

*AMT Mortgage Insurance Limited to AmTrust International
Underwriters DAC
Transfer of insurance business
Summary of the Independent Expert's Scheme Report for the
High Court of Justice of England and Wales*

1. The Proposed Transfer

AMT Mortgage Insurance Limited (AMIL) currently operates across the European Economic Area (EEA) utilising the EEA's Freedom of Services (FoS) and Freedom of Establishment (FofE) arrangements.

The UK left the European Union (EU) on 31 January 2020. There is a transition period until 31 December 2020 during which the UK and EU will conduct trade negotiations. The outcome of these negotiations, including any decisions about regulatory equivalence between the UK and EU, remains highly uncertain. Until 31 December 2020 the current rules remain in place. The Proposed Transfer described in this report is due to complete on 31 October 2020 ie before 31 December 2020.

In the event of a so called "Hard Brexit" at 31 December 2020 (eg as a consequence of no agreement over trade negotiations) where AMIL no longer has FofS or FofE rights, AMIL would not legally be able to carry on its non-UK EEA business. For example, AMIL would not be able to issue new insurance policies across the EEA and might not legally be able to pay valid claims to existing non-UK EEA policyholders unless AMIL obtains appropriate authorisation in all relevant EEA member states.

As part of a wider AmTrust Group strategy to provide certainty that the Group can continue to carry on EEA business post-Brexit with minimum disruption and to improve efficiencies within the Group, AMIL is proposing to transfer (the Proposed Transfer) all of its business (comprising non-UK EEA business) to AmTrust International Underwriters DAC (AIU).

The policyholders are all regulated financial institutions.

Following the Proposed Transfer, the intention is dissolve AMIL under section 112(8) FSMA following its de-authorisation.

The Effective Date of the Proposed Transfer is 31 October 2020.

Other AmTrust transfers

In addition to the Proposed Transfer, AmTrust are preparing to make further transfers as part of their response to Brexit and other strategic changes and transactions. These are summarised below:

- The Part VII transfer of all Italian medical malpractice risks (including a non-material amount of related accident and health and legal expenses business) from AmTrust Europe Limited (AEL) to AmTrust Assicurazioni SpA (AA) and other non-UK EEA risks (excluding Italian medical malpractice) from AEL to AIU, with a proposed Effective Date of 31 July 2020.
- The Section 13 transfer of AIU's Italian medical malpractice business to AA, with a proposed Effective Date of 31 July 2020.
- The Section 13 transfer of surety business from AIU to Liberty Mutual Insurance Europe SE (LMIE), a third-party outside of the AmTrust Group, which completed on 31 March 2020.

2. My role as Independent Expert

In order to proceed, the Proposed Transfer will need to be approved by the High Court of Justice of England and Wales (the Court). To assess the Proposed Transfer, the Court requires a Scheme Report to be prepared by a suitably qualified independent person, the Independent Expert (IE).

AmTrust have appointed me to act as the IE for the Proposed Transfer. The Prudential Regulation Authority (PRA), in consultation with the Financial Conduct Authority (FCA), has approved my appointment.

As IE, my overall role is to assess whether:

- The security provided to policyholders of AMIL moving to AIU will be materially adversely affected by the implementation of the Proposed Transfer.

- The security provided to AIU Policyholders will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards experienced by policyholders.
- Any reinsurer of AMIL providing cover for the transferring business will be materially adversely affected.

3. Summary of my conclusions

To assess the effect of Proposed Transfer, I have considered it from three perspectives:

1. **“Transferring Policyholders”, who will transfer from AMIL to AIU as a result of the Proposed Transfer:** I have concluded that the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer. In addition, no material impact on service standards is expected for these policyholders following the Proposed Transfer.
2. **“AIU Policyholders”, ie any policyholders of AIU at the time of the Proposed Transfer who will remain with AIU:** I have concluded that the security provided to AIU Policyholders will not be materially adversely affected by the Proposed Transfer. In addition, no material impact on service standards is expected for these policyholders following the Proposed Transfer.
3. **Reinsurers whose contracts with AMIL are transferring to AIU as part of the Proposed Transfer:** I have concluded that reinsurers of AMIL who provide cover for the transferring business will not be materially affected by the Proposed Transfer.

I have outlined the main reasons for me reaching the above conclusions later in this Summary Report.

4. About the Independent Expert

I am a Fellow of the Institute and Faculty of Actuaries (IFoA) and am certified to act as a Signing Actuary for Statements of Actuarial Opinions for Lloyd's.

I am a Partner in the Insurance Consulting practice at LCP and have over 30 years' experience in general insurance covering all areas of general insurance actuarial work.

5. The IE's Scheme Report

This is a summary of the IE's full Scheme Report, “Scheme Report of the Independent Expert on the Proposed Transfer of insurance business from AMT Mortgage Insurance Limited to AmTrust International Underwriters DAC in accordance with Part VII of the Financial Services and Markets Act 2000”.

A copy of the full Scheme Report will be available for download free of charge for policyholders and other interested parties on the AmTrust Financial website: amtrustfinancial/amtrustinternational/legal/portfolio-transfers.

I will also prepare a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions on the Proposed Transfer, based on any new material or issues that arise.

6. Transferring policyholders

I have concluded that the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- The Transferring Policyholders will benefit from the removal of the uncertainty of not having claims paid due to unsuccessful trade negotiations by the end of the Brexit transitional period. They may also prefer to be part of a larger, rated entity in AIU (AMIL is unrated). I consider these to be the key benefits for Transferring Policyholders of the Proposed Transfer.
- The Transferring Policyholders will remain within the AmTrust Group and AIU is subject to the same group-wide policies that AMIL was previously subject to.
- The SCR coverage ratio for Transferring Policyholders is expected to decrease from 183% to 140% as a result of the Proposed Transfer. Whilst this increases the risk of their claims not being paid, I do not consider the security provided to these policyholders to be materially adversely affected by this decrease. The 140% coverage ratio is towards the upper end of the “sufficiently capitalised” band (as described in Section 6.1 of the Scheme Report) and the coverage ratio remains in line with AIU's risk appetite. In addition, they will benefit from being part

of a larger entity with an A- financial strength rating and a more diversified balance sheet.

- Even if the other planned transfers do not take place, AmTrust has committed to maintaining a minimum 140% SCR coverage ratio for AIU in all scenarios.
- The level of regulatory capital held by AIU on the 1-year standard formula basis is supported by consideration of suitably severe stress scenarios.
- The risk to Transferring Policyholders of claims not being paid under an extreme recession scenario is higher following the Proposed Transfer given the expected deterioration in AIU's portfolio as a result of the same scenario. However, given the relative size of AIU compared to AMIL, this is offset by the benefit gained from being part of a larger, more diversified entity.
- AmTrust has confirmed that the transferring policies will continue to be reserved for in the same way post-transfer as pre-transfer and by the same team.
- The calculation of the transferring provisions has been performed using an appropriate and consistent methodology for a number of years.
- It is very unlikely Transferring Policyholders are eligible for access to the FSCS as they are all mortgage lenders, with the exception of one reinsurer, rather than consumers or small businesses. It is also very unlikely that they are eligible to refer complaints to the FOS. Therefore, their position in relation to the FSCS and FOS remains the same pre- and post-transfer.

I have concluded that no material impact on service standards is expected for these policyholders following the Proposed Transfer.

Summary rationale:

- AMIL and AIU are planning to minimise any changes as to how the transferring business is carried out, to avoid disruption to their operating model or customers.
- The AmTrust Group is not planning any material changes to how Transferring Policyholders are serviced.

7. AIU policyholders

I have concluded that the security provided to AIU Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- The SCR coverage ratio for AIU Policyholders is expected to remain at 140% as a result of the Proposed Transfer. Therefore, I do not consider the security provided to these policyholders to be materially adversely affected as AIU's coverage ratio remains towards the upper end of the sufficiently capitalised range (as described in Section 6.1 of the Scheme Report) and in line with AIU's risk appetite. AIU's coverage ratio is expected to remain at or slightly above this level through to June 2022.
- The level of regulatory capital held by AIU on the 1-year standard formula basis is supported by consideration of suitably severe stress scenarios.
- AmTrust has committed to maintaining a 140% SCR coverage ratio for AIU for all combinations of possible scenarios where other transfers do not place as expected. In the event of an extreme recession scenario, AIU Policyholders would be worse off following the Proposed Transfer. This reflects the increased exposure to economic risks through the Italian economy and housing market in the AMIL portfolio.
- However, in the event of such a scenario, AIU would take management action as outlined in its recovery plan, eg the use of capital injections from within the AmTrust Group or reinsurance, to restore AIU's SCR coverage to the risk appetite level of 140%. I therefore conclude that AIU Policyholders are not materially disadvantaged in this respect.
- AIU is already exposed to similar risks to those that AMIL faces having written all new EEA policies since AEL's acquisition of AMIL in 2016 and re-signing new AIU policies with AMIL's live policyholders throughout 2019 in preparation for Brexit.
- AIU Policyholders will benefit from the added diversification created by the transferring in of a mortgage indemnity guarantee book.
- The approach and methodology used to calculate insurance provisions and the level of reserves held

by AIU are supported by my own independent projections.

- Further support is provided by the results of an independent external reserve review and a further independent external regulatory review.
- AIU has no plans to change the approach for how insurance provisions are set.
- The reserving process, team and governance for AIU will be materially unchanged post-transfer.

I have concluded that no material impact on service standards is expected for these policyholders following the Proposed Transfer.

Summary rationale:

- AIU is not planning any material changes to how the business is carried out. In particular, there are no plans to change how AIU Policyholders are serviced following the Proposed Transfer.

8. Reinsurers

I have concluded that reinsurers of AMIL who provide cover for the transferring business will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- Exposure to claims faced by AMIL's reinsurers will not change following the Proposed Transfer and the reinsurers will continue to be required to pay out the same claim amounts in respect of the same events as before the Proposed Transfer.

9. Permutations of other transfers

It is AmTrust's intention that, if any of the other AmTrust transfers, or part thereof, are not sanctioned, AmTrust will go ahead with the sanctioned elements of the transfers.

I have considered the various permutations of transfers not proceeding as planned and set out my conclusions on this below from the perspective of the three groups of affected parties and the three other transfers.

9.1 Transferring Policyholders

The business transferring from AEL to AIU is similar non-UK European business to that already written by AIU. As such, the risk profile is not expected to change materially for the Transferring Policyholders whether the AEL to AIU transfer goes ahead or not.

There will be exposure to Italian medical malpractice business in AIU if the AIU to AA transfer does not proceed as planned. In addition, the Italian medical malpractice business could be negatively impacted by the COVID-19 pandemic and a second or third wave of infections. This exposure will be a new risk faced by Transferring Policyholders that they would not have previously been exposed to. I will comment on the impact of the AIU to AA transfer not taking place as planned in my Supplementary Report.

AmTrust has considered the exposure of its Italian medical malpractice business to the pandemic which may impact the Proposed Transfer and other AmTrust Group transfers.

Italian medical malpractice policies are issued on a claims-made basis and so only unexpired policies are exposed. There are no specific exclusions in the coverage provided but Article 1912 of the Italian Civil Code excludes so-called "exceptional major risk" from general insurance coverage, including those associated with pandemics. AmTrust's view is that COVID-19 would be included under this law. AmTrust has requested legal opinions to support the view of its internal experts and the collation of these opinions is in progress. The expectation is that it may take years to confirm whether COVID-19 is included in this Article.

AmTrust's view is that, provided the hospitals complied with the Government's specific instructions with regards to COVID-19, it is unlikely that liability could be established except in the event of gross negligence. There is draft law being taken to the Italian Parliament to determine the limitation in the event of gross negligence.

Based on its latest understanding of the situation, AmTrust expect that claims arising from the pandemic will be limited. They anticipate a reduction in claims frequency as non-essential operations will not be taking place though limited credit for this has been made in the updated projections.

I do not believe Transferring Policyholders will be materially worse off if the AIU to AA transfer does not proceed as planned for the reasons above.

9.2 AIU Policyholders

AIU Policyholders are exposed to the AEL and AMIL portfolios transferring in and the Italian medical malpractice portfolio transferring out to AA. The risk profile of AIU is not expected to change materially in the event of any combination of these transfers as the business transferring is similar to that already written by AIU. I comment further on the transfers affecting AIU Policyholders below.

9.3 Reinsurers whose contracts are transferring as part of the transfers

Exposure to claims faced by reinsurers will not change following any partial or full completion of the proposed AmTrust transfers and the reinsurers will continue to be required to pay out the same claim amounts in respect of the same events as before the transfers. Hence, the reinsurers are exposed to the same risks under any combination of the transfers.

9.4 AEL to AIU transfer

This transfer is expected to complete on 31 July 2020 ie before the Proposed Transfer. The successful completion or otherwise of this transfer affects the AMIL and AIU Policyholders as described above.

9.5 AIU to AA transfer

This transfer is expected to complete on 31 July 2020 ie before the Proposed Transfer. The successful completion or otherwise of this transfer affects the AMIL and AIU Policyholders as described above.

9.6 AIU to LMIE transfer

This transfer completed on 31 March 2020 and so has no impact of the Proposed Transfer or the other AmTrust transfers.

10. Potential impact of COVID-19 on the Proposed Transfer

The uncertainty around the impact of COVID-19 is expected to continue until the Effective Date of the Proposed Transfer and beyond. AmTrust has considered the potential impact on AMIL's portfolio through economic scenarios of varying severity and updated their capital and

balance sheet projections as at Day 0 and Day 1 of the Proposed Transfer to reflect the expected impact of COVID-19.

Currently, Amtrust's Mortgage/Credit division handles mortgage claims for all entities in the AmTrust group, including AMIL, and this will continue after the Proposed Transfer. As such the Transferring Policyholders will not be affected operationally as a result of the Proposed Transfer, including any impact from the COVID-19 pandemic. AmTrust has confirmed that there are no other operational issues arising from COVID-19 that will impact any policyholders, in particular the current team will be able to service any foreseeable increase in claims activity.

11. Further information and next steps

Further details on my conclusions, and other supporting information, are set out in my full Scheme Report.

I will be reviewing these conclusions and preparing a Supplementary Report before the Court considers its final approval of the Proposed Transfer at the Sanctions Hearing. The purpose of the Supplementary Report is to confirm and/or update my conclusions based on any new material or issues that arise.



Stewart Mitchell

Fellow of the Institute and Faculty of Actuaries

3 July 2020

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This Summary Report has been produced by Stewart Mitchell FIA of Lane Clark & Peacock LLP under the terms of our written agreement with AmTrust Management Services Limited. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Summary Report has been prepared for the purpose of summarising the full Scheme Report accompanying the application to the Court in respect of the proposed insurance business transfer scheme described in that report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Scheme Report and this Summary Report are not suitable for any other purpose.

A copy of the both this Summary Report and the Scheme Report will be sent to the Prudential Regulation Authority and the Financial Conduct Authority, and the full Scheme Report will accompany the Scheme application to the Court.

This report is only appropriate for the purpose described and should not be used for anything else. No liability is accepted or assumed for any use of the Summary Report or Scheme Report for any other purpose than that set out above.

This Summary Report has been prepared under the same scope and limitations set out in the full Scheme Report. In the event of any real or perceived conflict between this Summary Report and the full Scheme Report, the Scheme Report shall prevail.

This report was produced by the independent expert, Stewart Mitchell of Lane Clark & Peacock LLP ("LCP"), for the High Court of Justice of England and Wales. The original report, dated 3 July 2020, was produced in English. This report was translated by RWS Language Solutions Limited and formatted onto LCP's headed notepaper. Neither Stewart Mitchell nor any other personnel at LCP have reviewed this translation for accuracy. Any errors in translation are solely the responsibility of RWS Language Solutions Limited.

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