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Scheme report for the proposed transfer of business from certain CGUII companies to Ocean Marine as at 30 December 2004

Date of report: 20 February 2004

This report must be read in its entirety.
Reading individual sections in isolation could be misleading.

There are restrictions on the use that may be made of this report.
These restrictions are set out in Section 1.5.

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Appendices

1 Introduction

1.1 Purpose of report

It is proposed that the general insurance business written by certain wholly owned subsidiaries of CGU International Insurance plc ("CGUII", an Aviva group company) be transferred to The Ocean Marine Insurance Company Limited ("Ocean Marine") by an insurance business transfer scheme ("the Scheme") as defined in section 105 of the Financial Services and Markets Act 2000 ("FSMA"). Ocean Marine is also a wholly owned subsidiary of CGUII. All of the business of the companies that is proposed to be transferred is London Market business, that is, business written in the London subscription market via brokers covering various commercial risks and/or reinsuring other insurers.

A list of terms defined in this report is shown in Appendix A. Otherwise I use the same defined terms as are in the Scheme.

Section 109 of FSMA requires that an application to the Court for an order sanctioning an insurance business transfer scheme must be accompanied by a report on the terms of the scheme (a "scheme report") by an independent person having the skills necessary to make the report who is nominated or approved by the Financial Services Authority ("FSA"). The report is required in order that the Court may properly assess the impact of the proposed transfer, including the effect on policyholders of the insurance companies in question. The Sponsors of the Scheme have nominated me to act as an independent expert to provide this scheme report and the FSA has approved this nomination.

This scheme report describes the proposed transfer and discusses its possible effects on all affected policyholders, including effects on security and levels of service.

1.2 The proposed Scheme

The business to be transferred is the general insurance business of the following companies:

- The British & European Reinsurance Company Limited;
- Commercial Union Assurance Company Limited;
- Edinburgh Assurance Company Limited;
- General Accident Fire and Life Assurance Corporation Limited;
- General Accident Reinsurance Company Limited;
- The Indemnity Marine Assurance Company Limited;
- London and Scottish Assurance Corporation Limited;

- The New Zealand Reinsurance Company (UK) Limited;
- The Road Transport & General Insurance Company Limited;
- Scottish Insurance Corporation Limited;
- The Ulster Marine Insurance Company Limited;
- The Yorkshire Insurance Company Limited ("Yorkshire").

In this report the term "Transferors" will relate to all of the companies listed above.

It is proposed to transfer the insurance business of the Transferors (except the long-term business of Yorkshire) to Ocean Marine with an effective date of 30 December 2004. The transfer is intended to have the effect that all liabilities under these policies (and appropriate assets) will pass to Ocean Marine.

The administration of claims will be unchanged. Resolute Management Inc ("Resolute") currently manages the claims for the Transferors and Ocean Marine and this will continue to be the case. Resolute is an affiliate of Berkshire Hathaway Inc and is responsible for administering claims as part of a reinsurance agreement described later in this report.

The business involved, the arrangements for the transfer and the effect of the transfer are discussed in more detail in later parts of this report.

1.3 Independent Expert

I have been nominated by the Sponsors of the Scheme and approved by the FSA to act as the independent expert for the Scheme.

I can confirm that CGUII will be bearing the costs associated with the production of this report.

I am an experienced actuary, having practised in general insurance, particularly the London Market, for more than twenty years. I have previously provided independent expert reports for general insurance business transfers performed under Part VII of FSMA. I am a Fellow of the Institute of Actuaries. More details of my experience are attached at Appendix B.

I can confirm that I do not have any direct or indirect interest in the Transferors or Ocean Marine.

Although I have performed work for companies in the Aviva group before, I have not performed any work relating specifically to the companies or liabilities involved in the proposed transfer.

The only work for Aviva that I have been involved in during the last three years has been advice on actuarial aspects of accounting issues. This advice was provided in the capacity of an independent external advisor and did not, at any stage, involve the independent estimation of reserve amounts or any similar advice for any Aviva group companies. I have never been involved with Aviva in an audit capacity and do not believe that the advice described in this paragraph conflicts in any way with my role as independent expert in relation to the Scheme.

I am a director in the Actuarial and Insurance Management Solutions practice of PricewaterhouseCoopers LLP ("PwC"). PwC has performed and continues to perform other work for Aviva. Although PwC has audited parts of the Aviva group in the past, including companies involved in the proposed transfer, it is no longer the auditor to any UK companies in the Aviva group. I am not involved in any work that PwC is performing or has performed for Aviva with the exception of the advice described above.

1.4 Scope

My report describes the proposed transfer and the likely effects on policyholders of the Transferors and of Ocean Marine, including effects on security and levels of service. I have addressed the areas required by the FSA.

I have produced one report to cover all the companies involved in the transfer. This report covers the policyholders of all of the Transferors and Ocean Marine.

My work has required an assessment of the liabilities of the Transferors and Ocean Marine, for the purposes of describing the effect of the transfer and of showing simplified balance sheets for the Transferors and for Ocean Marine. My review of liabilities was based on the actuarial reserve assessments conducted by Resolute and Aviva group companies. I have reviewed the methodology and assumptions used in their work and assessed the key areas of uncertainty in relation to these liabilities.

In addition to the liabilities, I have assessed the appropriateness in nature and amount of the assets to be transferred under the Scheme.

For the purpose of showing simplified balance sheets in this report, I have relied on Aviva staff to derive the appropriate general insurance reserve amounts from CGUII's consolidated audited accounts. This involved producing a suitable mapping to allow liabilities and assets provided for in the CGUII consolidated accounts to be allocated among the Transferors and Ocean Marine. I have reviewed the process and key assumptions used in producing the mapping and the balance sheets.

1.5 Use and limitations

This report must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.

This report is addressed to the Sponsors of the Scheme.

This report will be copied to the FSA and will also be available to policyholders and other members of the public as required by the FSA and relevant applicable legislation.

This report has been prepared for and only for the Court in accordance with Part VII of FSMA in connection with the Scheme and for no other purpose. I do not accept or assume responsibility or liability for any other purpose or to any other person to whom this report is shown or into whose hands it may come (other than the Sponsors of the Scheme) save where I expressly agree to accept or assume responsibility by my prior consent in writing.

My responsibilities and liabilities are limited to the Court and the Sponsors of the Scheme and exist only in the context of their use of my report for the purpose set out above. I will not accept any liability or responsibility in relation to the use of my report by the Court or the Sponsors of the Scheme for any other purpose. I will not accept any liability or responsibility to any third party recipients of my report under any circumstances, except where expressly agreed by my prior consent in writing.

1.6 Materials considered

My work has been based on the data and other information made available to me by CGUII (including information originating from other Aviva group companies or from Resolute). A list of data and other information that I have considered is shown in Appendix C. I have also held discussions with the Resolute and Aviva group staff who have assessed the reserve requirements and the Aviva group staff who have prepared the balance sheets.

I have conducted checks on the data provided to me for internal consistency and reasonableness. In all other respects I have relied on the integrity of the data provided to me. I have carried out a review of the process and key assumptions used in the actuarial reserve requirements and in producing the mapping and the balance sheets, in order to satisfy myself that it is reasonable for me to rely on this work. In all other respects I have relied on the integrity of the information provided to me. My review of the processes and key assumptions used and my checks on the data for internal consistency have not revealed any reason to doubt that it would be appropriate for me to rely on the integrity of this information provided for the purpose of this report.

The views and opinions expressed in this report take no account of any changes in circumstances that may have occurred subsequent to 30 June 2003. They also take no account of any information that I have not received, or of any inaccuracies in the information provided to me. I anticipate that an update may be required to deal with any unexpected issues arising or changes in circumstances occurring subsequent to 30 June 2003.

1.7 Professional guidance

This report has been prepared in accordance with Guidance Note 12 issued by the Faculty and Institute of Actuaries, which governs the content of formal actuarial reports on general insurance business.

It has also been prepared in accordance with guidance set out by the Courts as to the duties and responsibilities of expert witnesses in civil cases and with guidance for Scheme Reports set out by the FSA in Chapter 18 of the FSA Supervision Handbook.

2 Outline of Scheme

2.1 Description of Scheme

The insurance business written by the Transferors will be transferred to Ocean Marine. The only exception to this is the long-term business of Yorkshire, which will not be transferred and will remain with Yorkshire. No other Transferors have any long-term business policies in force.

All general insurance liabilities of the Transferors, and matching assets, will be transferred. In addition, before the proposed transfer, Ocean Marine will convert some of its inadmissible assets to admissible assets to ensure that it will meet the regulatory solvency requirements post-transfer. This will be achieved by Ocean Marine receiving UK government fixed income securities ("gilts") from CGUII in consideration for a reduction in CGUII's inter-company debt to Ocean Marine equivalent to the market value of the gilts transferred. Arrangements will also be put in place to ensure that the US surplus lines trust fund of Ocean Marine will meet regulatory requirements post-transfer.

2.2 Description of the business

All business of the Transferors and Ocean Marine is in run-off. No new business has been written since 1999, or earlier in many cases.

The business written and to be transferred, and all of Ocean Marine's existing business, is London Market business, both insurance and reinsurance, predominantly written during the last fifty years. The majority is marine, but a significant volume of non-marine business was also written.

2.3 Purpose of the Scheme

The purpose of the Scheme is to rationalise the general insurance business within the Aviva group following a series of mergers. The Aviva group is taking the opportunity to consolidate the business of companies in run-off with similar insurance liabilities.

This business is being consolidated into Ocean Marine because it maintains US surplus lines authorisations.

2.4 Policyholders affected

I have considered the effects of the Scheme on three groups of policyholders, namely:

- Those policyholders whose policies are to be transferred;
- Those policyholders whose policies are to remain with Yorkshire; and

- Current policyholders of Ocean Marine.

I do not consider that the policyholders of any other insurance companies are affected by the Scheme.

3 Background

3.1 The Transferors

Appendix D contains information on each of the Transferors.

3.2 Ocean Marine

Ocean Marine was established in 1859 to write marine insurance business. In 1888 it was incorporated as The Ocean Marine Insurance Company Limited, a limited liability company.

Ocean Marine became a subsidiary of North British and Mercantile Insurance Company Limited in 1908. North British and Mercantile Insurance Company Limited and its subsidiary companies were subsequently acquired by the Commercial Union group in 1959.

Ocean Marine is authorised by the FSA to carry out and effect classes 1 – 17 of insurance business. It continued to write insurance business until 1997. Since 1997 the company has been operating as a run-off company.

It is also authorised to write United States surplus lines policies. As a result of its surplus lines authorisations the company maintains a surplus lines trust fund.

3.3 Reinsurance and administration

This section describes a reinsurance agreement protecting the liabilities of a number of companies within the Aviva group including all of the Transferors and Ocean Marine (“the NICO Agreement”). The reinsurer under this agreement is National Indemnity Company (“NICO”), which is part of the Berkshire Hathaway Group. The NICO Agreement covers only certain types of business written by Aviva group companies, but all of the business being transferred and all of Ocean Marine’s business.

The NICO Agreement was entered into in 2000, when the Aviva group withdrew from London Market business by selling Marlborough Underwriting Agency Limited to the Berkshire Hathaway Group. The purpose of entering into the NICO Agreement was to secure protection against any adverse impact of the run-off of claims reserves held by the Aviva group in respect of London Market business written prior to 1 October 2000, the date of Aviva group’s exit from London Market business.

The NICO Agreement provides cover of £1 billion in excess of claims reserves of £1.2 billion as at 30 June 2000 for the book of business and applies at a level net of other reinsurance recoveries. Any emerging reinsurance bad debt is also covered by NICO.

In addition to reinsuring the liabilities, NICO is responsible for administering the run-off of the business. This includes administering, settling and paying claims. It subcontracts this work to Resolute, an affiliate within the Berkshire Hathaway Group.

3.4 Deed of mutual guarantee

The Transferors and Ocean Marine (and a number of other companies in the Aviva group) are parties to a deed of guarantee stating that all parties mutually agree to guarantee their respective liabilities arising out of general insurance policies. In the event that one of the parties is unable to pay claims under its general insurance contracts, the other parties will pay it an amount sufficient to enable it to pay those claims. The purpose of the mutual guarantee agreement is to enable the parties to benefit from a waiver from the FSA permitting them to submit general insurance regulatory returns as a group rather than individually.

4 Effect of the transfer

4.1 Assets and liabilities of affected companies

To indicate the effect on the companies of the proposed transfer, I have shown pre- and post-transfer balance sheets in Appendix E.

The balance sheets show amounts as at 31 December 2002. I have chosen this date because it is the latest date for which an audited CGUII consolidated balance sheet is available at the time of writing my report. I have commented in Section 4.2 below on the changes that I would expect to impact the balance sheets between 31 December 2002 and 30 December 2004.

Having considered the possibility of significant adverse developments, I conclude that it is unlikely that any events occurring between 31 December 2002 and 30 December 2004 would affect my conclusion. A short time before the final Court hearing, I will, however, consider the extent to which actual changes have been in line with my expectations and hence whether there have been any changes that would affect my overall opinion. I will report on this separately.

As a result of the NICO Agreement, each company's balance sheet shows a net claims liability of zero, i.e. the reinsurers' share of Provisions for Claims Outstanding (the "Reinsurance Asset") is equal to the company's gross Provisions for Claims Outstanding. There is a *de minimis* exception in Yorkshire's case since it has a long-term business provision of £32,000 (included in the Provisions for Claims Outstanding line in the Appendix), which is not reinsured but is more than matched by a fund for future appropriations of £57,000 (included in the shareholders' funds line in the Appendix). The Reinsurance Asset represents recoveries expected under the reinsurance policies originally purchased by each company plus recoveries expected from NICO.

The assets that will be transferred from the Transferors to Ocean Marine will be those assets that are required to match the liabilities, i.e. the Reinsurance Asset.

The balance sheets show that, subject to the *de minimis* exception in Yorkshire's case noted above, each Transferor's gross Provisions for Claims Outstanding and matching Reinsurance Asset would be reduced to zero post-transfer. Ocean Marine's gross Provisions for Claims Outstanding and matching Reinsurance Asset would be increased by the same amount, from £102m pre-transfer to £300m post-transfer.

The other large amounts on Ocean Marine's balance sheet are as follows: Debtors of £44m consist of inter-company balances due from other Aviva group companies and investments of £19m consist of gilts.

The gross Provisions for Claims Outstanding and the reinsurers' share of Provisions for Claims Outstanding (the Reinsurance Asset) are the largest amounts on most of the balance sheets shown. Explanations for the main exceptions to this are as follows:

- The investments shown on the balance sheet of Scottish Insurance Corporation Limited are large because it holds, directly and indirectly, 100% of the issued equity share capital of Commercial Union International Holdings Limited, a holding company for foreign subsidiaries. The investments are almost entirely investments in the shares of Commercial Union International Holdings Limited and are not liquid.

- The only other particularly significant amounts are creditor and debtor amounts that are due to or from other Aviva group companies.

The construction of the balance sheets is described in Section 5.

4.2 Expected changes in assets and liabilities up to 30 December 2004

I have considered what changes may be expected to occur to the balance sheets between 31 December 2002 and 30 December 2004 (including changes already known):

- I expect, of course, that claim payments will be made. This will result, other things being equal, in some reductions to the gross Provisions for Claims Outstanding and the matching Reinsurance Asset.

- Reserve reviews conducted since the 2002 year-end accounts were prepared have shown that some changes in Provisions for Claims Outstanding are appropriate (see end of Section 5.1). I expect that these will be reflected in the accounts prior to the transfer. The effect at a net of reinsurance level will be zero as a result of the NICO reinsurance.

- Where necessary, in order to meet the new Solvency I regulatory capital requirements effective from 1 January 2004, inadmissible assets may be converted into admissible assets or, if this is insufficient, additional share capital may be injected.

- In order to ensure that regulatory capital requirements will be met at the time of the proposed transfer, some of Ocean Marine's inadmissible assets will be converted into admissible assets. This is described in more detail below.

4.3 Regulatory solvency of Ocean Marine post-transfer

Before the proposed transfer, Ocean Marine will convert some of its inadmissible assets to admissible assets to ensure that it will meet the solvency requirements of the FSA post-transfer. This will be achieved by receiving gilts from CGUII in consideration for a reduction in CGUII's inter-company debt to Ocean Marine equivalent to the market value of the gilts received.

Arrangements will also be put in place to ensure that the US surplus lines trust fund of Ocean Marine will meet regulatory requirements post-transfer.

4.4 Policyholder security

In addition to the protection afforded by the NICO Agreement, all the companies affected by the Scheme are parties to the deed of mutual guarantee described in Section 3.4. The mutual nature of the guarantee means that the security of each policyholder of the Transferors and Ocean Marine will be the same after the transfer as before.

I have received confirmation from CGUII that there is no current intention to remove or amend the guarantee, other than to remove small companies with no remaining insurance liabilities. It or similar previous guarantees have been in existence for at least 20 years.

I have received legal advice from Landwell UK. They have advised me, based on reviewing a copy of the executed deed of mutual guarantee, that the terms and conditions of the deed of mutual guarantee between the parties will not be varied or otherwise affected as a result of the implementation of the Scheme.

In respect of the long-term policyholders of Yorkshire (whose policies are not being transferred), I note that the long-term fund is segregated. The only assets being transferred out of Yorkshire are the reinsurance assets backing the gross general insurance liabilities, so there is no reduction in the level of free assets within the company.

4.5 Administration of the business proposed to be transferred

As described in Section 3.3, NICO is responsible for administering the run-off of the business and it subcontracts this work to Resolute. This will continue to be the case after the transfer and I do not anticipate any change in the level of service to policyholders as a result of the transfer.

4.6 Expenses of managing the business

NICO is responsible for the expense of administering the run-off of the business, so this expense is not borne by the individual companies. Investment expenses are borne by the companies and set off against investment returns. Other expenses (auditors' fees and any directors' emoluments) are borne by CGUII.

CGUII has informed me that this situation is not expected to change after the transfer.

4.7 Cost and tax effects of the Scheme

The costs of the Scheme are being borne by CGUII. I understand that the Scheme is not expected to have tax implications that would affect any policyholders.

5 Analysis of reserves and balance sheets

5.1 Assessment of insurance liabilities

Resolute's actuaries carry out regular assessments of reserve requirements. To test the reasonableness of the results, actuaries within the Aviva group carry out high-level reserve analyses and compare their findings with those of Resolute.

Those assessments and analyses are aimed at estimating reserve requirements at a level net of original reinsurance, i.e. net of all reinsurance other than the NICO Agreement. The analyses are conducted on data consolidated across legal entities, i.e. similar classes of business written by different companies are considered together, to aid analysis. Section 5.2 details how the net results are used to derive gross reserve requirements and how they are then allocated to individual legal entities.

I have performed a review of the work carried out by Resolute and Aviva, in order to satisfy myself that it is reasonable for me to rely on their work. This has included reviewing the actuarial reports produced by Resolute and Aviva, discussing them with their actuaries and assessing the appropriateness of the methodologies and major assumptions used.

Resolute and Aviva have used generally accepted actuarial methods to estimate reserve requirements. I am satisfied that the methodologies, major assumptions and results as at 31 December 2002 (or 31 March 2003 for some books of business) appear reasonable.

It should be noted that the estimation of reserve requirements for insurance business is an inherently uncertain exercise. An element of subjectivity is inevitably included in any actuarial assessment. The nature of the London Market business written is such that its development is affected by known latent claims such as asbestos and pollution, and its future development could be affected by new or currently unanticipated types of latent claims.

Companies are often obliged to use the results of an earlier reserve review when preparing year-end accounts, in order to meet reporting deadlines. Accordingly, it was the results of the reserve reviews as at 30 September 2002 that formed the basis for the audited consolidated accounts of CGUII as at 31 December 2002. However, any substantial changes in reserve estimates between 30 September 2002 and the dates of the reserving work that I reviewed will be allowed for in the audited consolidated accounts of CGUII prior to the transfer.

5.2 Construction of balance sheets for individual companies

5.2.1 Technical provisions

Section 5.1 describes how consolidated net reserves are assessed. However, in order to prepare company balance sheets it is necessary to assess reserves gross of reinsurance and to split them between the individual legal entities.

Aviva group staff convert the net consolidated reserves to a gross of reinsurance level using an approximate method. They rely on the ratio between gross and net reserves that was identified at an earlier date, when the liabilities were reviewed in detail at both a gross and net level.

Having assessed the gross liabilities at a consolidated level, Aviva group staff then allocate the reserves among the legal entities. For the purpose of constructing balance sheets illustrating the transfer, Aviva staff have used a method that is different from, and more accurate than, that used in preparing the 31 December 2002 accounts of the Transferors and Ocean Marine. The first step was to identify the level of notified outstanding claims for each entity involved in the London Market business. Aviva staff then determined which legal entities participated in each book of business, based on historical information. Having determined which legal entities were exposed to each book of business, Aviva staff split the total reserves for each book in proportion to the levels of notified outstanding claims for the entities involved in that book.

I have reviewed the processes described above and discussed the methodology and key assumptions with the appropriate Aviva group staff. Although the methods are approximate, I do not believe that they are unreasonable for the purpose of the exercise. Having reviewed the results of the exercise, I am satisfied that they appear reasonable.

5.2.2 Other balance sheet items

Other items shown on the balance sheets in Appendix E have been obtained by Aviva staff directly from the audited financial statements of the Transferors and Ocean Marine as at 31 December 2002. I have reviewed their work by performing checks against the audited accounts. For ease of explanation, I have shown the balance sheets in a summarised format.

6 Discussion of effect of Scheme

6.1 General comments

I have considered the effects of the Scheme on three groups of policyholders, namely:

- Those policyholders whose policies are to be transferred;
- Those policyholders whose policies are to remain with Yorkshire; and
- Current policyholders of Ocean Marine.

I have concluded that no policyholders of any other insurance companies in the Aviva group are affected by the Scheme. I do not believe that any third party who relies on a policy can be adversely affected by the Scheme if the relevant policyholder is not.

I have considered the effects of the Scheme on policyholders worldwide and not just UK policyholders.

I have not considered any alternative arrangements to the proposed transfer.

6.2 Security of transferring policyholders and Ocean Marine's policyholders

I have considered the likely effects of the Scheme on the security of policyholders, by comparing their position if the Scheme were or were not implemented.

The main risk to consider is the risk that the liabilities of the transferring policies, or of Ocean Marine, deteriorate post-transfer to such an extent that Ocean Marine's solvency is threatened. This event could disadvantage policyholders of companies that might have remained secure had the transfer not taken place.

Ocean Marine is (in the same manner as the Transferors are before the Scheme is implemented) protected by the NICO Agreement.

One of the effects of the NICO Agreement is to reduce the net liabilities of each of the companies affected by the Scheme to zero, pre-transfer. Since the NICO cover will apply to Ocean Marine post-transfer, the post-transfer liabilities of Ocean Marine would also be zero. It follows that the Scheme would have no effect on any of the affected policyholders if the coverage afforded by the NICO Agreement were to remain applicable.

In my view, the limit of NICO reinsurance cover would not be threatened in the great majority of possible outcomes from future claims developments. In order to form this view, I have considered the coverage under the Agreement, the nature of the liabilities covered, the scope for deterioration in existing claim types and the possibility of the emergence of new types of claims in future. I have concluded that, although it is impossible to foresee every eventuality, the risk of ultimate exhaustion of the reinsurance cover is small. This risk exists to the same level regardless of whether the proposed transfer takes place or not, because the NICO coverage is not affected by the Scheme.

In the unlikely event of coverage under the NICO Agreement becoming exhausted, the mutualising effect of the deed of mutual guarantee would mean that all of the companies who are party to it, including all the companies affected by this Scheme, would be in the same position as they would have been if the transfer had not taken place. No policyholders would therefore have been adversely affected by the Scheme.

There is a further, more remote, risk in relation to The Insurers Reorganisation and Winding Up Directive. This requires that, in the event of insolvency, insurance creditors be paid in full before reinsurance creditors receive any payment. Accordingly, a reinsurance policyholder could suffer as a result of the transfer in certain extreme circumstances. I believe that this is a very remote risk and have not felt it necessary to consider it further.

6.3 Security of policyholders remaining with Yorkshire

In respect of the long-term policyholders of Yorkshire, whose policies are not being transferred, I note that the long-term fund is segregated. The long-term business reserve amounted to £32,000 as at 31 December 2002. The long-term policyholders also have the benefit of the fund for future appropriations, amounting to £57,000. The only assets being transferred out of Yorkshire are the reinsurance assets backing the gross general insurance liabilities, so there is no reduction in the level of free assets within the company. I believe, therefore, that the transfer does not adversely affect the security of the long-term policyholders.

6.4 Other considerations

As described earlier, NICO is responsible for administering the run-off of the general insurance business and it subcontracts this work to Resolute. This will continue to be the case after the transfer and I do not anticipate any change in the level of service to policyholders as a result of the transfer.

The main asset backing the general insurance liabilities is the Reinsurance Asset, which equals, and will fluctuate in line with, the Provisions for Claims Outstanding. Because of this and the strength of NICO (rated AAA "Extremely Strong" by Standard & Poor's), I do not consider that there is a material risk of asset failure or mismatch.

I have not considered the possibility of future changes to the administration, reinsurance, deed of mutual guarantee or other operational arrangements relating to the business to be transferred or the existing business of Ocean Marine. I am told that there are currently no plans for any such changes other than to remove small companies with no remaining insurance liabilities from the deed of mutual guarantee.

I do not believe that the cost or tax effects of the Scheme will adversely affect the policyholders.

7 Conclusion

I have considered the Scheme and its likely effect on the policyholders of the Transferors and of Ocean Marine. I have concluded that the risk of any policyholder being adversely affected by the proposed transfer is sufficiently remote for it to be appropriate to proceed with the Scheme as described in this report.

I confirm that I understand my duty to the Court. I confirm that insofar as the facts stated in my report are within my own knowledge I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

Fred Duncan FIA

20 February 2004

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A List of terms defined within this report

"Aviva"	Aviva plc (registered in England with number 2468686)
"CGUII"	CGU International Insurance plc (registered in England with number 21487)
"FSA"	the Financial Services Authority
"FSMA"	the Financial Services and Markets Act 2000
"gilts"	UK government fixed income securities
"NICO"	National Indemnity Company
"the NICO Agreement"	the reinsurance agreement defined in Section 3.3
"Ocean Marine"	The Ocean Marine Insurance Company Limited (registered in England with number 27204)
"Provisions for Claims Outstanding"	the provisions for the ultimate costs of settling all claims arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims
"PwC"	PricewaterhouseCoopers LLP
"Resolute"	Resolute Management Inc
"Reinsurance Asset"	the reinsurers' share of Provisions for Claims Outstanding
"Sponsors of the Scheme"	the Transferors and Ocean Marine
"Transferors"	any one or all of The British & European Reinsurance Company Limited; Commercial Union Assurance Company Limited; Edinburgh Assurance Company Limited;

	General Accident Fire and Life Assurance Corporation Limited; General Accident Reinsurance Company Limited; The Indemnity Marine Assurance Company Limited; London and Scottish Assurance Corporation Limited; The New Zealand Reinsurance Company (UK) Limited; The Road Transport & General Insurance Company Limited; Scottish Insurance Corporation Limited; The Ulster Marine Insurance Company Limited; The Yorkshire Insurance Company Limited.
“Yorkshire”	The Yorkshire Insurance Company Limited (registered in England with number 98235)

B Personal experience

Fred Duncan

Curriculum Vitae

I am a Director of the Actuarial and Insurance Management Solutions (AIMS) practice of PricewaterhouseCoopers LLP (PwC). I am a Fellow of the Institute of Actuaries.

Prior to joining PwC in 1997, I headed and built the actuarial department of a London Market insurance and reinsurance company, where I also served as a member of the board of directors. I was involved in a wide variety of management and actuarial projects ranging from reserving to financial planning and reporting, acquisitions and reinsurance purchasing.

Since 1997, I have continued to work in the above areas for a wide variety of insurance company clients in the UK and Europe. I have also worked on projects as varied as capital management and allocation, insurance insolvencies, US GAAP conversions, insurance business transfers, and advising clients on the impact of legislative and accounting changes.

I am a former chairman and founder member of the London Market Actuaries Group; currently I am involved in the educational aspects of the actuarial profession, which I serve as a member of the General Insurance Board.

Recent assignments particularly relevant to the proposed work as an independent expert include the following:

Providing the independent expert report for the first two transfers performed under the current UK legislation (FSMA Part VII), for

- WASA International (UK) Insurance Company Limited,
- AGF Insurance Company Limited.

C Data and other information considered

I have used the following documents, reports, data and other information provided by CGUII, or provided by Resolute, Aviva or an Aviva group company on behalf of CGUII.

- Reserve reports produced by Resolute
- Reserve report produced by Aviva group
- Documents showing the process and the results of the allocation of reserves among the Transferors and Ocean Marine
- Year end 2002 financial statements for each of the Transferors and Ocean Marine
- Documents showing balance sheets, for each of the Transferors and Ocean Marine, both before and after the transfer of business
- Documents relating to the NICO Agreement
- Documents relating to the deed of mutual guarantee
- Draft copies of the scheme document

Information relating to the items listed above was also gathered during meetings with staff of the Aviva group and of Resolute.

D Information about the Transferors

Appendix F contains a list of authorisation classes, for reference.

Company name	**The British & European Reinsurance Company Limited**	**Commercial Union Assurance Company Limited**	**Edinburgh Assurance Company Limited**
Company Number	100367	5334	153220
FSA Number	202053	202772	202083
Date of Incorporation	23 November 1908	17 March 1871	17 February 1919 Established 29 August 1823
Date joined the Aviva Group	Commercial Union on incorporation obtained a 75% shareholding. The company became 100% owned by Commercial Union on 31 December 1980	Acquired by Employers' Liability in 1919. Northern Assurance Company Ltd acquired Employer's Liability in 1960. The Northern Assurance Company was subsequently acquired by Commercial Union in 1968.	Acquired by Commercial Union in 1918
Former Names	The British & European Insurance Company Limited (23/11/1908 – 1/1/1981)	The Merchants Marine Insurance Company Limited (17/3/1871 – 1/10/1999)	Commercial Union Pensions Management Limited (1/8/1980 – 14/3/2000) Commercial Union Assurance of United Kingdom Limited (21/8/1975 – 1/8/1980) Edinburgh Assurance Company Limited (3/5/1919 – 21/8/1975) Edinburgh Life Assurance Company Limited (17/2/1919 – 3/5/1919) Edinburgh Life Assurance Company (29/8/1823 – 17/2/1919)
Classes of business currently authorised for	Classes 1 – 17 Carrying on and effecting	Classes 1 – 17 Carrying on and effecting	Classes 1 – 17 Carrying on and effecting

Company name	The British & European Reinsurance Company Limited	Commercial Union Assurance Company Limited	Edinburgh Assurance Company Limited
Approximate date started writing business	1908	1871	1823
Approximate date stopped writing business	1995	1965	1979
US Trust Funds	None	None	None

Company name	General Accident Fire and Life Assurance Corporation Limited	General Accident Reinsurance Company Limited	The Indemnity Marine Assurance Company Limited
Company Number	SC6383	13816	23712
FSA Number	202741	202227	202191
Date of Incorporation	7 January 1907	26 February 1880 Established 4 April 1860	31 December 1886 Established 4 July 1825
Date joined the Aviva Group	Acquired by The Northern Assurance Company in 1914. The Northern Assurance Company was acquired by Commercial Union in 1968	Acquired by General Accident in 1967 with its acquisition of The Yorkshire Insurance Company Limited. The General Accident and Commercial Union groups merged in 1998.	Acquired by the Northern Assurance Company in 1917. Commercial Union acquired the Northern Assurance Company in 1968.
Former Names	The Royal Scottish Insurance Company Limited (7/1/1907 – 1/10/1999)	London and Provincial Marine and General Insurance Company Limited (17/2/1898 – 12/9/1980) The London and Provincial Marine Insurance Company Limited (26/2/1880 – 17/2/1898) The London and Provincial Marine Insurance Company (4/4/1860 – 26/2/1880)	The Indemnity Mutual Marine Assurance Company Limited (4/7/1825 – 31/12/1886)
Classes of business currently authorised for	Classes 1 – 17 Carrying on and effecting	Classes 1 –17 Carrying on and effecting	Classes 1 – 17 Carrying on and effecting
Approximate date started writing business	1907	1860	1825
Approximate date stopped writing business	1972	1998	1995
US Trust Funds	None	None	Surplus Lines Trust

Company name	London and Scottish Assurance Corporation Limited	The New Zealand Reinsurance Company (UK) Limited	The Road Transport & General Insurance Company Limited
Company Number	110206	1865412	152391
FSA Number	202228	202683	202321
Date of Incorporation	15 June 1910 Established 20 August 1862	21 November 1984	24 December 1918
Date joined the Aviva Group	Acquired by The Northern Assurance Company on 2 August 1923. The Northern Assurance Company was acquired by Commercial Union in 1968	1988 with General Accident's acquisition of New Zealand Insurance	Acquired by General Accident in 1923. General Accident and Commercial Union groups merged in 1998.
Former Names	London and Lancashire Life and General Assurance Association Limited (4/8/1910 - 1/7/1919) London and Lancashire Life Assurance Company Limited (15/6/1910 – 4/8/1910) London and Lancashire Life Assurance Company (20/8/1862 – 15/6/1910)	None	None
Classes of business currently authorised for	Classes 1 – 17 Carrying on and effecting	Classes 1 – 4, 6 – 10, 12 – 17 Carrying on and effecting	Classes 1 – 17 Carrying on and effecting
Approximate date started writing business	1862	1 January 1985	1918
Approximate date stopped writing business	1982	1997	1984
US Trust Funds	None	None	None

Company name	Scottish Insurance Corporation Limited	The Ulster Marine Insurance Company Limited	The Yorkshire Insurance Company Limited
Company Number	SC721	R742 (Northern Ireland)	98235
FSA Number	202340	202583	202623
Date of Incorporation	12 January 1877	7 November 1867	3 June 1908 Established on 20 July 1825
Date joined the Aviva Group	Acquired by The Yorkshire Insurance Company Limited in 1962. General Accident acquired The Yorkshire Insurance Company Limited in 1967. The General Accident and Commercial Union groups merged in 1998.	Acquired by General Accident in 1967 with its acquisition of The Yorkshire Insurance Company Limited. The General Accident and Commercial Union groups merged in 1998.	Acquired by General Accident in 1967. The General Accident and Commercial Union groups merged in 1998
Former Names	The Scottish Accident Life & General Insurance Company Limited (17/7/1906 – 29/3/1911) The Scottish Accident Life & Fidelity Insurance Company Limited (27/5/1896 – 17/7/1906) The Scottish Accident Insurance Company Limited (12/1/1877 – 27/5/1896)	None	The Yorkshire Insurance Company (27/5/1908 – 3/6/1908) The Yorkshire Fire and Life Insurance Company (20/7/1825 – 27/5/1908)
Classes of business currently authorised for	Classes 1 –17 Carrying on and effecting	Classes 1, 4 – 7, 11 – 12, 15 Carrying on and effecting	Classes 1 – 17, I – IV, VI, VII Carrying on and effecting
Approximate date started writing business	1877	1867	1825
Approximate date stopped writing business	1999	1984	1999
US Trust Funds	None	None	Surplus Lines Trust

E Pre- and post-transfer balance sheets

E 1 Pre- and post-transfer balance sheets for each Transferor and Ocean Marine

Pre- and post-transfer balance sheets

Appendix E1

Amounts are shown as if as at 31 December 2002 as these are the latest audited accounts available **£m**

	The Ocean Marine Insurance Company Limited		The British & European Reinsurance Company Limited		Commercial Union Assurance Company Limited		Edinburgh Assurance Company Limited		General Accident Fire and Life Assurance Corporation Limited		General Accident Reinsurance Company Limited		The Indemnity Marine Assurance Company Limited	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Assets														
Investments	19	19	7	7	0	0	1	1	0	0	28	28	17	17
Reinsurers' share of Provisions for Claims Outstanding	102	300	34	0	0	0	17	0	1	0	12	0	87	0
Debtors	44	44	31	31	1	1	1	1	1	1	8	8	25	25
Other assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	166	**364**	**71**	**37**	**1**	**1**	**19**	**2**	**2**	**1**	**48**	**36**	**129**	**42**
Liabilities														
Shareholders' funds	63	63	28	28	1	1	2	2	1	1	8	8	42	42
Gross Provisions for Claims Outstanding	102	300	34	0	0	0	17	0	1	0	12	0	87	0
Creditors	1	1	10	10	0	0	0	0	0	0	28	28	1	1
	166	**364**	**71**	**37**	**1**	**1**	**19**	**2**	**2**	**1**	**48**	**36**	**129**	**42**

	London and Scottish Assurance Corporation Limited		The New Zealand Reinsurance Company (UK) Limited		The Road Transport & General Insurance Company Limited		Scottish Insurance Corporation Limited		The Ulster Marine Insurance Company Limited		The Yorkshire Insurance Company Limited	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Assets												
Investments	0	0	20	20	12	12	5,067	5,067	2	2	30	30
Reinsurers' share of Provisions for Claims Outstanding	0	0	8	0	0	0	17	0	0	0	22	0
Debtors	1	1	9	9	844	844	1,439	1,439	0	0	23	23
Other assets	0	0	0	0	0	0	0	0	0	0	4	4
	1	**1**	**37**	**29**	**857**	**857**	**6,523**	**6,506**	**2**	**2**	**79**	**57**
Liabilities												
Shareholders' funds	1	1	12	12	849	849	6,294	6,294	1	1	40	40
Gross Provisions for Claims Outstanding	0	0	8	0	0	0	17	0	0	0	22	0
Creditors	0	0	17	17	7	7	212	212	0	0	17	17
	1	**1**	**37**	**29**	**857**	**857**	**6,523**	**6,506**	**2**	**2**	**79**	**57**

Notes

Numbers have been rounded to the nearest £1m. Some totals may appear not to agree with the sum of the individual items but this is purely due to rounding.

The long-term business provision for the long-term policyholders of The Yorkshire Insurance Company Limited is £0.032m, both pre- and post-transfer, and is included within Gross Provisions for Claims Outstanding.

The Yorkshire Insurance Company Limited's fund for future appropriations, which Yorkshire's long-term policyholders have the benefit of, is £0.057m, both pre- and post-transfer, and is included within Shareholders' funds.

F Authorisation classes

F 1 General insurance business

1	Accident
2	Sickness
3	Land vehicles
4	Railway rolling stock
5	Aircraft
6	Ships
7	Goods in transit
8	Fire and natural forces
9	Damage to property
10	Motor vehicle liability
11	Aircraft liability
12	Liability for ships
13	General liability
14	Credit
15	Suretyship
16	Miscellaneous financial loss
17	Legal expenses
18	Assistance

F 2 Long-term insurance business

I	Life and annuity
II	Marriage and birth
III	Linked long term
IV	Permanent health
V	Tontines
VI	Capital redemption
VII	Pension fund management
VIII	Collective insurance
IX	Social insurance