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

29 June 2015

Ernst & Young LLP

Building a better working world

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Use of this report

The Hartford Financial Services Group, Inc. is proposing to restructure its property and casualty run-off business in the UK by means of an insurance business transfer scheme. 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 High Court of England and Wales to approve an insurance business transfer scheme.

A copy of this report will be made available to competent regulatory authorities, the High Court of England and Wales, policyholders and any other person entitled to receive a copy under the FSMA.

I assume no responsibility whatsoever in respect of, or arising out of or in connection with the contents of this report to parties other than those mentioned above. If other parties choose to rely in any way on the contents of this report then they do so entirely at their own risk.

This report has been prepared solely for the purposes of the FSMA requirements for insurance business transfer schemes and should not be relied upon for any other purposes by any party.

Draft versions of this report and any other interim working papers must not be relied on by any person for any purpose.

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

The responsibilities of Ernst & Young LLP shall also be limited as stated above.

Signatory

M. Balk

Michael Barkham
Partner
Ernst & Young LLP
Fellow of the Institute and Faculty of Actuaries
29 June 2015

Abbreviations for companies / insurance portfolios

Full Name	Abbr.	Description
The Hartford Financial Services Group, Inc.	HFSG	Parent company of the Hartford Group.
Hartford Financial Products International Limited	HFPI	Wholly owned subsidiary of the Hartford Group.
Excess Insurance Company Limited	EICL	Wholly owned subsidiary of the Hartford Group.
Hartford Fire Insurance Company	Hartford Fire	Wholly owned subsidiary of the Hartford Group.
Hart Re	Hart Re	UK branch of Hartford Fire.
First State Insurance Company	First State	Wholly owned subsidiary of the Hartford Group.
Aviva Plc	Aviva	Parent company of the Aviva Group.
Aviva Insurance Limited	AIL	Wholly owned subsidiary of the Aviva Group.
L&E	L&E	The portfolio of business transferring from AIL to HFPI under the Transfer.
London and Edinburgh Insurance Company Limited	LEIC	Wholly owned subsidiary of the Aviva Group. LEIC was a former subsidiary of the Hartford Group, and was sold to the Aviva Group in 1998.

Contents

1. Introduction

Purpose of this report

1.1 The Hartford Financial Services Group, Inc. (‘HFSG’) is proposing to restructure its property and casualty run-off business in the UK by means of an insurance business transfer scheme. The proposed insurance business transfer scheme (the 'Transfer') is a transfer to Hartford Financial Products International Limited ('HFPI') of the following three sets of policyholders:

- ► The policyholders of Excess Insurance Company Limited ('EICL').
- ► The policyholders of the UK branch of Hartford Fire Insurance Company. I will refer to Hartford Fire Insurance Company as 'Hartford Fire' and the UK branch of Hartford Fire as 'Hart Re'.
- ► The policyholders of Aviva Insurance Limited ('AIL') who were formerly policyholders of London and Edinburgh Insurance Company Limited (‘LEIC’) and were defined as policyholders of 'excluded business' pursuant to the sale by The Hartford of LEIC to the Aviva Group in 1998.

1.2 The purpose of this report is to inform the High Court of England and Wales (the ‘Court’) and the affected policyholders of the likely effect of the Transfer. This report is not suitable for any other purpose.

1.3 The Transfer is intended to be effected on 12 September 2015 (the 'Transfer Date'). This is after the date for the sanctions hearing of the Transfer, which is currently scheduled for 10 September 2015.

1.4 Hart Re, EICL and L&E are separate portfolios, and the Transfer could be thought of as three separate transfers occurring together (i.e., from Hart Re to HFPI, EICL to HFPI, and AIL to HFPI). Approval from the Court is being sought for all three together, and I have formed my opinion on the basis that the Transfer is effected in the form described above. I have not considered scenarios in which one or more of the three 'sub-transfers' does not occur (I assume the Court will either approve all three 'sub-transfers' or none at all).

1.5 HFPI, EICL and Hartford Fire are a part of the Hartford group of companies (the ‘Hartford Group’ or ‘The Hartford’) with The Hartford Financial Services Group, Inc as parent company. AIL is a part of the Aviva group of companies (the ‘Aviva Group’ or ‘Aviva’) with Aviva Plc as parent company.

1.6 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. This scheme report should be produced by a suitably qualified independent person (the 'Independent Expert') who has been nominated or approved for this purpose by the Prudential Regulatory Authority ('PRA'). The scheme report should address the likely effects of the insurance business transfer on policyholders.

1.7 Insurance and reinsurance companies in the UK are authorised to carry out contracts of insurance and reinsurance by the PRA. Insurance and reinsurance companies in the UK are regulated by a combination of the PRA and the Financial Conduct Authority ('FCA'). The PRA and FCA replaced the Financial Services Authority (‘FSA’) as the regulator of the UK insurance industry on 1 April 2013. In this report the term PRA/FCA shall mean the combination of the PRA and the FCA carrying out their roles as the regulator of the UK insurance industry and/or the FSA carrying out its role as the regulator of the UK insurance industry prior to 1 April 2013.

1.8 My report considers the effect of the Transfer upon the policyholders. It contains a description of the Transfer and the methodology used during the course of my work to assess the security provided to policyholders before and after the Transfer. I will consider various groups of policyholder. In particular:

- The Transferring Policyholders.
- The Non-transferring Policyholders.
- The Receiving Policyholders (i.e., the existing policyholders of HFPI).

Independent Expert appointment

1.9 HFSG and AIL have asked Michael Barkham ('I', 'me') of Ernst & Young LLP to act as the Independent Expert for the Transfer. Ernst & Young LLP is a part of the global network of EY firms (‘EY’).

1.10 HFSG will meet the costs of producing this report.

1.11 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.

1.12 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.

1.13 I am a Fellow of the Institute and Faculty of Actuaries and am certified to act as a Signing Actuary for Lloyd's of London regulatory opinions. I am a Partner in the European Actuarial Services practice of Ernst & Young LLP, and have more than 20 years' experience in general insurance. Prior to joining Ernst & Young LLP in 1994 I was employed by a large London Market entity. I have skills in all areas of general insurance actuarial work (including reserving, capital, pricing and transactions), and have previously acted as Independent Expert for 11 other insurance business transfer schemes.

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

1.15 As required by paragraph 2.30(4) of the PRA’s Policy Statement on insurance business transfers, I can confirm that neither I, nor the firm of EY, have any direct or indirect connections with HFPI, EICL, Hartford Fire, AIL, Hart Re, the Hartford Group or the Aviva Group that I believe would affect my ability to act as the Independent Expert for the Transfer.

Professional guidance

1.16 This report complies with the applicable rules on expert evidence and with the guidance for scheme reports set out by the PRA’s Statement of Policy on insurance business transfer and by the FCA in Chapter 18 of the Supervision Manual of the FCA handbook.

1.17 This report complies with Technical Actuarial Standard R: Reporting Actuarial Information as issued by the Financial Reporting Council, which is responsible for setting UK actuarial standards.

1.18 The work underpinning this report also complies with Technical Actuarial Standard D: Data, Technical Actuarial Standard M: Modelling, Transformations Technical Actuarial Standard and Insurance Technical Actuarial Standard as issued by the Financial Reporting Council.

1.19 I believe that this compliance has been achieved with no major deviations from the guidelines. I have not discussed the timings of future cash flows as I do not believe this is of relevance to this report, or of value to the readers of this report given the purpose of this exercise.

Scope of my work

1.20 The scope of my work is detailed in the extract from my terms of reference provided in Appendix C. There are no areas where the actual work performed differs from this agreed scope.

1.21 My report considers the effect of the Transfer upon all policyholders of the companies involved in the Transfer, and any other group of policyholder which I believe could be affected, or potentially affected, by the Transfer. It contains a description of the Transfer, the methodology I have used to analyse the Transfer, the opinions I have formed and reasons why I have formed those opinions.

1.22 The use of 'I' and 'my' in this report generally refers to the work done by myself and the team operating under my direct supervision during the course of this review. However, when it is used in reference to an opinion, it is mine and mine alone.

Alternative arrangements

1.23 I am not aware of any alternative arrangements to the Transfer proposed by any party, so I have not considered it necessary to discuss alternative proposals within this report.

Future changes of ownership

1.24 I understand that a future sale of HFPI to a third party is one of the options being considered by the management of The Hartford. This is only one possible future option for The Hartford and there are no details on what this sale would look like (in terms of timing, the purchaser, arrangements for policyholders etc.). I understand that at present no steps have been taken which would lead to such a sale and that any future change of ownership of HFPI would be subject to regulatory approval. I believe that it is too early for me to consider the implications of any such change of ownership and, given that this change of ownership would be subject to regulatory approval, this does not affect my conclusion on the Transfer.

Use of data and reports

1.25 My view on the insurance liabilities of the companies involved is based upon my review of the actuarial reports and documentation produced by the Hartford Group, Aviva and their advisors.

1.26 I have not audited nor independently verified the data and information supplied to me. However, I have reviewed it for reasonableness and for internal consistency. I have relied on my own professional judgement to assess the quality of the data and whether it is suitable for the purposes of this review. This judgement is based on my wide experience of carrying out claims reserving work, capital modelling work and other financial analyses for companies similar to those involved in the Transfer. Based on my review I concluded that the data provided to me was reasonable given the purposes of my review. The data was prepared and provided to me in accordance with the working practices I would expect for organisations similar to EICL, Hartford Fire, HFPI and AIL.

1.27 I understand that specific statements in relation to data accuracy will be included in the witness statements EICL, Hart Re, HFPI and AIL.

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

1.29 I have placed reliance upon the data when carrying out my work. I have not considered potential future claims arising from causes not substantially recognised in the historical data except insofar as such claims (and their impact) are included incidentally in the data. I consider this approach to be reasonable and in line with accepted actuarial practice.

1.30 The following exchange rates are used throughout this report: 1 GBP = 1.56 USD.

Peer review process

1.31 In accordance with the internal control processes of Ernst & Young LLP, the work documented in this report has been peer reviewed by a suitably qualified person. The peer review process has included review of the methodology used and discussion of the key elements of the analysis.

Layout of this report

1.32 My report is structured as follows:

Section 1: **Introduction.**

Section 2: Outline of the Transfer. This section provides detail on the companies and portfolios of business involved in the Transfer. It explains the details of the operation of the Transfer.

Section 3: Conclusion. This section sets out my overall conclusion on the Transfer and my key reasons for reaching this conclusion.

Section 4: Analysis. This provides details of the work I have carried out and the rationale for reaching my conclusion. This includes:

- A summary of methodology I have used.
- Claims reserves.
- Balance sheets of the affected portfolios.
- Capital modelling (The Hartford's own model and Solvency II).
- Guarantees and other aspects of the Transfer.
- Policyholder groups and my conclusion on each group.
- Other considerations.

Section 5: Reliance and limitations.

2. Outline of the Transfer

Entities involved in the Transfer

The Hartford Group

2.1 The Hartford Group is a large insurance provider and mutual funds company with global operations. The Hartford Group has a parent company, The Hartford Financial Services Group, Inc., domiciled in Connecticut, USA.

2.2 The Hartford Group recorded revenues of approximately $19 billion for the financial year ending 31 December 2014. There are three subsidiaries of the Hartford Group relevant to the Transfer: HFPI, Hartford Fire, and EICL (see below).

HFPI (the "Transferee" under the Scheme)

2.3 Hartford Financial Products International Limited is a UK domiciled insurer and wholly owned subsidiary of the Hartford Group. HFPI is authorised by the PRA and regulated by the FCA and the PRA.

2.4 HFPI wrote directors and officers insurance, and errors and omissions insurance of various forms. It wrote policies from 2007 to 2012, before ceasing to write new business in July 2012. It wrote 750 policies in total during this period, mainly in the UK and Europe, most of which were one-year claims made policies.

Hartford Fire

2.5 The Hartford Fire Insurance Company is a Connecticut domiciled insurer and wholly owned subsidiary of the Hartford Group. The primary regulator of Hartford Fire is the Connecticut Department of Insurance.

2.6 Hartford Fire is the largest property and casualty insurance subsidiary of the Hartford Group. It is a multi-line property and casualty insurer whose primary lines of business are personal lines (property and auto), commercial property and liability, and workers' compensation. As of 31 December 2014, Hartford Fire's statutory-basis capital was £9.3 billion and the company's reserves were £14.7 billion (including gross of reinsurance claims reserves, gross of reinsurance unearned premium, and loss adjustment expenses).

Hart Re

2.7 Hart Re is the trading name for the UK branch of Hartford Fire. Hart Re is only a very small component of Hartford Fire: the claims reserves for Hart Re are £40 million, compared with approximately £14.7 billion for Hartford Fire in total.

2.8 Hart Re exposures arise from a variety of reinsurance business written between 1993 and 2001. The business was placed into run-off in 2001. The liabilities of Hart Re include the reinsurance of some insurance claims that are subject to UK Payment Protection Orders ('PPOs').

2.9 The policyholders of Hart Re will move to HFPI as part of the Transfer.

EICL

2.10 Excess Insurance Company Limited is a UK domiciled insurer and wholly owned subsidiary of the Hartford Group. EICL is authorised by the PRA and regulated by the FCA and the PRA.

2.11 EICL was established in 1894 and wrote a mixture of personal lines, commercial lines and reinsurance business both in the UK and globally. It ceased underwriting on 1 January 1993.

2.12 The policyholders of EICL will move to HFPI as part of the Transfer.

AIL

2.13 Aviva Insurance Limited is a UK domiciled insurer and wholly owned subsidiary of the Aviva Group, with its ultimate parent company Aviva Plc. AIL is authorised by the PRA and regulated by the FCA and PRA.

2.14 AIL is the main insurance carrier for the Aviva Group's UK general insurance operations. As of 31 December 2014, AIL's statutory UK GAAP-basis capital was £4.1 billion and the company's reserves were £8.1 billion (including gross of reinsurance claims reserves, gross of reinsurance unearned premium, and loss adjustment expenses).

L&E

2.15 I will use the term 'L&E' to refer to those policyholders of AIL which would move to HFPI as part of the Transfer.

2.16 The background to this component of the Transfer is that the L&E policyholders were formerly policyholders of LEIC, originally a subsidiary of the Hartford Group. LEIC was sold by the Hartford Group to Norwich Union Insurance Limited, a wholly owned subsidiary of the Aviva Group, in 1998.

2.17 The sale and purchase agreement for this sale (the 'Aviva SPA') provided that certain policyholders of LEIC would be classified as "excluded business", and that the cost of these insurance liabilities would be retained by the Hartford Group. The Aviva SPA also included an understanding that the Aviva Group and The Hartford Group would use reasonable endeavours to transfer the L&E business back to the Hartford Group at a future date. The current proposed transfer will give effect to that understanding.

2.18 Norwich Union Insurance Limited changed its name to Aviva Insurance UK Limited in 2009. The L&E business was then transferred by way of an insurance business transfer scheme under the FSMA by Aviva Insurance UK Limited to AIL in 2011, along with all the rights and obligations under the Aviva SPA.

2.19 I note that there are some former policyholders of LEIC that were not classified as excluded business as part of the sale of LEIC; these policyholders are not a part of the Transfer, and will remain as policyholders of AIL.

2.20 The remaining liabilities of AIL in respect of the L&E business arise predominantly from participation in pools that wrote London Market excess layer cover for US corporates and some cedants.

2.21 The liabilities of all of the L&E pools relate mainly to General Liability excess layer cover for US corporates, and reinsurance of US domestic insurers writing similar business. About 2/3 of the liabilities relate to direct business, and 1/3 to treaty business. The components of the portfolio are:

- H S Weavers Pool - L&E participated between 1 January 1972 and 31 December 1976. The remaining liabilities, net of any external reinsurance, are fully reinsured by First State Insurance Company ('First State'), a subsidiary of the Hartford Group.

- B D Cooke Pool - This pool operated between 1947 and 1974. L&E was a participant between 1948 and 1968. From 1962 to 1968, Dominion fronted on behalf of the other Pool members. The pool's liabilities were heavily reinsured although most of the outwards reinsurance contracts have been commuted. A stop loss reinsurance of L&E's participation in the pool is provided by Hartford Fire.

- Old Tower Pool - This pool ran from 1 January 1968 to 12 May 1972. There were three members: Phoenix, Continental and L&E, all of whom mutually insured and reinsured each other in equal shares. L&E fronted the majority of risks written on behalf of the Pool. Net of any external reinsurance, the remaining liability is fully reinsured by EICL.

- Tower X / HUA Pool - From 1972 and until 31 December 1975, L&E entered into the Tower X Pool with Highlands Insurance Company ('Highlands') and American Home. In 1976 and 1977, the pool operated as the Highlands Underwriting Agents Pool ('HUA Pool'). The pool then continued with HUA writing on behalf of Highlands alone until 1982. A part of the pool's business up to 1977 was fronted by L&E. L&E's liability in respect of its agreed pool share is reinsured by EICL.

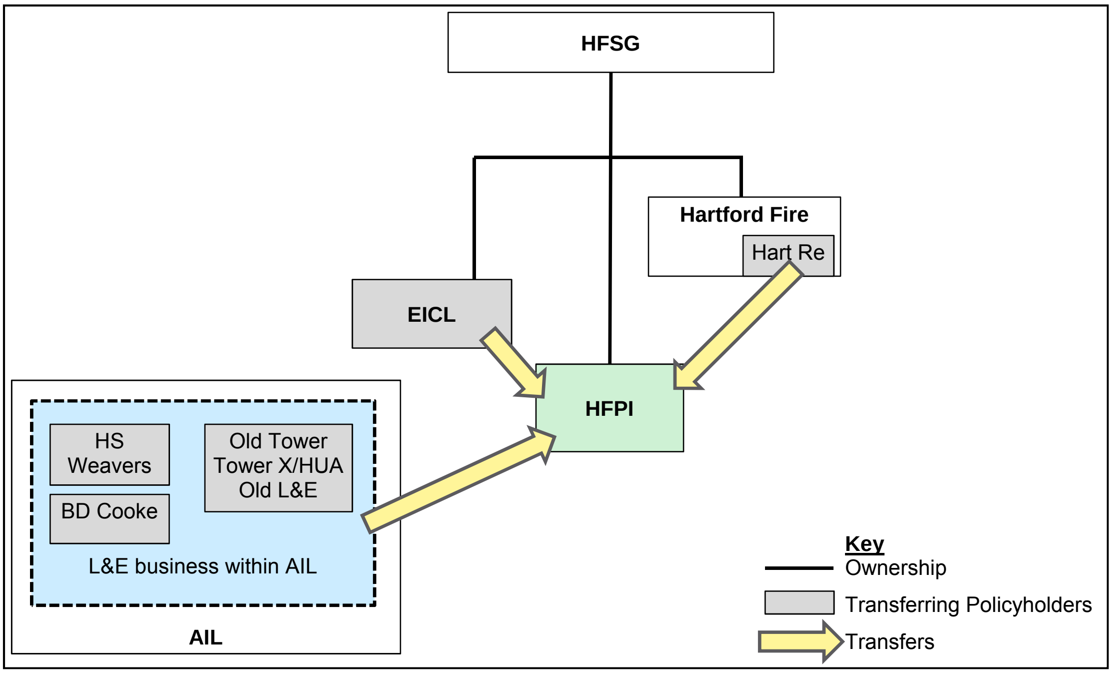
- Westminster Aviation Pool and Non-pool business - A small amount of Marine business was written though the Westminster Aviation Pool between about 1965 and 1971. L&E wrote some business on its own account in the London Market from about 1947 to the mid-1970s. This component is 100% reinsured by EICL.

Description of the Transfer

2.22 As part of the Transfer all insurance policies of Hart Re, EICL and L&E as at the Transfer Date will move to HFPI. In this report I refer to these policies as the 'Transferring Policies' and I refer to the holder of a Transferring Policy as a 'Transferring Policyholder'. After the Transfer, HFPI will be legally responsible for administering and paying the valid claims of the Transferring Policies.

2.23 The diagram below shows a summary of the position before the Transfer, with yellow arrows denoting the transfer of policyholders. Black lines represent ownership (although I have omitted intermediary companies for simplicity).

Diagram 2a: Summary diagram for the Transfer



2.24 On the Transfer Date all respective assets and liabilities of EICL, Hart Re and L&E, including all surplus capital at the Transfer Date, will transfer to HFPI. These amounts are shown in the table in paragraph 4.33. Only those assets of AIL which relate to the transferring L&E business will transfer to HFPI.

2.25 All of the policy administration and claims handling processes of the policyholders of EICL, Hart Re, L&E and HFPI are already currently handled by Hartford Group subsidiary companies. There will be no change to claims settlement or policy administration protocols after the Transfer.

Purpose of the Transfer

2.26 I have discussed the purpose of the Transfer with the Hartford Group. I understand that their intention by effecting the Transfer is to simplify and consolidate the group's legal structure in the UK in line with the existing operational, administrative and functional arrangements. It will also provide additional flexibility with respect to a possible future sale, as noted in paragraph 1.24. By combining all of its UK-based run-off liabilities into HFPI (instead of operating through four separate companies), The Hartford will be able to reduce costs and achieve greater capital efficiency in preparation for the implementation of the new European capital regulations, Solvency II.

2.27 Also, by transferring the business from AIL to HFPI, the Transfer will align the transferring L&E policyholders' contractual rights with the insurer that will ultimately meet the economic cost of their insurance claims. This will complete the agreement made between Aviva and The Hartford, whereby they had an understanding that they would transfer the L&E business back to the Hartford Group.

Pre-transfer protection for AIL in respect of L&E policyholders

Reinsurance of L&E

2.28 AIL has reinsurance with external parties which protect its exposure to claims from the L&E policyholders. These external reinsurance contracts will move to HFPI as part of the Transfer. Note that AIL has significant amounts of other reinsurance in respect of the remainder of its non-L&E insurance portfolio; these are unaffected by Transfer and will not transfer to HFPI.

2.29 There are also three separate reinsurance arrangements with the Hartford Group which protect different parts of the L&E portfolio. The combined effect of those reinsurance contracts is that prior to the Transfer all of the L&E business is fully reinsured or indemnified by a combination of external reinsurers and Hartford Group companies.

- First State reinsurance of the HS Weavers Pool. The reinsurance by First State of L&E's H S Weavers Pool business will move under the Transfer to become a First State reinsurance of the enlarged HFPI after the Transfer. At that point, it will be an intra-group reinsurance arrangement of the Hartford Group which will be commuted immediately on an arms-length basis with a payment being made from First State to the enlarged HFPI after the Transfer. The commutation of this reinsurance arrangement will be contingent upon the Transfer proceeding and will occur simultaneously with the Transfer.

- Hartford Fire reinsurance of B D Cooke Pool liabilities. The Hartford Fire stop loss to L&E in respect of B D Cooke Pool liabilities will move under the Transfer to become a Hartford Fire stop loss of the enlarged HFPI after the Transfer. At that point, it will be an intra-group reinsurance arrangement of the Hartford Group which will be commuted immediately on an arms-length basis, with a payment being made from Hartford Fire to HFPI. The commutation of this reinsurance arrangement will be contingent upon the Transfer proceeding and will occur simultaneously with the Transfer.

- EICL reinsurance of other L&E liabilities (Tower X / HUA Pool, Old Tower and Westminster Aviation Pool and Non-pool business). Once EICL and L&E are both transferred to HFPI, this reinsurance will become obsolete as both reinsurer and reinsured will be part of enlarged HFPI after the Transfer.

Aviva Indemnity

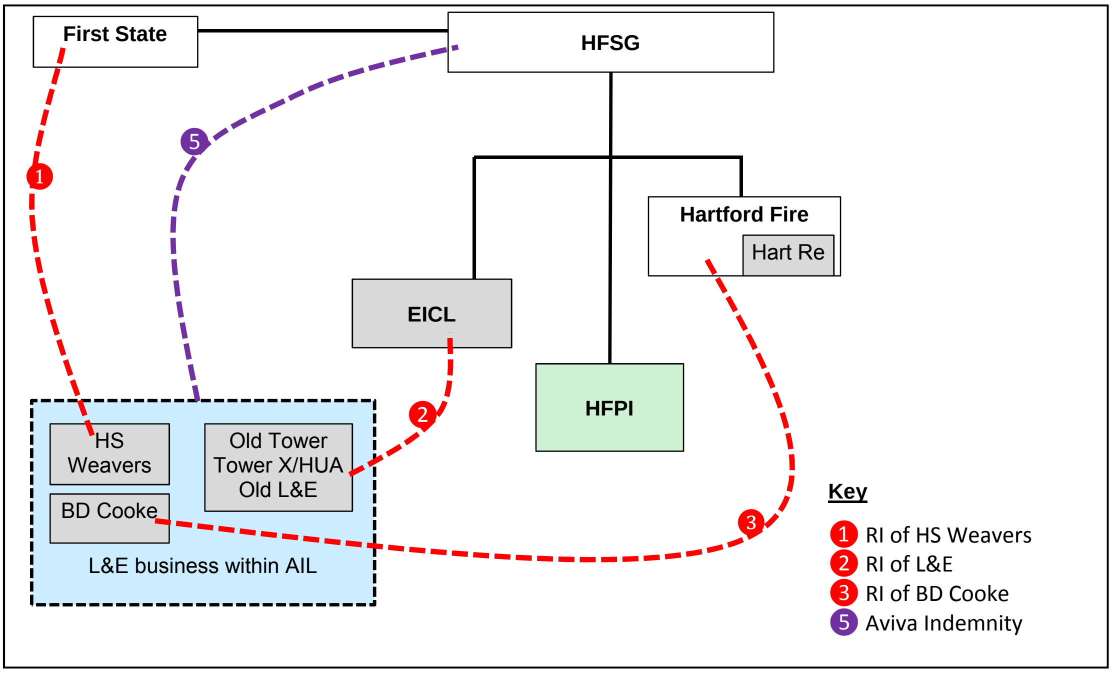
2.30 When LEIC was sold to the Aviva Group, The Hartford retained the economic interest in the L&E business by means of an indemnity, provided by HFSG, to Norwich Union Insurance Limited (the 'Aviva Indemnity'). This was included in the Aviva SPA.

2.31 The Aviva Indemnity effectively covers AIL for any remaining liabilities in respect of the L&E portfolio that would not otherwise be covered by any reinsurance of AIL to the Hartford Group. Through a combination of the reinsurance and the Aviva Indemnity, AIL has no economic interest in the L&E portfolio, provided that the Hartford Group makes payments under the reinsurance and the Aviva Indemnity.

2.32 The Aviva Indemnity will be transferred to HFPI as part of the Transfer, and then will be immediately cancelled.

2.33 The pre-Transfer position for the protection of L&E business is shown in the diagram below:

Diagram 2b: Pre-Transfer protection for L&E

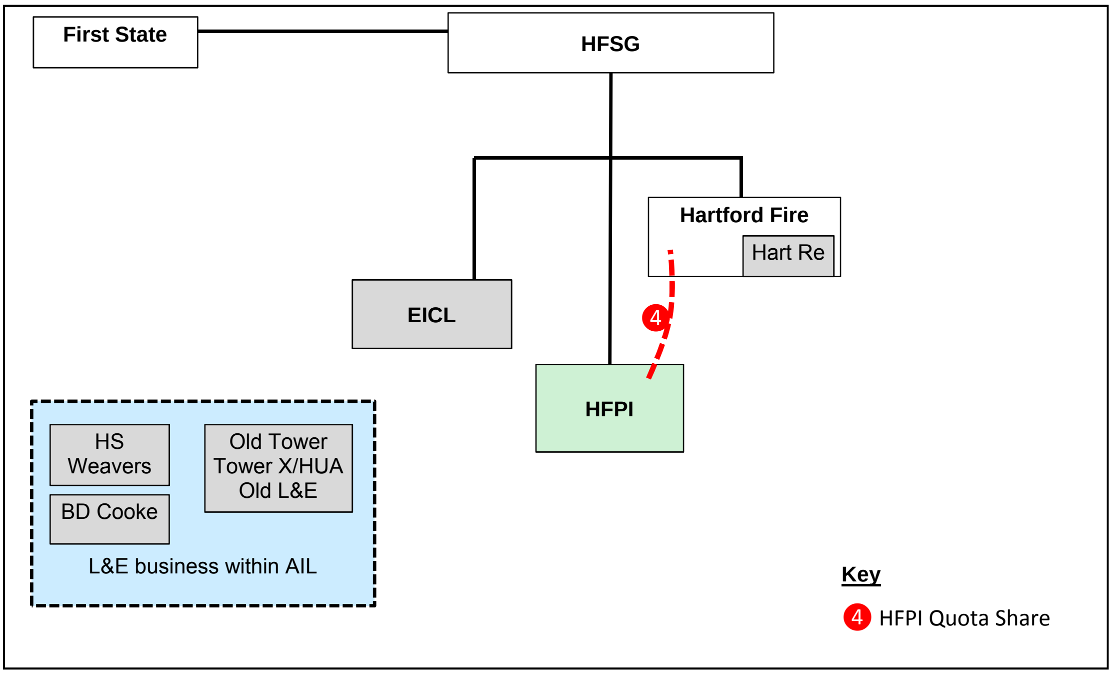


Pre-transfer protection for HFPI

2.34 Currently, there is a full 100% quota share reinsurance in place for HFPI with Hartford Fire (I will refer to this contract as the 'HFPI Quota Share'). The reinsurance applies net of third-party reinsurance thereby providing coverage in the event of any failure of third-party reinsurers to pay. The contract provides significant protection to the current policyholders of HFPI.

2.35 Original HFPI policyholders also benefit from a trust fund (the 'HFPI QS Trust') that collateralises the HFPI Quota Share. Hartford Fire maintains a pool of ring-fenced assets, subject to investment restrictions, that can only be used to pay policyholders whose policy is covered by the HFPI Quota Share. The HFPI Quota Share and the HFPI QS Trust will remain in place after the Transfer. The terms of the HFPI Quota Share will be amended on the Transfer Date in order to ring-fence the benefit of the reinsurance and the HFPI QS Trust for the original HFPI policyholders alone after the Transfer. As I will discuss later in this report, the HFPI QS Trust means that the original HFPI policyholders will have a slightly better level of security after the Transfer than those policyholders moving to HFPI from Hart Re, EICL and AIL.

Diagram 2c: Pre-Transfer protection for HFPI



Inter-company guarantees

HFSG Guarantees

2.36 HFSG provided a guarantee (the 'EICL/HFSG Guarantee') that potentially benefits those EICL policyholders who satisfy the criteria to be able to rely on it. Any shortfall in the amount that EICL is due to pay to a qualifying EICL policyholder would be met by HFSG. This would effectively provide a second layer of protection to the EICL policyholders in cases where EICL is unable to meet a claim payment. The EICL/HFSG Guarantee was put in place in 1991.

2.37 Similarly, HFSG provided a guarantee (the 'L&E/HFSG Guarantee') that potentially benefits those L&E policyholders who satisfy the criteria to be able to rely on it. Any shortfall in the amount that AIL is due to pay to a qualifying L&E policyholder would be met by HFSG. This would effectively provide a second layer of protection to the L&E policyholders in cases where AIL is unable to meet a claim payment. The L&E/HFSG Guarantee was put in place in 1992.

2.38 Neither the EICL/HFSG Guarantee nor the L&E/HFSG Guarantee (collectively the 'HFSG Guarantees') will transfer to the enlarged HFPI; they will both be excluded from the terms of the Transfer. After the Transfer there will no longer be any L&E policyholders in AIL and no policyholders whatsoever in EICL; therefore, there will not be any beneficiaries of the HFSG Guarantees and they will become redundant.

2.39 There are a number of uncertainties in the application of the HFSG guarantees which mean that not all policyholders of EICL and L&E will be eligible to make a claim under the guarantees. The Hartford have commissioned an independent review, performed by William Trower QC, of the wording of the guarantees. I have received a copy of that opinion. My conclusions on the HFSG Guarantees are discussed in paragraph 4.82.

2.40 As part of my assessment of the Transfer I will consider the policyholders who may benefit from either of the HFSG Guarantees as a separate sub-group of policyholder.

ILU Guarantees

2.41 HFSG entered into two separate agreements with the Institute of London Underwriters ('ILU') which guarantee a portion of the business written in each of EICL and L&E. Each guarantee states that, in the event that the company is unable to make the full payment to the policyholders covered by the guarantee, the guarantor will pay the outstanding balance.

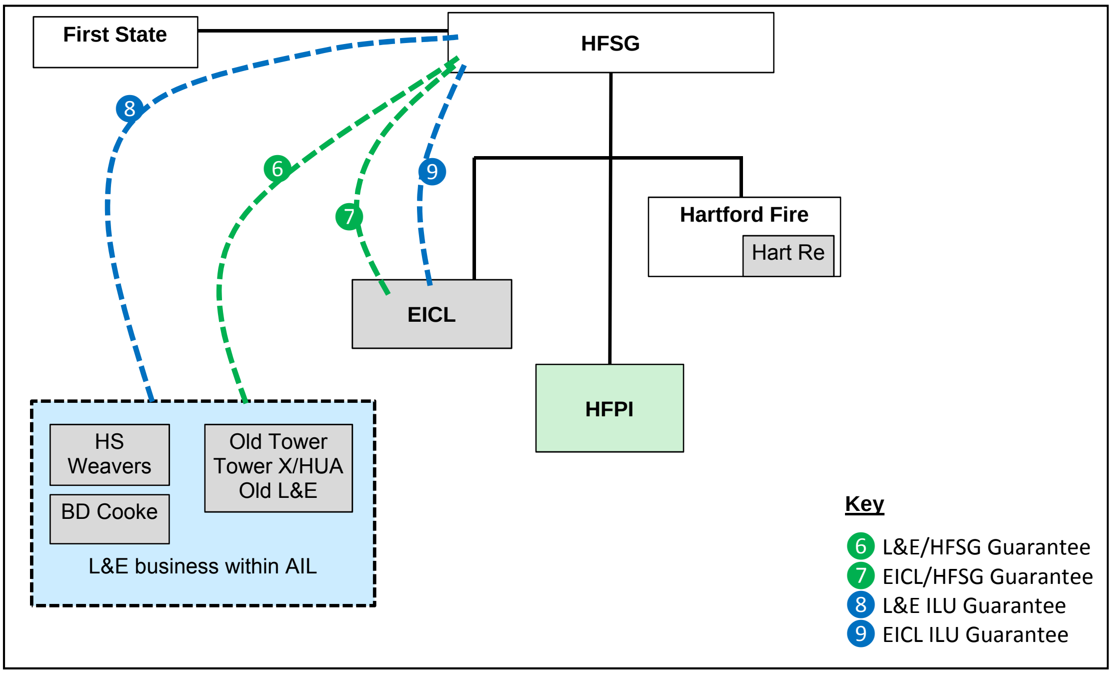
2.42 The two ILU guarantees will transfer with the business that they support. The two ILU guarantees are:

- EICL ILU Guarantee. There is an ILU guarantee from HFSG to some of the policyholders of EICL where business was written through the ILU. It is intended that this ILU guarantee will transfer with the business and will continue to protect the relevant policyholders after the Transfer.

- L&E ILU Guarantee. HFSG provided a guarantee in respect of L&E business written through the ILU from 1991/92. It is not clear if any Transferring Policies were written through the ILU. However, it is intended that this ILU guarantee will transfer with the business and will continue to protect any relevant policyholders after the Transfer.

2.43 L&E was a member of the ILU from 1946 to 1970. There are only a small number (52) of remaining policyholders from this period. The Hartford Group does not believe that any parental guarantee of these historical L&E liabilities exists.

Diagram 2d: Inter-company guarantees



Capital injection into HFPI

2.44 HFSG will make a capital injection into HFPI on the Transfer Date. This capital injection will fund the payment of the premium for the ADC Reinsurance (£28 million to be paid to Hartford Fire); the remaining funds will increase the capital held in HFPI up to the level of the required regulatory amount under the Solvency II Standard Formula. This regulatory capital amount will be calculated based on claims reserves based on data as at 31 December 2014. The amount of the capital injection will then be set so that HFPI has available capital at the Transfer Date to be able to meet that capital requirement. The amount of the capital injection will depend on claim payments and reserve movements up to the Transfer Date, but based on the current data, we expected the capital injection to be of the order of £134 million.

Trust funds and segregated assets

2.45 As I described in paragraph 2.35, there is a trust fund in respect of the HFPI Quota Share. There are two other similar arrangements relevant to the Transfer:

Swiss Tied Asset Account

2.46 FINMA, the regulator of the insurance industry in Switzerland, requires funds to be held in a Swiss tied asset account (the 'Swiss Tied Asset Account') for the benefit of Swiss branch policyholders of HFPI. The Swiss Tied Asset Account currently holds $10 million of original HFPI's assets so that Swiss branch policyholders are marginally more secure than the non-Swiss branch policyholders. The Tied Asset Account will remain in place after the Transfer and will provide the same level of additional protections to the Swiss branch policyholders of HFPI.

EICL US Trust policyholders

2.47 There is a US Surplus lines trust fund (the 'EICL US Trust') in place for certain policyholders of EICL who purchased surplus lines policies in the US. The EICL US Trust currently holds approximately $3 million of EICL's assets. The assets maintained in the EICL US Trust will not transfer to HFPI under the Transfer. However, HFPI has applied to the International Insurers Department for listing as an eligible surplus lines insurer and will maintain its own

US Surplus lines trust (the 'HFPI US Trust'). Following the effective date of the Transfer, the EICL US Trust will terminate and HFPI will capitalise the HFPI US Trust to a level slightly higher than that in the EICL US Trust. The legal advice I have received is that it is highly probable that a US Court would recognise an EICL policyholder's right to claim against the HFPI US Trust. Therefore, I believe that the HFPI US Trust will provide an equivalent level of additional protection as the EICL US Trust.

2.48 The policyholders that have access to the HFPI US Trust will be the same as, and limited to, those EICL policyholders that currently have access to the EICL US trust fund. The terms of the a standard surplus lines trust fund have been updated since the EICL US Trust was put in place, but I understand that the current form (which will apply to the HFPI US Trust) is substantially similar to the prior form.

Assets transferring to HFPI

2.49 Other than reinsurance amounts due, the assets transferring to HFPI will consist mostly of cash and bonds (with a small amount of other debtors).

2.50 A letter of commitment of £30 million from Hartford Fire to Hart Re will be cancelled on the Transfer Date. This is simply a substitution of assets in the post-Transfer HFPI (i.e., the letter of commitment with value £30m is cancelled and £30m of additional cash is provided to HFPI as a replacement, as part of the larger capital contribution from HFSG).

New Adverse development cover for HFPI

2.51 A new adverse development cover (the 'ADC Reinsurance') will be provided by Hartford Fire to the enlarged HFPI. It will become effective on the effective date of the Transfer. The ADC Reinsurance will cover all the business that is transferring into HFPI as part of the Transfer, but it will not cover original HFPI business in existence prior to the Transfer. The ADC Reinsurance will provide cover from the current level of the net of reinsurance reserves upwards and will be unlimited in value. Under this arrangement, any deterioration in the net claims reserves for the transferring business will be met by Hartford Fire. An arm's length reinsurance premium will be paid by the enlarged HFPI for the ADC Reinsurance. Other specific details of the ADC Reinsurance are as follows:

(a) The net reserves attach at the effective date of the Transfer. They will be based on the 31 December 2014 claim reserve estimates updated for claims reserve studies carried out in 2015, and then rolled forward to the effective date of the Transfer.

(b) The ADC will attach at net of reinsurance claims reserves.

(c) Any non-recovery of any other reinsurance of HFPI will be covered by the ADC (to the extent that the gross liabilities are covered by the ADC).

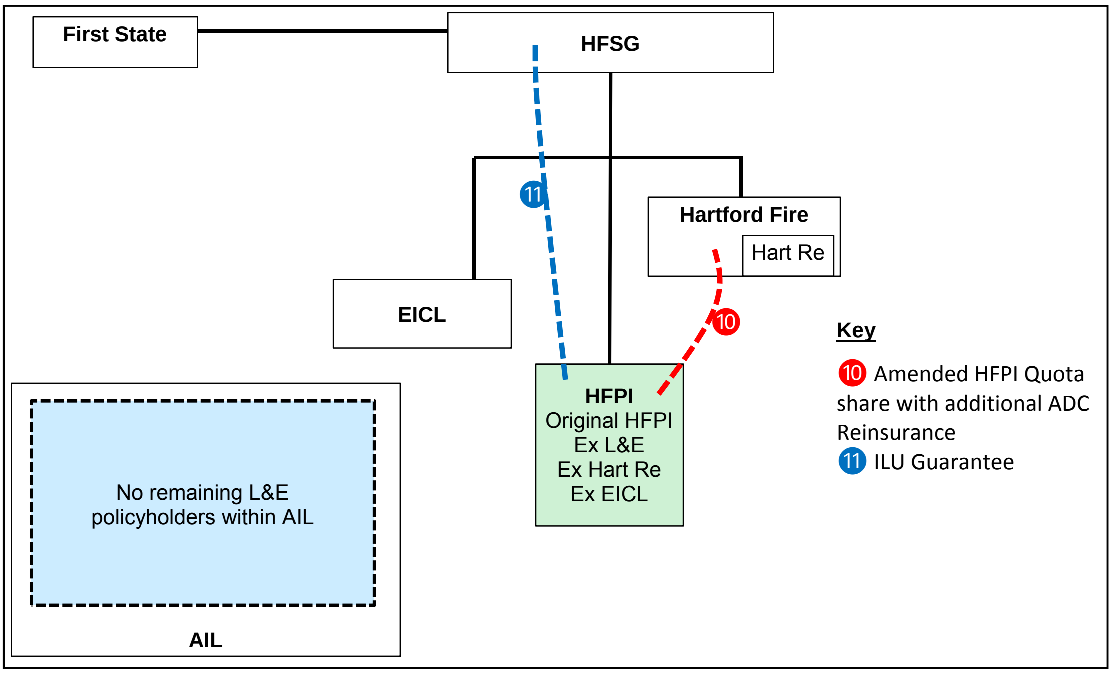
(d) The claims reserves will be calculated for the purpose of the ADC on a UK GAAP basis, and will not be discounted for the time value of money.

(e) The ADC will allow for payments made in currencies other than GBP. The claims reserves of HFPI as at the effective date of the Transfer will define a 'threshold' amount, and any amounts paid by HFPI in excess of that threshold will be recoverable on the ADC contract. The threshold amount will be calculated in GBP based on the exchange rates at the effective date of the Transfer. As and when payments are made by HFPI on a policy which is covered by the ADC, the payments will be converted to GBP at the exchange rate prevailing at the time of the payment, and these amounts will be accumulated. When the running total of the payments made (converted at prevailing exchange rates) exceeds the threshold amount, then HFPI will be able to recover any further gross claim payments on the ADC contract.

2.52 The ADC Reinsurance and the HFPI Quota Share together mean that Hartford Fire will meet any additional cost caused by deteriorations in the claims reserve of HFPI. As I will discuss later, this provides for a substantial amount of security for the policyholders of HFPI

Summary of position after the Transfer

Diagram 2e: Position after the Transfer



2.53 After the Transfer there will be no policyholders in EICL. I understand that The Hartford intends to de-authorise and liquidate EICL after the Transfer Date, subject to obtaining the necessary regulatory consents. However, I understand that the exact timing of this has yet to be decided. This is not a part of the Transfer and has no bearing on my assessment of the Transfer, so I have not considered this further. After the Transfer there will be no policyholders in Hart Re. At some point in the future The Hartford intends to close Hart Re. There will be no L&E policyholders in AIL after the Transfer (although as I noted in paragraph 2.15, there are some former policyholders of LEIC that were not classified as excluded business as part of the sale of LEIC; these policyholders are not a part of the Transfer, and will remain as policyholders of AIL).

Summary of Transfer components

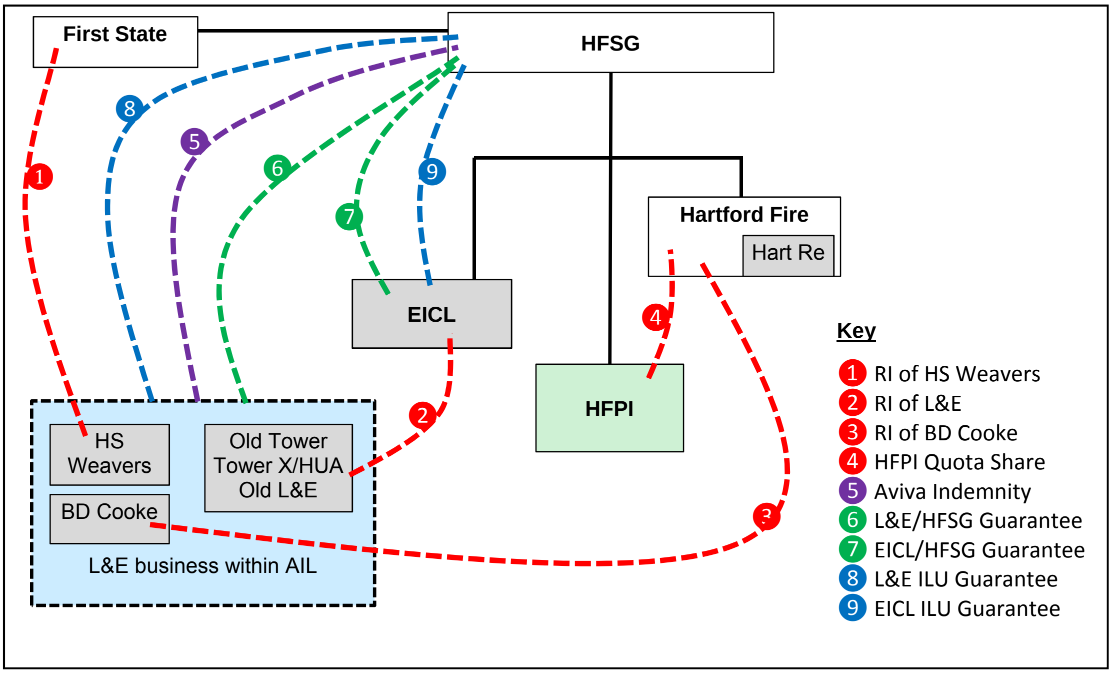
2.54 In summary, the Transfer will consist of the following components:

- Policyholders of EICL, Hart Re and L&E will move to HFPI.
- External reinsurance protecting policyholders of EICL, Hart Re and L&E will move to HFPI.
- First State reinsurance of the HS Weavers Pool will be commuted.
- Hartford Fire reinsurance of B D Cooke Pool liabilities will be commuted.
- The EICL reinsurance of other L&E liabilities will become obsolete.
- The Aviva Indemnity will transfer to HFPI and thereafter be cancelled.
- There will be a capital injection into enlarged HFPI to fund the premium for the ADC Reinsurance and increase the capital in HFPI to the level of the Solvency II regulatory required amount.
- The HFSG Guarantees will be cancelled.

- ► The ILU guarantees will transfer with policyholders.
- ► HFPI will set up the HFPI US Trust.
- ► The ADC Reinsurance between Hartford Fire and enlarged HFPI will be placed.
- ► A £30 million Letter of Commitment from Hartford Fire to Hart Re will fall away, effectively being replaced by the additional capital in enlarged HFPI.
- ► An expense agreement between EICL and The Hartford, whereby The Hartford pays a part of the cost of administering the EICL business, will be cancelled.
- ► Protections for original HFPI policyholders will be ring-fenced as part of the Transfer.

2.55 All of the pre-Transfer components are shown together in the diagram below:

Diagram 2f: Relationships before the Transfer



3. Conclusion

Overall conclusion

3.1 I have considered the Transfer and its likely effects on the policyholders of EICL, Hartford Fire (including Hart Re), AIL (including L&E) and HFPI. I confirm that I understand my duty to the Court.

I conclude that the security provided to policyholders would be equivalent or improved after the Transfer, that no group of policyholders would be adversely affected to a material extent by the Transfer, that the level of customer service provided to policyholders would be unaffected by the Transfer, and that therefore there is no reason that the Transfer should not go ahead.

Key reasons for reaching my conclusion

3.2 The key reasons for reaching my conclusion are set out below.

3.3 The work I have carried out shows that all of the policyholders of HFPI will have a good level of security after the Transfer. There will be a capital injection into HFPI which will increase the level of capital in HFPI. Furthermore, there will be additional reinsurance protection for HFPI (i.e., the ADC Reinsurance) which will provide full cover with Hartford Fire (as described in paragraph 2.51, any deterioration in the net claims reserves for the transferring business will be met by Hartford Fire). Hartford Fire is a very large and diversified reinsurer, with an A credit rating provided by Standard and Poor's ('S&P'). I believe that the post-Transfer policyholders of HFPI will have a good level of security through a combination of the increased capital in HFPI and the ADC Reinsurance in place.

3.4 I have reviewed the profile of the assets transferring to HFPI as part of the Transfer, and am satisfied that these are appropriate for the risks inherent in the enlarged HFPI.

3.5 I have considered the relative benefits of the various guarantees in place prior to the Transfer. Although the EICL/HFSG Guarantee and the L&E/HFSG Guarantee will not be in place after the Transfer I believe that an equivalent level of protection will be provided through the combination of capital in HFPI and the ADC Reinsurance. I also believe that there would be many uncertainties for policyholders wishing to pursue a claim under one of those guarantees, and that on balance, policyholders would be better off with the more certain protection structure in place after the Transfer. Please see paragraphs 4.80 to 4.83 for further details on those uncertainties.

3.6 The ILU guarantees will remain in place after the Transfer. Where policyholders benefit from these guarantees the same level of protection will be provided after the Transfer.

3.7 I have reviewed the claims reserves of EICL, Hart Re, L&E and HFPI and believe that they are set on a reasonable basis. I have reviewed the capital modelling work carried out by, or on behalf of, The Hartford and believe that that is an appropriate model with which to measure the effect of the Transfer on the policyholders. The findings of that modelling work are that all groups of policyholders would have a better security position after the Transfer.

3.8 I have carried out a review of the regulatory capital position for HFPI after the Transfer under Solvency II. I am satisfied that that calculation is appropriate. The capital injection into HFPI from HFSG will be at a level such that HFPI will have capital equal to that regulatory amount under the Solvency II Standard Formula.

3.9 Where trust fund and segregated asset arrangements are in place prior to the Transfer (i.e., for the current policyholders of HFPI, policyholders covered by the US Surplus Lines Trust Fund, and Swiss Branch policyholders of HFPI) those arrangements will continue to be in place (or will be replicated by HFPI, in the case of the EICL US Trust) after the Transfer, and an equivalent level of additional protection will be provided.

3.10 All of the business of the original HFPI policyholders and transferring policyholders will continue to be managed and administered by The Hartford, with no change to claims settlement protocols or to the administration of policies.

3.11 I describe in full the analysis I have carried out and the full rationale for my conclusion in section 4. In particular:

- The policyholders of EICL should read from paragraph 4.99.
- The policyholders of Hart Re should read from paragraph 4.110.
- The policyholders of L&E should read from paragraph 4.113.
- The policyholders of HFPI should read from paragraph 4.125.

Supplementary Report

3.12 My conclusions are based on the information available to me at the time of writing this report. I will produce a Supplementary Report prior to the Transfer Date, and this will comment on the most recent information available. I expect that this will include:

- Management accounts for EICL, L&E, Hart Re and HFPI.
- Details of movements in claims paid and claims incurred since 31 December 2014.

3.13 There may be other data that I will request for the purposes of the Supplementary Report, depending on the circumstances and any changes to the financial positions of the companies involved.

3.14 There are some particular issues that I will revisit in the Supplementary Report:

- The value of the capital injection required to increase the capital in HFPI to the regulatory required capital under Solvency II. The data supporting that calculation will be updated. I will also reconsider the appropriateness of the Solvency II capital requirement calculation based on the updated financial information.
- The final tax advice received by The Hartford on the capital injection to HFPI.
- The finalised wording for the ADC Reinsurance contract.

Independent Expert declaration

3.15 In reaching the conclusions set out below, I have applied the following principles as set out in the Transformations Technical Actuarial Standard issued by the Financial Reporting Council. I have sought to:

- Exercise my judgement in a reasoned and justifiable manner.
- Describe the impact on all classes of beneficiaries.
- Indicate how the Transfer might lead to any changes in the material risks to the benefits of different classes of beneficiaries.
- Indicate (in broad terms) the impact on the actuarial information of adopting alternative plausible assumptions.
- Assess the impact of all classes of beneficiaries.

- Indicate the rationale for the Transfer to proceed.
- Include (in summary) the most material information on which my opinion is based.
- Describe the rationale for my opinion.

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

3.17 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.

3.18 I do, however, consider it necessary that I review the most recent information, up to the date of the Transfer, when this becomes available later in the year, before confirming my opinion and conclusions.

4. Analysis

Summary of my approach

4.1 My approach for assessing the Transfer was as follows:

Gain a thorough understanding of the Transfer and identify the groups of policyholders that would be affected.

4.2 This was achieved through discussions with The Hartford, Aviva, and their advisors to understand the Transfer, together with reviewing the documents agreed between the parties for the implementation of the Transfer.

Review the claims reserves of HFPI, Hart Re, EICL and L&E.

4.3 An important part of the security offered to policyholders is the strength of the claims reserves (i.e., the estimate of the amount of money each company is expected to pay out in the future in respect of policies already written by the company). I therefore undertook a review of the level of claims reserves included on the balance sheet of each company. The estimation of the claim reserve amount is usually an uncertain exercise; the assumptions used in this exercise will always include a degree of subjectivity. The type of review I carried out for each part of the claims reserves varied for each company. This review is described below from paragraph 4.14.

Understand the effect of the Transfer on HFPI, AIL (including L&E), EICL, and Hartford Fire (including Hart Re), and in particular, the effect on assets, liabilities and capital requirements of each company.

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

4.5 The Hartford Group has developed, in conjunction with their advisors, a capital model for the portfolios of insurance business affected by the Transfer; namely, EICL, Hart Re, L&E and HFPI. The results of the capital model show the probability that each group of policyholder will have their insurance claims paid as they fall due. I have reviewed the output of this capital modelling work and have reviewed the supporting documentation. I have also reviewed some of the key assumptions in the model and the sensitivities produced by The Hartford.

4.6 I have also reviewed the amount of regulatory capital required to be held by each company. The regulator of an insurance company sets a level of required capital for that company. If the actual level of capital of the company falls below or gets close to the level of required capital then the regulator may intervene in the management of the company or impose restrictions on the day-to-day running of the company. As part of my work I have reviewed the available capital of the companies involved in the Transfer and have compared this against the level of required regulatory capital. The level of actual capital compared to regulatory required capital is one measure of the security provided to policyholders.

4.7 I have reviewed the various capital requirement assessments for each company to understand the possible variability in the outgoings of each company and in particular the downside risk. This was achieved by reviewing the documentation produced by The Hartford which summarised the latest version of their models. As well as reviewing the documentation to check that the methodology is appropriate, I have tested what I believe to be the key assumptions in the models. This review is described from paragraph 4.42.

Understand the impact of Solvency II.

4.8 The new Solvency II regulatory regime is expected to be implemented on 1 January 2016. At that point all insurance companies and reinsurance companies within the European Union will need to meet the Solvency II requirements that are currently being developed by the European Commission. This will replace the requirements for insurance and reinsurance companies in the UK.

4.9 I have discussed with the Hartford Group their approach to Solvency II for HFPI. I have also carried out a walkthrough of the main elements of their Standard Formula calculation (HFPI intends to use the Standard Formula approach). This is described from paragraph 4.63.

Consider the impact on levels of customer service.

4.10 I have considered how the level of customer service provided to each group of policyholders could change following the Transfer. This is discussed from paragraph 4.149.

Consider the implications of the Transfer to policyholders in different jurisdictions and any potential issues of non-enforceability of the Transfer.

4.11 I have considered the impact of policyholders being located in different jurisdictions (including outside the European Economic Area) through discussions with the Hartford Group. This is described in paragraph 4.133.

Consider the level of security offered to each group of policyholders, assuming existing arrangements, and assuming that the Transfer is effected.

4.12 I have considered each group of policyholders both before and after the Transfer and the relative strength of capital available compared to their capital requirements. This is described from paragraph 4.94.

Consider any other factors that might affect policyholders (for example, ongoing expenses levels).

4.13 I have considered these other factors through discussions with the Hartford Group. They are described from paragraph 4.157.

Claims reserve assessment

4.14 The claims reserve of an insurance company is an estimate of its liability in respect of future claim payments to its policyholders. It is an unknown amount (because future claim amounts are unknown and uncertain) but it can be estimated using various statistical techniques.

4.15 An important question when considering the security provided to policyholders of a company is whether the estimation of the claims reserves has been carried out in an appropriate way. This is because there is a risk that the company has underestimated the claims reserve, and therefore a risk that it will not be able to pay those claim amounts. Therefore, I have considered the adequacy of the claims reserves for the Hartford Group.

4.16 I will use the term 'best estimate' when referring to an estimate of the claims reserve, where that estimate has no intended margin for prudence or optimism, and where it is a reasonable estimate of the claims reserve given the data and information available. There are inherent risks in insurance business, and there are uncertainties when estimating a claims reserve amount. The methods used by actuaries to estimate a claims reserve often involve subjective judgements. Given that there is a range of assumptions that can be reasonably justified, there is also a range of best estimates that can be considered to be reasonable.

4.17 The table below shows a breakdown of the claims reserves for the portfolios relevant to the Transfer. The claims reserves are split by portfolio (i.e., EICL, Hart Re, L&E and HFPI), and then further split by relevant high level groupings.

Table 4a: Breakdown of claims reserves for portfolios involved in the Transfer – GBP millions – as at 31 December 2014

	Gross Claims Reserve	Net Claims Reserve
Direct	53.1	33.5
US Assumed	83.2	61.1
LMX	23.6	14.8
Other US Asbestos	9.2	9.2
US Asbestos	169.0	118.5
Asbestos	87.3	43.9
Non Asbestos	16.2	14.8
Direct UK EL	103.6	58.6
Direct	19.1	17.9
US Assumed	11.1	9.3
Other US Pollution	0.9	0.9
US Pollution	31.2	28.0
Other Liabilities	39.6	42.6
Total EICL	**343.4**	**247.8**
London	39.5	36.4
Total Hart Re	**39.5**	**36.4**
Asbestos	43.2	12.6
Pollution	9.1	3.3
Other	3.4	1.0
Total L&E	**55.7**	**16.9**
Total HFPI	**20.0**	**0.0**
Consolidation	**(6.7)**	**0.0**
Grand Total	**451.9**	**301.1**

4.18 The total claims reserve for all portfolios on a gross of reinsurance basis is £452.0 million. Net of reinsurance this amount is £301.1 million. The largest portfolio is EICL, representing approximately 75% of the gross claims reserve. L&E and Hart Re represent 12% and 9% respectively. The smallest component is HFPI, representing just under 5%. We note that the net of reinsurance amount is greater than the gross of reinsurance amount for EICL Other Liabilities; this is because this line in the table includes the allowance for bad debt reserves for all lines of business of EICL.

4.19 The types of liabilities included within these portfolios are wide ranging, but they are dominated by old casualty liabilities, in particular exposure to asbestos claims. The main categories are, with percentages shown representing the proportion of total gross claims:

- Asbestos (65%). Across EICL and L&E, including both direct and assumed, in US and UK.
- Pollution (9%). Across EICL and L&E.
- Other EICL and L&E liabilities (13%). This includes a very diverse range of other old casualty business, including other health hazards, exposures to UK and Australian Employers' Liability, European Motor business, and Professional Indemnity.
- Hart Re (9%). This includes reinsurance exposures to casualty, motor liability, marine and other lines of business. There are 31 known claims relating to UK Payment Protection Orders ('PPOs'), with a claims reserve in total of approximately £13 million.

- HFPI (5%). Includes mainly directors and officers, and errors and omissions insurance.

My review of Claims Reserves

4.20 I have received and reviewed actuarial reports prepared by the Hartford Group for each of EICL, Hart Re, L&E and HFPI that describe the analysis they have carried out to estimate the claims reserves of each portfolio. As part of this review I have considered the appropriateness of the data and methodology used by the Hartford Group. I have also considered the appropriateness of the key assumptions in that analysis. For parts of the claims reserves I have also cross-checked the amount booked by carrying out my own high-level analysis. This primarily involved applying high-level benchmarks from my own wider market experience to aggregated Hartford Group data. These benchmarks are obtained from insurance and reinsurance companies writing similar business to EICL, Hart Re, L&E and HFPI.

4.21 To estimate claims reserves the Hartford Group use a range of methods for different parts of the portfolio, dependent upon the nature of the exposures and the data available. This includes, for example:

- Standard actuarial methods, including the chain ladder method, where these approaches are appropriate, and sufficient data is available.
- Bespoke models for US asbestos liabilities, based on an analysis of the “ground-up” losses of cedants and underlying direct assureds. These are then applied to the specific policies written by the Hartford Group companies.
- Bespoke models for UK mesothelioma claims based on work similar to the Institute and Faculty of Actuary Working Party Model.
- Bespoke models for PPO claims, based on claimant age, life expectancy, award amounts, inflation etc.

4.22 Based on my review I conclude that the methods and approach used by The Hartford are reasonable, and that the reserve analysis has been carried out in an appropriate way.

4.23 My own high-level review of parts of the claims reserves suggested a value which was slightly higher than the booked amounts for asbestos and pollution exposures. However, given the uncertainties involved in these exposures I do not believe that this difference is material. In reaching this conclusion I have also considered the fact that my own analysis was based on aggregated data and was much less detailed than the work performed by the Hartford actuaries.

4.24 My conclusion is that the claims reserves for EICL, Hart Re, L&E and HFPI (as shown in their respective statutory accounts) lie within a range of reasonable best estimates (as I described above in paragraph 4.16).

Key uncertainties in claims reserves of EICL, Hart Re, L&E and HFPI

4.25 I believe that the key uncertainties in the claims reserve are as follows:

Asbestos

4.26 A significant proportion of the liabilities relate to asbestos exposures. Estimating the final settlement cost of asbestos claims is uncertain because this will depend on, amongst other things, the outcome of legal judgments and as yet unknown future inflation levels. There is also a risk of the emergence of new policy exposures. I have benchmarked the level of the booked claims reserve by comparing the IBNR amount as a percentage of the current outstanding claim amount. I carried this out separately for US asbestos and UK asbestos, and where relevant, for direct and reinsurance insureds. The EICL and L&E booked claim reserve is in the range of my market benchmarks.

4.27 Although there is still a large amount of uncertainty in the settlement of these claims there have been a number of settlements made with asbestos claimants throughout the insurance market that means that in some cases the uncertainty is reduced. This would be the case where a schedule of payments has been agreed between the insured company and the insurer. In such circumstances there is much less uncertainty for the insurer.

4.28 I believe that the level of IBNR will incorporate some allowance for potential deteriorations from these uncertainties. I have considered potential sensitivities to the estimation of these liabilities. This has given me some comfort that the total of the reserves and capital held provide a reasonable allowance given the uncertainty around the final cost of these asbestos liabilities.

Pollution and Health Hazards

4.29 In recent years there have been many favourable market settlements and pollution claims have shown a more stable pattern of development. However, there is still the potential for further adverse development.

4.30 I have compared the reserve estimates to wider market benchmarks and consider the pollution and health hazard claims reserves and capital held to give an allowance for the uncertainty inherent in such business.

Other Latent Claims

4.31 The potential for the emergence of new claim types for the Hartford Group would also be included within the IBNR allowance for APH (i.e., Asbestos, Pollution and Health hazards) claims. Given the age of the exposures and the fact that no material significant new claim types have arisen in recent years, the likelihood of new claim types emerging is now small and continuing to reduce over time. This does remain an uncertainty though, and is considered as part of the capital considerations.

4.32 The emergence of a new significant latent claim is an area of uncertainty that is implicitly considered when assessing the capital requirements.

Effect of the Transfer on the balance sheets of the companies involved

4.33 The table below shows simplified balance sheets for EICL, Hart Re, L&E and HFPI before the Transfer, and the enlarged HFPI after the Transfer. The balance sheets are shown on a UK GAAP basis. The financial amounts are based on a scenario where the Transfer was notionally effected on 31 December 2014. The planned Transfer Date is on 12 September 2015; however, it is instructive to consider the financial positions at 31 December 2014 because this is the most recent date at which audited financial information is available for each portfolio. I will produce a Supplementary Report prior to the Transfer Date, and this will comment on the most recent information available.

4.34 The starting point for the data shown in the table below is the audited financial statements of each portfolio. The actual position of the portfolios will be different to that represented below due to the actual experience between 31 December 2014 and the Transfer Date. However, I believe that this gives the best currently available picture of the business. In particular, I expect that the claims reserves will reduce between 31 December 2014 and the Transfer Date, since claims will naturally be closed and settled.

Table 4b: UK GAAP balance sheets pre-Transfer and post-Transfer - figures in GBP millions based on data as at 31 December 2014

		Pre-Transfer					HFPI
		EICL [A]	Hart Re [B]	L&E [C]	HFPI [D]	Transfer Adj. [E]	Post-Transfer [F]
[1]	Investments	266.9	72.9	14.1	25.5	124.8	504.2
[2]	Reinsurance recoverable	95.6	3.1	38.8	20.0	(25.6)	131.9
[3]	Debtors	9.8	30.3	6.2	1.1	(34.8)	12.6
[4]	Other	5.4	5.5	0.0	0.0	0.0	10.8
[5]	**Total Assets**	**377.7**	**111.8**	**59.1**	**46.6**	**64.4**	**659.6**
[6]	Gross claims reserves	343.4	39.5	55.7	20.0	(6.7)	451.9
[7]	Other liabilities	10.5	0.8	1.7	1.5	(4.8)	9.7
[8]	**Total Liabilities**	**353.9**	**40.3**	**57.4**	**21.5**	**(11.5)**	**461.6**
[9]	**Capital**	**23.8**	**71.5**	**1.7**	**25.1**	**75.9**	**198.0**
	Solvency measures:						
[10]	Capital/Gross Reserve	7%			126%		44%
[11]	Capital/Net Reserves	10%			NA		62%

4.35 Note that the Gross claims reserves (line 6 in the above table) of £451.9 million reconciles to table 4a in paragraph 4.17. The implied net of reinsurance claims reserves in the above table is £320.0 million (equivalent to £451.9 million less £131.9 million in line 2). This is different to the net of reinsurance claims reserve shown in table 4a due to the commutation of some outwards reinsurance contracts on the Transfer Date (see paragraph 4.89). The total net claims reserves of EICL, Hart Re, L&E and HFPI on 31 December 2014 was £301.1 million. If the Transfer were effected on that day there would be a commutation of reinsurance worth £18.9 million, so that the net claims reserves of HFPI after the Transfer would increase to £320.0 million.

4.36 The assets (other than reinsurance recoverable amounts) in HFPI post-Transfer will consist mostly of cash and bonds. I am satisfied that these assets are admissible for the purpose of demonstrating solvency for regulatory purposes (whether this is Solvency I or Solvency II).

4.37 Columns [A] to [D] show the balance sheets of the portfolios EICL, Hart Re, L&E and HFPI respectively. Note that the financial amounts for Hart Re represent the business of Hart Re, the UK branch, and not the totals for the whole of Hartford Fire. Similarly, the figures for L&E represent only the assets and liabilities transferring to HFPI, and not the amounts for AIL as a whole. Hartford Fire and AIL are much larger than Hart Re and L&E respectively.

4.38 Column [E] shows various other consolidation adjustments, commutations and other adjustments that will occur on the Transfer Date (see table 4c below). These are:

- A capital injection of £134 million from HFSG to HFPI. As described in paragraph 2.44, this will be the amount of additional assets needed in HFPI to increase the capital to a level that would meet the Solvency II regulatory required amount. The value of the capital injection will be adjusted nearer to the Transfer Date, based on the latest available data. I will comment on this in my Supplementary Report.
- There will be a payment of £28 million from HFPI to Hartford Fire for the premium in respect of the new ADC Reinsurance contract.
- A Letter of Commitment of £30 million provided by Hartford Fire to Hart Re will be cancelled and will not move from Hart Re to HFPI as part of the Transfer. Effectively, a part of the capital injection from HFSG will replace this asset of Hart Re.
- Two reinsurance contracts will be commuted: (i) the reinsurance provided by First State to L&E in respect of the Weavers Pool, and (ii) the reinsurance provided by Hartford Fire to L&E in respect of the BD Cooke Pool. Effectively, the reinsurance asset will be replaced by cash paid by First State and Hartford Fire respectively. These reinsurance commutations reduce the available capital of the post-Transfer HFPI by a relatively small amount (a net effect of £0.1 million).
- There are some other minor consolidation adjustments for reinsurance provided by EICL to L&E which will become obsolete after the Transfer, as both cedant and reinsurer will be moved to HFPI. This has no effect on the available capital of HFPI after the Transfer.

4.39 Column [F] shows the expected balance sheet of HFPI after the Transfer. Based on this analysis, the transferring portfolios, capital injection, and other adjustments will increase the available capital in HFPI by £75.9 million, on a UK GAAP basis.

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

		Consoli-dation	Letter of comm.	Commut-ations	Capital injection	ADC premium	**Total**
[1]	Investments			18.8	134.0	(28.0)	**124.8**
[2]	Reinsurance recoverable	(6.7)		(18.9)			**(25.6)**
[3]	Debtors	(4.8)	(30.0)				**(34.8)**
[4]	Other						**0.0**
[5]	**Total Assets**	**(11.5)**	**(30.0)**	**(0.1)**	**134.0**	**(28.0)**	**64.4**
[6]	Gross claims reserves	(6.7)					**(6.7)**
[7]	Other liabilities	(4.8)					**(4.8)**
[8]	**Total Liabilities**	**(11.5)**	**0.0**	**0.0**	**0.0**	**0.0**	**(11.5)**
[9]	**Capital**	**0.0**	**(30.0)**	**(0.1)**	**134.0**	**(28.0)**	**75.9**

4.40 For comparison, the following table shows the simplified balance sheets for Hartford Fire (based on the annual statement reported to the US regulator as at 31 December 2014) and AIL (based on the PRA returns as at 31 December 2014).

Table 4d: Hartford Fire and AIL balance sheets - figures in GBP millions based on data as at 31 December 2014

		Hartford Fire	AIL
[1]	Investments	13,367	10,412
[2]	Reinsurance recoverable	8,929	1,369
[3]	Debtors	17	1,181
[4]	Other	3,199	1,179
[5]	**Total Assets**	**25,512**	**14,141**
[6]	Gross claims reserves	14,749	8,054
[7]	Other liabilities	1,419	1,992
[8]	**Total Liabilities**	**16,169**	**10,046**
[9]	**Capital**	**9,344**	**4,095**
[10]	*Capital net of inadmissible assets*	8,845	4,095

4.41 Note, Line [6] "Gross claims reserves" comprises the total of: (i) Gross outstanding claims and IBNR, (ii) Gross unearned premium reserves, and, (iii) Loss adjustment expenses.

Capital modelling assessments

4.42 The level of security provided to the policyholders of an insurance company depends on the available assets of the company, and in particular on the probability that this level of assets is sufficient to make all claim payments as they fall due. I have considered two different bases to measure this security: (i) a model developed by the Hartford Group and their advisors to show the impact of the Transfer on the security provided to policyholders (I refer to this as the 'Hartford Capital Model'), and (ii), the Solvency II Standard Formula.

4.43 The Hartford Capital Model projects the future balance sheets, on a UK GAAP basis, of EICL, pre-Transfer HFPI, and post-Transfer HFPI. This model has the advantage of being based on more up to date data. The model is currently based on data as at 31 December 2013, but adjusted for various relevant changes to the position to 30 September 2014. Later in the year I will receive an update of the model based on data as at 31 December 2014 and will report on the findings in the Supplementary Report. In my opinion it is an appropriate model that enables a like-for-like comparison of the portfolios of business involved in the Transfer. As I will discuss below, the Hartford Capital Model also captures the most important specific features of the Transfer (for example, the HFSG Guarantees and the ADC Reinsurance). I will describe below my review of the Hartford Capital Model and the conclusions I have reached based on that model.

4.44 The other basis I have used is the Solvency II Standard Formula. This is the regulatory basis that will be used by HFPI from 1 January 2016, when Solvency II is implemented for the insurance industry.

4.45 There will be a period of approximately four months in which post-Transfer HFPI is regulated under the pre-Solvency II insurance regime in the UK. During this time HFPI would need to satisfy the regulatory requirements of ICAS and Solvency I. However, my understanding is that the PRA/FCA will not place any requirement on HFPI to complete an ICA for the period between the Transfer Date and the implementation of Solvency II. In any case, I believe that HFPI would meet the capital requirement of the ICAS regime based on the findings of the Hartford Capital Model. The level of capital in HFPI will also be much greater than the requirement based on Solvency I.

The Hartford Capital Model

4.46 The objective of the Hartford Capital Model is to show the impact of the Transfer on policyholder security. It is a stochastic model which projects simulations of future claim payments. For each simulation, the model works out if policyholders will be paid in full. The model is run on 100,000 simulations. So if, for example, policyholders were not paid in full for 1,000 of those simulations, then the probability of default of payment would be calculated as 1,000/100,000=1%.

4.47 I discuss the main features of the Hartford Capital Model below:

Time horizon

4.48 The Hartford Capital Model estimates the probability of default of payment to policyholders over the complete time horizon of the expected future claim payments, so that it can be used to calculate the probability of default in any future time period. For convenience I have reviewed the default probability calculations for 1, 5, 10, 25 and 50 years' time. This approach differs from the Solvency II basis, which is calibrated to a one year time horizon.

Quantities modelled

4.49 The model is primarily focused on reserve risk (i.e., the risk that the actual claims settlement cost is higher than the held reserve amount). This is the largest component of risk for the portfolios involved. The claim settlement cost is modelled by portfolio and by high-level class of business within each portfolio. The probability distributions for each line of business are calibrated using the reserve range work performed by The Hartford actuaries. The model also assumes correlations between classes of business and between entities.

4.50 The model estimates the probability that not all policyholders get paid in full, as the measure of policyholder security. The model assumes that the insolvency of an entity (including the reinsurer of an entity) leads to a total loss and that no dividends will be paid to creditors of that entity. This is a conservative assumption because even upon default, there is a good chance that at least some of the policyholders would be paid in full, or have a part of their claim paid.

AIL and Hartford Fire assumptions

4.51 The probability of default for L&E policyholders prior to the Transfer is equal to the probability of default of AIL (excluding the effect of the L&E/HFSG Guarantee) because the security given to those policyholders is provided by AIL as a whole. Similarly, the probability of default for Hart Re policyholders prior to the Transfer is equal to the probability of default of Hartford Fire.

4.52 Both of these probabilities have been derived from information made public by rating agencies, rather than from any attempt to model the whole balance sheets of either AIL or Hartford Fire. AIL and Hartford Fire both receive an A rating from S&P, and are assumed in the model to have a probability of default derived from S&P publicly available data on default probabilities.

4.53 The model also requires assumptions for the future 'impairment' of Hartford Fire. An insurance firm is impaired if they have a low level of capital, and are prevented from making dividend payments by their regulator - although they do have sufficient assets to pay policyholder claims and are not insolvent. If Hartford Fire became impaired at some point in the future then it is likely that they would not be able to make dividend payments to the parent company, HFSG (although Hartford Fire would technically be solvent and be able to make payments to their policyholders). Under those circumstances the model assumes that HFSG would not be able to meet claims under the HFSG Guarantees. This is the mechanism by which the ADC Reinsurance contract provides arguably greater security than the HFSG Guarantees. Hartford Fire would need to become insolvent in order that the ADC Reinsurance payments are not met. In contrast, Hartford Fire would only need to become impaired for the dividend payments to HFSG to be curtailed. Hartford Fire is the largest part of the Hartford Group and there is a risk that there would be no other funds available to pay claims under the HFSG Guarantees. As an example, the assumed probability of impairment for Hartford Fire over a 10 year time horizon is approximately double the default probability.

4.54 The model derives the balance sheets, on a UK GAAP basis, explicitly for each of EICL, current HFPI (i.e., assuming that the status quo is maintained and that the Transfer is not effected), and post-Transfer HFPI. The probability of default for Hart Re and L&E is simply equal to the default probabilities for Hartford Fire and AIL respectively.

Main assumptions

4.55 From my review of the Hartford Capital Model I believe that the most important assumptions are:

- Reserve distributions for each portfolio and liability type. These are derived from the claims reserve range work carried out by the Hartford Actuaries.
- Probabilities of impairment and default for Hartford Fire over time and probabilities of default for AIL over time. These are based on an extrapolation of A. M. Best and S&P publically available information.
- Various correlation factors between types of liability within and across portfolios, and between Hartford Fire default and AIL default. These are judgemental parameter assumptions.

Results of the Hartford Capital Model

4.56 The Hartford Capital Model considers the following six groups of policyholders:

- Policyholders of EICL that can establish a claim under the EICL/HFSG Guarantee.
- Policyholders of EICL that cannot establish a claim under the EICL/HFSG Guarantee.
- Policyholders of L&E that can establish a claim under the L&E/HFSG Guarantee.
- Policyholders of L&E that cannot establish a claim under the L&E/HFSG Guarantee.
- Policyholders of Hart Re that effectively have the same security as all policyholders of Hartford Fire.
- Original HFPI policyholders.

4.57 The numerical output from the Hartford Capital Model shows that all six groups of policyholder have a better security position after the Transfer. This applies for all future durations (i.e., by considering the probabilities of default at each of 1, 5, 10, 25 and 50 years).

My review of the Hartford Capital Model

4.58 I have received and reviewed a document, prepared by The Hartford, which describes the Hartford Capital Model, its methodology, the key assumptions and the results. I have also had a walkthrough of the model with The Hartford and their advisors and discussed the main results, modelling approaches and parameters. This review also included a walkthrough of the Solvency II calculation under the Standard Formula.

4.59 I have considered the results of sensitivity tests carried out by The Hartford. These show the effects on the results of changing the values of the parameters used in the model. I also requested some of my own further sensitivity tests to be carried out. I have also carried out some of my own sense checks on the output to the model.

4.60 I believe that the choice of the six policyholder groups modelled by The Hartford is appropriate.

4.61 I note that the Hartford Capital Model does not explicitly model investment risk. However, the investments held by EICL and HFPI are mostly bonds and cash, and I believe that investment risk is a much smaller risk to the firms than reserve risk. I have reviewed the results of sensitivity tests with differing future investment return assumptions, and this shows that each group of policyholders is still better off after the Transfer under those alternative scenarios.

4.62 I am satisfied that the modelling work carried out is appropriate for the risks and uncertainties inherent in the business.

Solvency II

4.63 The new Solvency II regulatory regime as transposed by the PRA will be implemented on 1 January 2016. At that point all insurance companies and reinsurance companies within the European Union will need to meet the Solvency II requirements developed by the European Commission. Insurance and reinsurance firms in the UK will need to comply with the PRA's rules and also the Level 2 Delegated regulation (and any level 3 EIOPA guidelines).

4.64 Under Solvency II the regulatory capital of an insurer or reinsurer will be either based on an Internal Model, a Standard Formula, or a Partial Internal Model:

- The Internal Model approach involves the insurer or reinsurer using its own capital model to calculate its regulatory capital requirement. The Internal Model is required to be approved by the PRA/FCA. The Solvency II Internal Model approach measures the variability in the balance sheet of the company over a one year future time horizon.

- The Standard Formula is generally a simpler approach. There is a prescribed basis for calculation and a prescribed set of parameters to use.

- A Partial Internal Model is a mixture of an Internal Model and the Standard Formula. The insurer or reinsurer would use an Internal Model to estimate part of the regulatory capital and the Standard Formula to calculate the remainder.

4.65 The choice between Internal Model, Standard Formula or Partial Internal Model is made by the insurer or reinsurer itself. However, the form and structure of Internal Models and Partial Internal Models are subject to approval by the relevant regulator (most likely the regulator in the home country of the insurer or reinsurer). In cases where the regulator cannot approve an Internal Model, or a Partial Internal Model, then there is a possibility that the Standard Formula will be applied by default. The choice between Internal Model, Standard Formula or Partial Internal Model is subject to suitability. A regulator may not accept the Standard Formula approach if it believes a firm's business is too non-standard for this to give an adequate view of the risks faced by the firm.

4.66 The Solvency II models are calibrated at the 99.5% level over a one year future time period (i.e., a 1 in 200 probability of not meeting their obligations in the coming year). This means that if a company meets this requirement, then the probability of meeting their obligations over the next year should be in excess of the 1 in 200 level.

4.67 HFPI intends to use the Standard Formula as the basis for its regulatory capital amount under Solvency II. I have discussed the approach used by the Hartford Group to calculate the Standard Formula capital requirement for HFPI post-Transfer. I have also reviewed summary output from those calculations. Based on my review I believe that the Standard Formula amount for HFPI post-Transfer has been calculated in an appropriate way. The amount of the capital injection from HFSG into HFPI on the Transfer Date will be set at a level so that the capital in HFPI will be at the level of Standard Formula required amount. Therefore, I expect that HFPI will meet the Solvency II capital requirement after the Transfer.

4.68 I note that there are some simplifications in the basis of the Solvency II Standard Formula that will not take into account all types of risk mitigation available to firms. In particular, the basis of the Standard Formula does not give any credit to the ADC Reinsurance that will be in place for HFPI post-transfer. The ADC Reinsurance provides for a significant amount of additional protection for HFPI; effectively there is no downside risk for the settlement of the claims reserves because any deterioration will be covered by Hartford Fire. 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%. The amount of reserve risk projected by this model would be zero, although there would be a corresponding smaller offsetting increase in credit risk from the ADC Reinsurance. After the Transfer, and at a future convenient time, HFPI would have the option of developing a Partial Internal Model, subject to approval by the PRA/FCA, which would reduce the Solvency II capital requirement substantially. Once implemented and approved, HFPI would hold capital well in excess of the Solvency II capital requirement.

4.69 In other respects I believe that the Standard Formula is an appropriate basis for calculating the capital requirement for post-Transfer HFPI under Solvency II. For the reasons described above, I expect that the amount calculated using the Standard Formula will be much higher than a Partial Internal Model basis or a Full Internal Model basis. I note that the PRA have not yet provided approval for HFPI to use the Standard Formula as the basis for calculating HFPI's capital requirement under Solvency II.

Other aspects of Solvency II

4.70 I believe that HFPI is well advanced in its Solvency II preparations. I have held meetings with the Hartford Group to discuss the overall implementation of Solvency II for HFPI. I have also received HFPI's and EICL's Own Risk and Solvency Assessment Report (the 'ORSA') which will apply after the Transfer. The ORSA describes the processes used by HFPI to identify, monitor and report on the risks to which it is exposed. These documents for EICL and HFPI will be consolidated to provide a framework for post-Transfer HFPI. Based on this review, I believe that HFPI are making appropriate progress for Solvency II compliance.

Impact on the Hartford Group

4.71 Hartford Fire, Nutmeg Insurance Company (HFPI's shareholder) and HFSG are domiciled in the US and are not directly subject to the Solvency II Directive. However, the treatment of insurers other than HFPI within the Hartford Group will depend on whether the US is deemed equivalent under the Solvency II Directive. If equivalence is granted to the US, then the PRA (as lead UK regulator of HFPI) would need to rely on the equivalent group supervision in the US. The Hartford Group could be brought into the Solvency II regime through direct obligations on HFPI under the Solvency II Directive. If, however, the US is not deemed equivalent, then the position is more complex and aspects of the Solvency II regime would potentially apply at higher levels within the Hartford Group, unless the PRA and HFSG's existing group supervisor (the Connecticut Insurance Department) agree otherwise. At the date of this report, it is currently unclear whether or not the US will be deemed to be equivalent for the purposes of the Solvency II Directive but the situation will continue to be monitored.

4.72 Hart Re is exempt from Solvency II because it wrote only reinsurance business and was placed in run-off before 10 December 2007.

4.73 Any impact to the Hartford Group from Solvency II does not affect my conclusion on the Transfer.

Impact on the Aviva Group

4.74 The Solvency II program of AIL will be made slightly simpler after the Transfer, without the need to consider the L&E portfolio.

Finalisation of Solvency II requirements

4.75 It is important to note that the Solvency II requirements have not yet been finalised and so my comments in this section are all based on the detail available at the time of writing this report. It is possible that the final regulations will vary from this current understanding, and this should be borne in mind when reading this section.

Conclusion on Solvency II

4.76 An important point to remember is that even if HFPI post-Transfer does not meet the regulatory required capital (whether based on Standard Formula or a Partial Internal Model) then this does not necessarily mean that HFPI will not be able to settle all insurance claims in full. The balance sheet "strength" of HFPI would be the same, but the regulatory required capital amount would be higher. In such a circumstance the company may still be able to meet its liabilities.

4.77 Regardless of whether the Transfer goes ahead all original HFPI policyholders and Transferring Policyholders (other than Hart Re policyholders) will be within a company subject to Solvency II rules from 1 January 2016. For these reasons I conclude that the Transfer does not materially disadvantage any group of policyholders as a result of the implementation of Solvency II.

Assessment of guarantees

HFSG Guarantees

4.78 Some EICL and L&E policyholders may benefit from a guarantee provided by HSFG.

4.79 As described in paragraph 2.36 there are currently two inter-company guarantees, provided by HFSG, which may benefit various Transferring Policyholders. The EICL/HFSG Guarantee is for the benefit of certain EICL policyholders and the L&E/HFSG Guarantee is for the benefit of certain L&E policyholders. Each guarantee states that, in the event that the company is unable to make the full payment to the policyholders covered by the guarantee, HFSG will pay the outstanding balance. Neither the EICL/HFSG Guarantee nor the L&E/HFSG Guarantee will transfer to the enlarged HFPI; they will both become redundant after the Transfer.

4.80 There are a number of uncertainties in the application of these guarantees which mean that not all policyholders of EICL and L&E will be covered by the guarantees, and that it would be difficult for a policyholder to make a claim under the guarantees. The uncertainties arise from the wording and form of the guarantees. I have discussed the applicability of the guarantees with the Hartford Group and their advisors. The Hartford Group have also commissioned an independent review, performed by William Trower QC, of the wording of the guarantees. I have received and reviewed a copy of that legal advice.

4.81 From my review of the legal advice I understand that neither of the HFSG Guarantees satisfies the necessary statutory requirements to be classified as a deed. The documents could be viewed as being a contract between HFSG and various policyholders of EICL and L&E. A policyholder may be able to make a claim under one of the guarantees, but they may need to show that they knew of the terms of the guarantee when they entered into or renewed their insurance policy, and that they knew that they were beneficiaries of the guarantee when doing so.

4.82 My conclusions on the applicability of the HFSG Guarantees are as follows:

- ► It is not possible to determine how many and which policyholders would be able to make a claim under each of the guarantees because this will depend on the individual circumstances of the policyholder (e.g., when they purchased or renewed their policy, whether they knew of the existence of the guarantee, and whether they can prove that they knew of its existence).

- ► The vast majority of policyholders would have purchased their policy before the issue of the HFSG Guarantees in 1991 and 1992. Therefore, I believe that it is likely that relatively few, if any, policyholders will be able to show that they knew of the existence of the guarantees and took this into account when they purchased or renewed their insurance policy.

- Even where a policyholder did know of the existence of the HFSG Guarantees and believes that they could make a valid claim under a guarantee, it may be difficult to produce evidence of this. There is therefore some uncertainty over whether their claim under the guarantee would be successful.

4.83 As part of my assessment of the Transfer I have considered the policyholders who may benefit from either of the HFSG Guarantees as a separate sub-group of policyholder.

ILU Guarantees

4.84 As described in paragraph 2.41, HFSG entered into two separate agreements with the ILU which guarantee a portion of the business written in each of EICL and L&E. These guarantees will remain in place after the Transfer, and will provide the same level of protection to any policyholder covered by the guarantees. Therefore, my conclusion on the Transfer is not affected by the existence of these guarantees.

Other aspects of the Transfer

ADC Reinsurance

4.85 I have reviewed the proposed wording of the ADC Reinsurance contract and am satisfied that this will provide the level of insurance cover as described to me by The Hartford, and as valued in the Hartford Capital Model. I used legal support from Freshfields Bruckhaus Deringer LLP, as the legal advisors to The Hartford, in relation to the ADC Reinsurance contract wording.

4.86 The premium for the ADC Reinsurance has been calculated on a consistent basis with the Hartford Capital Model and I am satisfied that this is an appropriate arm's length premium for the contract.

4.87 A full description of the ADC reinsurance is shown in paragraph 2.51.

Letter of commitment

4.88 Cancellation of the letter of commitment from Hartford Fire to Hart Re is simply a reallocation of assets in the post-Transfer HFPI (from a letter of commitment to cash). For this reason I do not believe that this has any material effect on my conclusions on the Transfer.

Commutation of Hartford Reinsurance

4.89 Two reinsurance contracts will be commuted: (i) the reinsurance provided by First State to L&E in respect of the Weavers Pool, and (ii) the reinsurance provided by Hartford Fire to L&E in respect of the BD Cooke Pool. Effectively, the reinsurance asset will be replaced by cash paid by First State and Hartford Fire respectively.

4.90 These commutations simplify the intra-group reinsurance arrangements for the Hartford Group. The amounts involved are also small compared to the size of the overall HFPI reinsurance asset. Also, the ADC Reinsurance means that post-Transfer HFPI will still have full cover for claims reserve deteriorations with Hartford Fire. For these reasons I do not believe that the commutations have any material effect on my conclusions on the Transfer.

Aviva Indemnity

4.91 The Aviva Indemnity (see paragraph 2.30) will transfer to HFPI as part of the Transfer and will subsequently be cancelled. The Aviva Indemnity forms part of the Aviva SPA, protecting AIL as a whole rather than a contract protecting the individual L&E policyholders. In this respect it differs from the HFSG Guarantees, and it is, in fact, more similar to the reinsurance contracts written by The Hartford which protect L&E. There may be some amounts collectable under those reinsurance contracts and the Aviva Indemnity; however, in the event of an insolvency of AIL, the L&E policyholders would have no preferential rights to the amount collected on the Aviva Indemnity – those amounts would be shared out amongst all creditors of AIL. Any asset from the Aviva Indemnity would be very small in the context of all of the remaining assets of AIL, and so has an inconsequential effect on the security provided to the policyholders of L&E. For this reason the cancellation of the Aviva Indemnity following the Transfer has no effect on my conclusion on the Transfer.

Rationale for my conclusions

4.92 I have identified the following six groups of policyholders:

- Policyholders of EICL – I have further divided this group into two sub-groups, depending on whether a policyholder is a beneficiary of the EICL/HFSG Guarantee.
- Policyholders of Hart Re.
- Policyholders of L&E - I have further divided this group into two sub-groups, depending on whether a policyholder is a beneficiary of the L&E/HFSG Guarantee.
- Policyholders of HFPI.
- Non-transferring policyholders of AIL.
- Non-transferring policyholders of Hartford Fire.

4.93 I will set out my specific comments for each group of policyholder below. Firstly, there are some general comments that apply to all policyholders of the enlarged HFPI post-Transfer:

Security provided by the Hartford Group post-Transfer

4.94 The security of the policyholders of HFPI after the Transfer will be provided by the Hartford Group: firstly through HFPI itself, and secondly, through the ADC Reinsurance contract, which provides additional protection from Hartford Fire. The original HFPI policyholders will also have the protection of the HFPI QS Trust. There are therefore, either two or three layers of protection:

(1) HFPI will be responsible for paying policyholders claims in the first instance. After the capital injection, HFPI will have a good level of capitalisation, equal to the level of the required regulatory capital. Indeed, as I discussed in paragraph 4.68, the level of capital in HFPI would be well above the regulatory level required if HFPI were to implement a Solvency II Partial Internal Model.

(2) If there is any deterioration in the expected cost of claims for HFPI then this amount would be recoverable from Hartford Fire under the ADC Reinsurance contract or the HFPI Quota Share as appropriate. Hartford Fire is a very large and well diversified insurer, and is A rated by S&P. The ADC Reinsurance protection provides significant additional security to policyholders.

(3) Original HFPI policyholders will also benefit from the amended HFPI QS Trust which will collateralise the HFPI Quota Share, and provide additional security for payments made under that reinsurance contract with Hartford Fire.

4.95 The existence of the ADC Reinsurance and the HFPI Quota Share means that HFPI will always be able to meet its policyholders' claims whilst Hartford Fire remains solvent. Even in situations where Hartford Fire does become insolvent there is still a very good chance that HFPI will be able to meet policyholder payments. This is because HFPI has a good level of capital in its own right, and this could be used to cover a deterioration in claim payments up to the level of that capital.

4.96 The capital modelling work carried out by the Hartford Group suggests that for all policyholders the level of security after the Transfer is better than the level of security before the Transfer.

4.97 I have reviewed the claims reserving work carried out by the Hartford Group and have carried out my own high-level reasonableness checks of that work. My conclusion is that the claims reserves of the post-Transfer HFPI would be set on a reasonable basis.

4.98 For all the above reasons I believe that the level of security after the Transfer is very good for all policyholders of the enlarged post-Transfer HFPI.

Security of transferring EICL policyholders

Overall Conclusion: I believe that all EICL policyholders will have improved security after the Transfer. In the case of EICL policyholders who are not beneficiaries of the EICL/HFSG Guarantee, I believe that the level of security will be significantly improved.

4.99 Prior to the Transfer some EICL policyholders may benefit from a guarantee provided by HSFG (i.e., the EICL/HFSG Guarantee). I have considered the two sub-groups of EICL policyholders separately as the existence of this guarantee means that the pre-Transfer level of security is different for each sub-group. As I described in paragraph 2.39, it is unclear which, if any, EICL policyholders would be able to make a claim under the guarantee if and when this is needed.

EICL policyholders who are not beneficiaries of the EICL/HFSG Guarantee

4.100 The level of capital in EICL is currently relatively low. Although there are currently sufficient funds in the company to pay future expected claim payments, there would only need to be a relatively small deterioration in the claims reserves to make the company insolvent. In those circumstances the policyholders would need to rely on discretionary additional capital from the Hartford Group.

4.101 After the Transfer this group of policyholders would be insured by the enlarged HFPI. This company would have much more capital relative to its size and would meet the Solvency II regulatory capital requirement. More importantly, there would be complete reinsurance of any adverse claim development with Hartford Fire (achieved through the new ADC Reinsurance which will be put in place). Hartford Fire is a very large and well diversified insurer, and this reinsurance protection provides significant additional security to the EICL policyholders.

4.102 I believe that this sub-group of EICL policyholders would have significantly improved security after the Transfer.

EICL policyholders who are beneficiaries of the EICL/HFSG Guarantee

4.103 This sub-group of policyholders has better security prior to the Transfer than the EICL policyholders without the benefit of the EICL/HFSG Guarantee. They are able to make a claim against HFSG under the guarantee in circumstances where EICL does not pay.

4.104 After the Transfer the EICL/HFSG Guarantee would be cancelled, but the new ADC Reinsurance will be in place. I believe that the ADC Reinsurance will provide slightly better protection for the policyholders than the EICL/HFSG Guarantee. This is because:

- The ADC Reinsurance protects the solvency of the insurer (i.e., HFPI), while the guarantee provides recourse to certain policyholders in the event of default of an insurer. This is significantly less convenient and less certain for the policyholder. I discuss this in more detail in paragraphs 4.78 to 4.83.

- Hartford Fire’s solvency is supervised by its insurance regulator in Connecticut. Hartford Fire holds claims reserves and capital margins against its reinsurance obligations. In contrast, HFSG is a parent holding company whose results, and ability to make guarantee payments, rely on the performance of its key insurance subsidiary, Hartford Fire.

- If Hartford Fire becomes impaired, dividends from Hartford Fire to HFSG will be curtailed by the Connecticut regulator. The guarantee will then cease to provide security, while the ADC Reinsurance will continue to respond.

4.105 After the Transfer this group of policyholders would be insured by the enlarged HFPI. This company would have much more capital relative to its size and would meet the Solvency II regulatory capital requirement.

EICL US Trust policyholders

4.106 The EICL US Trust currently holds approximately $3 million of EICL's assets. Given that the size of this fund is very small, I do not believe that this has a material effect on the Transfer. Moreover, although the EICL US Trust will not move to HFPI as part of the Transfer, as described above, HFPI will create and capitalise its own trust fund, providing equivalent protection to the affected policyholders.

4.107 The assets in the EICL US Trust are very small in the context of the liabilities of the enlarged HFPI after the Transfer, and I do not believe that the ring-fencing of these assets will materially affect the security of other HFPI policyholders.

Conclusion for EICL policyholders

4.108 The findings of the capital modelling work show that the EICL policyholders have improved security after the Transfer. It also shows that policyholders who do not currently benefit from the guarantee have much better security after the Transfer. The improvement in security is derived from:

- An increase in the amount of diversification achieved through being insured by a larger company after the Transfer.
- The benefit derived from the capital injection into the enlarged HFPI after the Transfer. EICL has relatively low capital relative to the size of its gross claims reserves (the ratio is 2%). After the Transfer, HFPI will have a much higher ratio (36%). The level of capital in HFPI after the Transfer would meet the regulatory capital requirement.
- The greater security provided by the ADC Reinsurance relative to the EICL/HFSG Guarantee. The operation of the ADC will also be certain; the ability of any policyholder to make a claim under the EICL/HFSG Guarantee is uncertain.

4.109 For these reasons I believe that the EICL policyholders have improved security after the Transfer.

Security of transferring Hart Re policyholders

Overall Conclusion: I believe that the Hart Re policyholders will have improved security after the Transfer.

4.110 Before the Transfer the Hart Re policyholders have security provided by Hartford Fire. Hartford Fire is a very large and well diversified insurer, and I believe that the security provided is very good.

4.111 After the Transfer the Hart Re policyholders will continue to benefit from Hartford Fire security through the ADC Reinsurance protection. They will also benefit from the additional security provided by being insured through the enlarged HFPI (including the capital injection) after the Transfer. This means that in any circumstance where Hartford Fire defaults on payment there is still a good chance that a transferring Hart Re policyholder would receive payment from HFPI.

4.112 For these reasons I believe that the Hart Re policyholders will have improved security after the Transfer.

Security of transferring L&E policyholders

Overall Conclusion: I believe that the L&E policyholders will have either equivalent or improved security after the Transfer.

- **I believe that the L&E policyholders who are beneficiaries of the L&E/HFSG Guarantee will have equivalent security after the Transfer.**
- **I believe that the L&E policyholders who are not beneficiaries of the L&E/HFSG Guarantee will have improved security after the Transfer.**

4.113 Prior to the Transfer some L&E policyholders may benefit from a guarantee provided by HFSG (i.e., the L&E/HFSG Guarantee). I have considered the two sub-groups of L&E policyholders separately as the existence of this guarantee means that the pre-Transfer level of security is different for each sub-group. As I described in paragraph 2.39, it is unclear which, if any, L&E policyholders would be able to make a claim under the guarantee if and when this is needed.

4.114 An important issue when considering L&E policyholders is the equivalence or otherwise of AIL and Hartford Fire. Both companies are rated A by S&P. Both companies are also very large, well-diversified and capitalised companies. I therefore believe that the security provided by each to their policyholders is broadly equivalent, and in my reasoning below I have treated AIL and Hartford Fire as providing an equivalent level of security.

L&E policyholders who are not beneficiaries of the L&E/HFSG Guarantee

4.115 Before the Transfer the L&E policyholders have security provided by AIL. AIL is a very large and well diversified insurer, and is rated A by S&P. I believe that the security provided before the Transfer is very good.

Before the Transfer AIL has some reinsurance placed with the Hartford; AIL also benefits from the Aviva Indemnity. The combination of this protection from The Hartford, and from other external reinsurers, means that AIL has no economic risk from the L&E business (provided that The Hartford meets the payments under those contracts). However, this does not provide any additional protection to the L&E policyholders because those contracts protect

AIL rather than the policyholders themselves. AIL is a very large company, and the size of any recoverable amounts from The Hartford is immaterial in the context of the overall assets of AIL. For this reason the security pre-Transfer for the L&E policyholders (without the L&E/HFSG Guarantee) is effectively provided by AIL alone, rather than being “double protection” from AIL and The Hartford.

4.116 After the Transfer the L&E policyholders will have security provided by the Hartford Group, in the form of HFPI and Hartford Fire. As I described in paragraph 4.94, this provides a very good level of security after the Transfer.

4.117 I believe that the level of security will be improved after the Transfer. This is because before the Transfer the security is provided by AIL alone; after the Transfer there is effectively double protection from HFPI and from Hartford Fire. I believe that AIL and Hartford Fire provide an equivalent level of security. Therefore, post-Transfer, this group of policyholders will gain the additional protection through being covered by HFPI.

L&E policyholders who are beneficiaries of the L&E/HFSG Guarantee

4.118 The position for this group of policyholders is made more complicated by the existence of the L&E/HFSG Guarantee. They have some form of protection from both the Aviva Group (i.e., insurance held with AIL) and from the Hartford Group (i.e., protection under the L&E/HFSG Guarantee). I believe that the security provided before the Transfer is very good – and, provided there is certainty over the enforceability of the L&E/HFSG Guarantee, much better than those policyholders of L&E without the benefit of the L&E/HFSG Guarantee.

4.119 The question of whether these policyholders are better or worse off after the Transfer then depends on how one weighs up the merits and disadvantages of the L&E/HFSG Guarantee, the ADC Reinsurance, and the capital held in HFPI. In summary:

- Before the Transfer policyholders are covered by AIL, a large, well-diversified insurer. They have additional protection in the form of a guarantee from HFSG, the parent company of the Hartford Group.
- After the Transfer the policyholders have protection from Hartford Fire in the form of the ADC Reinsurance. They have additional protection in the form of capital held within HFPI which can be used to pay insurance claims even if Hartford Fire is in default.

4.120 I believe that the security provided by AIL before the Transfer is equivalent to that provided by the ADC Reinsurance after the Transfer. I believe that the policyholders will lose one aspect of the protection they currently receive (the L&E/HFSG Guarantee) but will gain further protection in the form of the additional capital in HFPI.

4.121 The Hartford Capital Model shows that the security after the Transfer for this group of policyholders is slightly improved. My view is that there are significant uncertainties in quantifying the security provided by AIL, Hartford Fire and HFPI, but that on balance the security of this group of policyholders after the Transfer is equivalent to their position before the Transfer.

Conclusion for L&E policyholders

4.122 My overall conclusion for the L&E policyholders is that they would have equivalent or improved security after the Transfer.

4.123 If a policyholder can be certain that the L&E/HFSG Guarantee is enforceable then I believe that the security provided is equivalent for the pre-Transfer and post-Transfer arrangements. In both cases I believe that the security provided is very good. However, I believe that there are some significant uncertainties for the L&E policyholders if they were to attempt to make a claim under the L&E/HFSG Guarantee (as described above in paragraph 2.39). I also believe that the majority of L&E policyholders would not meet the criteria to be able to make a claim under this guarantee.

4.124 Therefore, I believe that a greater level of certainty and security would be achieved in the post-Transfer arrangement, where the wording of the ADC Reinsurance is more certain and the benefit of the additional capital in HFPI is better understood. It would also be significantly more convenient for policyholders to make an insurance claim against HFPI than to pursue a claim under the L&E/HFSG Guarantee.

Security of current HFPI policyholders

Overall Conclusion: I believe that the HFPI policyholders will have equivalent security after the Transfer.

4.125 Before the Transfer the HFPI policyholders have a good level of security due to the existence of the HFPI Quota Share (see paragraph 2.34). Under this arrangement Hartford Fire fully reinsures the claims liabilities of HFPI. The HFPI policyholders also benefit from the HFPI QS Trust which collateralises the HFPI Quota Share. Hartford Fire maintains a pool of ring-fenced assets, subject to investment restrictions, that can only be used to pay policyholders whose policy is covered by the HFPI QS Trust. I believe that this provides for a good level of security before the Transfer.

4.126 The HFPI Quota Share and the HFPI QS Trust will remain in place after the Transfer. The terms of the HFPI Quota Share will be amended on the Transfer Date in order to ring fence the benefit of the reinsurance and the HFPI QS Trust for the original HFPI policyholders alone after the Transfer.

4.127 The Swiss Tied Asset Account will remain in place after the Transfer and will provide the same level of additional protections to the Swiss branch policyholders. The amount of assets segregated in the Swiss Tied Asset Account is relatively small in the context of the enlarged HFPI post-Transfer, and I do not believe that this has any material effect on the security provided to non-Swiss Branch policyholders.

4.128 For the above reasons I believe that the security provided to the original policyholders of HFPI will be equivalent after the Transfer.

4.129 I also note that the HFPI QS Trust means that the original HFPI policyholders will have a slightly better level of security after the Transfer than those policyholders moving to HFPI from Hart Re, EICL and AIL.

Security of non-transferring AIL policyholders

Overall Conclusion: I believe that the non-transferring AIL policyholders will have equivalent security after the Transfer.

4.130 The size of the portfolio transferring from AIL to HFPI is immaterial in the context of the size of AIL. The value of the claims reserves transferring is £57 million, compared with claims reserves of £5.3 billion for AIL (i.e., approximately 1%). Therefore I do not believe that there is any material change to the security provided to the remaining policyholders of AIL.

Security of non-transferring Hartford Fire policyholders

Overall Conclusion: I believe that the non-transferring Hartford Fire policyholders will have equivalent security after the Transfer.

4.131 The size of the portfolio transferring from Hart Re to HFPI is immaterial in the context of the size of Hartford Fire. The value of the claims reserves transferring is £54 million, compared with claims reserves of £10 billion for Hartford Fire (i.e., just over 0.5%). Therefore, I do not believe that there is any material change to the security provided to the remaining policyholders of Hartford Fire. I note that there are various other European branch offices of Hartford Fire which do not form a part of the Transfer. The policies of those branch offices will continue to be administered by Hartford Fire in the usual way, and I do not believe that they will be affected by the Transfer.

Other considerations

4.132 I have considered the additional issues set out below:

Transferring Policyholders in non-EEA jurisdictions

4.133 I have discussed with the Hartford Group and its advisors the possible impact of the Transfer on policyholders outside of the European Economic Area ('EEA'). Outside of the EEA, the largest proportion of the Transferring Policies is that governed by the laws of the United States of America. In this regard, I have also considered a legal opinion (the 'US Comity Opinion') obtained by The Hartford on the effectiveness of the Transfer in the United States of America (see paragraph 4.168).

4.134 All policies will transfer as a matter of English law, and as a matter of the law in all EEA states. The question is whether, to the extent any policies are governed by the laws of a non-EEA state, such policies will transfer as a matter of local law. I am not aware of any evidence that the Transfer would not be recognised in any of these non-EEA jurisdictions.

4.135 A jurisdiction outside of the EEA could declare that the Transfer is not effective. However, I do not believe that this has a negative impact on policyholders because HFPI would still be liable for payment of their claim. I do not believe that there is any material disadvantage to a policyholder by requiring them to receive payment of their claim from HFPI rather than from AIL, EICL or Hartford Fire. The table below shows the split of transferring policyholders by UK, EEA and non-EEA jurisdictions.

Table 4e: Transferring policyholder counts by jurisdiction

		Policyholder count (with outstanding claims)					Percentage Split				
		UK	EEA	Non-EEA	Not Allocated	Total	UK	EEA	Non-EEA	Not Allocated	Total
[1]	EICL	1,699	278	1,229	0	3,206	53%	9%	38%	0%	100%
[2]	L&E	24	7	423	3	457	5%	2%	93%	1%	100%
[3]	Hart Re	43	43	15	1	102	42%	42%	15%	1%	100%
	Total	1,766	328	1,667	4	3,765	47%	9%	44%	0%	100%

Note, the policy count columns in the above table show the number of policyholders with an open claim. It was not possible to ascertain the jurisdiction of four policyholders.

4.136 The Hartford Group are already administering the Transferring Policies and manage any claims under the outsourcing agreements already in place.

4.137 Therefore, the existence of policyholders outside of the EEA and the possibility of any non-EEA policies not transferring to HFPI under the Transfer does not affect my conclusion on the Transfer.

Potential for excluded policyholders

4.138 There is a theoretical possibility that an EEA regulator (other than the PRA) might refuse to consent to the Transfer. However, I do not believe that there are any contentious issues regarding the Transfer that might lead an EEA regulator to refuse consent, and I have not identified any reasons that might lead to any policies being excluded from the Transfer. I therefore consider it unlikely that any policyholders will be excluded in practice from the Transfer.

4.139 In the unlikely event that there any excluded policyholders I understand that HFPI would agree to pay policyholder claims in the usual way and that the Scheme includes a provision that HFPI will indemnify any transferor, so that the economic risk for all policyholders will transfer to HFPI. Therefore, the existence of any excluded policyholders does not affect my conclusion on the Transfer.

Policyholders rights under an insolvency of their insurer

4.140 I have considered the rights of policyholders in the event of an insolvency of their insurer or reinsurer. The rights to the remaining assets of the (re)insurer varies according to whether the policy was sold as insurance or reinsurance – contracts of insurance would have preferential rights to contracts of reinsurance.

4.141 The table below shows an approximate split of insurance and reinsurance policyholders for each portfolio. For EICL, L&E and Hart Re I have based the policy count on policies where there is an outstanding claim amount notified. For HFPI, where there are no outstanding claims, I have used the number of policies with notifications made and unexpired policies. In order to calculate the percentage splits for HFPI post-Transfer I have weighted the policy counts by the size of the gross claims reserve. There are various ways that I could have calculated these percentages, but I believe that this method gives an appropriate measure for the split between direct and reinsurance policies.

Table 4f: Policy counts by direct/reinsurance

	Policy count (notifications)			Percentage Split		
	Direct	RI	Total	Direct	RI	Total
[1] EICL	4,087	6,460	10,547	39%	61%	100%
[2] L&E	525	768	1,293	41%	59%	100%
[3] Hart Re	0	245	245	0%	100%	100%
[4] HFPI pre-Transfer	125	5	130	96%	4%	100%
[5] HFPI post-Transfer	4,737	7,478	12,215	38%	62%	100%

Note, the policy count columns in the above table show the number of policies with either an open claim, a notified claim (in the case of HFPI) or an unexpired policy.

4.142 For AIL and Hartford Fire, the majority of policyholders are direct policyholders.

4.143 The results of the Hartford Capital Model are calculated on the basis that any single one policyholder does not get paid. Where the model produces default probabilities these represent the probability that the “first” policyholder (typically a policyholder with a reinsurance policy) does not get paid. There will be other policyholders which rank higher and would have a lower probability of default. Given that the Hartford Capital Model shows that the lowest ranking policyholders have a high level of security after the Transfer, it follows that all policyholders have a high level of security.

4.144 My conclusion is that the ranking for various policyholders on insolvency of their (re)insurer will change after the Transfer, but I do not believe that this is a change that materially affects the likelihood of their claims being paid. This issue does not therefore affect my conclusion provided in paragraph 4.98; specifically that I believe that the level of security after the Transfer is very good for all policyholders of the enlarged post-Transfer HFPI.

Effect of a global economic downturn and uncertainty in Europe

4.145 In recent years there has been a downturn in global economic activity and resultant turmoil in the financial markets. In particular, there has been uncertainty in the financial markets and economies of European countries. There is 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.

4.146 It is currently unclear what the eventual impact of these events on the insurance industry will be and this increases the uncertainty surrounding any financial projection. There is the potential for an increase in claim frequency and claim severity across the insurance market. There is also the potential for a fall in the value of the investments held by insurance companies and an increased number of reinsurer insolvencies could reduce the value of the reinsurance asset.

4.147 I believe that the liabilities to which EICL, L&E, Hart Re and HFPI are currently exposed are unlikely to be directly affected by the economic downturn as they are in run-off. The investment portfolio held by HFPI post-Transfer will be a mix of cash and government bonds and so although the downturn may lead to increased volatility of returns, I believe that the security of the investments is good.

4.148 The Hartford have carried out capital modelling work in order to meet regulatory requirements and in order to understand the risks in their businesses. I am satisfied that the capital modelling work carried out allows adequately for the risks described above. I would also 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.

Customer Service

4.149 All of the policy administration and claims handling processes for the policyholders of EICL, Hart Re, L&E and HFPI are currently handled by Hartford Group subsidiary companies. The majority of these processes are carried out by Downlands Liability Management Limited ('DLM') on behalf of the Hartford Group. DLM is a wholly owned subsidiary of the Hartford Group. Claims and notifications from policyholders of HFPI are handled in New York by The Hartford's US Financial Products group.

4.150 There will be no change to these processes after the Transfer, with no change to claims settlement or policy administration protocols. Therefore, I do not believe that any issues relating to customer service have any effect on my conclusion on the Transfer.

Pension arrangements

4.151 There are no defined benefit pension liabilities within EICL and HFPI. Some employees and ex-employees of HFPI post-Transfer will be part of a defined contribution scheme, but HFPI will have no liability in respect of that scheme. Therefore, pension liability considerations do not affect my conclusion on the Transfer.

Tax implications of the Transfer

4.152 The Hartford has considered the tax effects of the Transfer and has received tax advice. To date this has been to confirm that there are no material tax charges arising from the proposed transaction structure. As a high level concept, funds will transfer from and to entities within a group structure and no capital is being extracted, so no tax liability should be incurred.

4.153 Across territories there is an injection of capital from the US side of the Hartford Group to the UK side which will need to be dealt with appropriately. The precise mechanisms by which the overall transaction is accomplished are being arranged so as to ensure that the resulting tax analysis aligns with the above high level concept.

4.154 I will comment on the tax implications of the final agreed structure in my Supplementary Report.

Investment Management implications of the Transfer

4.155 I understand that there are no planned changes to the investment policy used by HFPI. The assets that will be transferred into HFPI (other than the reinsurers' share of claims reserves) are made up of cash and bonds.

4.156 Therefore, I do not believe that any investment management changes affect my conclusion on the Transfer.

Implications of the Transfer on ongoing expense levels

4.157 Other than the initial costs of the Transfer, the ongoing expenses of the Hartford Group are not expected to change after the Transfer. I therefore conclude that the policyholders are not likely to be adversely affected by a change in ongoing expense levels as a result of the Transfer.

Financial Services Compensation Scheme

4.158 Consumer protection is provided by the Financial Services Compensation Scheme ('FSCS'). This is a statutory “fund of last resort” which compensates customers in the event of the insolvency of a financial services firm. Insurance protection exists for private policyholders and small businesses (with annual turnover of less than £1 million) in the situation where an insurer is unable to meet its liabilities. The FSCS will pay 100% of any claim incurred for compulsory insurance (e.g., motor third party liability insurance) and 90% of the claim incurred for non-compulsory insurance (e.g., home insurance), without any limit on the amount payable. The FSCS is funded by levies on firms authorised by the PRA/FCA.

4.159 The protection provided by the FSCS is currently available to various private policyholders and small business policyholders of the company’s involved in the Transfer. The same protection from the FSCS would continue to exist for these policyholders after the Transfer. I have therefore concluded that the policyholders are not adversely affected by the Transfer in relation to the FSCS arrangements.

Dispute resolution

4.160 The Financial Ombudsman Service ('FOS') provides private individuals and small businesses (with an annual turnover of less than €2 million and fewer than ten employees) with a free, independent service for resolving disputes with financial companies. It is not necessary for the private individual or small business to live or be based in the UK for a complaint to be dealt with by the FOS. It is necessary for the insurance policy concerned to be, or have been, administered from within the UK. The same service from the FOS would continue to exist for any relevant policyholders after the Transfer. I have therefore concluded that the policyholders are not adversely affected by the Transfer in relation to the FOS arrangements.

Liquidity position

4.161 As a result of the Transfer I do not anticipate any change to the liquidity position of the companies involved in the Transfer. I therefore conclude that the existing policyholders are not likely to be adversely affected as a result of the Transfer in relation to liquidity issues.

Accounting basis

4.162 The accounting basis currently used by EICL and HFPI is UK GAAP. The balance sheet information provided to me for L&E and Hart Re has also been prepared on a UK GAAP basis. The Hartford Capital Model also operates with balance sheets on a UK GAAP basis. For these reasons I consider that it is an appropriate basis for considering the Transfer.

4.163 At some point in the future there is a possible move to IFRS accounting when the final IFRS 4 accounting standard is introduced for insurance companies in Europe. After this change HFPI would be likely to need to produce accounts on an IFRS basis. This accounting standard will not be introduced before the Transfer Date. I am not aware that this change would have any significant impact on the financial strength of HFPI and I therefore conclude that the policyholders are not likely to be adversely affected through any changes to the accounting basis.

Future insurance business transfers

4.164 Given that there is a formal court approval process in place, and that approval would be required from the PRA/FCA for any future insurance business transfer, I do not believe that the possibility of a future transfer of the HFPI business has a material adverse effect on the policyholders.

Set-off rights

4.165 'Set-off' is a right that allows parties to cancel or offset mutual debts with each other by subtracting one from the other, and paying only the balance. I do not believe that there are any material set-off rights involving EICL, Hart Re, L&E or HFPI that can be exercised by cedants or reinsurers. I have not identified any set-off issues as part of my work, and so this does not affect my conclusion on the Transfer.

Policyholder communication strategy

4.166 The Hartford Group are undertaking procedures to notify policyholders of the Transfer. The Hartford Group has developed a communications strategy which provides for policyholder communication through a combination of:

- Directly writing to all identifiable, known, non-commuted policyholders of EICL, Hart Re and L&E with current outstanding claims or who have had any claims closed in the last five years to inform them of the change. This direct notification will include a summary of the terms of the Transfer and a summary (prepared by me) of this report.
- Directly writing to all HFPI policyholders (including a summary of the terms of the Transfer and a summary (prepared by me) of this report).
- Contacting the relevant brokers.
- Displaying information (including the terms of the Transfer, this report and my Supplementary Report) on The Hartford's website.
- Placing extensive advertising in the press, including:
  - (i) The legal Gazettes.
  - (ii) Various national newspapers (including eight further newspapers in addition to the legal requirement of two newspapers).
  - (iii) Various international newspapers (including at least one publication in each EEA State that has been identified in the Hartford's jurisdictional analysis relating to the governing law of the policies).
  - (iv) A significant number of trade publications.
- Placing notices on the websites of various key market bodies and associations and on the website of the Employers' Liability Tracing Office.

4.167 I am not aware of anything in the proposed communication to policyholders that would adversely affect any of the policyholders, and this does not affect my conclusion on the Transfer.

Legal opinions

4.168 I have taken specific legal advice in the following three areas:

- HFSG Guarantees – The Hartford commissioned an independent review, performed by William Trower QC, of the wording of these guarantees.
- US Comity Opinion – The Hartford obtained a legal opinion on the effectiveness of the Transfer in the United States of America . This was provided by Locke Lord, as legal advisors to The Hartford.

- I used legal support in relation to the wording of the ADC Contract and amended HFPI Quota Share. This was provided by Freshfields Bruckhaus Deringer LLP, as legal advisors to The Hartford.

4.169 I decided to take legal advice on the matters above because their subject matter is outside of my area of expertise. In each case where I chose to rely on legal advice, the firm providing the legal advice extended a duty of care to me and addressed the legal advice to me. I believe that it is appropriate for me to use this legal advice because:

a) I believe that the professionalism and reputation of the legal firms involved should allow me to do this.

b) The advice that I received accords with my own understanding of the issues.

c) I have been given permission by the firms to rely on the legal advice.

5. Reliance and limitations

Events following the modelling date

5.1 The conclusions in this report are based on various modelling work that has been carried out on data (typically 30 September 2014 or 31 December 2013). I have been informed by The Hartford that there have been no material changes in their respective data between the modelling dates and the date of this report. However, future events could occur between the date of this report and the effective date of the Transfer that could change my conclusions.

5.2 The balance sheets shown in this report are based on data as at 31 December 2014.

Reliance on other parties

5.3 In developing the conclusions in this report I have relied on the data and accompanying explanations supplied to me by and on behalf of The Hartford and Aviva. I have not specifically reviewed the data for accuracy and completeness.

5.4 I have also placed reliance on the claims reserving reports produced by The Hartford and their external consultants. I have carried out investigations, as detailed in this report, to gain comfort on the appropriateness of the methodology and conclusions for the most significant classes. However, this has not amounted to a full re-projection of every class of business, so by definition I have relied upon these documents for some components of the claims reserves. I believe that this is reasonable given the experience and professional qualification of the authors of the documents and the stress testing that I have carried out. The reviews that I have carried out on the reserves give no indication of any significant deficiency and I believe that similar methodologies have been adopted throughout.

5.5 I have also relied upon discussions that I have had with the management of The Hartford and Aviva. Where appropriate, I have sought documentation from them to evidence the assertions made to me in these discussions.

Use of benchmarks

5.6 As well as analysing the trends of the historical claims development, I have also relied upon benchmarks from wider market experience. Whilst the companies' own development can be expected to vary from the benchmarks based on individual circumstances, I believe that the benchmarks are an appropriate check. However, benchmarks are revised periodically as new information and trends emerge, and it is likely that individual accounts will differ from the average. Therefore, it is possible that these benchmarks will not be predictive of the future claim reporting of The Hartford.

5.7 I have also used other benchmarks based on my wider market experience to assess the appropriateness of some of the assumptions used within the reserve estimations and capital modelling performed by The Hartford.

Other reliances

5.8 The underlying numbers contained in this report are calculated to many decimal places and so totals and summaries are subject to rounding differences.

5.9 In my judgement, the results and conclusions contained in this report are reasonable given the information made available to me. However, the actual cost of settling future claims and those still outstanding as at the valuation date is uncertain as, amongst other things, it depends on events yet to occur such as future court judgments. It could be different from the estimates shown in this report, and possibly materially so. Such differences between the estimated and actual outcome could possibly have a material impact upon the balance sheet strength of the companies involved, and therefore upon the Transfer.

Appendix A Glossary of terms

List of abbreviations and terms used in this report

ADC Reinsurance	A new adverse development cover, the ADC Reinsurance, will be provided by Hartford Fire to the enlarged HFPI after the Transfer. The ADC Reinsurance will cover all the business that is transferring into HFPI as part of the Transfer. The ADC Reinsurance will provide cover from the current level of the net of reinsurance reserves upwards and will be unlimited in value. Under this arrangement, any deterioration in the net claims reserves for the transferring business will be met by Hartford Fire.
Aviva Indemnity	When London and Edinburgh was sold to the Aviva Group (to Norwich Union Insurance Limited), The Hartford retained the economic interest in the L&E portfolio via an indemnity, guaranteed by HFSG, to Norwich Union Insurance Limited. This was included in the sale and purchase agreement between the Hartford Group and Aviva.
Aviva SPA	The sale and purchase agreement between the Hartford Group and Aviva for the sale of LEIC.
Benchmarking	The process of comparing figures, data and assumptions for a particular insurer against the equivalent figures for similar insurers in the Insurance Market.
Branch	A representative office of an overseas company. A branch is not a separate entity for legal or regulatory purposes and does not need to prepare separate financial statements.
Casualty Business	A type of insurance business that provides coverage for an individual or organisation's liability from their own negligent acts. A feature of some types of casualty business is that the claims may take a long time to be reported to the insurer, and that once reported, they may take a long time to be settled (e.g., because the claim costs depend on the outcome of court judgments that take many years to be decided).
Chain Ladder Method	An actuarial method commonly used in the field of general insurance for estimating claim reserve amounts. The method considers the historical development of reported paid and incurred claims and then extrapolates this historical claim development into the future to estimate future claim development. An important assumption in this method is that it expects the future development of claims to be similar to the historical average. The method involves some actuarial judgement in determining the assumption for the pattern of future claims from the historical data.
Commutation	The process by which reinsurance or insurance contracts are cancelled by mutual agreement between the (re)insurer and the (re)insured. Future payments and obligations would be estimated and paid by the (re)insurer to the (re)insured.
Commuted contracts	Those contracts subject to a commutation.
Court	The High Court of England and Wales.
EEA	The European Economic Area. The states that make up the European Union, plus Iceland, Liechtenstein and Norway.

FCA	The Financial Conduct Authority, one of the regulators of the insurance industry in the United Kingdom (in conjunction with the Prudential Regulatory Authority).
Financial Reporting Council	The UK's independent regulator responsible for promoting high quality corporate governance. It sets standards for corporate reporting and actuarial practice and monitor and enforce accounting and auditing standards. It also oversees the regulatory activities of the actuarial profession and the professional accountancy bodies and operates independent disciplinary arrangements for public interest cases involving accountants and actuaries.
FSA	Financial Services Authority, the regulator of the financial industry in the UK prior to 1 April 2013.
FSMA	Financial Services and Markets Act 2000, an Act of Parliament that sets out the legal basis for an insurance business transfer scheme in the UK. It was amended inter-alia by the Financial Services Act 2012.
GAAP	Generally Accepted Accounting Principles, the guidelines for preparing accounts in a particular territory. The principles can vary between different countries; HFPI and EICL and AIL are UK domiciled insurers and Hart Re is trading name for the UK branch of Hartford Fire. All four prepare their accounts on the basis of UK GAAP.
General Insurance	An insurance contract included in Part I of Schedule I to the FSMA (Regulated Activities) Order (S1 2001/544). It typically includes insurance contracts that run for a short period of time, usually one year, relating to personal lines, commercial lines or London market insurance business.)
HFPI Quota Share	There is currently a full 100% quota share reinsurance in place for HFPI with Hartford Fire. The reinsurance applies net of third-party reinsurance thereby providing coverage in the event of any failure of third-party reinsurers to pay. The contract provides significant protection to the current policyholders of HFPI.
IBNR	Incurred But Not Reported, the value of the liability of an insurance company in respect of claim events that have occurred but have not been reported fully to the insurer. This could be due to: ► The claim event having occurred but the insured party not yet being aware of the loss. ► The claim event having occurred but the insurer not yet being notified of the loss. ► The insurer being aware of the loss event but having not yet recorded the liability as an outstanding claim on their balance sheet.
ICAS	Individual Capital Adequacy Standards, the regulatory framework for (re)insurance companies currently in operation in the UK. The ICAS Framework was introduced in the UK in 2004. It requires insurance companies to carry out various capital modelling and risk management exercises. The result of this analysis is a company specific Individual Capital Assessment ('ICA') amount; this is the company's own calculation of their regulatory capital amount. The basis for the calculation is prescribed in the PRA/FCA's handbook. It is more complex than the MCR, but is intended to roughly equate to the capital required to provide a 99.5% probability of meeting future liabilities.

IFRS	International Financial Reporting Standards. These are a set of standards, recognised internationally, for preparing the accounts of insurance companies. They are intended to create consistency in accounting procedures across different countries. There are plans for a new standard in relation to insurance contracts for some point in the future.
ILU	The Institute of London Underwriters. HFSG entered into two separate agreements with the Institute of London Underwriters ('ILU') which guarantee a portion of the business written in each of EICL and L&E. Each guarantee states that, in the event that the company is unable to make the full payment to the policyholders covered by the guarantee, the guarantor will pay the outstanding balance.
Independent Expert	The individual appointed to report on the terms of an insurance business transfer scheme and approved by the PRA/FCA pursuant to Section 109 of the FSMA.
Latent claims	Categories of claims arising from causes which were unknown to the insurer and insured at the time of writing the insurance policy. For example, since the 1980s, claims relating to illnesses from exposure to asbestos have emerged as a new category of claim type. The emergence of latent claims can take many years; in the future there may be new types of latent claims arising which could impact insurance policies issued today.
Portfolio	Portfolio, in the context of this report, means a particular block of insurance business written by a particular (re)insurer. For example, the business written by Hartford Fire might conveniently be split into a number of 'portfolios', one of which might refer collectively to the business of Hart Re. Similarly, one can refer to EICL, L&E and HFPI as being separate portfolios of insurance business.
PRA	Prudential Regulatory Authority, one of the regulators of the insurance industry in the United Kingdom (in conjunction with the Financial Conduct Authority). The PRA will also authorise insurance companies in the United Kingdom.
Regulatory Capital Requirement	The amount of capital an insurer needs to hold in order to meet the requirements set out by its regulator(s). HFPI and EICL and AIL must satisfy the requirements of the Solvency I regime. As UK insurers, they must also satisfy the requirement of the ICAS regime.
Reinsurance	Reinsurance is an insurance agreement purchased by an insurer from a reinsurer.
Run-off	This describes the state of an insurer that does not sell new insurance policies and does not offer renewals to their existing policyholders. The liabilities of the company would typically reduce over time as the company settles and pays claims to their policyholders.
SCR	The Solvency Capital Requirement under the Solvency II capital regime.
S&P	Standard & Poor's, the rating agency.

TAS	Technical Actuarial Standards. These are a set of guidance notes, prepared by the Financial Reporting Council, which provide actuaries with a number of principles for carrying out various types of actuarial work. There are a number of different TAS documents, for various types of activities that actuaries carry out. There are three 'generic' TAS documents that are relevant to all actuarial work. These are: ► TAS-D, covering the use of data. This provides guidance to ensure that the data used by the actuary is subject to sufficient scrutiny so that the recipients of the work can rely on the resulting actuarial information. ► TAS-M, covering financial models used by actuaries. Actuarial information often depends crucially on the results of models which are inevitably simplifications of reality. The purpose of this standard is to provide guidance on making models fit for purpose both in theory and in practice. ► TAS-R, covering reporting. This provides guidance on providing sufficient information in reports so that recipients of the report can judge the relevance of the contents. It provides guidance on presenting in a clear and comprehensible manner. There are two TAS documents that relate specifically to the subject of this report. These are: ► Insurance TAS, covering actuaries working in the field of insurance. This provides guidance on the information presented to insurance companies and policyholders, and on the methods used by actuaries. ► Transformations TAS, covering situations where an actuary is working on a project where assets or liabilities are moved from one company to another (this is the case with the Transfer).
Transfer	The insurance business transfer scheme that is the subject of this report.
Transfer Date	The date the Transfer is intended to be effected, which at the time of this report is on 12 September 2015.

Appendix B List of data received

The following is a list of the key items of data received from The Hartford and Aviva used as part of my review.

General

- Part VII Scheme Document for the Transfer (draft version dated 1 May 2015)
- The Hartford Group companies structure (dated 1 December 2014)
- Reserving summary document (as at 31 December 2013)
- Policyholders Security document, describing the modelling and the results (as at 31 December 2013)
- Guarantees documents, including the QC's opinion (Guarantees dated 13 September 1996, QC's opinion dated 29 January 2015)
- Reinsurance contracts (EICL reinsurance for London and Edinburgh General Insurance Company dated September 1974)
- Communication plan framework (dated November 2014)
- US Comity opinion (dated 23 June 2015)

EICL

- PRA returns and Annual Report and Accounts (as at 31 December 2013)
- Actuarial reports of reserves review (Asbestos and pollution reserve reports as at 31 December 2013, reserve report excluding asbestos and pollution as at September 2013)
- System of governance (dated April 2014)
- ORSA document (dated 26 November 2014)

HFPI

- PRA returns and Annual Report and Accounts (as at 31 December 2013)
- Actuarial report of claims reserves review (as at 30 September 2013)
- ORSA document (dated 24 December 2014)

Hart Re

- PRA returns and Annual Report and Accounts (as at 31 December 2013)
- Actuarial report of claims reserves review (as at September 2013)
- Hartford Fire annual statements (as at 31 December 2013)

L&E

- Actuarial report of claims reserves review (as at 31 December 2013)
- AIL regulatory return (as at 31 December 2013)

Appendix C Extract from terms of engagement

Scope of services

This engagement will cover the appointment of Michael Barkham as Independent Expert for the Transfer. We note that the primary duty of the Independent Expert in an insurance business transfer in the UK is to the High Court of England and Wales ("the Court").

We will:

- Analyse work you have carried out on the companies and portfolios of policies involved in the Transfer, including (but not limited to) the adequacy of the claims reserves and capital modelling analysis (both under existing solvency rules and the proposed Solvency II regime) for each of the groups of policyholders who are affected by the Transfer.

- Supplement this with such additional calculations and investigations as the Independent Expert believes are necessary to enable him to form a view on the implications of the Transfer on the policyholders involved and communicate this to the Court.

We will prepare the following reports (together the “Reports”):

- A report (the ‘Report’) providing the Independent Expert's conclusions on the Transfer and explanation of those conclusions, to be presented in draft to the PRA and FCA (together the “UK financial regulators”) in February 2015 or such later date as is agreed with the UK financial regulators and delivered to the Court in sufficient time prior to the initial directions hearing.

- An update letter (the ‘Update Letter’) to supplement the Report, to be presented to the Court at the final court hearing to consider the sanction of the Transfer. The Update Letter will discuss issues that have arisen between preparation of the Report and the final court hearing that the Independent Expert considers material to the Transfer, as well as any impact on his conclusions.

- A summary report (the ‘Summary Report’). In accordance with the Financial Services and Markets Act 2000 and subordinate regulations, a summary of the Independent Expert's report will be provided to affected policyholders and any other person entitled to receive a copy to assist them with assessing the Transfer.

- Such further reports as may be required by the Court, the UK financial regulators or by you in connection with the Transfer, it being acknowledged that the preparation of such reports may incur additional costs which (if relevant) will be agreed in advance of the relevant work being undertaken.

We will ensure that the Reports comply with the requirements of the Financial Services and Markets Act 2000, SUP 18 of the PRA’s Handbook, applicable case law, relevant professional guidance and requests made by the UK financial regulators and Part 35 of the Civil Procedure Rules (each as amended, supplemented or replaced from time to time). This includes any obligations we may have thereunder to evaluate and verify any information which you have provided to us in connection with the provision of the Services or the preparation of the Reports.

In performing the Services, we will use the skill, care, expertise and competence that could reasonably be expected from a highly reputable international consultancy firm or company providing to major multinational corporations the same or similar Services to those provided under the Agreement (including the particular skill and expertise of the Independent Expert selected for appointment to the Transfer).

Where the Independent Expert determines that he will require legal support in relation to any issues relating to the Transfer we will endeavour to use information produced by Freshfields Bruckhaus Deringer LLP, as the legal advisors to The Hartford, wherever possible. Where we do need to obtain an independent legal opinion on any matter we will agree with The Hartford the instructions for this legal advice and associated fees in advance.

Limitations on scope

As agreed with you, we will limit our advice to the matters outlined above and we will not consider any further implications of our advice.

Advice and assistance provided under this engagement will in part be based upon our understanding of the likely requirements from the regulators involved together with any actual requirements of the UK financial regulators communicated to us in connection with the provision of the Services. Our understanding of such requirements is based, in part, on our experience handling similar matters previously.

The scope of our work will consist primarily of analytical procedures applied to data provided to us by you, supplemented by discussions with you. We will not be in a position to verify the accuracy of the data, the information or the explanations provided by you, and consequently our work will not constitute any form of audit of the information.

Interim working papers might be based on incomplete information that is not finalised or fully checked, and might require additional information to fully explain the context and implications. Therefore, interim working papers should not be relied on for any purpose unless accompanied by a signed statement from Ernst & Young LLP, stating the purpose for which they may be relied on.

Notwithstanding anything to the contrary in the General Terms and Conditions:

a. The Reports may be made available to and relied upon by competent regulatory authorities, including the UK financial regulators, the Court, policyholders and any other person entitled to receive a copy under law or regulation applicable to the Transfer. We do not accept any duty of care to any recipients of the report beyond the requirements under law or regulation applicable to the Transfer.

b. Copies of the Reports may be uploaded and made available to policyholders and other members of the general public on your respective websites or on any dedicated website which you set up in connection with the Transfer. Copies of the Reports may also be made available for inspection at principal offices of the Aviva and The Hartford.

c. You may incorporate our recommendations, conclusions and findings in any documents properly prepared for the purposes of the Transfer or as may be necessary to comply with your reporting obligations under applicable law, including regulations thereunder and the rules of any stock exchange on which your or your affiliates' securities are listed.

d. It is acknowledged that the Reports will be prepared during the course of the Services, and accordingly you may use the Reports (including submission to the UK financial regulators and the Court) notwithstanding that you have not paid for all of the Services.

The Hartford Group companies will have no liability to EY in respect of any act or omission of AIL and similarly AIL will have no liability to EY in respect of any act or omission of the Hartford Group companies.

The indemnity under Section 22 of the General Terms and Conditions shall not apply in respect of any liabilities, losses, damages, costs and expenses suffered or incurred by EY, any EY Firms or any EY Persons as a result of any negligence, fraud or wilful default or breach of this contract or of applicable law or regulation on the part of any of them. We will have due regard to your reasonable representations in relation to the conduct of any claims against us which could give rise to an indemnity claim under Section 22 of the General Terms and Conditions.

Your obligations under the Agreement shall be several and not joint or joint and several, such that the Hartford Group companies shall not be required to perform any obligation of AIL under the Agreement and shall not have any liability to EY, any EY Firm or EY Person in respect of any act or omission of AIL, and similarly AIL shall not be required to perform any obligation of the Hartford Group companies under the Agreement and shall not have any liability to EY, any EY Firm or EY Person in respect of any act or omission of the Hartford Group companies. EY shall procure that any Personal Data which is Processed by EY or any other EY Firm in connection with the Services shall comply with the standards set out in the General Terms and Conditions.

Appendix D Michael Barkham CV

Partner
Insurance Risk and Actuarial Services

Background

- More than 25 years' general insurance experience.
- Qualified as a Fellow of the Institute and Faculty of Actuaries and a Fellow of the Society of Actuaries in Ireland.
- Joined EY in 1994 following five years with Sturge Holdings Plc.

Skills

- Skills in all areas of general insurance actuarial work (reserving, capital, pricing, M&A, run-offs); with particular experience in the London, US and Bermuda markets.

Experience

- Michael is a Partner in EY's Insurance Risk and Actuarial Services. He is the Practice Leader of the property and casualty section of Insurance Risk and Actuarial Services.
- His experience includes the actuarial analysis of claims reserves, pricing, capital modelling, development of systems to monitor the rating levels and profitability of insurance business, the financial analysis and monitoring of market intelligence for the purpose of assessing reinsurance security, and the assessment of commutation terms of both inwards and outwards reinsurance.
- He has led a project that provided actuarial support to one of the largest Part VII Transfers to have taken place in the market so far. The project involved performing reviews of the reserves and assessing the uncertainty surrounding them in order to quantify the impact on policyholders.
- He has been involved in several merger/acquisition situations, including due diligence covering the London Market, Bermuda and the wider UK company market.
- He was involved in the setting up of Equitas, in particular being involved in the Reinsurance project and the Balance of Account project.
- He has led a number of projects that have involved the modelling of claims for Asbestos, Pollution and Health Hazards in both the UK and the US.
- He has been extensively involved in the audit of reserves for a wide range of EY audit clients both in the UK retail and London market area.
- Prior to joining EY in 1994 Michael spent almost five years with Sturge Holdings Plc, which at the time was one of the largest Lloyd's managing agencies, during which period he was a member of various Lloyd's working parties. He joined Sturge Holdings after six years at Canada Life Assurance Company.
- He has been a member of the Institute and Faculty of Actuaries panel responsible for disciplinary matters.