

Independent actuarial opinion on Finity's actuarial report on the proposed scheme transfer of parts of Great Lakes Australia's portfolio and all of HSB's Australian Branch portfolio to Gordian RunOff Limited

10 March 2020



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Dear Shalaj, Anya and Sandra

Independent actuarial opinion on Finity's actuarial report on the proposed scheme transfer of parts of Great Lakes Australia's portfolio and all of HSB's Australian Branch portfolio to Gordian RunOff Limited

Please find enclosed my report relating to the transfer of HSB Engineering Insurance Limited's business and parts of Great Lakes Insurance – Australian Branch's portfolio to Gordian RunOff Limited.

I understand that this report will be used as part of an application to the Federal Court of Australia to transfer the portfolios.

I am available to answer any questions you may have on my report.

Yours sincerely

Kaise Stephan
Fellow of the Institute of Actuaries of Australia

Contents

1	Introduction	5
1.1	Background	5
1.1.1	Great Lakes Insurance SE – Australia Branch (GLA)	5
1.1.2	HSB Engineering Insurance Limited Australian Branch (HSB)	6
1.1.3	Purpose of Transfer	6
1.1.4	Reinsurance and Trust Fund	6
1.1.5	Enstar Group Structure	7
1.1.6	Gordian RunOff Limited	9
1.1.7	Details and Possible Implications of Scheme of Transfer	9
1.2	Principal, purpose and use	9
1.3	Professional standards	9
1.4	Code of Conduct	10
1.5	Approach	10
1.6	Distribution and use	10
1.7	Uncertainty	11
2	Opinion	12
2.1	Summary opinion	12
2.2	The financial security provided to transferring policyholders	12
2.2.1	Financial security provided to transferring policyholders before Transfer	12
2.2.2	Projected financial security provided to transferring policyholders after Transfer	13
2.2.3	Comparison of Gordian's APRA solvency coverage pre transfer at 31 December 2018, and post transfer	15
2.3	Any change in contractual rights of transferring policyholders	16
2.4	The type and level of the service provided to the policyholders	16
2.5	Impact of the Transfer on the assets, liabilities, solvency and any continuing policyholders of GLA and HSB	16
2.6	The impact of the Transfer on existing policyholders of Gordian	16
2.7	The impact of the Transfer on assets and liabilities and solvency of Gordian	17
3	Information	18
	Appendix A – Extract from engagement letter	20

Glossary

Abbreviation	Meaning
APRA	Australian Prudential Regulation Authority
CAM	Capital Adequacy Multiple, the ratio of APRA-recognised net assets to the PCA
Cavello Bay	Cavello Bay Reinsurance Limited, a Bermudan wholly owned subsidiary of the Enstar Group
CIL	Calliden Insurance Limited
CTP	Compulsory third part motor personal injury insurance
CTP portfolio	Portfolio of NSW CTP business previously transferred from Zurich Australian Insurance Limited
CTP Trust Fund	The Trust Fund set up to protect the policyholders of the previously transferred Zurich CTP portfolio
Enstar	Enstar Australia Limited
Enstar Group	Enstar Group Limited
GLA	The Australian branch of Great Lakes Insurance SE
GLA's Transferring Business	Insurance business written by GLA via nine specified MGAs, and the former business of CIL (previously transferred to GLA in 2017)
GLISE	Great Lakes Insurance SE
Gordian	Gordian RunOff Limited
GPS 114	APRA Prudential Standard GPS 114 <i>Capital Adequacy: Asset Risk Charge</i> February 2017
GPS 320	APRA Prudential Standard GPS 320 on <i>Actuarial and Related Matters</i> dated November 2015
GPS 410	APRA Prudential Standard GPS 410 on <i>Transfer and Amalgamation of Insurance Business for General Insurers</i>
HSB	The Australian branch of HSB Engineering Insurance Limited
HSB's Transferring Business	All the insurance business of HSB
HSBEIL	HSB Engineering Insurance Limited
Insurance Act	Insurance Act 1973 as amended by the General Insurance Reform Act 2001
MGA	Managing General Agents
OCP	Gross discounted outstanding claims provision including indirect claims handling expenses and risk margins calculated in accordance with GPS 320.
PCA	Prescribed Capital Amount is the APRA minimum regulatory capital requirement
Reinsurance Arrangement	The reinsurance arrangement between Gordian and Cavello Bay
Scheme of Transfer	The proposed scheme to transfer the assets and liabilities relating to HSB's business and a portion of GLA's portfolio to Gordian under Part III Division 3A of the Insurance Act, effective as at 29 February 2020
Transferring Business	GLA Transferring Business and HSB Transferring Business
Trust Deed	The Trust Deed between Gordian, Cavello Bay and NAB Trustees Services Limited which stipulated control of the assets and securities in the Trust Fund to the trustee.
Trust Fund	The Australian Trust Fund set up under the Reinsurance Arrangement to meet the claim liabilities of the transferring policyholders under this Scheme of Transfer.

1 Introduction

1.1 Background

1.1.1 Great Lakes Insurance SE – Australia Branch (GLA)

GLA is authorised by APRA to underwrite general insurance business in Australia.

GLA is the Australian branch of GLISE, a specialist provider of insurance services, ultimately owned by Munich Re Group Company domiciled in Germany.

GLA specialises in underwriting general insurance business via MGAs. Over the course of 2016, GLA began the process of running off its agency business portfolios, with the final one being the termination of its Calibre business in March 2018. Currently, GLA's main business is limited to the underwriting of a niche portfolio of large single risk and agricultural insurance products. GLA intends to transfer certain run-off portfolios of insurance business to Gordian, this being business written via nine specified MGAs, and the former business of CIL (previously transferred to GLA in 2017).

The nine transferring MGA portfolios are¹:

- Calibre Commercial Insurance Pty Ltd, renamed Hollard Commercial Insurance Pty Ltd
- Celestial Underwriting Agency Pty Ltd
- Latitude Underwriting Pty Ltd, renamed as Austagencies Pty Ltd and SURA Construction Pt Ltd
- Mecon Insurance Pty Ltd
- PEN Underwriting Pty Ltd
- Residential Builders Underwriting Agency Pty Ltd
- Solution Underwriting Agency Pty Ltd
- Sports Underwriting Agency Pty Ltd
- Steeves Agnew Underwriting Agency Pty Ltd, renamed as ATC Insurance Solutions Pty Ltd.

Reinsurance Arrangements:

From 1 January 2018, GLA moved to a 100% quota share reinsurance arrangement with Munich Re Australia which covers all reserves and unexpired risk as at 31 December 2017, as well as new business written post 2017. The relevant exceptions to this are:

- Calibre business written from 1 January 2018 to 31 March 2018 which is 100% reinsured to Hollard; and
- The former CIL portfolio, which is reinsured through a combination of external quota share, per risk excess of loss, catastrophe excess of loss and stop loss arrangements².

As at 31 December 2018, GLA reported a gross outstanding claims liability of \$420,129³(in totality across transferring and non-transferring business). The net insurance liabilities were nil.

¹ Source: Scheme Actuary Report

² Source: GLISE – Australian Branch FCR at 31 December 2018

³ Source: GLA's capital calculation at December 2018

1.1.2 HSB Engineering Insurance Limited Australian Branch (HSB)

HSB is the Australian branch of HSBEIL, a provider of engineering insurance and inspection services, with its ultimate parent company being Munich Re.

HSB is currently in run-off. The company ceased writing direct business in 2016 and all other business was ceased in 2017. Prior to its run-off, HSB's business was primarily in underwriting UK-sourced Construction, Erection and Contractors Plants and Equipment risks as well as smaller risk business written by the MGA Ensurance⁴.

HSB intends to transfer its business to Gordian.

After February 2019, HSB had exposure to two large policies, one of which was commuted in March 2019. The remaining policy is in respect of the Sydney Light Rail project and HSB's reinsurance coverage on this specific risk with Munich Re's UK General Branch is expected to be novated across to Gordian.

As a part of this Scheme, HSB intends to transfer the entirety of its insurance business to cease its operations in the Australian market.

As at December 2018, HSB reported an outstanding claims provision of \$3.58m, and premium liabilities of \$0.17m.

Reinsurance arrangements:

HSB has the following reinsurance arrangements:

- Facultative reinsurance arrangements for large risks
- Per Risk and Catastrophe Excess of Loss, which for most recent years provides significant protection for losses above \$US1m (€1m for 2017).

1.1.3 Purpose of Transfer

The purpose of this proposed Transfer is to give effect to a commercial agreement between entities of the Munich Re group (GLA and HSB) and Gordian.

The intent of this commercial agreement is to:

- For GLA, complete its exit from certain portfolios of non-core business written via MGAs as announced in 2016, accelerate GLA's transition into its revised operating model, eliminating the need for management focus on these portfolios, and economic volatility from them;
- remove all Australian insurance business from HSB; and
- from Gordian's viewpoint, undertake a commercial arrangement to run off the remaining claims arising under the relevant business, in line with the Enstar Group's normal business strategy in Australia.

1.1.4 Reinsurance and Trust Fund

As part of the commercial arrangements around the Scheme, Gordian will enter into a 100% quota share reinsurance agreement (the "Reinsurance Agreement") with Cavello Bay in relation to all the business covered by the Scheme⁵.

⁴ Source: HSBEIL 2018 FCR

⁵ Source: Scheme Actuary Report

As part of this reinsurance agreement, a Trust Fund will be established by Cavello Bay, and managed by an independent trustee. Key provisions of the Trust Deed relating to the Trust Fund include:

- The assets in respect of the Reinsurance Agreement are to be held in the Trust Fund supporting the transferring business
- The Trust Fund will not be available for distribution to the creditors of Cavello Bay in the event of Cavello Bay's insolvency, other than to Gordian and for the purpose of meeting liabilities incurred by Gordian under the transferring business as a result of this Scheme
- The Trustee will only make payments to Gordian in accordance with the Reinsurance Agreement
- The Trustee must comply with any relevant requirements for an entity acting as trustee as prescribed by APRA in GPS 114.

In addition, the Reinsurance Agreement will include a collateral requirement that requires Cavello Bay to provide funds such that the assets of the Trust Fund are no less than 105% of the outstanding claims liabilities and premium liabilities⁶ in respect of the portfolios under this Scheme as at each quarter end.

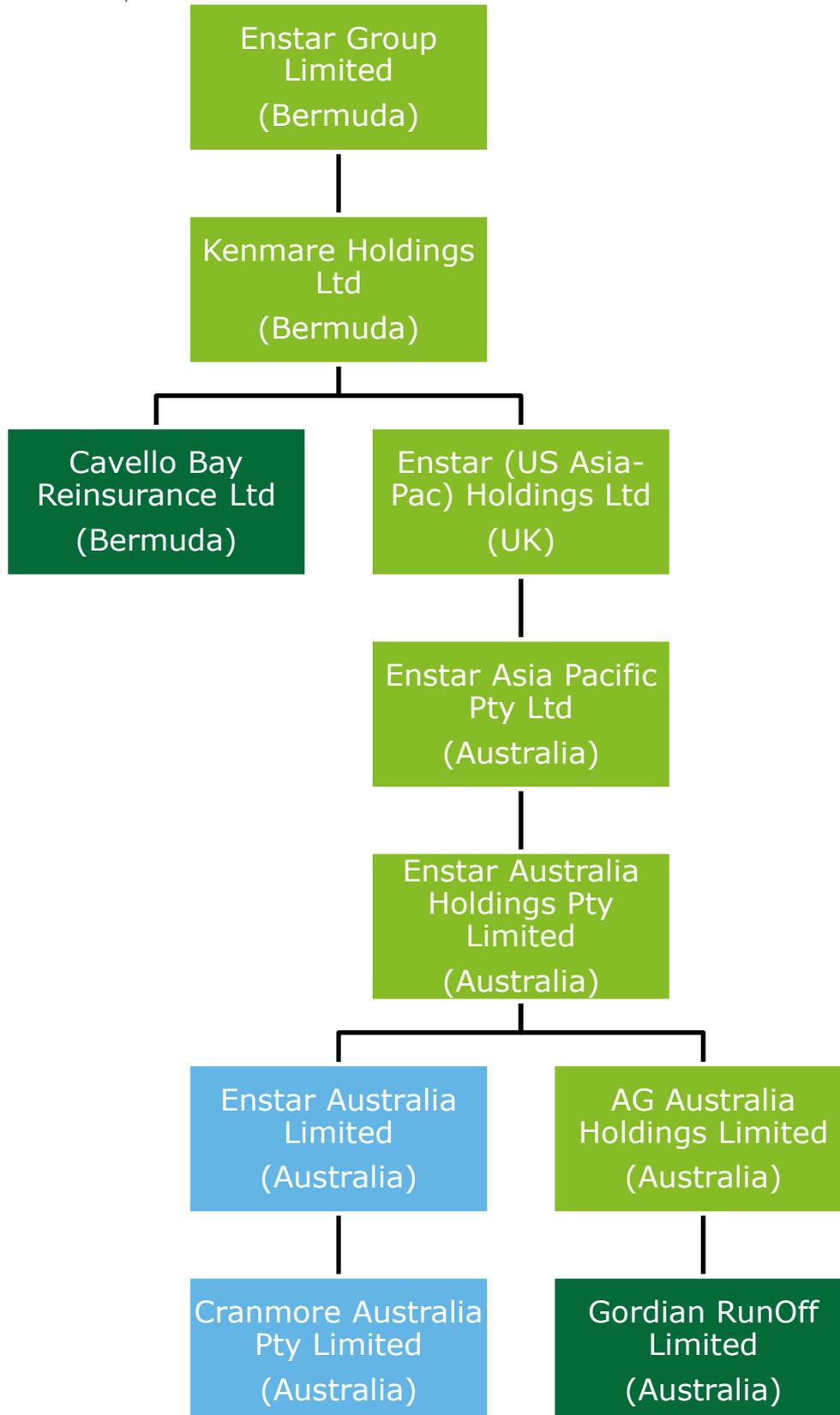
I have considered the risk that an issue (for example, adverse claims run-off experience means that the Fund needs to be increased) could arise within a quarter, but not be addressed until the next quarter end. As far as the risk of inadequate capital support is concerned, that risk is discussed later in this report. I consider other risks arising from this hypothetical circumstance (for example, liquidity risk) to be remote.

1.1.5 Enstar Group Structure

The Enstar Group structure is shown in the following diagram:

⁶ The version of the Reinsurance Agreement that I have seen does not explicitly reference premium liabilities, but my understanding is that it will be amended to include them

Figure 1.1 Enstar Group structure



1.1.6 Gordian RunOff Limited

Gordian is authorised by APRA to conduct Run-off insurance under the Insurance Act. Gordian's ultimate parent is also the Enstar Group. Gordian is managed by a related party, Enstar.

1.1.7 Details and Possible Implications of Scheme of Transfer

GLA and HSB propose to transfer the liabilities relating to the Transferring Business to Gordian under Part III Division 3A of the Insurance Act (the Scheme or the Transfer). This entails GLA, HSB and Gordian engaging with and obtaining necessary approvals from APRA, and obtaining orders from the Federal Court for the Transfer.

Under the proposed Scheme all rights, obligations, and insurance liabilities arising from GLA's transferring business and from HSB's business will transfer to Gordian.

Due to the reinsurance agreement with Cavello Bay, this transaction is expected to have no net impact on the profit and loss statement of Gordian.

However, as discussed in Section 2 below, there are implications for the balance sheets, prudential capital requirements and solvency positions for GLA, HSB and Gordian.

Policyholders, who rely on the policies for coverage of insured losses, including in some cases indemnifying them from liability claims from third parties arising from insured events, will be insured by Gordian, with Enstar managing and settling those claims.

1.2 Principal, purpose and use

I have been commissioned by GLA, HSB and Gordian to provide an independent actuarial report on Finity's Scheme Report on the Transfer.

My scope, as agreed in our engagement letter dated 4 September 2019 (attached at Appendix A), consists of providing a report covering the following issues:

- The security provided to the transferring policyholders, the remaining post-Transfer policyholders of GLA, and the pre-Transfer policyholders of Gordian
- Any change in contractual rights of policyholders
- The type and level of claims service provided to the policyholders
- Impact of the Transfer on policyholders of GLA and HSB
- The impact of the Transfer on assets, liabilities and solvency of GLA, HSB and Gordian
- Gordian's ability in claims administration, reinsurance strength and management strength,

I note that Geoff Atkins of Finity Consulting Pty Ltd has been appointed by GLA, HSB and Gordian to provide an actuarial report⁷ on the Scheme, and this report is a review of that report. Geoff Atkins is also the Appointed Actuary for Gordian.

1.3 Professional standards

The Insurance Act and GPS 410 set out the procedural requirements for insurers transferring or amalgamating general insurance business, which require an actuarial report on the Scheme.

While GPS 410 provides no specific guidance on the content of actuarial reports on which insurance business transfers are based, it is usual for such actuarial reports to provide an opinion as to whether or not the interests of policyholders are materially adversely affected by the proposed Scheme. This typically includes an actuarial opinion on the issues set out in Section 1.2.

⁷ Scheme Actuary Report

1.4 Code of Conduct

I acknowledge that I have read and agree to be bound by the *Harmonised Expert Witness Code of Conduct* as approved by the Council of Chief Justices' Rules Harmonisation Committee (Code of Conduct), and the *Expert Evidence Practice Note* (GPN-EXPT) of the Federal Court of Australia.

I am a Fellow of the Institute of Actuaries of Australia and so am qualified to prepare this report. My opinions are based on specialised knowledge arising out of my actuarial training.

I have been asked to address the issues set out in Section 1.2.

I have set out in this report the assumptions and material facts on which my opinions are based. These include the materials and reference documents set out in Section 3, which include the documents I have been asked to consider.

I have made all the inquiries which I believe are desirable and appropriate, and I declare there are no matters of significance which I regard as relevant, to my knowledge, that have been withheld from this report.

1.5 Approach

I have:

- Reviewed the information provided to me by GLA, HSB, Gordian and Enstar regarding the Scheme and the financial position of the relevant entities, as listed in Section 3
- Discussed (verbally and by email) the Scheme and information provided with key staff of GLA, HSB and Enstar, as well as Geoff Atkins of Finity Consulting Pty Ltd
- Noted that the projections referred to in the Finity report are consistent with projections with which we were provided, and decrease in a manner broadly consistent with our understanding of the run-off the CTP portfolio and its impact on the CTP Trust Fund and associated asset risk charge.

1.6 Distribution and use

This report has been prepared for use of GLA, HSB and Gordian for the purpose of the Scheme as set out in Section 1.2. I understand that the report will also be provided to:

- GLA's legal advisers;
- HSB's legal advisers;
- Gordian's legal advisers;
- APRA; and
- The Federal Court of Australia.

I understand that a copy of this report will be made available to the public. Furthermore, policyholders and claimants may request a copy of the report be provided to them. No other use of, or reference to, this report may be made without my prior written consent.

Previous draft versions of this report are withdrawn and no longer applicable.

I have performed the work assigned and prepared in this report in conformity with its intended use by persons technically familiar with the areas addressed and for the stated purposes only. Judgements about the conclusions drawn in this report should be made only after considering the report including appendices in its entirety.

Third parties, whether authorised to receive this report or not, should place no reliance on this report that would create any duty or liability by myself or Deloitte to any third party.

1.7 Uncertainty

There is inherent uncertainty in the assessment of ultimate claims arising from insurance contracts which flow through to uncertainties in the projected profit and loss and balance sheet statements and the capital/solvency forecasts. Actual claims arising may differ, perhaps materially, from expected claims due to:

- Limitations on historical information, assumptions and methods used to project future experience
- Unanticipated future events, including changes in the legislative, social and economic environment.

The ultimate liability in respect of the transferring GLA and HSB portfolios may differ materially from that projected.

In this report I have only considered the impact of the Transfer on affected policyholders. While I have reviewed the underlying valuations of the liabilities for reasonableness, I have not conducted independent valuations of the OCP, or of Gordian's projected capital position.

2 Opinion

2.1 Summary opinion

Having reviewed the information noted in Section 3, and having adopted the approach as outlined in Section 1.5, in my opinion, after the proposed Transfer:

- **the financial security provided to transferring policyholders will not be materially reduced**
- **there will be no change in the contractual rights of transferring policyholders**
- **there will be no material change in the service provided to the policyholders**
- **there will be no material impact on non-transferring policyholders of GLA**
- **I do not expect any adverse deterioration in the capital position or solvency of Gordian arising from the Transfer, noting that a crucial part of my understanding is that any shortfall below Gordian's target capital adequacy will be addressed by a capital injection from the Enstar Group before the Transfer**
- **Gordian has sufficient claims administration ability to service the needs of the transferred policyholders.**

I have concluded that the interests of the transferring GLA and HSB policyholders, remaining post-Transfer policyholders of GLA and existing pre-Transfer policyholders of Gordian are not materially adversely affected by the Transfer.

I have set out below the information and analyses on which I have based my opinion.

2.2 The financial security provided to transferring policyholders

2.2.1 Financial security provided to transferring policyholders before Transfer

Prior to the Transfer, the transferring policyholders benefited from the following financial security:

- The net assets of GLA and HSB respectively
- Potential reinsurance and capital support from the Munich Re group.

I note that the Munich Re group is one of the largest insurance/reinsurance groups in the world. As at 30 June 2019, the group reported assets of €282.6B, liabilities of €253.1B, and shareholders' equity of €29.5B.

In Table 2.1, I have attempted to estimate the capital support available to the transferring portfolios based on each of these sources of capital.

Table 2.1 APRA capital position pre transfer as at 31 December 2018

	GLA ⁸	HSB ⁹
Assets	\$542.0M	\$21.8M
Liabilities	\$464.7M	\$4.1M
Net Assets	\$77.3M	\$17.7M
Net Adjusted Assets	\$75.2M	\$17.7M
Sum of Risk Charges	\$18.0M	\$2.2M
Minimum PCA	\$5.0M	\$5.0M
PCA	\$18.0M	\$5.0M
CAM	4.19	3.53

It is notable that:

- both GLA and HSB have strong pre-Transfer CAMs;
- however, both GLA and HSB are, if considered in isolation, relatively small entities;
- it therefore follows that the ongoing financial stability of both GLA and HSB is somewhat dependent on their relationship with the Munich Re group, both as that relationship relates to reinsurance support, and also to the likelihood that the Munich Re group would support an entity in the Group, in the hypothetical scenario that such an entity was financially impaired.

In terms of capital domiciled in Australia and regulated by APRA, the policyholders are supported by the net assets shown in the table above.

2.2.2 Projected financial security provided to transferring policyholders after Transfer

After the Transfer, the transferring policyholders will benefit from the following financial security:

- Gordian's net assets
- The assets of the Trust Fund, including surplus capital of 5% of the OCP and premium liabilities
- In the event that the assets of the Trust Fund fall below 105% of the OCP and premium liabilities, the assets of Cavello Bay to provide additional capital to restore the assets of Trust Fund to 105% of the OCP and premium liabilities

I note that:

- As at 31 December 2018, Cavello Bay reported¹⁰ assets of US\$4.05B, liabilities of US\$2.45B, and Shareholder Equity of US\$1.61B.
- Cavello Bay's assets are predominantly investments, cash and reinsurance balances, and no discernible intangible assets.
- As at 31 December 2018, Cavello Bay further disclosed that under the Bermuda Solvency Capital Requirement, it had sufficient assets to meet its statutory capital requirements.
- As at 31 December 2018, Enstar Group reported¹¹ assets of US\$16.6B, liabilities of US\$12.2B, and Shareholder Equity of \$3.9B.
- Enstar Group's assets are predominantly investments, cash and reinsurance balances.

⁸ Source: GLA's capital calculation at December 2018

⁹ Source: HSBEIL 2018 FCR

¹⁰ Source: Cavello Bay CFS 2018

¹¹ Source: Enstar Group Report 2018

- As at 31 December 2018, Enstar Group disclosed that it is in compliance with the Bermuda Monetary Authority's requirement that it maintain a group target capital level equal to 120% of the group's statutory capital requirements.

Cavello Bay is regulated by the Bermuda Monetary Authority. I have assumed that the Shareholder Equity for Cavello Bay, less any identifiable intangible assets, is a reasonable approximation of its capital on a solvency basis, amounting to approximately US\$1.6B. The policyholders therefore have the protection of the reinsurance and trust fund arrangements being provided by a well-capitalised reinsurance company.

As of the date of this report, a likely date of transfer is 30 April 2020. The post-transfer projections in this report are as at 29 February 2020, which was a previous target for the date of transfer. A deferral of 2 months in the date of transfer does not at this stage affect my conclusions. I expect to review the final post transfer projections in a supplementary document once the transfer date has been confirmed.

I note that the Finity Report¹² projects an increasing CAM for Gordian in the near future, with a projected post-Transfer CAM as at 31 March 2020¹³ just over Gordian's target of 2.2. A key sensitivity is the projected size of Gordian's other run-off portfolios, particularly the CTP claims run-off, which in turn drives the required amount in the CTP Trust Fund. The Gordian CTP outstanding claims valuation¹⁴ as at 31 December 2018 outlines a range of plausibly adverse scenarios – this is normal for any outstanding claims valuation. Any of the adverse sensitivities outlined in that report¹⁵ would be almost certain to result in a need for further injection of capital prior to the date of Transfer, in order for Gordian's CAM to be maintained at its target level of 2.2 or more.

We assume that such a capital injection will occur, should it be needed to maintain Gordian's CAM at 2.20.

The following table represents the total level of support available for the transferring liabilities, compared to Gordian's projected PCA at the date of Transfer.

Table 2.2 Capital support post transfer¹⁶

Source of capital	Capital Support	Ratio of APRA capital base to PCA	Notes
Trust Fund surplus of 5% of OCP	\$5M	0.15	Projected OCP of \$96.7M, giving rise to 5% margin of \$4.8M, compared to projected APRA capital base for Gordian of \$32.0M
Capital of Gordian	\$70M	2.20	Capital Base
Total Capital Support	\$75M	2.35	
PCA	\$32.0M		

¹² Source: Scheme Actuary Report Table 4.3

¹³ This is one month before the likely transfer date. Our approximate calculations indicate a projected CAM, relying on data from the Scheme Actuary Report, at the previous target transfer date (28 February 2020) of almost exactly 2.2

¹⁴ Source: 2018 Gordian CTP ILVR

¹⁵ Source: 2018 Gordian CTP ILVR

¹⁶ Projected as at 29 February 2020 based on an earlier target of 29 February for the date of transfer

In terms of capital domiciled in Australia and regulated by APRA, the policyholders are supported by the Trust Fund surplus and the APRA Capital Base of Gordian, giving a CAM of 2.35. (Note our earlier comment about capital injections being assumed, if required to bring Gordian's CAM up to 2.20 as at the likely transfer date of 30 April 2020).

In the absence of any contrary indications, I have assumed that Cavello Bay will continue to provide capital support equivalent to the shareholder equity as at 31 December 2018. In the past Enstar has injected capital in order to support a scheme of transfer, which is evidence to support the assertion that it will provide capital support in the future, even though it has no legal requirement to do so.

Gordian's Board-approved CAM is a minimum of 2.2, and based on Gordian's projected balance sheet for 2018 to 2020 (projected from Gordian's financial position at September 2018), this will not require any additional capital injections. While I have not examined any projections of Cavello Bay's and the Enstar Group's solvency over three years, in my view it is likely that the significant shareholder equity provides substantial capital support on an ongoing basis.

Consequently, I have concluded that over a three-year horizon, the transferring policyholders will continue to be supported by significant capital resources post Transfer.

2.2.3 Comparison of Gordian's APRA solvency coverage pre transfer at 31 December 2018, and post transfer

Table 2.3 below summarises the APRA solvency coverage of Gordian at December 2018 and the projected coverage post-transfer.

Table 2.3 APRA capital position pre transfer as at 31 December 2018, and post transfer

	Pre-transfer December 2018¹⁷	Post-transfer¹⁸
Assets	\$767.8M	\$996.0M
Liabilities	\$296.9M	\$525.1M
Net Assets	\$471.0M	\$471.0M
Net Adjusted Assets	\$70.2M	\$70.2M
Sum of Risk Charges	\$31.9M	\$31.0M
Minimum PCA	\$5.0M	\$5.0M
PCA	\$31.9M	\$31.0M
CAM	2.20	2.27

The Scheme of Transfer is not projected to impact Gordian's projected solvency adversely, in view of Gordian's stated aim of managing its CAM to 2.20 or higher.

However the uncertainty around future projected values, and in particular the size of the CTP outstanding claims and consequently the CTP Trust Fund, does mean that a capital injection may be required before the date of Transfer, in order to fulfil Gordian's stated aim of having a CAM of 2.20 or higher. The forecasted CAM of 2.27 as at 31 March 2020, derived mostly from Enstar estimates, is consistent with Gordian's stated aim of having a CAM of 2.20 or higher.

I understand that I will be required to undertake a supplementary report prior to the final hearing, and at that time I will review Gordian's projected balance sheet for the three years 2020 to 2022 on a post-Transfer basis, to ensure the adequacy of its CAM. In the interim I have performed a high level check of the following:

- projected Gordian balance sheet as at 31 March 2020, pre and post Transfer¹⁹; and

¹⁷ Source: Gordian capital calculations at December 2018

¹⁸ Source: estimate based on Scheme Actuary Report – various tables. The post-transfer projections are as at 31 March 2020 based on an earlier target of 29 February for the date of transfer.

¹⁹ Scheme Actuary Report, Table 4.3

- projected Gordian APRA balance sheet assuming no further transactions and/or capital inflows and outflows²⁰.

I also note that as Gordian is licenced as a run-off insurer, it is prohibited from extracting capital unless that capital is in excess of net assets, where policy liabilities are calculated at the 99.5% Probability of Sufficiency, and only then with APRA approval.

2.3 Any change in contractual rights of transferring policyholders

The terms and conditions of the insurance policies purchased by policyholders of HSB and GLA will remain unchanged by the Transfer.

2.4 The type and level of the service provided to the policyholders

GLA claims are currently managed by staff based in Australia. Claims management is largely undertaken by the staff of the MGAs, who have delegated authority to varying levels, depending on the class of business.

HSB has a remote claims management approach, with claims being managed by a delegated third party arrangement or the UK-based claims department of HSBEIL UK.

Gordian has indicated that it intends to maintain GLA's and HSB's claims management practices after the Transfer. It is Gordian's understanding that existing MGAs will wish to maintain current arrangements. Gordian have indicated that:

- The arrangements' continuation will be subject to the MGAs performing their duties to an expected standard;
- Gordian staff will review the performance of the MGAs, and will also review claims above the authorised levels;
- Pre-transfer, all except 3 of the transferring MGAs (representing most of the claims in the transferring portfolio) currently use the same claims management system. Gordian intends to utilise this claims management system for all of the transferring MGAs; and
- The remaining claims that are not managed on this system will be uploaded at the time of transfer to Gordian's existing claims system.

On this basis, my opinion is that the service provided to the transferring policyholders will continue to be appropriate after the Transfer.

2.5 Impact of the Transfer on the assets, liabilities, solvency and any continuing policyholders of GLA and HSB

Should the Transfer proceed as is proposed, GLA's remaining claims will (as they are now) be 100% reinsured by the Australian branch of Munich Re Company and therefore any financial impact of the Transfer on GLA would be insignificant. In the (strictly hypothetical) event that the Transfer were to proceed for HSB but not for any of GLA, then the financial impact of the Transfer on GLA and, indeed, on Munich Re, would be insignificant.

We have seen the target capital range in which GLA's business is managed and, having discussed with GLA's appointed actuary, we are satisfied that for non-transferring GLA policyholders:

- the pre-transfer GLA capital position was comfortably above the target capital range, and
- the draft projected post-transfer GLA capital position is comfortably above the target capital range.

Should the Transfer proceed as is proposed, HSB will have no remaining policyholders, and therefore no remaining insurance exposures, after 29 February 2020. In the (strictly hypothetical) event that the Transfer were to proceed for GLA but not for HSB, then the financial impact of the Transfer on HSB would be insignificant.

2.6 The impact of the Transfer on existing policyholders of Gordian

As the transfer of liabilities is covered by the reinsurance agreement with Cavello Bay and the Australian Trust Fund, then existing policyholders of Gordian should not be impacted. Unless these fail, claim payments will not be made from Gordian funds. There are no changes anticipated to the

²⁰ Spreadsheet showing projected position on this basis

contractual rights, or to the type and level of service provided to existing Gordian policyholders as a result of the transfer.

2.7 The impact of the Transfer on assets and liabilities and solvency of Gordian

I understand that I will be required to undertake a supplementary report prior to the final hearing, and at that time I will review Gordian's projected balance sheet for the three years 2020 to 2022 on a post-Transfer basis, to ensure the adequacy of its CAM. In the interim I have performed a high level check of the following:

- projected Gordian balance sheet as at 31 March 2020, pre and post Transfer²¹
- projected Gordian APRA balance sheet assuming no further transactions and/or capital inflows and outflows²².

Key drivers of Gordian's future projected financial position are discussed in Section 2.2 above.

²¹ Scheme Actuary Report, Table 4.3

²² Spreadsheet showing projected position on this basis

3 Information

The following documents have been reviewed prior to the determination of my opinion.

Short name	Title	Supplied by
HSBEIL Australia ILVR 31 December 2018	Actuarial Valuation of APA Insurance Liabilities at 31 December 2018 HSB Engineering Insurance Limited dated 7 February 2019 by Gae Robinson	HSBEIL
GLISE – Australian Branch FCR at 31 December 2018	Great Lakes Insurance SE – Australian Branch Financial Condition Report as at 31 December 2018 dated 26 March 2019 by Susan Ley	GLA
Cavello Bay Reinsurance Consolidated Financial Statements 2018	Cavello Bay Reinsurance Limited Consolidated Financial Statements for the years ended December 31, 2018 and 2017	Cavello Bay
GLA ILVR 2018	Great Lakes Insurance SE Australian Branch (GLA) Report on Insurance Liabilities as at 31 December 2018 dated 26 March 2019 by Susan Ley	GLISE
GLA 2018 ICAAP Report	Great Lakes Insurance SE (GLISE) – Australian Branch (GLA) 2018 ICAAP Report (including Business Plan) dated November 2018	GLISE
Gordian Director's and Financial Report 2018	Gordian Runoff Limited Directors' Report and Financial Report 31 December 2018	Enstar
2018 Gordian CTP ILVR	Insurance Liability Valuation as at 31 December 2018 ex-Zurich CTP Portfolio dated 21 March 2019 by Geoff Atkins	Enstar
2018 Gordian ILVR	Insurance Liability Valuation as at 31 December 2018 Gordian RunOff Limited dated 21 March 2019 by Geoff Atkins	Enstar
HSBEIL Business Plan	2019 – 2021 Business Plan for HSB Engineering Insurance Limited ("HSB EIL") – Australia Branch ("The Branch")	HSBEIL
2018 Gordian ILVR	Insurance Liability Valuation as at 31 December 2018 Gordian RunOff Limited dated 21 March 2019 by Geoff Atkins	Enstar

Short name	Title	Supplied by
Scheme Actuary Report	Actuarial Report on Scheme Transfer – GLA and HSB to Gordian dated 9 March 2020 by Geoff Atkins	Finity
HSBEIL 2018 FCR	Financial Condition Report at 31 December 2018 HSB Engineering Insurance Limited dated April 2019 by Gae Robinson	HSBEIL
GLA Actuarial Results 2018	Spreadsheets showing the projection of Unallocated Loss Adjustment Expenses dated September 2018	GLISE
GLA's Asset Analysis 2018	Spreadsheets showing an analysis of GLA's assets dated September 2018	GLISE
GLA's capital projection 2018	Spreadsheets showing GLA's capital calculations at September 2018	GLISE
Gordian capital calculations at December 2018	Gordian's APRA capital calculation as at 31 December 2018	Enstar
Gordian capital calculations at June 2019	Gordian's APRA capital calculation as at 30 June 2019 - resubmitted	Enstar
GLA's capital calculation at December 2018	GLISE's APRA capital calculations as at 31 December 2018	GLISE
GLA's capital calculation at June 2019	GLISE's APRA capital calculations as at 30 June 2019	GLISE
Gordian's 3 Year Run-Off Plan	Gordian RunOff Limited Run-Off Plan 2019-2021 dated March 2019	Enstar
Framework Deed	Framework and Transfer Deed dated September 2019	
Review of Gordian's Run-off Plan	Review of Run-off Plan Gordian RunOff Limited dated March 2019	Finity

Appendix A – Extract from engagement letter

Mr Shalaj Aggarwal	Mrs Anya O'Reilly	Ms Sandra O'Sullivan
Branch Manager	Finance Director	Chief Executive and Chief Financial Officer
Great Lakes Australia	HSB Engineering Insurance Limited	Gordian RunOff Limited
143 Macquarie Street	Chancery Place	Level 10, 56 Clarence Street
SYDNEY NSW 2000	50 Brown Street	SYDNEY NSW 2000
	Manchester M2 2JT	
	UNITED KINGDOM	

Dear Shalaj, Anya and Sandra

Independent actuarial opinion on Finity's actuarial report on the proposed scheme transfer of parts of Great Lakes Australia's portfolio and all of HSB's Australian Branch portfolio to Gordian RunOff Limited – ENGAGEMENT LETTER

We are pleased to confirm our capacity to give an independent actuarial opinion on Finity's Actuarial Report on the proposed transfer in accordance with schemes of transfer ('Schemes') of some of Great Lakes Australia's ("GLA") portfolio, and the business written by the Australian Branch of HSB Engineering Insurance Ltd ("HSB"), to Gordian RunOff Limited ('Gordian'), known as 'the Finity Report'.

The purpose of this letter is to document the agreement by which Gordian, GLA and HSB (each a 'client' and collectively referred to as the 'client' as the context requires) will retain Deloitte.

GLA and HSB are branches in Australia of overseas insurers, both of which are owned by Munich Reinsurance Company (collectively referred to as "Munich Re").

Deloitte will provide an independent report reviewing the Finity Report, focusing on whether the transaction materially adversely affects the interests of the policyholders of GLA and HSB. Our understanding is that our report will be distributed to key personnel at, and external advisors of GLA, HSB, Gordian and their respective related entities, APRA the Federal Court of Australia and affected policyholders of the Schemes.

The report will cover our opinion on:

1. The security provided to policyholders
2. Any change in contractual rights of policyholders
3. The type and level of the service provided to the policyholders
4. Impact of the transfer on policyholders of GLA and HSB
5. The impact of the transfer on assets and liabilities of GLA, HSB and Gordian
6. Solvency of GLA, HSB and Gordian before and after transfer
7. Gordian's ability in claims administration, reinsurance strength and management strength,

taking into account the various permutations that may occur with respect to the Schemes, that is either Scheme is approved and the other is not, or both Schemes are approved.

You have advised that there are two Schemes intended to operate on the same timeframe. The Schemes are in respect of a portfolio of business comprising but not limited to nine (9) specified Managing General Agents (MGAs) of GLA (noting that not all of the GLA business will be the subject of the scheme transfer) (the "GLA Business") and all of the business of HSB in Australia (the "HSB Business").

Deloitte will provide the following in respect of the Scheme Transfers:

- Main Report: This would be included in the Court submission for confirmation of the Schemes and would also be made available to the affected policyholders of the insurers. The analysis will focus on a peer review of the financial position of each of the insurers (GLA, HSB and Gordian) as at 31 December 2018, being the most recent year-end for each as prepared in the Finity Report. The Finity Report is also likely to include discussion of the progress of the financial situation of each entity to 30 June 2019.
- Update Letter: If necessary, Finity may be required to prepare an updated analysis using the capital position closer to the actual transfer date. In this case a peer review of the updated Finity Report analysis will also be required to be completed by Deloitte.

Deloitte will work with Gordian, Munich Re, and their legal advisers, to determine the steps required to effect the peer review of the actuarial components as covered by the Finity Report and related to the transfer.

Deloitte will conduct and prepare the required peer review and report of the actuarial advice as provided by Finity and suitable for submission to APRA and the Court. The advice will be signed by Kaise Stephan.

Deloitte will be available to discuss the transfer with APRA and to give evidence to the Court as required.

Deloitte.

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