

IN THE MATTER OF SUNDERLAND MARINE INSURANCE COMPANY LIMITED

and

IN THE MATTER OF THE NORTH OF ENGLAND PROTECTING AND INDEMNITY ASSOCIATION LIMITED

and

IN IN THE MATTER OF AN APPLICATION PURSUANT TO ARTICLE 27 OF AND SCHEDULE 2 TO THE INSURANCE BUSINESS (JERSEY) LAW 1996

SUMMARY OF THE SCHEME AND THE INDEPENDENT ACTUARY'S REPORT

1 Introduction

- 1.1 Sunderland Marine Insurance Company Limited (**SMI**) is proposing to transfer all of its insurance and reinsurance business (the **Transferring Policies**) to The North of England Protecting and Indemnity Association Limited (**NOE**).
- 1.2 The transfer of the Transferring Business is to be effected through an insurance business transfer scheme (the **Scheme**). The Scheme will be carried out through the Royal Court of Jersey (the **Royal Court**) in accordance with Article 27 and Schedule 2 to the Insurance Business (Jersey) Law 1996.
- 1.3 The Transferring Business is currently carried on by SMI and following the Scheme will be carried on by NOE in: (i) the UK and in Jersey; (ii) on a freedom of services basis in Belgium, Cyprus, Denmark, France, Germany, Greece, Ireland, Italy, Malta, the Netherlands, Norway and Spain under the Financial Services and Markets Act 2000 (EEA Passport Rights) Regulations 2001 (SI 2001/2511).
- 1.4 This document sets out a summary of the effect of the Scheme and of the report prepared by the Independent Actuary (see paragraph 5 below) on the Scheme (the **Report**).

1.5 This document is only a summary. Full details of the Scheme and the Report can be found in the complete versions which are available free of charge on our website or on request as described at paragraph 7 below.

2 Background of SMI and NOE

2.1 SMI is a private limited company registered in England and Wales with registered company number 00016432 and its registered office at The Quayside, Newcastle upon Tyne, NE1 3DU.

2.2 NOE is a private company limited by guarantee registered in England and Wales with registered company number 00505456 and its registered office also at The Quayside, Newcastle upon Tyne, NE1 3DU.

2.3 Both SMI and NOE are part of the same corporate group, with SMI being a wholly-owned subsidiary of NOE.

2.4 Both SMI and NOE are authorised and regulated by the UK Prudential Regulation Authority (**PRA**), the UK Financial Conduct Authority (**FCA**) and by the Jersey Financial Services Commission (**JFSC**).

3 Process and timings of the Scheme

3.1 The proposed timings for the Scheme are:

Royal Court hearing	22 June 2020
Proposed "Effective Date" (when the Transferring Business will transfer to NOE)	30 June 2020

3.2 The Scheme will not go ahead unless the Royal Court approves it on 22 June 2020. The Scheme is also conditional upon the sanction by the English High Court of a transfer scheme under Part VII of the Financial Services and Markets Act 2000 (**UK Scheme**). The hearing before the English High Court to sanction the UK Scheme is listed for 16 June 2020.

3.3 If the Royal Court imposes any change or conditions to the proposed Scheme, the Scheme will not take effect unless SMI and NOE consent.

4 Summary of the Scheme

4.1 The following is a summary of the main points of the Scheme. As noted above, the full version of the scheme document is available free of charge (please refer to paragraph 7 below for further information).

4.2 In addition, SMI and NOE have prepared a series of policyholder communications which are available to view at www.sunderlandmarine.com and www.nepia.com.

The Effect of the Scheme

4.3 As stated above, the Scheme is intended to transfer all of the Transferring Business from SMI to NOE.

Claims paid by NOE after the Effective Date

4.4 It is intended that from the Effective Date, all the rights and obligations arising from the Transferring Business will automatically transfer to NOE and will no longer rest with SMI. This means that NOE will be responsible for paying all claims and meeting all the other obligations which were previously SMI's obligations in relation to the Transferring Business.

Exceptions

4.5 Despite the intention explained in paragraph 4.4 above, there may be a small number of policies which fall outside the Scheme. These would be "**Residual Policies**", as described in more detail in the full version of the Scheme. Any Residual Policies will transfer to NOE as soon as possible following the Effective Date and once any impediment to the transfer on the Effective Date has been overcome.

No changes to Policy Terms and Conditions

4.6 There will be no changes to the terms and conditions of the transferring policies, save that the insurer will be NOE and not SMI.

Continuity of proceedings or litigation

4.7 From the Effective Date, any current proceedings or litigation which are brought by or against SMI in connection with the Transferring Business shall be continued by or against NOE, and NOE shall be entitled to all defences, claims, counterclaims and rights of set-off that would have been available to SMI.

4.8 From the Effective Date, any judgement, settlement, order or award under current or past proceedings obtained by or against SMI in relation to the business transferred by the Scheme shall be enforceable by or against NOE in place of SMI.

Costs and Expenses

- 4.9 None of the costs and expenses relating to the preparation of the Scheme or High Court process will be borne by the policyholders.

5 Summary of the Independent Actuary's Report about the Scheme

- 5.1 SMI and NOE have appointed Mr Derek Newton of Milliman LLP, as an independent actuary (the **Independent Actuary**) to provide the Report to the High Court on the effect of the Scheme on the policyholders of SMI and NOE. The appointment of Mr Newton has been approved by the PRA, in consultation with the FCA.
- 5.2 The summary in this section is subject to the same limitations on its use as those set out in the Report. The Report contains the reasoning behind the Independent Actuary conclusions, including his assumptions and some of the detail which has been omitted from this summary. The Report also includes further information regarding SMI and NOE, as well as background information regarding the regulatory environment, which has not been included within this summary. While the Independent Actuary is satisfied that this summary provides an appropriate synopsis of the Report, reliance on this summary alone may not give you the whole picture. Copies of the full Report and any supplementary Report can be obtained free of charge (please refer to paragraph 7 below for further information).
- 5.3 The Independent Actuary has considered the impact of the Scheme on the security and the levels of service afforded to affected policyholders. He has also considered the impact of the Scheme on other matters pertinent to the affected policyholders, such as the constitutional rights of members of NOE.
- 5.4 The Independent Actuary has identified three main groups of policyholders affected by the Scheme and he has considered the effect of the Scheme on each of these groups separately. The three groups identified are: policyholders of the Transferring Business, policyholders of Residual Policies, and the existing policyholders of NOE. He considers that policyholders of no other insurance companies would be affected by the proposed Scheme.
- 5.5 The Report also considers the impact of the proposed transfer on policyholders whose insurance business required SMI to be authorised under English law. In order for the transfer of SMI's UK insurance business to take effect, the High Court of England must also approve the transfer in accordance with the Financial Services and Markets Act 2000.

Security of Policyholders

- 5.6 Policyholder security is provided by the amount of assets held by an insurer in excess of its liabilities, as well as specific financial support arrangements, taking into account the underlying risks that the insurer faces. The Independent Actuary has reviewed the amount of assets held in

excess of liabilities by SMI and NOE, both currently and as projected, both as is and assuming that the Scheme is sanctioned.

Is there an impact on the security of the policyholders of the Transferring Business?

- 5.7 Based on his review of the excess assets of SMI and NOE, the Independent Actuary has noted that the level of excess assets relative to the required capital is lower in NOE than it is in SMI. Nevertheless, the ratios of excess assets to the required capital in both SMI and NOE are sufficiently high that he has concluded that the policyholders of the Transferring Business will not be materially adversely affected by the Scheme (i.e. the likelihood that any and all claims of these policyholders will be paid in full will, for all practical purposes, be the same before and after the Scheme comes into effect).

Is there an impact on the security of the existing policyholders of Residual Policies?

- 5.8 Having reviewed the excess assets of SMI and the full reinsurance under the Scheme by NOE of any Residual Policies if the Scheme were sanctioned, the Independent Actuary has concluded that the impact on the Scheme on the security of such existing policyholders of SMI would be negligible (i.e. the likelihood that any and all claims of these policyholders will be paid in full will for all practical purposes be the same before and after the Scheme comes into effect).

Is there an impact on the security of the existing policyholders of NOE?

- 5.9 Having reviewed the projected excess assets of NOE both if the Scheme were sanctioned and if the Scheme were not to take place, the Independent Actuary has concluded that the security of the existing policyholders of NOE will not be materially adversely affected as a result of the Scheme (i.e. the likelihood that any and all claims of these policyholders will be paid in full will for all practical purposes be the same before and after the Scheme comes into effect).

Levels of Service

- 5.10 The staff engaged by SMI and by NOE to administer their respective businesses will continue to administer these businesses in the same way whether the Scheme is sanctioned or not. The Scheme should therefore not have any effect on the policy administration arrangements for the Transferring Business or the existing business of NOE.

Other Considerations

Effect of the Scheme on Reinsurers

- 5.11 The administration of the Transferring Business will be unaffected by the Scheme and therefore the magnitude and time of recoveries claimed will be unaffected. The Independent Actuary has therefore concluded that the Scheme will not have a material adverse effect on the reinsurers protecting the Transferring Business.

Effect of the Scheme on Members' Constitutional Rights

- 5.12 Only certain policyholders of NOE are members of NOE. SMI has no policyholder members. The Scheme will not alter the membership status of any SMI or NOE policyholder or their constitutional rights. While the transfer to NOE under the Scheme of fixed premium business might directly expose NOE's members to a greater risk of there being calls upon them for additional premiums, a parental guarantee provided by NOE to SMI means that NOE's members are already indirectly exposed to this risk. Therefore, the Independent Actuary has concluded that the Scheme will result in no loss or dilution of the constitutional rights to which the members of NOE are currently entitled, including but not limited to their entitlements and obligations as policyholders.

6 Supplementary Report

The Independent Actuary's analysis is based upon the material supplied to him, including balance sheets and other information, based on accounting positions as at 20 February 2019. He has also taken into account updated financial information, which has also been made available. Since the proposed Effective Date for the Scheme is 30 June 2020, he will revisit the analysis closer to the time to confirm that there have been no material changes to the arrangements that he has reviewed that would affect his overall opinion (or, if there have been any such changes, to amend his overall opinion). He will then prepare and issue a supplementary report (the **Supplementary Report**) that explains the revisited analysis and sets out his conclusions and opinion, be they reaffirmed or revised. This will be made available to the Royal Court prior to the second Royal Court hearing. Copies of the Supplementary Report can be obtained free of charge (please refer to paragraph 7 below for further information).

7 Further information

If you have any further questions or require a full version of the Scheme or Report please:

- visit www.sunderlandmarine.com or www.nepia.com;
- email ged.mcternan@nepia.com;
- telephone +44 (0)191 232 5221; or
- write to us at The North of England Protecting and Indemnity Association Limited, The Quayside, Newcastle upon Tyne, NE1 3DU, United Kingdom, Attention: Ged McTernan.