



**SUPPLEMENTAL INDEPENDENT EXPERT  
REPORT  
OF PHILIP TIPPIN FIA  
In the matters of**

COVEA INSURANCE PLC  
AND  
STERLING INSURANCE COMPANY LIMITED

AND IN THE MATTER OF PART VII OF THE FINANCIAL  
SERVICES AND MARKETS  
ACT 2000

IN THE HIGH COURT OF JUSTICE

DATED 30<sup>TH</sup> NOVEMBER 2015

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## **1. Introduction**

### **Purpose of the report**

- 1.1 I have prepared an Independent Expert report addressed to the High Court of Justice, England and Wales ("the Court") dated 11<sup>th</sup> August 2015 ("the IE Report"). This describes the proposed transfer of the insurance and reinsurance business of Sterling Insurance Company Limited ("Sterling") to Covea Insurance plc ("Covea") and details my consideration of the impact of the proposed transfer on the security and levels of service received by the policyholders of Sterling and Covea. I refer to the transfer of insurance and reinsurance business of Sterling as the "Transfer". I refer to Sterling and Covea as the "Transfer Companies".
- 1.2 Sterling Insurance Company Limited ("Sterling") is a wholly owned direct subsidiary of Sterling Insurance Group Limited, and writes non-life insurance business as a subsidiary of the French group Société de Groupe d'Assurance Mutuelle (SGAM) Covéa ("Covéa Group"). Both Sterling and Covea are wholly owned indirect subsidiaries of Covéa Group. In addition to the English transfer a parallel transfer to Covea is proposed in Jersey in respect of Jersey business written by Sterling. The transfer of businesses carried on in or from within Jersey must be approved by the Royal Court of Jersey. The IE Report is a report prepared by the Independent Expert in order to aid the Court in its deliberations.
- 1.3 This Supplemental Report ("Supplemental Report") provides an update to the conclusions I set out in the IE Report in the light of the further information available to me, including consideration of further details of the transfer of Sterling assets that were not confirmed at the time of submission of the IE Report, consideration of the trading performance of the Transfer Companies since 31<sup>st</sup> December 2014 and changes in the market environment in which they operate. I have also considered and reviewed the impact of Covea's future intentions with respect to levels of capital, operations, structure and business mix. Additionally, this report also provides my opinion on the questions and other communication received from any of the Transfer Companies' policyholders.

### **Use and limitations**

- 1.4 I understand that copies of my Supplemental Report will be made available to the Court, the Royal Court of Jersey, the PRA and the FCA (the relevant UK financial regulators), and the Boards of Directors of the Transfer Companies. It will also be made available to policyholders and other members of the public as required by the relevant legislation and will be made available on the Covea and Sterling websites ahead of the final hearing, which is scheduled for 11<sup>th</sup> December 2015.
- 1.5 This Supplemental Report should be read in conjunction with the IE Report, as reading this report in isolation may be misleading. All abbreviations and technical terms used in this report have the same meaning as in the IE Report. For the avoidance of doubt, all limitations described in the IE Report including but not limited to those set out in sections 1.20 to 1.23, apply equally to this Supplemental Report. The glossary of terms and definitions used for this Supplemental Report can be found in Appendix 5 of the IE report.

### **Professional Guidance**

- 1.6 This report has been prepared in accordance with the guidance set out in Part 35 of the Civil Procedure Rules and the accompanying practice direction, including the protocol/guidance for the instruction of experts to give evidence in civil claims (2014) issued by the Civil Justice Council.  
  
This report also complies with the guidance for transfer reports set out in the Statement of Policy issued by the PRA in April 2015 entitled "The Prudential Regulation Authority's Approach to Insurance Business Transfers" and in Chapter 18 of the FCA Supervision Handbook, in particular, sections 18.2.31 to 18.2.41 inclusive, regarding the content and considerations of the report.
- 1.7 In preparing this report I have taken into account the requirements of the Technical Actuarial Standards ("TASs") issued by the Financial Reporting Council. The TAS Standards which apply to the work performed in preparing this report are Transformations, Modelling, Data, Insurance

and Reporting Actuarial Information. In my opinion, there are no material departures from any of these TASs in my performance of this work and this report.

- 1.8 I understand that my duty in preparing my report is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and/or paying my fee. I confirm that I have complied with this duty.

## **Reliances**

- 1.9 Whilst I have been assisted by my team, the report is written in the first person singular and the opinions expressed are my own.
- 1.10 I have not sought independent verification of data and information provided to me by the Transfer Companies, nor does my work constitute an audit of the financial and other information provided to me. Where indicated, I have reviewed the information provided for reasonableness and consistency and with the benefit of my experience this has not raised any concerns. I note that the information has been provided to me by members of the senior management of the Transfer Companies or by responsible senior professionals from the Transfer Companies' advisors.
- 1.11 I have met in person or conducted conference calls with representatives of the Transfer Companies to discuss the information provided to me. This includes the legal advisers and the tax advisers to the Transfer, where appropriate. Where critical pieces of information have been provided orally, I have requested and received written confirmation. A schedule of the additional information I have considered is listed in the Appendix.

## **2. Summary and overall conclusions**

### **Approach**

2.1 I have sought and received from the Transfer Companies additional information in order to consider whether any event or change in circumstances has occurred which would cause me to alter the conclusions expressed in the IE Report. The information I have requested has been selected based on my knowledge of developments in the general insurance industry and also from the wider economic environment which I consider likely to have a direct or indirect impact on the Transfer Companies. The areas I have considered include:

- Whether the analysis I performed in preparing the IE Report still points to the same conclusion given the most recent financial and economic information available.
- Any changes in the Transfer Companies' business.
- Potential operational and structural changes to the Transfer Companies and Covéa Group.
- Current issues in the insurance industry, including any changes in regulation, legal environment and litigation that could affect the Transfer Companies.
- Relevant communications received from policyholders relating to the proposed Transfer.
- Whether the key assumptions made in forming my conclusions (described in section 2.9 of the IE Report) still apply in practice.

Having received additional information I have then considered what impact, if any, this would have on the findings of the analysis I performed in order to form my opinion expressed in the IE Report.

### **Additional information considered**

2.2 I have received information including:

- Updated financial information including the trading performance of each Transfer Company in the six months to 30<sup>th</sup> June 2015
- Updated capital requirements and available capital metrics under the Solvency II regime for the Transfer Companies. Since the IE Report there have been no significant changes to the Solvency II regime, and Covea remains on track to be ready for the new regulation when it comes into force.

I have discussed this information with senior management within the Transfer Companies, and where appropriate, requested additional information or written confirmation. A list of additional information received is contained in the Appendix to this report.

### **Findings**

2.3 The findings of my report are summarised below and apply equally to the English and Jersey transfers.

Having considered the additional information requested from the Transfer Companies and developments occurring in the wider economic and insurance industry environment I find that:

- Both the economic and financial condition of the Transfer Companies as at 30<sup>th</sup> June 2015, being the most recent reviewed information available, is, for the purposes of analysing the impact of the Transfer on each affected policyholder group, substantially the same as that considered in the IE Report. I identify no significant impact on the overall conclusion within the IE Report arising from such changes as have occurred.
- I have considered the results of updated scenario testing which assesses the potential impact on the financial security of Sterling policyholders before and after their transfer to

Covea. This analysis was carried out as at 30<sup>th</sup> June 2015 and is described in more detail in section 3.6. As a consequence of this additional testing I have not identified any significant changes to the findings set out in section 6 of the IE Report which would cause me to revise my opinion on the impact of the transfer on Covea or Sterling policyholders.

- Since issuing my IE Report, there are no matters relevant to the Transfer arising from the nature of business underwritten by the Transfer Companies.
- The managements of the Transfer Companies have confirmed to me that there has been no change in the intentions with regard to any of the levels of capital, operation, structure or mix of policies written by the Transfer Companies after the Transfer has completed. As such I have not identified any intentions that would cause me to revise the conclusions of my analysis of the effects of the Transfer.
- No matters have been drawn to my attention as a result of communications received from policyholders or other relevant parties that would cause me to revise my analysis of the effects of the Transfer.

I will communicate to the Court in the event that material changes occur that require adjustments to my findings between the date of this report and the Court hearing.

Further detail on the reasoning supporting my findings above is contained in section 3 of this report.

## **Conclusion**

- 2.4 I have considered the Transfer and its likely effect on each of the affected policyholder groups. I have concluded that the risk of any policyholder being adversely affected by the proposed transfer is sufficiently remote for it to be appropriate to proceed with the proposed Transfer as described in the IE Report.

## **Expert's declaration**

- 2.5 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.



Philip Tippin  
Fellow of the Institute and Faculty of Actuaries  
Partner, KPMG LLP

### 3. Further information considered

#### Quantum of business transferring

3.1 In section 3.6 to 3.9 of the IE Report I consider the business that is proposed to transfer to Covea. In particular, I consider the amount of claims reserves transferring, along with the premiums written in 2014 and the broad geographical split of the business written over the last three years.

I have updated the tables in 3.6 and 3.8.3 of the IE Report to show the figures regarding the amount of claims reserves and the number of open claims that are proposed to transfer to Covea. These tables have been updated below to show the transferring reserves as at 30<sup>th</sup> June 2015, the latest reviewed position.

Geographical Gross Written Premium (£000s)								
Geographical Area	2012		2013		2014		2015	
United Kingdom	138,066	95.2%	129,414	96.5%	129,776	97.2%	63,871	97.9%
Other Europe								
- Household	105	0.1%	112	0.1%	113	0.1%	43	0.1%
- Creditor/ PA	6,890	4.7%	4,572	3.4%	3,570	2.7%	1,347	2.1%
<b>Total</b>	<b>145,061</b>	<b>100.0%</b>	<b>134,098</b>	<b>100.0%</b>	<b>133,459</b>	<b>100.0%</b>	<b>65,261</b>	<b>100.0%</b>

Source: Internal Management information

Transfer Companies' Business Profile as at 30th June 2015							
£000s	Sterling						Covea Total
Class	Property	Creditor	Personal Accident	Public Liability	Employers Liability	Total	
Gross Earned Premium (2015)	41,441	10,854	3,986	5,879	2,137	64,297	223,914
Net Earned Premium (2015)	37,484	10,851	3,986	5,268	1,904	59,494	206,276
Gross Claims Reserves (£000s)	23,134	2,254	1,567	10,145	10,876	47,976	495,738
Net Claims Reserves (£000s)	20,830	2,250	1,567	9,593	10,066	44,307	341,879

Source: Internal Management information

The reserves transferring to Covea as a proportion of the existing reserves are not materially different from the proportions at the time of the IE Report.

I have considered regulatory developments regarding potential Payment Protection Insurance ("PPI") mis-selling and Periodic Payment Orders ("PPOs") for business written by the Transfer Companies and do not believe there has been any significant change which may affect my conclusion from the previous report.

In addition, there have been no other significant developments to claims within the PPI or legacy business, or the exposure to PPOs.

As such I see no need to reconsider any of my assumptions based on this updated information.

#### Trading performance of Transfer Companies to 30<sup>th</sup> June 2015

3.2 I have been provided with the financial results and updated balance sheet information for each of the Transfer Companies to 30<sup>th</sup> June 2015. I have reviewed this information in order to identify if there has been a material change in the financial position of any of the Transfer Companies, and to satisfy myself that the financial information I have used in my consideration of the impact of the Transfer continues to be an appropriate base on which to form an opinion. I note that:

- The financial performance of the Transfer Companies over the six months to 30<sup>th</sup> June 2015 is consistent with my understanding of the claims experience of the respective businesses over that period, and no Transfer Company has reported a financial performance that would significantly affect the financial analysis I performed in preparing the IE Report.
- I have confirmed with management of the Transfer Companies that there has been no change in general reserving strength between the balance sheets prepared as at 31<sup>st</sup>

December 2014 and 30<sup>th</sup> June 2015. The internal reserve reviews received for Covea and Sterling as at 30<sup>th</sup> June 2015 suggest similar levels of reserving strength to those in the equivalent reports at 31<sup>st</sup> December 2014, which confirms this assumption.

I have considered the impact of the recent trading performance of the Transfer Companies and have identified no matters arising which would materially change the findings of the analysis that support the conclusions contained in the IE Report.

### Post-Transfer balance sheets and financial ratios

3.3 In section 4.4 of the IE Report I considered the potential post-Transfer balance sheets for the Transfer Companies and in section 5.13 a selection of financial ratios from these. These tables are shown below, updated as at 30<sup>th</sup> June 2015.

As at 30th June 2015 £000's	Covea (pre transfer)	Sterling	Covea (post transfer)
<b>Assets</b>			
Investments and cash	640,226	101,263	741,489
Reinsurers share of provisions	153,862	4,323	158,184
Other assets	177,734	83,679	261,414
<b>Total Assets</b>	<b>971,822</b>	<b>189,265</b>	<b>1,161,087</b>
<b>Liabilities</b>			
Insurance Liabilities	513,304	59,318	572,622
Unearned Premium Reserve	213,425	64,514	277,939
Other Liabilities	24,214	26,534	50,748
<b>Total Liabilities</b>	<b>750,943</b>	<b>150,367</b>	<b>901,309</b>
<b>Net Asset Surplus</b>	<b>220,879</b>	<b>38,898</b>	<b>259,777</b>

Source: Internal Management information

As at 30th June 2015 £000's	Covea (pre transfer)	Sterling	Covea (post transfer)
Net assets	220,879	38,898	259,777
<b>Total assets</b>	<b>971,822</b>	<b>189,265</b>	<b>1,161,087</b>
Gross insurance liabilities	(726,729)	(123,832)	(850,561)
<b>Total liabilities</b>	<b>(750,943)</b>	<b>(150,367)</b>	<b>(901,309)</b>
Net assets as a percentage of total assets	23%	21%	22%
Net assets as a percentage of gross insurance liabilities	30%	31%	31%
Net assets as a percentage of total liabilities	29%	26%	29%

Source: Internal Management information

Both of these tables show consistent implications for the policyholders affected by the Transfer to those discussed in the IE Report. As such I see no need to revise any of my assumptions based on this additional information. I consider economic capital in more detail below.

### Consideration of capital and risk

3.4 In preparing the IE Report I considered the impact of the Transfer on the capital and risk position of the Transfer Companies, and the consequent impact on the levels of security experienced by each affected policyholder group. As described in section 5.11 of the IE Report, my analysis is in part based on the economic capital position of the Transfer Companies as at 31<sup>st</sup> December 2014. I have now received updated economic capital information for the Transfer Companies as at 30<sup>th</sup> June 2015.

I have compared the results of this new information with that used in my original analysis in order to identify if my conclusions in the IE Report would change. I note that:

- The updated economic capital position is consistent with my understanding of any changes to the financial and economic circumstances of the Transfer Companies over the six month period.
- The updated economic capital positions and consequent capital coverage ratios both pre- and post-Transfer (which act as a proxy for implied probability of policyholder deficiency) are similar to those I considered when preparing the IE Report, and the movement between them is directionally the same.

Given the above facts I identify no matters arising from the updated economic capital information which would cause me to change my conclusion on the impact of the Transfer on the levels of security of each affected policyholder group as set out in section 5.14 of the IE Report.

### **Market developments**

3.5 I have considered market developments in the insurance sector since the issue of the IE Report. In addition I have reviewed the internal actuarial reserve reports available for the Transfer Companies as at 30<sup>th</sup> June 2015, and these do not raise any new uncertainties that I had not considered in the IE Report.

In light of the above I identify no matters arising from recent market developments which would cause me to change my conclusion on the impact of the Transfer on the levels of security of each affected policyholder group.

### **Exposure of the Transfer Companies to potential severe adverse stresses**

3.6 I have confirmed with management of the Transfer Companies that the severe adverse stresses used in section 6 of the IE report are still appropriate as stresses for the Transfer Companies, however I have considered them against the updated Economic Capital positions (as at 30<sup>th</sup> June 2015) for each of the Transfer Companies pre and post Transfer.

I have considered these hypothetical severe adverse scenarios and I note that pre and post Transfer, Covea have sufficient economic and financial resources to be able to pay their claim obligations to their policyholders under the extreme stresses considered.

### **Future intentions of Covéa Group with respect to levels of capital, operations, structure and business mix**

3.7 Based on my discussions with the managements of the Transfer Companies, and as supported in subsequent written communications, I understand that the future intentions of Covéa Group are consistent with those documented in Section 4 of the IE report.

In particular it is still intended that any surplus assets in Sterling, (with the exception of a residual asset pre deauthorisation, as detailed below), being assets in excess of the transfer of reserves, will transfer to Covea as part of the transfer either in the form of cash or term deposits. The proposed date for this Transfer to be effective is 31<sup>st</sup> December 2015. Management of Covea have confirmed to me that there is no intention that the assets of Covea be distributed as a result of the Transfer occurring.

Sterling will be deauthorised following the transfer of its business to Covea and completion of the administrative procedures required to cancel its permission to carry on regulated activities by the PRA and FCA, which is expected to occur shortly after the Transfer effective date. Sterling will retain a residual asset sufficient to meet the regulatory capital resource requirements for an authorised insurance company, plus an additional margin of £5 million, until such cancellation is provided, following which the residual asset will transfer to Covea.

In section 3.1 of the IE report I detailed the company structure of the Transfer Companies. On 4<sup>th</sup> August 2015, Covea Cooperations SA merged with Le Mans Conseil SA. Covea

Cooperations SA now wholly owns the UK subsidiary MMA Holdings UK plc. I have no reason to believe this structural change will have any impact on the Transfer.

- 3.8 I have identified no adverse impacts to policyholders arising from intentions or motives of Sterling in proposing the Transfer which would materially change the findings of the analysis which support the conclusions contained in the IE Report.

### **Excluded policies**

- 3.9 In section 1.15 of the IE Report I discuss the expectation that there will be no excluded policies from the proposed Transfer. At the time of finalising this Supplemental Report, my understanding is that the regulator to regulator consultation period in respect of other EEA territories has expired with no objections arising that would cause me to change my conclusion. As such, it remains expected that there will be no excluded policies.

### **Policyholder and other communications**

- 3.10 I understand from Covea that the Communication Plan as set out in my IE report has gone ahead as planned. There have been a number of mailings noted as "return to sender", and Covea is continuing to endeavour to find suitable redelivery addresses for these.

Covea has provided me with summary schedules of the written and telephone contacts from policyholders relating to the Transfer. There have been three objections made relating to the Transfer made by policyholders and other relevant parties up to 23rd November 2015, the remainder of the correspondence consisting of questions or clarifications. The three objections have been analysed by the Transfer Companies and they have decided that no action is needed further to the responses that have been sent to acknowledge their objection and answer queries where appropriate.

One objector has a broad concern that they might be worse off and they would have liked to have been informed about the proposed transfer twelve months ago; a second would have liked to have been notified of the transfer when they took out their policy in June 2015 and has a concern over who the insurer is; and a third policyholder has concerns over the nationality of the insurer involved.

I have considered the objections raised and I am satisfied with the Transfer Companies' responses. I have not identified any matter that would cause me to perform additional analysis or lead me to revise the conclusion set out in my IE Report and this Supplemental Report.

## **4. Overall conclusions**

- 4.1 Having updated my financial analyses, and having considered the other matters set out above, I can confirm that all of the overall conclusions which I reached in Section 7 of the IE Report remain unchanged. Hence, in my opinion I do not identify any material adverse effect on any of the groups of policyholders of either of the Transfer Companies as a result of the proposed Transfer.

## **Appendix – List of additional information provided for Supplemental Report**

### **Financial Information**

Covea and Sterling half year management accounts as at 30<sup>th</sup> June 2015

Proforma balance sheet and other financial information based on 30<sup>th</sup> June 2015 data – post Transfer  
2015 business plan forecasts for Covea and Sterling

### **Structure and Company Information**

Changes to company organization chart.

Changes to details of current and post transfer Board(s) and governance arrangements.

Changes to description of current and post transfer administration systems and arrangements

### **Transfer Information**

Final Business transfer agreement

Latest estimate of cost of scheme, identifying forecast costs of scheme (identifying irrecoverable costs should the scheme not proceed) and entity bearing these costs

Latest estimate of tax impact arising as a result of the transfers

Final communications plan

Policy overview - premiums and claims - split over lines of business

### **Capital and Risk Management**

Updated capital requirements and available capital figures under Solvency II for the Transfer Companies pre- and post-Transfer

Internal reserving report as at Q2 2015 for Sterling

Internal reserving reports as at Q1 and Q2 June 2015 for Covea

Details of material losses that occurred in the interim period Q4 2014 and Q2 2015

Updates to the impact of the stresses on the business as set out in section 6 of the IE report

### **Other information considered**

Further discussions with key staff in the executive team, together with emails confirming statements and information provided verbally in these meetings.