

*Summary Report of the Independent
Expert on the proposed transfer of
insurance business from EC Insurance
Company Limited to Markel International
Insurance Company Limited in accordance
with Part VII of the Financial Services and
Markets Act 2000*

For the High Court of Justice of England and Wales

21 October 2019

Prepared by:

Charl Cronje FIA

LCP



*EC Insurance Company to Markel International Insurance Company Ltd
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

EC Insurance Company Limited (ECICL) is a specialist UK insurer providing insurance for contractors and trade associations in the construction industry. It also provides insurance schemes for self-built residential property, mobility products and let property.

ECICL was placed into run-off on 1 October 2018. ECICL benefits from third party reinsurance and cedes all remaining liabilities to Markel International Insurance Company Limited (MIICL), such that ECICL retains no liabilities on a net of reinsurance basis.

ECICL and MIICL are both wholly owned subsidiaries of Markel Capital Holdings Limited (MCH).

Proposed Transfer: it is proposed that all of ECICL's business will transfer from ECICL into MIICL.

There will be no change in the immediate parent company, MCH, or ultimate parent company, Markel Corporation (Markel).

The transferring reserves for ECICL, net of external reinsurance and before the 100% internal reinsurance to MIICL, represent 2.7% of MIICL's reserves as at 31 December 2018.

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).

MIICL has 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 ECICL or MIICL will be materially adversely affected by the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards to policyholders.
- Any reinsurer of ECICL covering the transferring business will be materially adversely affected.

3. Summary of my conclusions

To assess the Proposed Transfer, I have considered the effect of the Proposed Transfer from the perspective of the following three parties:

A. "Transferring Policyholders", who will transfer from ECICL to MIICL as a result of the Proposed Transfer: in my opinion, the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer and there will be no material impact on service standards to Transferring Policyholders following the Proposed Transfer.

B. "MIICL Policyholders", ie existing policyholders of MIICL who will remain with MIICL after the Proposed Transfer: in my opinion the security provided to MIICL Policyholders will not be materially adversely affected by the Proposed Transfer and there will be no material impact on service standards for MIICL Policyholders following the Proposed Transfer.

C. Reinsurers whose contracts with ECICL will transfer to MIICL: in my opinion, reinsurers of ECICL who provide cover for the transferring business will not be materially affected by the Proposed Transfer.

I have outlined the main reasons why I have formed these opinions later in this Summary Report.

4. About the Independent Expert

I am a Fellow of the Institute and Faculty of Actuaries (IFoA). I am a Partner in the Insurance Consulting practice at LCP and have over 25 years' experience.

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 EC

Insurance Company Ltd to Markel International Insurance Company Ltd in accordance with Part VII of the Financial Services and Markets Act 2000”.

A copy of the full Scheme Report is available for download free of charge from the website of MIICL or by contacting MIICL.

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 the conclusions of the Scheme Report, based on any material new developments in the intervening period.

6. Transferring Policyholders

In my opinion, the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary of rationale:

- ECICL policyholders are currently protected by 100% reinsurance from MIICL, net of ECICL's external reinsurance. MIICL's financial strength provides the ultimate security for the Transferring Policyholders both before the Proposed Transfer (through the 100% reinsurance) and afterwards (directly to the Transferring Policyholders).
- MIICL is well-capitalised relative to statutory requirements, meaning that it has a very low probability of insolvency.
- MIICL's capital base is also significantly larger than that of ECICL.
- The expected capital coverage ratio of MIICL just after the Proposed Transfer (258% of the SCR) is higher than the expected capital coverage ratio of ECICL just before the Proposed Transfer of (254% of the MCR).
- After the Proposed Transfer, in the unlikely event of MIICL's insolvency and winding-up, the Transferring Policyholders would rank alongside other policyholders of MIICL. Before the Proposed Transfer, in the event of MIICL's insolvency and winding-up, ECICL policyholders would rank below MIICL policyholders, because ECICL is reinsured by MIICL.
- Transferring Policyholders will retain their current access to the Financial Services Compensation Scheme and Financial Ombudsman Service, if eligible.

In my opinion, there will be no material impact on service standards to Transferring Policyholders following the Proposed Transfer.

Summary of rationale:

- Transferring Policyholders will continue to be administered by the same team within Markel as before the Proposed Transfer.
- The Transferring Policyholders will remain within the Markel group. MIICL is subject to the same group-wide policies as ECICL.
- Customer communication channels are already hosted on Markel systems and any communication through ECICL's previous phone numbers and address are routed to the current ones.

7. MIICL Policyholders

In my opinion the security provided to MIICL Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary of rationale:

- MIICL Policyholders will remain with MIICL, ie there will be no change in their policies as a result of the Proposed Transfer.
- MIICL has no plans to change the approaches for providing policyholder security including how insurance provisions and capital requirements are set.
- MIICL already 100% reinsures the liabilities of ECICL. MIICL will remain responsible for these liabilities following the Proposed Transfer. Therefore, the MIICL Policyholders' exposure to ECICL's risks are materially the same before and after the Proposed Transfer.
- The Proposed Transfer is small in relation to MIICL and will not materially affect MIICL's capital coverage ratio. MIICL will remain very well-capitalised following the Proposed Transfer.

In my opinion, there will be no material impact on service standards for MIICL Policyholders following the Proposed Transfer.

Summary of rationale: MIICL has informed me that there are no plans to change how MIICL Policyholders are serviced. Resources are already in place to service

ECICL policyholders both before and after the Proposed Transfer and, therefore, no impact on the servicing of existing MIICL policyholders is expected.

8. Reinsurers

In my opinion, reinsurers of ECICL who provide cover for the transferring business will not be materially affected by the Proposed Transfer.

Summary of rationale:

- The reinsurers' exposure to ECICL claims will not change following the Proposed Transfer. Reinsurers will continue to be required to pay out the same claim amounts in respect of the same events as before the Proposed Transfer.
- Reinsurers will still have the same visibility of the liabilities as before, and there are no planned changes to the reporting provided to them.
- As at 1 November 2017, MIICL provided a loss portfolio transfer (LPT) and quota share reinsurance which reinsured all ECICL remaining liabilities, net of the external reinsurance described above, including any bad debt from the external reinsurance. This reinsurance will cease upon the Proposed Transfer.
- ECICL will directly notify all reinsurers with whom ECICL either (i) has a live reinsurance contract i.e. the reinsurance period has not expired (ii) has a reinsurance contract under which ECICL has made a claim and such claim remains unpaid or outstanding (iii) has a reinsurance contract in respect of which ECICL holds 'Incurred But Not

Reported' reserves ("IBNR Reserves") (as it expects to make a future claim) or (iv) participates in any reinsurance scheme. ECICL proposes to notify all reinsurers with whom ECICL has placed reinsurance from 31 December 2010 onwards.

9. 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 material new developments in the intervening period.

Jersey policies

Within the business written by ECICL, there were a number of policies issued in Jersey. The transfer of these Jersey policies is subject to approval by the Royal Court of Jersey under the Insurance Business (Jersey) Law 1996 and will take effect on the Jersey Effective Date. These policyholders will be treated the same as the UK policyholders upon transfer. It is expected that my Scheme Report will be made available to the Royal Court of Jersey by ECICL and MIICL when seeking approval for the transfer of these policies.

Charl Cronje
Fellow of the Institute and Faculty of Actuaries

21 October 2019

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This Summary Report has been produced by Charl Cronje FIA of Lane Clark & Peacock LLP under the terms of our written agreement with Markel International Insurance Company Ltd. 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 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 above 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 other than that set out above.

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Lane Clark & Peacock LLP London, UK Tel: +44 (0)20 7439 2266 enquiries@lcp.uk.com	Lane Clark & Peacock LLP Winchester, UK Tel: +44 (0)1962 870060 enquiries@lcp.uk.com	Lane Clark & Peacock Ireland Limited Dublin, Ireland Tel: +353 (0)1 614 43 93 enquiries@lcpireland.com	Lane Clark & Peacock Netherlands B.V. (operating under licence) Utrecht, Netherlands Tel: +31 (0)30 256 76 30 info@lcpnl.com
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