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Supplementary Report on the transfer of business from Excess Insurance Company Limited, Hartford Fire Insurance Company UK Branch and Aviva Insurance Limited to Hartford Financial Products International Limited

Introduction

1. Section 109 of the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012 (together the 'FSMA') requires that a scheme report must accompany any application to the Court to approve an insurance business transfer scheme.

2. My report (the 'Transfer Report') on the Transfer entitled 'Independent Expert Report - Transfer of business from Excess Insurance Company Limited, Hartford Fire Insurance Company UK Branch and Aviva Insurance Limited to Hartford Financial Products International Limited' has been submitted in evidence to the Court. The final version of the Transfer Report dated 29 June 2015 was submitted to the Court.

3. The purpose of this document (the 'Supplementary Report') is to document for the Court any developments since the date of the Transfer Report and outline the additional information I have considered to be able to do this. In particular, I have considered whether any of the developments since the Transfer Report have been sufficiently different from my expectations for my conclusions as presented in the Transfer Report to change.

4. The Supplementary Report must be read in conjunction with the Transfer Report in order to be taken in its proper context. It represents an addition to the Transfer Report and does not contain the full background to the Transfer as contained within that document. Therefore considering the Supplementary Report in isolation may be misleading. All terms used in the Supplementary Report are as defined in the Transfer Report.

5. I note in particular the reliance and limitations described in Section 1 and Section 5 of the Transfer Report, as these apply equally to the Supplementary Report. In particular, the parties that may have access to this Supplementary Report and those who may place reliance on the Supplementary Report, and the extent to which they may do so, are identical to those described in the Transfer Report.

Updated information considered

6. I have based my findings in this Supplementary Report on the following information supplied by The Hartford, together with the information used in preparing the Transfer Report:

   - Unaudited financial statements for EICL, Hart Re, L&E and HFPI as at 30 June 2015 (the financial statements set out in the Transfer Report were based on data as at 31 December 2014).

   - Paid claim and incurred claim data for EICL, Hart Re, L&E and HFPI, showing claim movements between 31 December 2014 and 30 June 2015.

   - Documentation from The Hartford setting out updated claims reserving studies for EICL and L&E (which are based on data as at 31 December 2014).

- Documentation from the Hartford setting out the updates to the Hartford Capital Model and the SCR calculation for HFPI post-Transfer (both based on data as at 31 December 2014).

- A clearance letter from HMRC agreeing treatment of tax for the Transfer.

- The proposed final wording for the ADC Reinsurance contract (updated since the version I commented on in the Transfer Report).

7. My assessment of the information received has been supplemented by discussions with staff from The Hartford and their advisors.

8. The table below shows a summary of the information reviewed as part of the Transfer Report and that used as part of the Supplementary Report.

Data item / modelling area	Used for Transfer Report	Used for Supplementary Report
Balance sheets for EICL, Hart Re, L&E and HFPI	In the Transfer Report I set out the audited balance sheets based on data as at 31 December 2014.	In the Supplementary Report I show the latest available financial statements. These are unaudited, and based on data as at 30 June 2015.
Claims reserving studies used as part of my review	I used the latest available reserving studies available at the time of writing the Transfer Report. These were based on data as at 31 December 2013, but adjusted for various reserving studies performed in 2014.	I am using all of the latest available reserving studies carried out by The Hartford. This includes two updated claims reserving studies for the US Asbestos and US Pollution liabilities of EICL and L&E, which are based on data as at 31 December 2014.
Capital modelling work and SCR calculation for HFPI post-Transfer	The Hartford Capital Model and the SCR calculation for HFPI was based on data as 31 December 2013, but incorporated the findings of the reserving studies carried out in 2014.	The updated Hartford Capital Model and the SCR calculation for HFPI is based on data as at 31 December 2014 and incorporates the updated reserving studies for the US Asbestos and US Pollution liabilities of EICL and L&E.

Developments since the issue of the Transfer Report

9. The analysis presented in the Transfer Report was based on various data as at 31 December 2013 and 31 December 2014. Subsequent to this analysis, The Hartford have carried out further claims reserving work for two specific parts of the liabilities (EICL’s and L&E’s US Asbestos and US Pollution liabilities). In this section I describe the main changes from the schedules presented in the Transfer Report to the updated information provided to me as at 30 June 2015. The main changes are set out below.

Changes to balance sheets

10. There have been changes in financial amounts due to changes in exchange rates.

11. The Hartford have carried out updated claims reserving work for EICL's and L&E's US Asbestos and US Pollution liabilities. This resulted in a total deterioration in claims reserve of £7.9 million net of reinsurance (a deterioration of £9.2 million for EICL offset by an improvement of £1.3 million for L&E). There have been no other parts of the portfolio where deteriorations or improvements have been booked.

    Claims reserves have reduced between 31 December 2014 and 30 June 2015 as claims have settled and paid.

Changes to the capital injection from Hartford Fire to HFPI

12. As part of the Transfer Hartford Fire will provide a capital injection to HFPI in order that HFPI has capital up to the level of the required capital amount under Solvency II. This capital injection is described in paragraph 2.44 of the Transfer Report. Since the date of the Transfer Report the total level of this injection has increased from £134 million to £148 million. The reasons for this increase are:

    - The Hartford have recalculated the SCR for HFPI based on data as at 31 December 2014, and also the premium required for the placement of the ADC Reinsurance contract. There has also been a deterioration in the level of the claims reserves. In total this has increased the level of the required capital injection by £9.5 million.

    - Since the date of the Transfer Report there has been a small reduction in the amount of assets transferring from EICL and Hart Re. This is so that those two entities are able to meet their minimum capital requirements. They would need to meet those requirements until their insurance licences are removed. This will not happen on the Transfer Date, but it is expected that they will be removed soon afterwards. As a result of this, £3 million of capital will be retained in EICL and £1.5 million of capital will be retained in Hart Re. Note that the capital injection into HFPI has been increased accordingly by £4.5 million, so that this change has no effect on the post-Transfer capital of HFPI or on the security of the policyholders.

13. I also note that £10 million of the intended capital injection was paid to HFPI in March 2015, and so on the Transfer Date the remaining payment of £138 million will be made.

Calculation of the level of the required capital injection into HFPI

14. At the time of drafting this Supplementary Report there is one remaining aspect of the HFPI Solvency II calculations which has not yet been agreed with the PRA. This relates to a volatility adjustment (the 'VA') to the available capital of HFPI under Solvency II. By including the VA in the calculation, the available capital of HFPI is increased by £9 million. The VA will need to be approved by the PRA, although my current understanding is that a decision on approval or rejection of the VA will not be made until after the Transfer Date.

15. The Hartford have calculated the level of the required capital injection to HFPI on the basis that the VA will be approved. Therefore, with a total capital injection of £148 million (equivalent to a payment of £138 million on the Transfer Date if we allow for the £10 million already paid), HFPI would meet the Solvency II capital requirement after the Transfer, assuming that the VA is approved by the PRA. In my

work I have assumed that the VA will be made, and I have formed my conclusion on the Transfer on that basis.

16. If the application to make the VA is not approved by the PRA then the level of capital in HFPI would be £9 million less than the required amount under Solvency II (based on calculations as at 31 December 2014). However, to allow for this possibility The Hartford will issue a promissory note to the value of £9 million. The note would be triggered, and paid in cash on 1 January 2016 if HFPI does not meet the Solvency II requirement on that date. This would bring the total cash injection from The Hartford to HFPI up to £157 million (including the £10 million previously contributed in March 2015). The note will expire on 1 January 2016. The note would be provided by HFPI's parent, Nutmeg Insurance Company.

17. I have considered this amendment to the arrangements, and it does not affect my conclusion on the Transfer. My reasons are as follows:

- The acceptance or rejection of the VA application is a matter for the PRA. However, based on my interpretation of the regulations I believe that HFPI have good grounds for making the VA.

- The promissory note is a mechanism to increase the capital in HFPI after the Transfer so that HFPI would continue to meet the Solvency II capital requirement even if the VA application were rejected (based on the calculations performed on data as at 31 December 2014). Nutmeg Insurance Company has a significant amount of available capital to meet that obligation, should the note be triggered.

- The Standard Formula approach used by The Hartford to calculate the Solvency II requirement has some simplifications which do not take into account all types of risk mitigation available to HFPI. I discuss this in more detail in paragraph 4.68 of the Transfer Report. In particular, the basis of the Standard Formula does not give any credit for the ADC Reinsurance that will be in place for HFPI post-transfer. If HFPI were to develop a Partial Internal Model which allows for the specifics of the operation of the ADC Reinsurance then this would reduce the Solvency II requirement substantially, possibly by as much as 50%. Once implemented and approved, HFPI would hold capital well in excess of the Solvency II capital requirement.

- The calculation of the SCR for HFPI has so far only been made on data as at 31 December 2014, whereas Solvency II will be implemented from 1 January 2016. In the period between 31 December 2014 and 1 January 2016 the claims reserves of HFPI will have reduced as claims are paid and settled: this will reduce the SCR amount. The Hartford's own projections for the future balance sheets of HFPI show that HFPI would meet the Solvency II requirement at 1 January 2016 regardless of whether an additional £9 million of capital is injected.

18. The following sections show comparisons of the balance sheets for each entity as at 31 December 2014 (as shown in the Transfer Report) and 30 June 2015.

Balance sheet changes to EICL

Table 1: Movement in balance sheet of EICL from 31 December 2014 to 30 June 2015 (figures in UK £ million)

		EICL		
		31-Dec 2014	30-Jun 2015	Movement
		[A]	**[B]**	**[B-A]**
[1]	Investments	266.9	251.8	(15.1)
[2]	Reinsurance recoverable	95.6	87.2	(8.4)
[3]	Debtors	9.8	10.3	0.5
[4]	Other	5.4	4.8	(0.6)
[5]	**Total Assets**	**377.7**	**354.1**	**(23.6)**
[6]	Gross claims reserves	343.4	327.1	(16.3)
[7]	Other liabilities	10.5	14.3	3.8
[8]	**Total Liabilities**	**353.9**	**341.4**	**(12.5)**
[9]	**Capital**	**23.8**	**12.7**	**(11.1)**
	Solvency measures:			
[10]	Capital/Gross Reserve	7%	4%	-3%
[11]	Capital/Net Reserves	10%	5%	-4%

19. I do not believe that there has been any material change to the balance sheet of EICL between 31 December 2014 and 30 June 2015 that would affect my conclusion on the Transfer, as set out in the Transfer Report. The claims reserve amount has reduced during the six month period as claims have been paid and settled.

20. There has been a deterioration in the net of reinsurance claims reserve amount of £9.2 million, due to adverse experience on US Asbestos and US Pollution liabilities. This is the main driver for the reduction in available capital from £23.8 million to £12.7 million (there were also some small unrealised investment losses).

Balance sheet changes to Hart Re

Table 2: Movement in balance sheet of Hart Re from 31 December 2014 to 30 June 2015 (figures in UK £ million)

		Hart Re		
		31-Dec 2014	30-Jun 2015	Movement
		[A]	[B]	[B-A]
[1]	Investments	72.9	69.6	(3.3)
[2]	Reinsurance recoverable	3.1	3.7	0.6
[3]	Debtors	30.3	30.2	(0.1)
[4]	Other	5.5	4.8	(0.7)
[5]	**Total Assets**	**111.8**	**108.3**	**(3.5)**
[6]	Gross claims reserves	39.5	37.7	(1.8)
[7]	Other liabilities	0.8	0.1	(0.8)
[8]	**Total Liabilities**	**40.3**	**37.8**	**(2.6)**
[9]	**Capital**	**71.5**	**70.6**	**(0.9)**

21. I do not believe that there has been any material change to the balance sheet of Hart Re between 31 December 2014 and 30 June 2015 that would affect my conclusion on the Transfer, as set out in the Transfer Report. The claims reserve amount has reduced during the six month period as claims have paid and settled.

Balance sheet changes to L&E

Table 3: Movement in balance sheet of L&E from 31 December 2014 to 30 June 2015 (figures in UK £ million)

		L&E		
		31-Dec 2014	30-Jun 2015	Movement
		[A]	[B]	[B-A]
[1]	Investments	14.1	15.7	1.6
[2]	Reinsurance recoverable	38.8	36.6	(2.2)
[3]	Debtors	6.2	5.5	(0.7)
[4]	Other	0.0	0.0	0.0
[5]	**Total Assets**	**59.1**	**57.8**	**(1.4)**
[6]	Gross claims reserves	55.7	54.0	(1.8)
[7]	Other liabilities	1.7	1.5	(0.2)
[8]	**Total Liabilities**	**57.4**	**55.5**	**(1.9)**
[9]	**Capital**	**1.7**	**2.3**	**0.6**

22. I do not believe that there has been any material change to the balance sheet of L&E between 31 December 2014 and 30 June 2015 that would affect my conclusion on the Transfer, as set out in the Transfer Report. The claims reserve amount has reduced during the six month period as claims have paid and settled.

23. There has been an improvement in the net of reinsurance claims reserve amount of £1.3 million, due to a favourable commutation made with an external reinsurer.

Balance sheet changes to HFPI

Table 4: Movement in balance sheet of HFPI from 31 December 2014 to 30 June 2015 (figures in UK £ million)

		HFPI		
		31-Dec 2014	30-Jun 2015	Movement
		[A]	[B]	[B-A]
[1]	Investments	25.5	35.2	9.6
[2]	Reinsurance recoverable	20.0	19.7	(0.3)
[3]	Debtors	1.1	0.4	(0.6)
[4]	Other	0.0	0.0	0.0
[5]	**Total Assets**	**46.6**	**55.3**	**8.7**
[6]	Gross claims reserves	20.0	19.7	(0.3)
[7]	Other liabilities	1.5	0.8	(0.7)
[8]	**Total Liabilities**	**21.5**	**20.4**	**(1.0)**
[9]	**Capital**	**25.1**	**34.8**	**9.7**
	Solvency measures:			
[10]	Capital/Gross Reserve	126%	177%	52%
[11]	Capital/Net Reserves	NA	NA	

24. I do not believe that there has been any material change to the balance sheet of HFPI between 31 December 2014 and 30 June 2015 that would affect my conclusion on the Transfer, as set out in the Transfer Report. Whilst the capital injection into HFPI in advance of the Transfer increases the security of HFPI policyholders before the Transfer, the modelling work performed to assess the impact of the Transfer does not show a material change in the comparative levels of security before and after the Transfer and, therefore, my conclusion as set out in the Transfer Report has not changed.

25. The investments and capital both increased by approximately £10 million due to the capital injection of £10 million, made in order to satisfy the International Insurers Department's capital requirement for HFPI to be admitted as a surplus lines insurer in the US.

Expected impact of the Transfer

26. The expected impact of the Transfer on The Hartford, based on information to 30 June 2015, is shown in the table below. This is an update to table 4b in paragraph 4.34 of the Transfer Report.

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Table 5: Expected impact of the Transfer on The Hartford balance sheets as at 30 June 2015 (figures in UK £ million)

		Pre-Transfer				Transfer Adj.	HFPI Post-Transfer
		EICL [A]	Hart Re [B]	L&E [C]	HFPI [D]	[E]	[F]
[1]	Investments	251.8	69.6	15.7	35.2	125.3	497.6
[2]	Reinsurance recoverable	87.2	3.7	36.6	19.7	(25.2)	121.9
[3]	Debtors	10.3	30.2	5.5	0.4	(35.0)	11.5
[4]	Other	4.8	4.8	0.0	0.0	0.0	9.6
[5]	**Total Assets**	**354.1**	**108.3**	**57.8**	**55.3**	**65.1**	**640.6**
[6]	Gross claims reserves	327.1	37.7	54.0	19.7	(7.0)	431.4
[7]	Other liabilities	14.3	0.1	1.5	0.8	(5.0)	11.7
[8]	**Total Liabilities**	**341.4**	**37.8**	**55.5**	**20.4**	**(12.0)**	**443.1**
[9]	**Capital**	**12.7**	**70.6**	**2.3**	**34.8**	**77.1**	**197.5**
	Solvency measures:						
[10]	Capital/Gross Reserve	4%			177%		46%
[11]	Capital/Net Reserves	5%			NA		64%

27. The following table shows the various other consolidation adjustments, commutations and other adjustments from column [E] in the table above that will occur on the Transfer Date, based on information to 30 June 2015. This is an update to table 4c in paragraph 4.39 of the Transfer Report.

Table 4: Reconciliation of other Transfer Adjustments (column [E] in table 3 above)

		Consoli-dation adj.	Letter of comm.	Commut-ations	Capital injection	ADC premium	EICL and Hart Re Retained	**Total**
[1]	Investments			18.6	138.0	(26.8)	(4.5)	**125.3**
[2]	Reinsurance recoverable	(7.0)		(18.2)				**(25.2)**
[3]	Debtors	(5.0)	(30.0)					**(35.0)**
[4]	Other							**0.0**
[5]	**Total Assets**	**(12.0)**	**(30.0)**	**0.4**	**138.0**	**(26.8)**	**(4.5)**	**65.1**
[6]	Gross claims reserves	(7.0)						**(7.0)**
[7]	Other liabilities	(5.0)						**(5.0)**
[8]	**Total Liabilities**	**(12.0)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**(12.0)**
[9]	**Capital**	**0.0**	**(30.0)**	**0.4**	**138.0**	**(26.8)**	**(4.5)**	**77.1**

28. Note that the above table shows a further capital injection of £138 million into HFPI, although an injection of £10 million has already been made in the period between 31 December 2014 and 30 June 2015 (so that the total capital injection since 31 December 2014 will be £148 million). The column 'EICL and Hart Re Retained' shows the capital which will not transfer to HFPI.

29. The balance sheet of The Hartford as at 30 June 2015 (including the consolidation adjustments) is not significantly different from the balance sheet as at 31 December 2014. The updated financial position of The Hartford does not affect my conclusion on the Transfer, as set out in the Transfer Report.

Update on claims reserving analysis

30. I have reviewed the paid and incurred claim movements made by each entity in the period between 31 December 2014 and 30 June 2015 and believe that they are in line with the expectations for claim movements based on the reserving work I carried out when I produced the Transfer Report.

31. Since 31 December 2014, The Hartford has carried out updated claims reserving work for two parts of the portfolio (EICL's and L&E's US Asbestos and US Pollution liabilities). Based on my review of that work, I believe that the resulting adjustments to the booked claims reserves are reasonable.

32. As part of the work I carried out when producing the Transfer Report I received and reviewed reports prepared by The Hartford that described the analysis they carried out, I discussed the methodology and key assumptions with them and also compared the reserves held by the entities involved in the Transfer to my wider market benchmarks. Using this I concluded that the claims reserves are set on a reasonable basis. Since the overall claims experience has been broadly in line with expectations my conclusion is that the claims reserves as at 30 June 2015 are also set on a reasonable basis.

33. I believe that my conclusions with respect to the reserves are still valid because:

    - The movement in the claims paid since 31 December 2014 has been relatively small and in line with my expectations.
    - There has been very little change to the reserving basis adopted by The Hartford.
    - I believe that the benchmarks I have used, as described in paragraph 4.20 of the Transaction Report, are still appropriate.

Update on capital modelling

34. The Hartford have updated the capital modelling work carried out, based on data as at 31 December 2014 (the model is described from paragraph 4.42 of the Transfer Report). This updated modelling incorporates the updated balance sheets as at 31 December 2014 and the updated claims reserving assessments. The conclusions from this updated capital modelling work are unchanged from the analysis I described in the Transfer Report.

35. The Hartford have also updated the SCR calculation under the Standard Formula. The updated SCR of £130.5 million (based on data as at 31 December 2014) is similar to the SCR of £133.0 million set out in the Transfer Report (and based on data as at 31 December 2013).

36. Given that there have not been any material changes to EICL, Hart Re, L&E and HFPI, and given that the balance sheet position as at 30 June 2015 is as expected, I do not believe that there would be any significant change to either the capital requirements of HFPI, or the ability of HFPI to meet those capital requirements. I expect that the level of the capital of HFPI after the Transfer to be at the level of the regulatory required capital under Solvency II. The Hartford have not yet completed Solvency I calculations for HFPI post-Transfer, but the Solvency I requirement will be significantly lower than the solvency II requirement. This means that where the solvency II test is met, HFPI will also be meeting its Solvency I capital requirement. The capital injection to HFPI will be received in cash in Sterling and will therefore be fully admissible for Solvency I purposes.

Solvency II

37. I described the implications of the new Solvency II regulatory regime from paragraph 4.63 of the Transfer Report. There have been no changes to the plans of The Hartford in respect of Solvency II since the

date of the Transfer Report, and as such I consider my conclusion in the Transfer Report is still appropriate.

ADC Reinsurance contract

38. I have received an updated version of the ADC Reinsurance contract, and reviewed the changes made since the draft version I previously received. Based on my own review of the proposed final contract wording I believe that the operation of the contract will be as described in the Transfer Report (as set out in paragraph 2.51 of the Transfer Report). I have also relied upon legal advice on this matter from Freshfields Bruckhaus Deringer LLP, as described in paragraph 4.168 of the Transfer Report.

Transferring Policyholders from jurisdictions outside of the UK

39. The Hartford have put in place some further post-Transfer protection for transferring policyholders from jurisdictions outside the UK (I discuss these policyholders in paragraph 4.133 of the Transfer Report). HFPI will enter into a deed poll (the 'Deed Poll') for the benefit of transferring policyholders in the event that the Transfer is not recognised in a jurisdiction outside the UK. This will give transferring policyholders a direct right to enforce their policy against HFPI even if for any reason, any transferred policy (or transferred liability arising under a transferred policy) is determined by a non-UK court not to have been fully and validly transferred to HFPI.

40. I believe that the Deed Poll improves the position of the transferring policyholders slightly, and does not therefore change my conclusion on the Transfer.

Objections to the Transfer

41. I have been kept informed by the Hartford of responses to the communications exercise. At the time of writing this Supplementary Report I am not aware of any objection to the Transfer.

Effect of a global economic downturn and uncertainty in Europe

42. In paragraphs 4.145 to 4.148 of the Transfer Report I discussed the uncertain economic conditions in Europe, and the possible implications of this for the Transfer. The uncertainty in the economic conditions has continued, and there remains a risk that this could continue or worsen over the coming years. I have considered the effect of a global economic downturn on the companies involved, and in particular, whether the Transfer would mean that any policyholder would be disadvantaged.

43. However, there has been no material change in claims arising as a result of the economic climate. Further, since the date of the Transfer Report there has been no material effect on the investment portfolio held by The Hartford.

44. I would also again draw attention to the fact that the policyholders are already exposed to these risks as part of the current arrangements. In my opinion, those risks are not made any greater or lesser by effecting the Transfer. Therefore I do not believe that the global economic downturn has any bearing on the Transfer.

Tax issues

45. The Hartford have received confirmation that HMRC consider that the tax treatment of the Transfer is appropriate.

Plans for HFPI post-Transfer

46. I understand that The Hartford is taking the first steps in evaluating market interest for a sale of HFPI (as described in paragraph 1.24 of the Report). However, at this stage there are still no details on what this sale would look like (in terms of timing, the purchaser, arrangements for policyholders etc.) if it does proceed. Given that this change of ownership would be subject to regulatory approval, and that there is no information for me to comment upon at this stage, this does not affect my conclusion on the Transfer.

Other issues

47. I have not identified any other issues in relation to the Transfer since the date of the Transfer Report. There may be some topics that I discussed in detail in the Transfer Report that I have not discussed in this Supplementary Report because there were no developments that would have any effect on those topics.

Overall conclusion

48. I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules and the Protocol for Instruction of Experts to give Evidence in Civil Claims. As required by Part 35 of the Civil Procedure Rules, 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.

49. I have considered the Transfer and its likely effects on the policyholders that I believe could be affected, or potentially affected, by the Transfer. I have considered each of the different groups of policyholder which I identified in the Transfer Report. In particular I have considered:

   - Policyholders of EICL.
   - Policyholders of Hart Re.
   - Policyholders of L&E.
   - Original policyholders of HFPI.
   - Non-transferring policyholders of AIL.
   - Non-transferring policyholders of Hartford Fire.

50. I have considered the possible effects on the Transfer of developments that have occurred since the date of the Transfer Report, and my conclusion is unchanged from that stated in the Transfer Report.

Yours faithfully

M. Bark

Michael Barkham 6 October 2015
Fellow of the Institute and Faculty of Actuaries