

SUMMARY OF SCHEME AND INDEPENDENT EXPERT'S REPORT

Proposed transfer of insurance business portfolio of Travelers Casualty and Surety Company of Europe Limited to Travelers Insurance Company Limited

1 Overview

- 1.1 Travelers Casualty and Surety Company of Europe Limited (**TCSC**) is an insurance company incorporated in England and Wales. TCSC was incorporated on 13 April 1992 under the name Law 421 Limited and changed its name to its current name on 27 April 2007. TCSC is authorised by the Prudential Regulation Authority (**PRA**) to effect and carry out contracts of non-life insurance in the UK and regulated by the PRA and the Financial Conduct Authority (the **FCA**) in its conduct of such business. TCSC's business consists of effecting and carrying out contracts of long-term, general non-life insurance or reinsurance business for both commercial and retail customers.
- 1.2 Travelers Insurance Company Limited (**TICL**) is also an insurance company incorporated in England and Wales, and is part of the same corporate group as TCSC (as detailed in paragraph 1.3 below). TICL was incorporated on 10 December 1971 under the name St. Katherine Insurance Company Limited and changed its name to its current name on 1 February 2008. TICL is authorised by the PRA to effect and carry out contracts of non-life insurance in the UK and is regulated by the PRA and the FCA in its conduct of such business.
- 1.3 TCSC and TICL are both subsidiaries of The Travelers Companies, Inc (the **Group Parent**), a company incorporated in Minnesota and is the ultimate parent of each of TICL and TCSC. TCSC's immediate parent is The Travelers Indemnity Company (a Connecticut-incorporated company) which holds one hundred per cent. (100%) of the issued share capital in TCSC. The Travelers Indemnity Company is in turn a wholly-owned subsidiary of Travelers Insurance Group Holdings, Inc which is in turn a wholly-owned subsidiary of Travelers Property Casualty Corp. (each a United States of America-incorporated company). Travelers Property Casualty Corp. and TICL are each a wholly-owned subsidiaries of the Group Parent.
- 1.4 In connection with an internal restructuring of the Travelers group of companies in the UK, the parties wish to transfer from TCSC to TICL the entirety of the TCSC portfolio of insurance business, comprising:
- (a) a legacy book of London market specialty business that was placed into run-off in October 2002 (the **Run-off Book**); and
 - (b) an unexpired book of surety business primarily consisting of large UK construction contractors (the **Surety Book**),
- together, the **Transferring Business**.
- 1.5 TCSC's liability in respect of the Run-off Book is one hundred per cent. (100%) reinsured to The Travelers Indemnity Company, and its liability in respect of the Surety Book is one hundred per cent. (100%) reinsured to Travelers Casualty and Surety Company of America, in each case net of policy-specific outwards reinsurances (the **Intragroup Reinsurances** and **Outwards Reinsurances**, respectively). Each of The Travelers Indemnity Company and Travelers Casualty and Surety Company of America are wholly-owned members of the Travelers group of companies.
- 1.6 TICL also benefits from a long-standing intragroup guarantee provided by St Paul Fire & Marine Insurance Company (**SPFMIC**) (a wholly-owned subsidiary of the Group Parent) (the **Guarantee**). Once the proposed transfer is completed both the Run-off Book and the Surety Book will automatically benefit from the Guarantee as it applies to all business of TICL.
- 1.7 It is proposed that the Transferring Business (including the Intragroup Reinsurances and Outwards Reinsurances) will be transferred to TICL (the **Proposal**) under a scheme pursuant to

an insurance business transfer undertaken in accordance with Part VII of the Financial Services and Markets Act 2000 (the **FSMA**).

- 1.8 Under the terms of the Proposal, all of the insurance policies forming the Transferring Business will be transferred to TICL. However, the terms of those policies will not otherwise be affected as a result of the transfer. Consequently, policyholders do not need to take any action in relation to their policies or any claims they may have made or may make in the future under such policies. Communications to surety clients will include a request that they pass on the notification to all persons to whom they have given the benefit of the bond.
- 1.9 Following the transfer of the Transferring Business to TICL, TCSC will not carry on any further insurance business and proposes to submit a cancellation application in order to have its Part 4A permission cancelled. At some point in the following twelve months, the Travelers group of companies anticipates making an application to the Court for the liquidation (through a solvent Members Voluntary Liquidation) of TCSC.

2 Process

- 2.1 The Proposal will be effected under the provisions contained in Part VII of the FSMA. These provisions permit a business carried on by an insurance company in the UK to be transferred to another insurance company. The details of such a transfer must be set out in a scheme (the **Scheme**), which can only become effective with the sanction of the High Court of Justice in England and Wales (the **Court**).
- 2.2 TCSC and TICL made an application to the Court in respect of the Proposal by a Part 8 Claim Form issued on 23 October 2018. The Court hearing is expected to take place on 18 February 2019. The application to the Court was accompanied by a report on the terms of the Scheme in a form approved by the PRA (following consultation with the FCA), and made by a person appearing to the PRA to have the skills necessary to make a proper report (the **Independent Expert's Report**) and approved by the PRA (following consultation with the FCA) to do so. A summary of the Independent Expert's Report appears in section 4 of this document.
- 2.3 Any person (including an employee of TCSC or TICL) who objects to the Scheme or considers that he or she would be adversely affected by the carrying out of the Scheme is entitled to be heard by the Court at the Court hearing, as are the PRA and the FCA, or make written representations setting out their objections or concerns to the Court prior to the hearing which will be considered at the hearing. Any person who wishes to object to the application by appearing in person at the Court hearing or who wishes to make such written representations is requested to notify his or her objections, including the reasons for his or her objections to the Scheme or concern that he or she will be adversely affected by the Scheme as soon as possible, and, where possible, by no later than 7 days prior to the hearing, at Norton Rose Fulbright, 3 More London Riverside, London SE1 2AQ, solicitors for TCSC and TICL, quoting the reference RAXH/1000041068.
- 2.4 Subject to the granting of an order of the Court sanctioning the Scheme, the Scheme is expected to become effective at 23.59pm (London time) on 28 February 2019 (the **Effective Date**).

3 Summary of the Scheme

3.1 Transfer of the Transferring Business

Under the Scheme, the entirety of TCSC's insurance business (comprising the Run-off Book and the Surety Book) shall transfer to TICL. From the Effective Date, TICL will become the insurer of the insurance policies that constitute the Run-off Book and the Surety Book in place of TCSC and will be wholly responsible for all obligations under such policies. The Intragroup Reinsurances along with the Outwards Reinsurances will likewise be transferred on the Effective Date so that TICL will become the reinsured in the place of TCSC.

All policies transferring as part of the Transferring Business will automatically benefit from the Guarantee (as it applies to all business of TICL) on the Effective Date.

3.2 **Litigation**

Other than claims-related litigation in the ordinary course of business, TCSC is not party to any litigation in respect of the Transferring Business. However, the Scheme provides for the continuation by or against TICL of any legal proceedings commenced prior to the Effective Date by or against TCSC that relate to TCSC's rights and obligations in respect of the Transferring Business.

4 **Summary of the Independent Expert's Report**

4.1 **About the Independent Expert**

Alex Marcuson, of Marcuson Consulting Ltd and a Fellow of the Institute and Faculty of Actuaries, has been appointed as an independent expert (the **Independent Expert**) to provide the Independent Expert's Report on the effects of the Scheme on the policyholders of TCSC and TICL. As mentioned at paragraph 2.2 above, Mr Marcuson's appointment has been approved by the PRA.

4.2 **About the Independent Expert's Report**

Part VII of the FSMA requires that, in transfers such as that proposed by the Scheme, an Independent Expert provides a report so that the Court may properly assess the potential impact of the Scheme on all affected policyholders, including the security of their policies and the levels of service that policyholders could expect to receive after the transfer.

This section 4 of this document provides a summary of the Independent Expert's Report prepared by the Independent Expert to meet the above requirements.

This summary is subject to the same limitations on its use as those set out in the Independent Expert's Report. The Independent Expert's Report contains the reasoning behind the Independent Expert's conclusions, some of the detail of which has been omitted from this summary. The Independent Expert's Report also includes further information regarding TCSC and TICL which has not been included within this summary. While the Independent Expert is satisfied that this summary provides an appropriate synopsis of the Independent Expert's Report, reliance on this summary alone could be misleading. How to obtain copies of the Independent Expert's Report and any subsequent update is set out in section 5 of this document.

4.3 **Purpose of the Scheme**

The primary purpose of the Scheme is to rationalise TCSC and TICL into a single insurance company, in order to achieve operational efficiency through lower running costs and reduced management time. It is also intended that the Scheme will enable excess assets held in TCSC to be released to the Travelers group or used to support the future underwriting activity of TICL.

4.4 **Who will be affected by the Scheme?**

The following policyholder groups might be affected by the proposed Scheme:

- (a) the current policyholders of TCSC, who are policyholders of policies of the Run-off Book which are to be transferred to TICL;
- (b) the current policyholders of TCSC, who are policyholders of surety bonds issued as part of the Surety Book which are to be transferred to TICL;

- (c) any known beneficiaries of surety bonds issued as part of the Surety Book which are to be transferred to TICL; and
 - (d) the current policyholders of TICL,
- (a) and (b) together being the **Transferring Policyholders**.

There are expected to be no remaining policyholders of TCSC following the Effective Date of the Scheme. The Independent Expert considers that policyholders of no other insurance companies would be affected by the proposed Scheme.

The Independent Expert has concluded that the Scheme does not impact to any materially adverse extent the security of those policyholders whom he has identified as possibly being affected by the Scheme. He believe that no other policyholders will be affected by the Scheme.

4.5 **Is there an impact on security of the Transferring Policyholders?**

The Independent Expert has analysed the financial position of both TCSC and TICL relative to their respective capital requirements, using various measures of those requirements, and in particular by reference to the Standard Formula SCR calculations and has concluded that prior to the transfer TCSC is strongly-capitalised and TICL is adequately-capitalised. He has concluded that post-transfer Transferring Policyholders will not be prejudiced by moving from a strongly-capitalised company to an adequately-capitalised company and will be protected by the security available from TICL, namely that TICL is a much larger diversified insurer than TCSC, which benefits from the Guarantee provided by SPFMIC (another very large insurer within the Travelers group).

The Independent Expert has concluded that the Scheme will not introduce a material change to the financial security provided to the Transferring Policyholders or the beneficiaries under their policies.

4.6 **Is there an impact on security of the current policyholders of TICL?**

The Independent Expert has expressed that there will be a small increase in risk to the existing policyholders of TICL, due to the credit risk exposure of TICL to The Travelers Indemnity Company (**TIC**) and Travelers Casualty and Surety Company of America (**TCSCA**) (the 100% reinsurers of the underwriting of TCSC) under the intragroup reinsurance. The Independent Expert has concluded that this does not materially affect the existing policyholders of TICL as: i) both TIC and TCSCA are large, highly-rated insurance companies and core operating companies within the Travelers group; ii) the surety underwriting portfolio is being renewed into TICL from the beginning of 2016; and iii) TICL will be adequately capitalised post-transfer.

The Independent Expert has concluded that the Scheme will not introduce a material change to the financial security of the current policyholders of TICL.

4.7 **Will there be an impact on the benefit conferred to the Transferring Policyholders by the financial rating of their insurer following the transfer?**

TCSC and TICL both have ratings from two of the large global ratings agencies, Standard & Poors and A.M. Best. They both have a rating of AA from Standard & Poors, while A.M. Best has given TCSC a rating of A++ but TICL a rating of A. This would mean that the Transferring Policyholders will have a reduction in the security rating of their insurer following the transfer, using the rating issued by A.M. Best.

The Independent Expert has concluded that he does not believe that this change materially adversely affects the Transferring Policyholders as he considers:

- (a) there to be a sufficiently low likelihood of claims under these policies not being paid as they fall due; and

- (b) that the ratings for both companies are ultimately dependent upon the wider Travelers group of companies, and in particular those that reinsure the Transferring Business by way of the Intragroup Reinsurances and SPFMIC which provides the Guarantee to TICL. All of these companies (TIC, TCSCA and SPFMIC) have received identical ratings of AA from Standard & Poors and A++ from A.M. Best.

The Independent Expert has concluded that the differences in ratings between TCSC and TICL does not give rise to a material adverse change to the Transferring Policyholders.

4.8 Surety Book – Is there any impact on the insurer protection and indemnity arrangements?

The products issued under the Surety Book are surety bonds, a form of financial guarantee insurance contract which are similar to letters of credit issued by banks. In surety business, the insurer's client requests the surety underwriter to issue a bond as a form of financial security to a counterparty for the performance of a particular obligation. The majority of surety bonds issued by TCSC are for major construction companies. The bonds pay out to the counterparty in the event that the construction company is shown to have failed to have completed the works to the agreed specification.

For the construction industry bonds, TCSC is protected from actual claim payment by way of an indemnity in favour of TCSC provided by the holder of the bonds in respect of all losses paid out. This means that any claims paid to a counterparty by TCSC are fully recoverable from the bond holder (or its ultimate holding company). The indemnities provided under the surety bonds in the Surety Book are provided by the bond holders for the benefit of all companies in the Travelers group.

The Independent Expert has concluded that the Scheme will not have any impact on the indemnities, and where it proves necessary, TICL would be able to seek recovery from bond holders in the same manner as TCSC currently can.

4.9 Will the Scheme affect levels of service?

There will be no change to the administration of claims and policies as a result of the proposed Scheme and it is expected that the current service standards will be maintained following the implementation of the Scheme.

4.10 Will the Scheme affect access to policyholder protection schemes and ombudsman schemes?

The UK's Financial Services Compensation Scheme (**FSCS**) is a policyholder protection scheme intended to pay the claims of eligible claimants in the event of an insolvency of their insurer. The UK's Financial Ombudsman Service (**FOS**) is a free, independent service for resolving disputes for policyholders. Both the FSCS and the FOS have eligibility criteria which limit access to individuals or small firms (who are below defined turnover and, in the case of the FOS, employee number thresholds).

The Independent Expert has concluded that the Transferring Policyholders and the current policyholders of TICL will continue to be provided with the same protection from the FSCS and the FOS following the Scheme as they are prior to the Scheme. This is because both TCSC and TICL are UK-domiciled and regulated insurers and:

- (a) there are no changes in place for current policyholders of TICL as they are remaining with the same insurer; and
- (b) the Transferring Policyholders are unlikely to be eligible for protection from either the FSCS or the FOS as they are not individuals or small firms.

4.11 **Are the policyholder notification and publicity arrangements appropriate?**

The Independent Expert has reviewed the notification and publicity arrangements and concluded that the approach being proposed with regards to notifying policyholders, including the dispensations being sought from the Court and additional publicity arrangements beyond the strict legal requirements, is appropriate.

4.12 **Conclusion**

In carrying out his review and producing the Independent Expert's Report, the Independent Expert has relied, without detailed verification, upon the accuracy and completeness of the data and information provided to him by representatives of TCSC and TICL (including, without limitation, spreadsheet models, internal and externally prepared reports and matters described in meetings) and publically available data and information. His conclusions depend on the substantial accuracy of this data, information and the underlying calculations. At the time of preparing the Independent Expert's Report, the Independent Expert was unaware of any issue that might cause him to doubt the accuracy of the data and other information provided to him by TCSC and TICL. He has confirmed that all information that he has requested in relation to his review has been provided. As far as he is aware, there are no matters which he has not taken into account in undertaking his assessment of the Scheme and in preparing the Independent Expert's Report, but which nonetheless should be drawn to the attention of policyholders in their consideration of the Scheme.

In the opinion of the Independent Expert, provided the proposed Scheme operates as intended, and he has no grounds for believing it will not do so:

- the security of benefits of the Transferring Policyholders and existing policyholders of TICL will not be materially adversely affected by the implementation of the Scheme on the Effective Date; and
- the Scheme will not have an impact on service standards (operated in accordance with "Treating Customers Fairly" criteria) experienced by the Transferring Policyholders and the existing policyholders of TICL.

4.13 **Update Report**

The Independent Expert's analysis has been based upon the material supplied to him, included balance sheets and other information, based on accounting positions as at 31 December 2017.

Since the Effective Date is 28 February 2019, he will revisit the analysis closer to the time to confirm that there have been no material changes to the information that he has reviewed that would affect his overall opinion. He will then prepare and issue an update report to be made available to the Court prior to the final Court hearing.

5 Copies of documents relating to the Proposal

Copies of the Independent Expert's Report and of this document are available at www.travelers.co.uk, and will be provided free of charge on request sent by electronic mail to JABRAMSO@travelers.com, by written request addressed to The Company Secretary at Travelers, One Creechurch Place, London EC3A 5AF or by telephoning +44 (0)20 3207 6000 and leaving a message containing the caller's name and address.