



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

HISCOX INSURANCE COMPANY LIMITED
AND
HISCOX SA

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

IN THE HIGH COURT OF JUSTICE

DATED 6 DECEMBER 2018

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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 27 July 2018 ('the IE Report'). In the IE Report I describe the proposed transfer of the insurance and reinsurance policies of Hiscox Insurance Company ('HIC') (together with their associated reinsurance protections) to Hiscox SA ('HSA') as a reorganisation of the Hiscox Group in order to protect against the uncertainty of Brexit. I refer in the IE Report and this supplemental report ('Supplemental Report' or 'Report') to the transfer of insurance business from HIC to HSA as the 'Transfer'. I refer to HIC and HSA as the 'Transfer Companies'.

I am aware that the IE Report will also be used by the Royal Court of Jersey, for the parallel transfer proposed in Jersey by HIC in respect of transferring policyholders where the current address of the policyholder is in Jersey. While the IE Report is not addressed to this court, my conclusions also cover these sets of policyholders.

1.2 HIC is a non-life insurance company regulated in the UK. Policies will be transferred if they were underwritten in the EEA (excluding the UK, as defined in my IE Report), if the customer is located in the EEA or if the risk location is in the EEA. If policies are underwritten in the UK, for non-EEA policyholders with EEA risks only the EEA exposure will transfer; a joint policy will be created by adding HSA as an additional insurer to cover the EEA risks only. This transfer is estimated to move £421.5m of liabilities (and the corresponding assets) from HIC to HSA.

The transferring business includes a number of personal lines of business, including high-value household, fine art and collectibles, as well as commercial lines, which focus on small to medium sized businesses.

HSA is a subsidiary of Hiscox Ltd and is a newly incorporated Luxembourg-based non-life insurer, which will underwrite business in the EEA (excluding the UK) from 1 January 2019.

1.3 This 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 the potential implications to the Transfer Companies of "Brexit", consideration of the recent trading performance of HIC, an update on the developments to the arrangements in place for the Jersey policies should the Jersey transfer not be approved, changes in the projected financial information and changes in the market environment in which the Transfer Companies operate. 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), the Jersey Financial Services Commission and the Boards of Directors of the Transfer Companies. It will also be made available to the CAA (the Luxembourg regulator), policyholders, and other members of the public as required by the relevant legislation, and will be made available on a dedicated website: www.hiscoxgroup.com/partvii.

1.5 This Supplemental Report should be read in conjunction with the IE Report, as reading the Supplemental 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 1.21 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 Supervision Manual of the FCA Handbook, in particular, sections 18.2.31 to 18.2.41 inclusive, regarding the content and considerations of the Report. This Report also complies with the new FCA guidance issued in May 2018 entitled 'FG18/4: The FCA's approach to the review of Part VII insurance business transfers'.

In preparing this Report I have complied with the requirements of the Technical Actuarial Standards ('TASs') issued by the Financial Reporting Council. The TAS's which apply to the work performed in preparing this Report are Principles for Technical Actuarial Work ('TAS 100') and Insurance ('TAS 200'). In my opinion, there are no material departures from any of these TASs in my performance of this work and this Report. I have also followed the guidance set out in 'APS X2: Review of Actuarial Work' and this Report has been peer reviewed by the reviewer approved by the PRA and FCA in accordance with this guidance.

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.

Reliances

- 1.7 Whilst I have been assisted by my team, the Report is written in the first person singular and the opinions expressed are my own.
- 1.8 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.
- 1.9 I have met in person or conducted conference calls with representatives of the Transfer Companies to discuss the information provided to me and specific matters arising out of the considerations and analysis conducted. This includes the legal advisers and the tax advisers to the Transfer Companies, where appropriate. Where significant 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.
- 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 2.8 of the IE Report) still apply in practice.
- The latest general developments in relation to Brexit.

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 but not limited to:

- Updated financial information including updated IFRS balance sheet positions for the Transfer Companies as at 30 June 2018 and 30 September 2018 and an updated Solvency II balance sheet position for HIC as at 30 June 2018.
- Updated capital requirements and available capital metrics under the Solvency II regime for HIC as at 30 June 2018.

I note that due to the time period in which this Report needed to be produced, this information is unaudited. I also note that due to the date of production of this Report, the most recently produced information is unaudited. 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 for the avoidance of doubt apply equally to those policyholders affected by the Jersey transfer:

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 using the most recently reviewed (although not audited) 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 can thus identify no impact on the overall conclusion within the IE Report based on the additional information provided by Hiscox.

- I have considered the results of updated scenario testing which assesses the potential impact on the financial security of HIC policyholders before and after the Transfer of both HIC and HSA policyholders. This analysis was carried out as at 30 June 2018 and is described in more detail in section 3.7. From this additional testing I have not identified any 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 HIC policyholders.
- Since issuing my IE Report, I have confirmed with the management teams of the Transfer Companies that there have been no changes in the nature, in terms of types and relative volumes of business underwritten by the Transfer Companies, which would affect the Transfer.
- The management teams of the Transfer Companies have confirmed to me that there has been no change with regard to any of the planned operations, levels of capital or mix of business written by the Transfer Companies after the Transfer has completed, except to align the HSA investment strategy to that of Hiscox Group. There has also been no change in the post-Transfer structure. 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.
- Since issuing my IE Report, in response to the "Brexit" referendum, the UK Government have agreed on the text of a withdrawal agreement with the European Union ('EU') Commission and this has now been approved by the leaders of all EU countries, though it has not yet received the approval of all necessary bodies. Notably, as at the date of this Report, it has not yet been approved by the UK Parliament. As such, there is as yet no definitive or agreed solution, and no further agreed decisions that would cause me to revise my opinion in regard to the Transfer.
- I have reviewed summaries of the correspondence received from policyholders. As of 4 December 2018, there have been three objections raised. I have considered these and am satisfied with the Transfer Companies' responses and their attempts to contact the policyholders. I have not identified any matter relating to the communications received from policyholders 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.

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

Conclusion

- 2.4 I have re-considered the Transfer and its likely effect on each of the affected policyholder groups and have again concluded that the risk of any policyholder being adversely affected by the proposed Transfer is sufficiently remote. As a result, I maintain the same opinion as in my IE Report; that it is appropriate for the proposed Transfer to proceed.



Philip Tippin

Fellow of the Institute and Faculty of Actuaries

Partner, KPMG LLP

6 December 2018

3. Further information considered

Quantum and type of business transferring

3.1 In section 3.9 of the IE Report I consider the business that is proposed to transfer to HSA.

I have updated the table in section 3.9 of the IE Report to show the figures as at 30 June 2018 regarding the open claim numbers transferring to HSA and associated technical provisions for all Transfer Companies in order to give perspective on the size of the entities involved.

I note that since my IE Report, Hiscox discovered an issue with the original numbers provided for open claims and gross outstanding claims as at 31 January 2018. The original data file provided by Hiscox was first created for an alternative purpose, resulting in the claims numbers provided for the IE Report including closed claims along with duplicate open claims. As a result the open claims numbers have reduced considerably compared to the table stated in the IE Report. As a consequence of the duplicate open claims, the gross outstanding amounts have been updated to reflect the correct position which has had a smaller impact compared to open claims numbers.

This issue has also affected the gross and net technical provisions as at 31 December 2017 as these were calculated using the proportion of outstanding claims within HIC UK and HIC Europe. I have provided a restated table as at 31 January 2018 against the table shown in the IE Report below.

For avoidance of doubt, I note that the total current gross and net technical provisions as at 31 December 2017 have remained the same in comparison to the IE Report. The open and outstanding claims and transferring technical provisions are used to give a sense of the size of the business transferring rather than directly affecting my opinions, and as such the changes stated below do not alter the conclusions I came to in my IE Report. These data items were unaudited, unlike the balance sheet items that underlie the conclusions I drew on for the financial strength of the Transfer Companies.

I also note that the tables in my IE Report did not include open claims and gross outstanding claims for HIC Europe. These are now available and are included in the below updated tables. All claims and provisions currently in HIC Europe will be moved across to HSA, as can be seen from the below tables.

Original Table from IE Report:

€1 = £0.88 (£000s; claims numbers are counts)	Current				Transferring			
	Open Claim Numbers as at 31 Jan 2018	Gross Outstanding Claims as at 31 Jan 2018	Q4 2017 Gross TPs as at 31 Dec 2017	Q4 2017 Net (of RI) TPs as at 31 Dec 2017	Open Claim Numbers as at 31 Jan 2018	Gross Outstanding Claims as at 31 Jan 2018	Q4 2017 Gross TPs as at 31 Dec 2017	Q4 2017 Net (of RI) TPs as at 31 Dec 2017
	HIC UK	284,157	180,198	347,726	163,661	12,755	24,940	42,325
HIC Europe			184,869	128,286			176,603	128,286
Total	284,157	180,198	532,595	291,947	12,755	24,940	218,928	139,443

Source: Management information

Updated Tables:

€1 = £0.88 (£000s; claims numbers are counts)	Current				Transferring			
	Open Claim Numbers as at 31 Jan 2018	Gross Outstanding Claims as at 31 Jan 2018	Q4 2017 Gross TPs as at 31 Dec 2017	Q4 2017 Net (of RI) TPs as at 31 Dec 2017	Open Claim Numbers as at 31 Jan 2018	Gross Outstanding Claims as at 31 Jan 2018	Q4 2017 Gross TPs as at 31 Dec 2017	Q4 2017 Net (of RI) TPs as at 31 Dec 2017
	HIC UK	15,487	178,649	355,992	163,661	4,436	44,194	49,903
HIC Europe	7,124	91,157	176,603	128,286	7,124	91,157	176,603	128,286
Total	22,611	269,806	532,595	291,947	11,560	135,351	226,506	142,463

Source: Management information

€1 = £0.88 (£000s; claims numbers are counts)	Current				Transferring			
	Open Claim Numbers as at 30 June 2018	Gross Outstanding Claims as at 30 June 2018	Q2 2018 Gross TPs as at 30 June 2018	Q2 2018 Net (of RI) TPs as at 30 June 2018	Open Claim Numbers as at 30 June 2018	Gross Outstanding Claims as at 30 June 2018	Q2 2018 Gross TPs as at 30 June 2018	Q2 2018 Net (of RI) TPs as at 30 June 2018
HIC UK	16,211	196,764	413,851	209,488	4,738	51,760	58,014	18,147
HIC Europe	7,524	104,302	191,890	122,836	7,524	104,302	191,890	122,836
Total	23,735	301,066	605,741	332,323	12,262	156,062	249,904	140,983

Source: Management information

The outstanding claims transferring to HSA as a proportion of the existing outstanding claims are not materially different from the proportions at the time of the IE Report when considering the restated figures. I note that the gross open and outstanding claims have increased since 31 January 2018 due to both planned business growth and an increase in average cost estimates. The number of claims transferring remain similar to those shown in the IE Report (when considering the restated figures). The number of in force policies transferring from HIC to HSA for each line of business also remain substantially the same as those in the IE Report.

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

Financial performance of Transfer Companies to 30 September 2018

3.2 I have been provided with an updated IFRS balance sheet as at 30 September 2018 for HIC and updated IFRS and Solvency II balance sheet information as at 30 June 2018 for HIC. A summary of this information is provided in section 3.3 below.

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 HIC under IFRS as at 30 September 2018 and under Solvency II as at 30 June 2018 is consistent with my understanding of the claims experience of the respective businesses over that period: no Transfer Company has reported a financial performance that would significantly affect the financial analysis I performed in preparing the IE Report. I comment on this in further detail in section 3.3 below.
- I have confirmed with the management teams of the Transfer Companies that there has been no change in general reserving strength between the balance sheets prepared as at 31 December 2017 and 30 September 2018.

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

Impact of Transfer on balance sheets

3.3 In section 4.4 and 4.5 of the IE Report I considered the potential post-Transfer IFRS and Solvency II balance sheets for the Transfer Companies. The tables from my IE Report are shown again below. There is a slight change from the IE Report to the HSA post-Transfer Solvency II projections only; in the IE Report the amounts were shown in Euros rather than Pounds Sterling. This is not a material change and does not affect my opinion.

In addition, I have also provided tables below showing the movements in HIC's IFRS balance sheet between 31 December 2017 and 30 September 2018, and HIC's Solvency II balance sheets between 31 December 2017 and 30 June 2018. I have used these to assess whether the projections shown in my IE Report are still suitable to draw my conclusions from. I have also reviewed the HSA IFRS balance sheet as at 30 September 2018, though I note that there is not a prior balance sheet to compare this to and given the company is not yet writing business and the fact that the cross-border merger from HEUL into HSA has not yet occurred (which I comment on further in section 3.8), it is not directly comparable to the projections. As I note in section 4.2 of my IE Report, both the HSA pre-Transfer and post-Transfer balance sheets as at 1 January 2019 include the impact of both of the cross-border mergers. As I note in section 3.8 of this Report, the cross-border merger between HAG and HEUL has occurred, and all of

the documents required for the cross-border merger between HSA and HEUL to go ahead have now been received. I note that HIC formally calculates its SCR annually, and as such the SCR as at 30 June 2018 is the same as at 31 December 2017.

For avoidance of doubt, I note that I have investigated and challenged where necessary the numbers within the updated balance sheet tables provided to us from Hiscox. I have also performed sense checks to ensure the amounts appear reasonable.

IFRS:

Pre-Transfer actuals:

€1 = £0.88				
IFRS Balance Sheet (£m)	HIC 31 Dec 2017 (Pre-Transfer)	HIC 30 June 2018 (Pre-Transfer)	HIC 30 Sept 2018 (Pre-Transfer)	HSA 30 Sept 2018 (Pre-Transfer)
Assets				
Financial Investments & Cash	587.0	618.1	595.2	30.7
Unearned Reinsurance Premiums	145.4	180.6	173.4	-
Reinsurance Claims Outstanding	311.0	329.0	352.3	-
Insurance Debtors		195.5	202.2	-
Reinsurance Debtors	191.3	18.5	18.8	-
Other Debtors	50.4	46.0	50.0	0.0
Prepayments and Accrued Income	81.5	102.9	99.1	0.0
Total Assets	1,366.7	1,490.6	1,491.0	30.7
Liabilities				
Unearned Premium Reserve	315.1	361.4	354.6	-
Claims Outstanding	587.1	615.0	646.5	-
Insurance Creditors	22.0	25.1	22.2	-
Reinsurance Creditors	65.8	80.6	77.5	-
Other Creditors	42.4	110.5	98.6	25.8
RI DAC	64.9	78.9	76.5	-
Other Liabilities	26.0	10.0	6.3	-
Total Liabilities	1,123.3	1,281.5	1,282.3	25.8
Net Assets	243.4	209.2	208.7	4.8

Source: Management Information, UK GAAP

Pre- and post-Transfer projections (as per IE Report):

€1 = £0.88	As At 01 January 2019				As At 31 December 2019		As At 31 December 2020	
	HIC (pre-Transfer)	HSA (pre-Transfer) *	HIC (post-Transfer)	HSA (post-Transfer)	HIC (post-Transfer)	HSA (post-Transfer)	HIC (post-Transfer)	HSA (post-Transfer)
IFRS Balance Sheet (£m)								
Assets								
Financial Investments & Cash	588.3	47.7	367.8	130.0	409.4	122.0	465.4	131.0
Unearned Reinsurance Premiums	165.6	-	115.2	82.8	137.8	91.1	163.5	103.9
Reinsurance Claims Outstanding	343.7	-	232.5	220.6	258.2	240.1	290.0	262.8
Insurance Debtors	200.0	76.6	162.2	51.5	186.9	58.4	215.5	66.9
Reinsurance Debtors	21.3	-	13.7	6.7	16.0	7.7	19.6	8.7
Other Debtors	6.9	3.8	2.4	8.4	2.7	9.5	3.2	10.9
Prepayments and Accrued Income	136.4	-	83.4	37.4	88.2	42.4	95.8	48.2
Total Assets	1,462.3	128.1	977.2	537.3	1,099.2	571.3	1,252.9	632.3
Liabilities								
Unearned Premium Reserve	356.8	-	241.2	115.6	277.5	127.7	320.2	146.2
Claims Outstanding	640.9	-	397.7	243.2	439.2	264.9	489.5	290.2
Insurance Creditors	28.5	61.5	21.3	7.3	24.7	8.3	28.8	9.4
Reinsurance Creditors	71.4	-	50.5	49.0	59.2	35.6	70.0	40.6
Other Creditors	67.8	25.4	56.1	24.1	58.6	27.3	62.6	29.7
RI DAC	73.5	-	52.0	31.7	61.0	35.9	72.5	40.4
Other Liabilities	9.7	-	8.4	1.3	-	3.4	9.4	3.7
Total Liabilities	1,248.7	86.9	827.2	472.1	920.2	503.2	1,053.0	560.2
Net Assets	213.5	41.3	150.0	65.2	179.0	68.1	200.0	72.1

Source: Management Information, UK GAAP

* HSA IFRS numbers (pre-Transfer) reflect the balance sheet after the HEUL to HSA cross-border merger which is due to happen directly after the Transfer, as to reflect the same position as the Solvency II balance sheet below. The projection for HSA pre-Transfer prior to both the cross-border merger and all associated transactions was estimated to contain £5.4m of Financial Investments and Cash, and £0.5m of Other Creditors Liabilities only.

Solvency II:

Pre-Transfer actuals:

All figures in £ms

€1 = £0.88	As at 31 December 2017		As at 30 June 2018	
Solvency II Balance Sheet (£ms)	HIC (pre-Transfer)		HIC (pre-Transfer)	
Assets				
Investment and Cash		630.3		662.9
Reinsurers' Share of Technical Provisions		240.6		273.4
Receivables		20.96		41.2
Other		0.0		0.0
Total Assets		891.9		977.5
Liabilities				
Technical Provisions (excl. Risk Margin)		532.6		605.7
Risk Margin		17.0		18.7
Insurance and Reinsurance Payables		-		-
Payables (trade, not insurance)		57.3		110.5
Solvency II DTL Adjustment		10.8		8.5
Other		3.8		4.1
Total Liabilities		621.5		747.6
Net Assets		270.4		229.9
Eligible Own Funds		270.4		229.9
SCR		193.3		193.3
Capital Cover Ratio		140%		119%

Source: Management information, SII accounts

Pre- and post-Transfer projections (as per IE Report):

All figures in £ms

€1 = £0.88	As At 01 January 2019				As At 31 December 2019		As At 31 December 2020	
	HIC (pre-Transfer)	HSA (pre-Transfer)**	HIC (post-Transfer)	HSA (post-Transfer)	HIC (post-Transfer)	HSA (post-Transfer)	HIC (post-Transfer)	HSA (post-Transfer)
Solvency II Balance Sheet (£ms)								
Assets								
Investment and Cash	635.0	29.3	410.5	106.7	451.3	102.5	507.6	115.3
Reinsurers' Share of Technical Provisions	308.7		215.2	197.5	243.4	233.9	276.1	257.1
Receivables	19.6	12.9	12.6	15.7	14.5	17.8	16.7	20.4
Other	0.0		-	-	-	-	-	-
Total Assets	963.2	42.2	638.3	320.0	709.3	354.3	800.5	392.8
Liabilities								
Technical Provisions (excl. Risk Margin)	615.4		384.4	246.1	428.7	267.3	480.5	295.4
Risk Margin	17.9		9.9	2.8	10.8	1.9	11.9	2.2
Insurance and Reinsurance Payables			-	-	-	-	-	-
Payables (trade, not insurance)	67.8	25.4	56.1	24.1	58.6	27.3	62.6	29.7
Solvency II DTL Adjustment	7.4		5.6	(5.1)	6.1	(3.6)	6.8	(2.7)
Other	9.7		8.4	1.3	8.8	3.4	9.4	3.7
Total Liabilities	718.2	25.4	464.4	269.2	513.0	296.3	571.3	328.3
Net Assets	245.0	16.8	174.0	50.8	196.3	57.9	229.2	64.4
Eligible Own Funds	245.0		174.0	50.8	196.3	57.9	229.2	64.4
SCR 2019 *	215.9		143.6	42.4	163.7	48.2	189.1	52.2
Capital Cover Ratio 2019 *	113%		121%	120%	120%	120%	121%	123%
Capital Cover Ratio (HIC 2018 SCR)	127%							

Source: Management information

* HIC pre-Transfer 2019 ratios calculated as though Brexit were not happening and the business could continue to underwrite as now for comparison with the sum of the parts

** HSA does not have a pre-Transfer Solvency II balance sheet as it has not underwritten insurance business. These numbers reflect the balance sheet after the cross-border mergers re-expressed in Solvency II terms

The updated HIC balance sheets as at 30 September 2018 are similar to those as at 31 December 2017 allowing for the dividend payment of £35m in July 2018 which has changed IFRS net assets of £243m to £209m and is also the driver of the decrease of the Solvency II net assets. I am comfortable that the above projections show consistent implications for the policyholders affected by the Transfer to those discussed in the IE Report.

In the IE Report I note that HIC's net assets on an IFRS basis reduce from £213.5m to £150m after the Transfer as at 1 January 2019 due to a dividend, though it is anticipated that not all of the dividend that effects this change will have been made by 31 December 2018. The balance, though expected to be paid, would be available to cover events that happen between the date of this Report and the Effective Date. I can confirm this is still the case with the dividend expected to be paid in the second quarter of 2019.

I note that the difference between the IFRS assets and liabilities as at 30 September 2018 and those projected as at 1 January 2019 for HIC (pre-Transfer) is sufficiently small that the projected position appears a reasonable one. Similarly, I also note that the difference between the Solvency II assets and liabilities as at 30 June 2018 and those projected as at 1 January 2019 for HIC (pre-Transfer) is similarly small.

HSA's IFRS balance sheet as at 30 September 2018 includes the effect of the prerequisite transactions that have occurred in preparation for the upcoming cross-border merger between HEUL and HSA. This accounts for approximately £25million of both the assets and the liabilities in the balance sheet. As I note above the tables and in the footnote to the IFRS projections, the HSA IFRS projections as at 1 January 2019 include the effects of the completed cross-border merger. A meaningful comparison of the two HSA balance sheets, therefore, would be between the 30 September 2018 figures without the effects of these prerequisite transactions and the 1 January 2019 figures without the effects of the cross-border merger. I can confirm that when comparing such figures, they are very similar.

For completeness I note again here that the summed IFRS and Solvency II balance sheets as at 1 January 2019 are not equal before and after the Transfer. As I noted in sections 4.4 and 4.5 of my IE Report, the main drivers of this are the dividend (as discussed above) and the reinsurance arrangement changes. In the case of the Solvency II balance sheet, there are also the additional drivers of capital requirement changes and other minor adjustments such as intragroup cancellations and adjusting for differences in the assumptions required under Solvency II for HIC compared to HSA.

I also note that the above projected business plans for HSA post-Transfer contain an allowance for the business with EEA exposure in Hiscox Syndicate 33 and Hiscox Syndicate 3624 which will effectively be renewed into HSA after the Effective Date of the Transfer. Due to the nature of the implementation, this allowance is categorised as an investment rather than as a technical balance. As I noted in section 1.3 of my IE Report, the Lloyd's Syndicates are out of scope of this Part VII Transfer, but I mention this here as the implementation to make this happen has begun and some policyholders have been contacted about it. As this was already included in the projections considered in the IE Report, this additional communication and implementation has no impact on my conclusions. As such I see no need to revise any of my conclusions based on this additional information.

Consideration of capital cover ratio

3.4 In addition to the Solvency II balance sheets (in the previous section) I also consider the impact of the Transfer in terms of the consequent Solvency II capital cover ratio.

The table from my IE Report is shown again below. I have assessed the movements to the HIC capital between 31 December 2017 and 30 June 2018, as shown in the previous section, in order to assess if the projections shown in my IE Report are still suitable to draw my conclusions from.

€1 = £0.88	As At 01 January 2019			As At 31 December 2019		As At 31 December 2020	
	HIC (pre-Transfer)	HIC (post-Transfer)	HSA (post-Transfer)	HIC (post-Transfer)	HSA (post-Transfer)	HIC (post-Transfer)	HSA (post-Transfer)
Solvency II Balance Sheet (£ms)							
Own Funds	245.0	174.0	50.8	196.3	57.9	229.2	64.4
Total Assets	963.2	638.3	320.0	709.3	354.3	800.5	392.8
Insurance Liabilities	633.3	394.2	248.9	439.5	269.2	492.4	297.6
Other Liabilities	84.9	70.1	20.3	73.5	27.1	78.9	30.7
Total Liabilities	718.2	464.4	269.2	513.0	296.3	571.3	328.3
SCR	215.9	143.6	42.4	163.7	48.2	189.1	52.2
Capital Cover Ratio 2019	113%	121%	120%	120%	120%	121%	123%
Capital Cover Ratio (HIC 2018 SCR)	127%						

Source: Management information

The updated HIC capital cover ratio as at 30 June 2018 has decreased to 119% compared to that of 140% as at 31 December 2017. This was expected and, as I note in section 3.2 of my IE Report, is mostly due to the paid dividend of £35m in July 2018 of which the effect was included in the 30 June 2018 Solvency II balance sheets. The capital cover ratio at 30 June 2018 of 119% is reasonable compared with the projected ratio of 122% as stated in section 3.2 of the IE Report and is in line with the HIC targeted capital ratio of 120%. As such I am comfortable that the projections are still valid in showing implications for the policyholders affected by the Transfer to those discussed in the IE Report.

My observations therefore remain the same as in section 5.9 of the IE Report, in that:

Non-transferring HIC policyholders see their capital cover ratio remain largely unchanged and comfortably above 100%, and in line with management's target of holding a capital cover ratio in excess of 120%. This indicates that the probability that policyholder benefits may not be paid in full is remote.

Transferring HIC policyholders see their capital coverage remain very similar to pre-Transfer HIC levels, and in line with management's target of holding a capital cover ratio in excess of 120%. Again, this indicates that the chance that policyholder benefits may not be paid in full is remote.

I have also considered the movements between HIC financial statements as at 30 September 2018 and Solvency II balance sheets as at 30 June 2018 with those forecasted in the IE Report, and I consider the assumptions made to produce these forecasts to be reasonable.

I therefore conclude that transferring and non-transferring HIC policyholders are not materially adversely affected by the Transfer from a capital security perspective.

In section 1.2, I note that the Transfer is estimated to move £421.5million of liabilities from HIC to HSA. I note that this is an estimate and the actual value is subject to market conditions as at 1 January 2019. However, regardless of the actual value transferring, HIC and HSA will continue to meet their targeted capital ratio of 120% post-dividend each year.

As such I see no reason to revise my previous conclusions based on any of this updated information.

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 reserving committee pack available for HIC as at 30 September 2018, which is the latest currently available, and this does not raise any new uncertainties that I had not considered in the IE Report or in this Report.
- 3.6 No material market developments have occurred since the date of the IE Report. As a result I do not consider that market developments change my conclusion on the impact of the Transfer on the levels of security of each affected policyholder group from that expressed in the IE Report.

Exposure of the Transfer Companies to potential severe adverse stresses

- 3.7 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.

My conclusions in section 6.5 of the IE Report are still valid. In fact, the Economic Downturn stress is now more likely to affect HIC and HSA similarly due to the aligning of HSA's investment strategy to the Hiscox Group policy (as I discuss further in section 3.8 below).

I also consider my analysis of the European Windstorm stresses in section 6.6 against updated exposure as at 30 June 2018 for HIC pre-Transfer and HIC and HSA post-Transfer. I note that due to this analysis being largely based on projected figures, the same capital levels are assumed as in the IE Report, so the change in exposure is the only significant update. For all three, the loss to HSA or HIC as a percentage of available capital is smaller than that in the analysis at the time of my IE Report. The relative losses between HIC pre- and post-Transfer, and between HIC pre-Transfer and HSA post-Transfer, are also directionally the same as at the time of my IE Report. The proportion of HIC nor HSA's capital eroded post-Transfer is not materially larger than the amount eroded in HIC pre-Transfer and in fact HSA sees a slightly lower amount eroded.

However, I note that since my IE Report, the model used by Hiscox to calculate the stress tests has changed. Hiscox has updated the model to allow for better definition of its reinsurance contracts. The new model allows for more details on the reinsurance contracts to be given; for example, the ability to include the specific currency rates. The more significant financial change in the model has been to amend the allocation of reinsurance recoveries and reinstatement premiums between entities from reinsurance contracts that cover more than one Hiscox Group company. The new allocation appears reasonable, and the exposure of the Transfer Companies to the stresses before and after Transfer does not change materially from those discussed in the IE Report. In this regard, I have also been provided with a revised view of the European Windstorm stresses as at 31 January 2018 using the latest model so that the effect of the change in model can be isolated from the effect due to change in exposure. These results still show directionally similar relative losses to the former model as at 31 January 2018 between HIC pre- and post-Transfer and between HIC pre-Transfer and HSA post-Transfer. When the results as at 31 January 2018 and 30 June 2018, both on the new model, are compared for HIC pre- and post-Transfer and HIC pre-Transfer and HSA post-Transfer, the results are extremely similar. This shows there is limited impact in the change of exposure between these dates.

As such, I see no reason to revise my conclusions based on this updated information.

Future intentions of HIC and HSA with respect to levels of capital, operations, structure and business mix

3.8 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 HIC and HSA remain consistent with those documented in section 4.11 of the IE Report.

I note that the ELTO application process for HSA, as I discussed in section 4.16 of my IE Report, is progressing as planned; an ELTO application was submitted for HSA and a membership certificate for HSA has now been received.

I also note that the investment strategy of HSA has now been aligned to the Hiscox Group strategy (and as such, with HIC's investment strategy) which recommends holding a mixture of cash, bonds, and risk assets; at the time of my IE Report, it was planned that HSA would hold mostly cash. For avoidance of doubt, I note that HIC's investment strategy has not changed since the time of my IE Report.

In sections 1.5 and 4.2 of my IE Report, I described the cross-border mergers that are occurring alongside the Transfer. I note that these are in progress as planned; the cross-border merger between HAG and HEUL was completed on 31 August 2018 with an effective date of 21 September 2018, and the final documents required for the cross-border merger between HSA and HEUL, which will become effective on 1 January 2019, have been received. They will show in HSA's balance sheet from 1 January 2019.

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

Implications of "Brexit" referendum

3.9 In section 5.16 of the IE Report, I discussed the implications of the "Brexit" referendum, as far as was known at the time of the IE Report. Since that time, the potential consequences remain uncertain, although the timetable of the process of the UK leaving the EU is clearer. The UK Government have agreed on the text of a withdrawal agreement with the EU Commission and this has now been agreed by the leaders of all EU countries, though this has not yet received the approval of all necessary bodies. Notably, as at the date of this Report, it has not yet received approval of the UK Parliament.

In October, the PRA published consultation paper CP26/18 ('UK withdrawal from the EU: Changes to PRA Rulebook and onshored Binding Technical Standards') which addresses the eligibility of policyholders holding non-UK risks to access the UK's Financial Service Compensation Scheme ('FSCS') post-Brexit. In the IE Report I concluded that policyholders who had FSCS protection prior to the Transfer will continue to have the same protection post-Transfer if they are not transferring, and if they are transferring they will have the same protection until their policy is renewed and then will be protected by the Luxembourg system, as I describe in section 3.7 of my IE Report. Policyholders transferring who were not protected by the FSCS would be eligible for protection under the Luxembourg system and therefore benefit from increased protection. I can confirm the conclusions I formed on the FSCS remain unchanged.

I note that this Transfer is not contingent on the UK's withdrawal from the EU. Although the possibility of an imminent deal has received recent media attention, there is little expectation that such a deal would preserve passporting. Therefore, even if this such a deal is reached, it would not guarantee the right of HIC to underwrite EU business after Brexit. I further note that based on my analysis there would still be no material adverse effect on the Transferring policyholders from the occurrence of the Transfer.

My comments in the IE Report on the subject remain valid at the date of this Supplemental Report.

Update on Jersey scheme arrangements in the event of non-approval

3.10 In section 1.4 of the IE Report, I discussed the arrangements for the Jersey policies in the unlikely event of the Jersey transfer not being approved. I note that the HSA Jersey license

application (required to carry out insurance business in Jersey) has been granted by the Jersey Financial Services Commission and that the Jersey Directions Hearing, held on 6 August 2018, was successful, which further decreases the chance that the Jersey transfer will not be approved. However, in the event that it is not approved, the arrangements are still the same as I discuss in my IE Report; the policies in question will remain within HIC but will be 100% reinsured to HSA and will also be serviced by HSA. This arrangement will apply from the Effective Date of the Transfer until such time as the Jersey transfer is approved, providing approval is granted on or before 31 December 2019. I note that the Sanctions Hearing is to be held on 17 December 2018, so it is unlikely that approval will not be granted by this date. However, if the Jersey transfer is not approved by 31 December 2019, the above arrangement will become business as usual for the relevant policies.

In section 3.9 of the IE Report, I detailed the numbers of Jersey policies that were transferring. I noted that the amount of live Jersey policies transferring was 350, and that the number of lapsed or cancelled policies transferring was 614; Hiscox have since confirmed that these figures apply to the total number of EU (including the UK) policies rather than just the transferring policies, and that the numbers of transferring policies at the time of the IE Report should be restated as 152 live, 22 lapsed, and 29 cancelled. This does not affect any conclusions I came to in my IE Report. As at the time of this Report, there are 160 live policies transferring, and 52 transferring that are no longer in force (lapsed or cancelled).

Policyholder and other communications

3.11 I understand from HIC that the proposed policyholder communication as set out in my IE Report has gone ahead as expected, except for the following:

- Due to accidental omission, 200 policyholders that should have been notified of the Transfer were not contacted. This is because Hiscox determined which policies should be transferring by looking only at the most recent year of a policy contract. For those policyholders with longer period policies, there are some cases where they had removed the non-UK EEA risk from their policy during the policy period, but still had the risk earlier in the contract period. Some of these policyholders would have fallen under the waivers granted by the Court before the start of the communication period, and some would have received the communication documentation in any case due to holding another policy with HIC that was not covered by one of the granted waivers. It is the sub group that do not fall into either of the above two categories, comprising of 181 UK policyholders and 19 EU (non-UK) policyholders, who were not contacted. Hiscox has subsequently noted that due to the complexity of the notification exercise it would not be practically possible to contact these policyholders in sufficient time prior to the Sanctions Hearing. Therefore, Hiscox plans to apply the waiver of Accidental Omission.
- 16 policyholders, all holding Entertainment Business policies that held a longer tail cover as part of a specific package, were only notified of the Transfer on 20 November 2018. The reason for the late notification is due to the package in question being incorrectly categorised as part of a different cover rather than as a separate cover in and of itself, which led to these policyholders being classified as non-transferring policyholders rather than transferring policyholders.

With regard to the first point, due to the nature of the exposures in question, these policies' exposure to non-UK EEA has already expired and there have not been any claims arising from them yet. They may have also been made aware of the Transfer through the wider publicity campaign undertaken. On the second point, I note that these policyholders have now been notified. While this is later than required, policyholders still have some time to reply if they should feel the need to. I therefore consider the risk that a policyholder that may subsequently be found to have a genuine claim has not been made aware of the Transfer is very low.

I note that notice of the Transfer was additionally published in the print editions of the *Iris Oifigiuil* and *Irish Examiner* in Ireland and the *Independent Malta* and *Times Malta* in Malta. It will also be published in the Finnish official journal ('*Edita Publishing oy*') and *Helsingin Sanomat* in Finland after the Transfer.

HIC has provided me with the weekly logs detailing the numbers of policyholders responding with queries, objections, complaints, or otherwise, and also the number of returned mailings.

There have been a number of mailings noted as "return to sender", and HIC is continuing to endeavour to find suitable redelivery addresses for these. As of 23 November, 18,017 postal mailings have been returned, which is around 4.3% of the total Transferring policyholder population. As at the same date, alternative mailing addresses have been found for approximately 7,444 of these, bringing the returned percentage to around 2.5%. In addition, as at 23 November 2018, 2,396 emails have been returned as undelivered, which is around 0.6% of the total Transferring policyholder population. As of the same date, alternative email addresses have been found for 1,397 of these, bringing the returned percentage to around 0.25%.

As of 4 December 2018, there have been seven complaints and three objections.

The complaints are as follows:

- One policyholder did not understand why their policy should transfer, and asked to cancel it if it did. On further investigation of the policy, it was confirmed that the risk resides solely in the UK and therefore the policy would not transfer, and the policyholder is satisfied with this. I note that this situation arose as there are some UK policies where it was not possible to tell if they contained EU risk, typically where the policy includes extra cover of worldwide locations automatically, with the specific locations not captured in HIC's systems. Therefore, policyholders falling into this category were contacted in case they did have EU risk, leading to the situation described here.
- Another policyholder received a letter addressed to another company at their address. On investigation, it was discovered that they shared a postcode with another policyholder and there was a user input error when addressing the second policyholder's mail.
- Two policyholders received multiple letters regarding the Transfer to their address; that is, they received letters addressed to themselves and also additional letters carrying the names of other individuals (but their own address). The data for these came from a third party; I note that HIC did perform checks for duplicates on this data, however the checks looked for instances where both the name and address of a record matched another record, so in this instance, as the names were different but the addresses were the same these were not picked up. After this occurrence, the duplicate checking system was updated to also check for occurrences of two records with the same name regardless of address, and two records with the same address regardless of name. The third party contacted the policyholders affected, collected the incorrect letters, and provided correct address data for those additional names of policyholders. The additional policyholders with corrected data have now been mailed.
- One policyholder received a letter to his old address despite having informed Hiscox of his new address. This occurred as the notification of change of address took place after the data extract was pulled for the communication exercise.
- One policyholder complained that his letter had been sent to his brother's address rather than his own. The third party company that was responsible for cleaning the data informed Hiscox that this policyholder had moved to the address of the brother. As at the date of this Report, Hiscox is still awaiting further clarification from the third party company on the source of the new address so that it can provide an accurate reply to the policyholder.
- One policyholder has asked to cancel his policy due to the change in carrier. This has been actioned.

As for the objections, two of them have not stated a reason; HIC has contacted these policyholders for more information but as at the date of this Report, no further responses have yet been received. The other objection has been made on the following grounds: the policyholder disagrees with the ethics of Luxembourg's tax system. Hiscox replied confirming the reasoning for the Transfer needing to occur, more information on their decision to choose Luxembourg, and some information on measures that Luxembourg is taking in regard to tax reform. Despite this, the policyholder has asked to cancel their policy, to which Hiscox have agreed.

I have considered the objections raised; for the two for which no reasons were stated, I am satisfied with the Transfer Companies' responses and their attempts to contact the

policyholders. For the policyholder who is objecting on the grounds of Luxembourg's tax system, I am satisfied with the Transfer Companies' response and that the objection does not alter any opinion I express in my IE Report or Supplemental Report. 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 that 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 any of the Transfer Companies as a result of the proposed Transfer.

Appendix – List of additional information provided for Supplemental Report

Financial Information

HIC accounts and Solvency II balance sheets as at 30 June 2018 (unaudited)

HIC IFRS accounts as at 30 September 2018 (unaudited)

HSA IFRS accounts as at 30 September 2018 (unaudited)

Structure and Company Information

Confirmation of the company structure detailed in the IE Report

Confirmation that there are no changes to details of current and post-Transfer Board(s) and governance arrangements.

Confirmation of HSA's directors and the HSA governance map

Scheme Information

Final Scheme Documents

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

Confirmation of no material shift to tax impact arising as a result of the Transfers since the IE Report

Updated policy and claim overview

Weekly policyholder communications logs and additional information on relevant policyholder responses

Capital and Risk Management

Updated capital requirements and available capital figures under Solvency II for HIC as at 30 June 2018

Reserving Committee Pack as at 31 March 2018, 30 June 2018 and 30 September 2018 for HIC

Details of material losses that occurred in the interim period Q4 2017 and Q2 2018

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

Updated HIC 2018 ORSA Report

Hiscox SA 2018 ORSA Report

Information on the changes to the capital model

Other information considered

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