1.4. Commentary relating to the significant issues identified in Section 6 of the Report and other emerging matters are discussed in Section 4.

#### **3.2. Updated financial performance and financial positions of TCSCE and TICL**

3.2.1. Sections 7 to 9 of my Report looked at the financial positions of TCSCE and TICL based on published disclosures at year-end 2017.

3.2.2. Appendix 2 of this Supplemental Report contains tables showing the updated financial positions of TICL and TCSCE as at 30 September 2018 based on Travelers' unaudited quarterly regulatory submissions.

##### TCSCE

3.2.3. As the table in Appendix 2.2 shows, the change in net assets for TCSCE has been very small during the first three quarters of 2018, increasing by approximately 2% on a GAAP basis. This is in line with my expectation, owing to 100% of its claims liabilities being reinsured by TIC and TCSCA. The level of Technical Provisions (gross of reinsurance) has reduced significantly for TCSCE over this period (by approximately 43% on a GAAP basis) due to the amount of claims paid. Net of reinsurance there has been no change, as TCSCE's claims liabilities are 100% reinsured as mentioned.

3.2.4. The gross value of outstanding surety bonds underwritten by TCSCE has reduced by approximately 1%, from £566 million (on 20 April 2018<sup>2</sup>) to £558 million as at 28 November 2018.

---

<sup>1</sup> Report Sections 10 and 11

<sup>2</sup> Report – Table 3.1

## TICL

- 3.2.5. As the table in Appendix 2.1 shows, over the first three quarters of 2018 TICL made a small loss that led to a reduction in its GAAP net assets and Solvency II Own Funds of approximately 3%. This arose from unrealised losses on investments and from there being more large claims arising during the year than had been anticipated.
- 3.2.6. The Technical Provisions (net of reinsurance) of TICL have changed by less than 1.5% during this period, on both a GAAP and Solvency II basis. Gross of reinsurance the Technical Provisions have changed by 1% during this period on both a GAAP and Solvency II basis.

3.2.7. *Based on this, I am satisfied that the performance of TICL and TCSCA since I prepared my Report does not cause me to change my conclusions.*

### 3.3. Updated financial performance of Travelers Group, TIC, TCSCA and SPFMIC

- 3.3.1. For the first three quarters of 2018, TIC, TCSCA, SPFMIC and the Travelers Group each disclosed profits in their unaudited financial statements. Over this period, the level of net assets has remained broadly similar for TIC, TCSCA and SPFMIC. The net assets of the Travelers Group have reduced from \$23.7 billion to \$22.5 billion, arising from a combination of unrealised losses on investments, share repurchases and declared dividends.
- 3.3.2. In its press release on 22 January 2019, Travelers Group reported post-tax profits of \$2.5 billion for the year-ending 31 December 2018 and net assets of \$22.9 billion at this date.

3.3.3. *Travelers has confirmed in the Second Witness Statement paragraph 31 that it is not aware of any major losses arising since 30 September 2018 for TIC, TCSCA, SPFMIC or the Travelers Group that could materially affect the financial position of TICL and TCSCA. This is consistent with my understanding of the scale of the major insured losses across the insurance and reinsurance market and with the full-year results for Travelers Group released on 22 January 2019. Based on this, I am satisfied that the experience of these companies since I prepared my Report does not cause me to change my conclusions.*

### 3.4. Updated financial strength of TCSCA and TICL

#### TCSCA

3.4.1. *There has been no material change to TCSCA's financial strength since year-end 2017; it remains a strongly-capitalised company as I concluded in Section 8 of the Report.*

#### TICL

- 3.4.2. In paragraph 7.5.8 in the Report, I noted that the effect of the Transfer on TICL's capital adequacy is minimal. I am satisfied that this remains the case. Hence, my findings and conclusions in this section regarding capital adequacy apply to TICL both pre- and post-Transfer.
- 3.4.3. I have reviewed TICL's 2019 business plan and its recently completed ORSA (dated December 2018). The business plan expects an increase in net premium income from 2018 and a small underwriting profit for the year. I am satisfied that the 2019 business plan is

consistent with the approach adopted in previous business plans, and that it has provided a reasonable basis on which I have revisited my analysis and conclusions. This analysis includes updated testing of the ability of TICL to withstand adverse performance compared to its business plan. From this I have satisfied myself that I can maintain the conclusions set out in the Report. The testing is discussed later in this Section 3.4.

- 3.4.4. During 2018, TICL purchased additional outward property catastrophe reinsurance. This reduced its potential net loss arising from a single catastrophe event (such as a major Northern European windstorm) from £40 million to £10 million per event. The change reduces TICL's SCR by approximately £45 million. The balance sheet effects of this additional reinsurance, including the reinsurance premiums required and subsequent reinsurance recoveries, have been reflected in TICL's balance sheets as at 30 September 2018 (as set out in Appendix 2.1).
- 3.4.5. Travelers has told me that TICL has not declared any dividends since year-end 2017 and does not currently have any plans to do so during 2019.
- 3.4.6. Two other changes arose during the fourth quarter of 2018:
  - A capital injection of £29 million from the Travelers Group to TICL; and
  - An increase in TICL's Funds at Lloyd's from £27 million at year-end 2017 to £88 million.
- 3.4.7. In Appendix 3 I have set out a walk-through of the net effect of:
  - the reduction in TICL's SCR as outlined in 3.4.4,
  - TICL's trading performance during 2018, and
  - the balance sheet changes described in 3.4.6.
- 3.4.8. This analysis shows a material improvement in the ratio of TICL's SII Own Funds to its SCR from the position shown in my Report at year-end 2017. This capital ratio measure indicates that TICL is close to meeting the threshold of being a strongly-capitalised company.
- 3.4.9. I have revisited the sensitivity and scenario testing performed in Section 10.4 of my Report. Having reviewed TICL's updated balance sheets, 2019 business plan and the latest ORSA, I have concluded that these tests remain appropriate.
- 3.4.10. The results of the sensitivity and scenario testing show:
  - TICL's exposure to property catastrophe claims is reduced as a result of the additional reinsurance it purchased during 2018.
  - Little change to TICL's exposure to the other risks considered in the sensitivity and scenario tests.
- 3.4.11. Based on these tests I have concluded that TICL's most significant risk exposure remains that of simultaneous adverse reserve deterioration and linked underwriting losses from its liability portfolio. The size of this risk remains similar to the position I considered when preparing the Report.
- 3.4.12. Appendix 3 shows how the absolute amount of the TICL's adjusted Solvency II Own Funds has remained very similar to the position as at year-end 2017 (increasing from £400 million to

£404 million), but that the capital ratio has increased markedly from 125% to 146%. In light of the similar amount of Solvency II Own Funds and TICL's most significant risk exposure being of a similar size, I believe that it remains appropriate for me, for the purposes of considering this Transfer, to continue to conclude that TICL is an adequately-capitalised company.

3.4.13. *Based on my analysis, I believe it remains appropriate to regard TICL as adequately-capitalised (as I concluded in Section 11 of the Report). In reaching this conclusion, I note that on some measures the financial strength of TICL has improved since the position I analysed to reach the conclusions set out in my Report.*

### 3.5. Chain of Security

3.5.1. Travelers has confirmed that there have been no changes to the chain of security protecting the Affected Policyholders from that described in Section 10.5 of the Report.

### 3.6. Updated Financial Strength Ratings

3.6.1. There has been no change to the A.M. Best and S&P Financial Strength Ratings for any of TCSCE, TIC, TCSCA, SPFMIC and Travelers Group.

3.6.2. Since I prepared the Report, TICL's A.M. Best Financial Strength Rating has been upgraded from 'A' to 'A++', and there has been no change in the S&P Financial Strength Rating.

### 3.7. Absence of Other Material Recent Developments

3.7.1. TICL has confirmed in the Second Witness Statement paragraph 31 that, other than the changes set out in 3.4.6, no material changes to TICL's net assets and risk profile have arisen since 30 September 2018, the date on which the company's financial data upon which I have based my analysis in this Supplemental Report was prepared.

3.7.2. Similarly, it has confirmed in the Second Witness Statement paragraph 31 that no material changes to TCSCE's net assets and risk profile have arisen since 30 September 2018, the date on which the company's financial data used in this Supplemental Report was prepared.

3.7.3. While it is inevitable that there may be some small changes to its net assets between 30 September 2018 and the Transfer Date other than those indicated in this Supplemental Report, I do not anticipate that such changes will change my conclusions.

### 3.8. Conclusions

3.8.1. *Based on this updated analysis, I have concluded that:*

- *The financial strength of TICL (both pre- and post-Transfer) has improved compared to the position used to reach the conclusions in the Report.*
- *TICL remains an adequately-capitalised company.*
- *There has been minimal change to the financial strength of TCSCE.*

3.8.2. *As a result of this, I am satisfied that no changes are required to my conclusions in Section 11 of the Report regarding the financial impact of the Transfer on the Affected Policyholders.*

## 4. Non-financial matters and other significant issues

### 4.1. Introduction

4.1.1. This section includes sub-sections that provide an update to my comments in the Report on the following items that were previously discussed in Section 6 of the Report:

- Brexit.
- The Ogden Discount Rate and Periodical Payment Order claim settlements. I also consider here other changes arising from the Civil Liability Act 2018.
- Major natural catastrophes in the USA, Mexico and Caribbean during 2017. I also consider here the various major natural catastrophe losses arising during 2018.
- The Grenfell Tower fire.

4.1.2. This section then provides an update relating to the following other matters:

- Travelers' progress with regard to its Solvency II reporting (known as "Pillar 3") obligations (discussed in Section 12.7 of the Report).
- Taxation.
- Major corporate failures in the UK construction industry (this was not considered in the Report). Section 4.8 explains why I concluded that this is not material to the Transfer.

4.1.3. Following discussion with Travelers, a review of the Second Witness Statement, and consideration of the wider (re-)insurance market and this Transfer, I have not identified any other non-financial matters that have led me to change any of the conclusions in the Report.

### 4.2. Brexit

4.2.1. Despite the ongoing political uncertainties surrounding Brexit at the time of writing this Supplemental Report, there has been no material change to the way in which Brexit might affect the Transfer.

4.2.2. I note that on 13 December 2018, TICL applied to the Court at a directions hearing to initiate its Brexit-related transfer. I have obtained and reviewed a copy of the independent expert's report for this Brexit transfer, and have not identified any matters in it that cause me to change my conclusions regarding the Transfer.

4.2.3. There has been no change to the position described in my Report<sup>3</sup> regarding the TCSCSCE surety bond written on a Freedom of Services basis in Ireland.

### 4.3. The Civil Liability Act 2018 and changes in the Ogden Discount Rate

4.3.1. On 20 December 2018, the Civil Liability Act 2018 received Royal Assent. This Act makes a number of changes to the way in which UK personal injury claims are resolved, principally:

- A fixed set of tariffs for damages will apply to certain types of small personal injury whiplash claims;
- All whiplash claim settlements require the preparation of a medical report; and
- The framework for calculation of the Ogden Discount Rate has been changed.

---

<sup>3</sup> Report – paragraphs 6.2.5 - 6.2.7.

- 4.3.2. While the outcome of these changes remains uncertain, I believe that they do not materially increase the expected level of personal injury claims costs in general. For claims awards for which the Ogden Discount Rate is used, I believe that these changes are unlikely to give rise to a higher level of settlement costs than the level resulting from the current rate of minus 0.75%.
- 4.3.3. Travelers has confirmed to me that its approach to reserving for personal injury claims remains unchanged since I prepared the Report. As such, it will continue to assume the Ogden Discount Rate to apply at minus 0.75% until its first review under the new framework is finalised.
- 4.3.4. In my Report I allowed for an additional £30 million in the reserves for large personal injury claims over and above the amount in the reserves of TICL. While uncertainty remains over the level of these costs, I think it remains appropriate to retain this additional allowance for the purposes of considering the Transfer.
- 4.3.5. In light of this approach and more recent data received relating to TICL's exposure to PPO claims, I remain satisfied that no further allowance is required in respect of PPO claims.

4.3.6. *Based on this and the analysis contained in my Report on these matters, I am satisfied that the passing into law of the Civil Liability Act 2018 does not lead me to change my conclusions.*

#### **4.4. Major natural catastrophes arising between August and October 2017 in the USA and Caribbean**

- 4.4.1. In Section 6.6 of my Report, I noted that TICL had some indirect exposures to the significant natural catastrophe losses in the USA and Caribbean in 2017. This arose from the assets that TICL had pledged at Lloyd's to support the underwriting activity of Travelers Syndicate 5000.
- 4.4.2. Since the writing of my Report, TICL has increased the value of the Funds at Lloyd's (from £27 million at year-end 2017 to £88 million at fourth quarter of 2018). This change was to enable Travelers to fully cover its syndicate's losses arising during 2017 and meet the capital required to support its underwriting at Lloyd's for the 2019 underwriting year of account. I have considered this change in my financial analysis in Section 3.4.
- 4.4.3. Based on my review of the unaudited financial statements for TCI at 30 September 2018 and recent public disclosures regarding the full-year position for 2018, I note that:
- For the Travelers Group, there had not been material adverse movements on the 2017 major catastrophe losses since year-end 2017;
  - The Travelers Group experienced various major catastrophe losses in 2018, including Californian Wildfires, Hurricane Michael, Hurricane Florence, winter storms in the Eastern USA, and severe wind and hail storms in several regions of the USA;
  - These catastrophe losses did not have any material adverse effect on the capital strength of the Travelers Group;
  - Overall, the Travelers Group experienced slightly lower catastrophe losses in 2018 (\$1.7 billion) compared to 2017 (\$1.9 billion); and
  - The Travelers Group remained highly profitable during 2018, with disclosed post-tax profits for the year of \$2.5 billion.
- 4.4.4. Travelers has confirmed to me that the major catastrophe losses arising during the fourth quarter of 2018 have not resulted in any impairment to the assets that TICL has pledged at Lloyd's to support the underwriting activity of Travelers Syndicate 5000.

4.4.5. *I have therefore satisfied myself that no change is required to my conclusions from this matter.*

#### **4.5. The Grenfell Tower fire**

4.5.1. *Travelers has confirmed that it continues to believe that it has no material claims exposure arising from the Grenfell Tower fire.*

#### **4.6. Travelers' progress with regard to its Pillar 3 obligations**

4.6.1. Travelers has confirmed to me that both TICL and TCSCCE are fully compliant with Solvency II Pillar 3 requirements. This is consistent with the disclosure documents provided to me.

#### **4.7. Taxation**

4.7.1. Travelers has confirmed to me that no material tax liabilities have been identified arising from the Transfer.

#### **4.8. Major corporate failures**

4.8.1. I have discussed with TCSCCE and TICL whether they have any material exposure to either Carillion plc, following its recent insolvency, or Interserve, in light of the ongoing discussions it is holding with its lenders to reduce the level of debt on its balance sheet. Both of these are large UK construction industry companies.

4.8.2. Given the 100% reinsurance of the surety business by TCSCA and the information supplied to me, I am satisfied that these circumstances do not affect my conclusions.

#### **4.9. Other non-financial matters**

4.9.1. Since my writing of the Report, I am not aware of any new, non-financial matters that would have a material effect on the Transfer, based on my discussions with Travelers, review of the Second Witness Statement, and consideration of the wider insurance market and the characteristics of this Transfer.

4.9.2. There were no changes to my views in any other areas mentioned in Sections 6 and 7 of my Report.

#### **4.10. Conclusions**

4.10.1. *Based on this analysis, I am satisfied that there have been no non-financial matters or other significant issues arising since my Report that have led me to amend my conclusions regarding the Transfer.*

## 5. Communications

### 5.1. Update on approach to communications

5.1.1. The Second Witness Statement (paragraph 18) states that the Court was asked to order additional dispensations from the following three requirements<sup>4</sup>, which were not described in the First Witness Statement and of which I was not aware at the time of preparing my Report:

- *Regulation 3(2)(a)(iii)*, relating to publication of notices in two national newspapers in each required EEA state other than the UK;
- *Regulation 3(2)(a)(iv)*, relating to publication of notices in one business newspaper in each required EEA state other than the UK; and
- *Regulation 3(2)(c)*, relating to notification of reinsurers (or a party authorised to act on the reinsurer's behalf) of the transferring policies.

5.1.2. Travelers has provided me with the Court's sealed directions order under which these dispensations were provided.

5.1.3. The Second Witness Statement explains (also in paragraph 18) that the dispensations were sought to "avoid a minor inadvertent failure to comply fully with the Transfer Regulations preventing the Court from having jurisdiction to sanction the Part VII Transfer". Travelers provides evidence of the steps it has taken to fully comply with these regulations in the Second Witness Statement (paragraph 14 and paragraphs 19 to 23).

5.1.4. Based on this description, I am satisfied that Travelers' approach to its notification and publicity exercise is in line with my expectations as set out in the Report. Section 5.4 describes the actual implementation and my review of it.

5.1.5. *Overall, I have concluded that there have been no changes in the approach to notification and publicity arrangements from that set out in the Report.*

### 5.2. Objections to the Transfer and other Policyholder Issues raised

5.2.1. Travelers has confirmed that as at 6 February 2019 it has not received any objections to or material comments regarding the Transfer.

### 5.3. Communication documents

5.3.1. I am satisfied that the communication documents sent to policyholders regarding the Transfer are consistent with my expectations at the time of completing my Report and that the communication material used was appropriate.

### 5.4. Implementation of publicity and notification exercise

5.4.1. This analysis has been based upon my review of the Second Witness Statement and other discussions with Travelers.

---

<sup>4</sup> As specified in the Financial and Services Markets Act 2000 (Control of Business Transfer) (Requirements on Applicants) Regulations 2001 (S.I. 2001/3625) and subsequent amendments.

- 5.4.2. Travelers' mailing exercise took place between 16 November 2018 and 15 January 2019. The Second Witness Statement confirms the details of this exercise; it also includes a statement that all documents were correctly posted and provides an analysis of the performance.
- 5.4.3. Travelers has confirmed that notices were placed in publications as planned between 10 December 2018 and 11 January 2019. In my view the publishing of notices in the national newspapers (being two in each EEA state) listed in the Second Witness Statement is appropriate to meet the requirements of *Regulation 3(2)(a)(iii)* of the Transfer Regulations and the use of the Financial Times UK Edition and International Edition enables Travelers to comply with *Regulation 3(2)(a)(iv)* of the Transfer Regulations. I am satisfied that the Financial Times UK and International Editions together satisfy the criteria of being business newspapers and being published or circulated in each EEA state in which Travelers has told me that TCSCE has reinsured policyholders.
- 5.4.4. While I have not carried out a detailed audit of the communications exercise, I have carried out the following review to satisfy myself that the exercise was carried out as described in the First Witness Statement:
- I compared the list of policyholders notified with other policyholder information that I had received from Travelers, and highlighted any apparent inconsistencies. Where appropriate, Travelers sent notifications to additional policyholders. All my queries have been resolved to my satisfaction.
  - I was supplied with copies of Travelers' internal correspondence regarding the notification of reinsurers, and am satisfied that a reasonable process was followed to identify them.
  - I reviewed the summary of publications that was prepared by Courts Advertising, the agent which helped Travelers with the publicity exercise, on 17 January 2019. This summary sets out the policyholder notices that were placed in various UK and international newspapers and websites. I compared the list of publications with those summarised in Section 12.9 of the Report and those listed in the draft Second Witness Statement. I am satisfied that these lists are consistent.
- 5.4.5. Travelers has informed me that there were 13 notifications to individual policyholders (consisting of one Gulf claimant and 12 Surety policyholders), 13 notifications to reinsurers and 2 newspaper publications that were made around four to five weeks before the Sanction Hearing. This is less than the 6 to 8 weeks that the FCA typically expects as mentioned in its guidance<sup>5</sup>. Of the 12 Surety policyholders, only one holds a live bond. The other 11 hold bonds that expired at least 9 years ago and were only notified as a precaution because of the 12-year limitation period applicable to them.
- 5.4.6. I am satisfied that 4 to 5 weeks will have provided these policyholders and reinsurers with sufficient time before the Sanction Hearing to consider the Transfer for the reasons below:
- These policyholders and reinsurers are all corporate entities and not retail consumers. In my view corporate policyholders are familiar with legal processes and able to access suitable professional advice within this timeframe.
  - In my view, the Transfer is relatively simple, owing to the following features:

---

<sup>5</sup> "FG18/04: The FCA's approach to the review of Part VII insurance business transfers", paragraph 7.38.

- It is an intra-group transfer, with all Affected Policyholders remaining within the Travelers Group.
- Both TICL and TCSCE are UK-domiciled and regulated insurers, so there is no change to the regulatory supervision arrangements for policyholders.
- There is no proposed change to the policy terms, the claims handling personnel or to other policyholder interactions with Travelers.
- I have concluded that Affected Policyholders will not be materially adversely affected by the Transfer, especially since the transferring business is 100% reinsured, as mentioned in 3.2.3.
- Travelers placed the required notices in publications in each EEA state at least 8 weeks before the Sanction Hearing date. I expect this to have gone a considerable way in raising awareness of policyholders, reinsurers and their representatives and therefore provide some mitigation of the risk of policyholders having insufficient time to consider and respond to the Transfer as a result of the later notifications.

5.4.7. In addition to the reasons set out in 5.4.6, I am satisfied that the publication of 2 notices less than 6 weeks before the Sanction Hearing, namely those in “Building Magazine” and “Construction News” in the UK, will not adversely affect the notification rights of policyholders or reinsurers for the following reasons:

- These notices were in addition to the normal publicity requirements.
- Notices in the other UK national newspapers (Daily Mail and the Guardian) and the Gazette were all published at least 8 weeks before the Sanction Hearing.
- A notice in the Financial Times (UK Edition and International Edition) was published at least 8 weeks before the Sanction Hearing.
- The Notice in Insurance Day, a specialist insurance industry publication, was published at least 8 weeks before the Sanction Hearing.

5.4.8. As at 6 February 2019, Travelers has confirmed that only two policyholder letters were returned. These had both been sent in respect of the same policyholder. This policyholder’s claim was settled in 2004 but the file has remained open owing to the possibility of a dispute with the policyholder’s lawyer regarding fees. One of the returned items of mail confirmed that the policyholder had been dissolved. Accordingly I do not believe that the return of these policyholder letters has led to any disadvantage to them.

5.4.9. *Based on this analysis, I am satisfied that Travelers carried out its policyholder notification and publicity exercises appropriately and in line with my expectations as set out in the Report.*

## C. Appendices

### Appendix 1. List of additional data items received for the Supplemental Report

In writing this Supplemental Report, I relied upon the accuracy of certain documents and information provided by Travelers. The items that were used to prepare this Supplemental Report included but were not limited to the following:

#### Balance Sheet and Reserving

- Unaudited UK GAAP financial statements for TICL and TCSCE as at 30 June 2018 and 30 September 2018.
- Quantitative information for TICL and TCSCE as at 30 June 2018, and for TICL as at 30 September 2018, as submitted to the PRA as part of the Regular Supervisory Report.
- Pro forma balance sheets on a Solvency II basis for post-Transfer entities on 30 June 2018.
- TICL's Internal reserve reports as at 31 March 2018, 30 June 2018 and 30 September 2018.
- Information related to reserve estimates for TCSCE as at 30 September 2018, for the Surety portfolio and Gulf portfolio respectively.
- Spreadsheet setting out TCSCE surety bond portfolio live exposures as at 28 November 2018.
- Information regarding Funds at Lloyd's for TICL, and capital injection from TCI into TICL in the fourth quarter of 2018.
- Information on indicative movements in TICL's reserves in the fourth quarter of 2018.

#### Business plan, Risk and Capital

- TICL's business plan for 2019.
- Confirmation related to dividend plans for TICL.
- TICL's Own Risk and Solvency Assessment (ORSA) report, dated December 2018.
- TICL reinsurance schematic, which summarises the reinsurance arrangements with effect from 1 May 2018.
- Presentation to TICL Board on indicative SF SCR change at Q2 2018, dated 18 September 2018.
- Standard Formula calculation for TICL pre-Transfer as at 31 December 2018, revised to allow for additional property catastrophe reinsurance cover.

#### Policyholder Communications

- Confirmation that no objections have been raised, at the time of finalisation of this Supplemental Report.
- List of notified TCSCE policyholders and reinsurers.
- Summary statistics of notification exercise carried out at various dates, including confirmation of no bounce-backs or returned notifications.

- List of publications and confirmed publication dates for the publicity exercises, dated 17 January 2019.

#### Scheme-related documents

- Final draft Second Witness Statement related to the Transfer.

#### Other non-financial

- Independent expert report related to TICL's Brexit-related Part VII transfer.

Other information has been gathered from email correspondence and meetings with staff and representatives of TICL and TCSC, as well as public sources including company accounts from the UK Companies House, Form 10-Q returns from the U.S. Securities and Exchange Commission, and public domain rating agency reports from A.M. Best and S&P.

## Appendix 2. Balance sheet updates – TICL and TCSC

### Appendix 2.1 – TICL

The table below gives the updated balance sheet for TICL, as at 30 September 2018. For ease of comparison the figures as at 31 December 2017 (Report Tables 9.1 and 9.2) are repeated here.

<b>Consolidated Summary Accounting Information – £m</b>				
<b>TICL – Solvency II &amp; GAAP basis – as at 30.09.2018 and 31.12.2017</b>				
<b>ASSETS</b>	<b>GAAP</b>		<b>SII</b>	
	<b>30.09.2018</b>	<b>31.12.2017</b>	<b>30.09.2018</b>	<b>31.12.2017</b>
<b>Investments &amp; Cash in hand</b>	1,077.1	1,085.5	1,088.1	1,098.3
<b>Reinsurers' share of technical provisions</b>	77.0	61.1	49.9	43.9
<b>Debtors &amp; prepayments</b>	65.2	88.8	16.3	25.9
<b>Other assets</b>	24.9	21.5	26.3	23.0
	<b>1,244.2</b>	<b>1,256.8</b>	<b>1,180.6</b>	<b>1,191.1</b>
<b>LIABILITIES</b>				
<b>Capital &amp; reserves</b>	<b>431.9</b>	<b>445.4</b>	<b>423.9</b>	<b>436.8</b>
<b>Technical provisions</b>	781.4	775.0	745.9	738.5
<b>Creditors</b>	14.8	10.2	1.8	0.0
<b>Other liabilities</b>	16.0	26.2	8.9	15.8
	<b>1,244.2</b>	<b>1,256.8</b>	<b>1,180.6</b>	<b>1,191.1</b>

## Appendix 2.2 – TCSCE

The table below gives the updated balance sheet for TCSCE, as at 30 September 2018. For ease of comparison the figures as at 31 December 2017 (Report Tables 9.1 and 9.2) are repeated here. Note that TCSCE has a waiver from the PRA to submit returns on a Solvency II basis as at 30 September 2018.

<b>Consolidated Summary Accounting Information – £m</b>		
<b>TCSCE – GAAP basis – as at 30.09.2018 and 31.12.2017</b>		
<b>ASSETS</b>	<b>GAAP</b>	
	<b>30.09.2018<sup>6</sup></b>	<b>31.12.2017<sup>7</sup></b>
<b>Investments &amp; Cash in hand</b>	15.2	15.6
<b>Reinsurers' share of technical provisions</b>	48.0	84.3
<b>Debtors &amp; prepayments</b>	5.7	1.4
<b>Other assets</b>	0.1	0.0
	<b>69.0</b>	<b>101.3</b>
<b>LIABILITIES</b>		
<b>Capital &amp; reserves</b>	<b>15.4</b>	<b>15.1</b>
<b>Technical provisions</b>	48.0	84.3
<b>Creditors</b>	1.0	1.1
<b>Other liabilities</b>	4.5	0.8
	<b>69.0</b>	<b>101.3</b>

<sup>6</sup> 30.09.2018 figures are converted at GBP:USD exchange rate of £1 = \$1.30

<sup>7</sup> 31.12.2017 figures are converted at GBP:USD exchange rate of £1 = \$1.35

### Appendix 3. Indicative *as-if* update to TICL's Capital ratio % and Surplus Own Funds

The table below provides an indicative *as-if* update to TICL's SCR, SII Own Funds and Capital ratio %, pre- and post-Transfer, since year-end 2017.

Note that the table only allows for trading performance during the first half of 2018. At the time of preparing this Supplemental Report, results for the second half of 2018 had not yet been finalised. I have been told by TICL that they are expected to be favourable and therefore believe that this *as-if* position is appropriate for reaching my conclusions regarding the position at the Transfer Date. The figures make some simplifying assumptions for second-order effects of adjustments to the SCR. I am satisfied that they do not materially change the picture.

Indicative movements in TICL's SCR, SII Own Funds, Capital ratio % and Surplus Own Funds								
Post Year-end 2017 Movements – £m								
	Year-end 2017				Update post year-end 2017			
	A	B	C=B-A	D=B/A	A'	B'	C'=B'-A'	D'=B'/A'
	SCR	SII Own Funds	Surplus	Capital ratio %	SCR	SII Own Funds	Surplus	Capital ratio %
<b>1. Pre-Transfer TICL, starting position (year-end 2017)</b>	<b>310</b>	<b>437<sup>8</sup></b>	<b>127</b>	<b>141%</b>				
(A) Trading performance Q1–Q3 2018					-	(13)		
(B) Reduced property catastrophe reinsurance retention					(45)	- <sup>9</sup>		
<b>2. Pre-Transfer TICL, starting position (updated<sup>10</sup>)</b>					<b>265</b>	<b>424<sup>11</sup></b>	<b>159</b>	<b>160%</b>
(C) Capital injection from TCI					-	29		
(D) 25% haircut on Funds at Lloyd's	-	(7)			-	(22) <sup>12</sup>		
(E) Additional Ogden allowance	8	(30)			8	(30)		
(F) TCSCE transfer	3	-			3	-		
<b>3. Post-Transfer TICL, with adjustments</b>	<b>321</b>	<b>400</b>	<b>79</b>	<b>125%<sup>13</sup></b>	<b>276</b>	<b>404</b>	<b>128</b>	<b>146%</b>

<sup>8</sup> Report Table 9.2. This includes 100% of the value of the remaining assets pledged to Lloyd's at that date (£27 million).

<sup>9</sup> The additional outward reinsurance premium and reinsurance recoverables resulting from the reduced retention are included in the post-2017 performance.

<sup>10</sup> This shows the indicative *as-if* SCR position on 30 September 2018.

<sup>11</sup> This includes 100% of the value of the remaining assets pledged to Lloyd's at year-end 2018 (£88 million), as described in paragraph 3.4.7.

<sup>12</sup> The 25% haircut has increased owing to post-2017 increase in TICL's Funds at Lloyd's – see paragraph 3.4.6. The rationale for this 25% haircut is given in paragraph 7.2.7 of my Report.

<sup>13</sup> Report Tables 10.2 and 10.3.