

# **TRANSFER OF BUSINESS OF MUNICH RE AMERICA INC.'S UK BRANCH TO GREAT LAKES REINSURANCE (UK) PLC**

## **Preliminary**

Munich Reinsurance America, Inc. ("**Munich Re America**") has agreed to transfer to Great Lakes Reinsurance (UK) PLC ("**Great Lakes**") the whole of the general insurance and reinsurance business effected and/or carried out by Munich Re America's UK branch (the "**Portfolio**"). It is proposed that the policies comprising the Portfolio (the "**Transferring Policies**") will be formally transferred from Munich Re America to Great Lakes by way of a scheme (the "**Scheme**") pursuant to Part VII of the Financial Services and Markets Act 2000 ("**FSMA**"), which requires the sanction of the High Court of Justice in England (the "**Court**").

Mr Fred Duncan of PricewaterhouseCoopers LLP, a Fellow of the Institute of Actuaries, has been appointed as an independent expert (the "**Independent Expert**") to provide a report (the "**Report**") on the effects of the Scheme on the policyholders of Munich Re America and Great Lakes. Mr Duncan's appointment has been approved by the Financial Services Authority ("**FSA**").

The purpose of this document is to summarise the principal terms of the Scheme and the conclusions of the Independent Expert in his Report.

Part A of this document summarises the terms of the Scheme and Part B is a summary prepared by the Independent Expert of his Report.

Copies of the full Report and this document will be made available free of charge to anyone requesting such copies by contacting Patricia Natus by telephone on +44 203 0037149 or in writing at Plantation Place, 30 Fenchurch Street, London EC3M 3AJ, until the date on which the Scheme is presented before the Court currently expected to be on 16 December 2008. Copies of the Report and the Scheme Summary are also available at [www.munichreamerica.com](http://www.munichreamerica.com) and [www.greatlakes.co.uk](http://www.greatlakes.co.uk).

## **PART A - THE SCHEME**

### **1. Introduction**

The proposed transfer of the Transferring Policies will become effective if the Court makes an order sanctioning the Scheme. It is proposed that the effective date of the Scheme (the "**Effective Date**") will be 31 December 2008.

### **2. Transferring Policies and Contracts**

On and with effect from the Effective Date, the rights, benefits and powers of Munich Re America under or by virtue of the Transferring Policies and all rights and claims against any third party in relation to the Portfolio or arising as a result of Munich Re America having carried on the Portfolio, will be transferred to and vested in Great Lakes by the order of the Court without any further act or instrument.

On and with effect from the Effective Date, the rights and powers of Munich Re America under or by virtue of the claims handling agreements between Munich Re America and certain third party claims handlers (the "**Claims Handling Agreements**") and the reinsurance or retrocession agreements in favour of Munich Re America covering risks under the Transferring Policies (the "**Outwards Reinsurance Contracts**" and together with the Transferring Policies and Claims Handling Agreement the "**Transferring Contracts**"), will be transferred to and be vested in Great Lakes by the order of the Court without any further act or instrument.

Every person who is a party to any of the Transferring Contracts shall from the Effective Date, become entitled, to the exclusion of any of the rights which it may have had against Munich Re America under the Transferring Contracts, to the same rights against Great Lakes as were available to it against Munich Re America under the Transferring Contract.

All premiums and other amounts attributable or referable to the Transferring Contracts shall on and after the Effective Date be payable to Great Lakes. Great Lakes shall be entitled to any and all defences, claims, counterclaims and rights of set-off under the Transferring Contracts which would have been available to Munich Re America.

3. **Transferring Liabilities**

On and with effect from the Effective Date, all liabilities of Munich Re America under or by virtue of the Transferring Policies (the "**Transferring Liabilities**"), the Claims Handling Agreement or otherwise attributable to the Portfolio (subject to exclusions in the Scheme) shall, without any further act or instrument, be transferred to and become liabilities of Great Lakes and shall cease to be liabilities of Munich Re America.

4. **Munich Re America Reinsurance Contracts**

On and with effect from the Effective Date, any contracts of insurance or reinsurance issued by Munich Re America to Great Lakes comprised in the Portfolio (the "**Munich Re America Reinsurance Contracts**"), shall terminate by operation of law and neither Munich Re America nor Great Lakes shall have any further rights, benefits, powers or any liabilities or obligations under the Munich Re America Reinsurance Contracts of whatsoever nature.

Any reinsurance or retrocession agreements in favour of Munich Re America covering risks under the Munich Re America Reinsurance Contracts will be transferred to and be vested in Great Lakes by the order of the Court without any further act or instrument.

5. **Excluded Policies**

Certain policies may be excluded from the Scheme for regulatory or legal reasons and the liabilities in respect of such policies remain with Munich Re America. Munich Re America's liabilities in respect of any such policies will be reinsured by Great Lakes and Great Lakes will take over the administration of these policies until they can be transferred to Great Lakes or expire.

6. **Continuity of Proceedings**

On and with effect from the Effective Date, any judicial, quasi-judicial or arbitration proceedings which are pending by or against Munich Re America in connection with the Portfolio shall be continued by or against Great Lakes, and Great Lakes shall be entitled to all defences, claims, counterclaims and rights of set-off that would have been available to Munich Re America and Munich Re America shall have no liability under those proceedings.

7. **Conditions to the Scheme**

Once the sanction of the Court to the Scheme has been granted, the Scheme will become effective on or about 31 December 2008 unless (i) Munich Re America and Great Lakes do not consent to any modification of or addition to the Scheme or to any further condition that the Court may impose; or (ii) the Delaware regulatory authority responsible for regulating Munich Re America does not consent to the Scheme; or (iii) the board of directors of Great Lakes do not resolve to complete the transfer of the Portfolio.

8. **Costs and Expenses**

All costs and expenses relating to the preparation of the Scheme and application for the sanction of the Scheme, including the costs of the Independent Expert, counsel and complying with the Directions Order, shall be borne equally between Great Lakes and Munich Re America. No such costs will be borne by policyholders.

**PART B - THE REPORT**

9. **Introduction**

This is a summary of the Report, dated 10 September 2008, that I have prepared on the Scheme, having been nominated by Great Lakes and Munich Re America and approved by the FSA as the Independent Expert. I am an experienced actuary, having practised in general insurance for more than twenty-five years. I have no shareholding, investment or any other financial connection with Great Lakes, Munich Re America or any other company within the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft ("**Munich Re**") Group.

The Independent Expert's report is required under section 109 of the Financial Services and Markets Act 2000 in order that the Court may properly assess the impact of the proposed Scheme. The report describes the proposed transfer of business under the Scheme and discusses the possible effects on policyholders (and third parties who rely on their policies), including effects on security and levels of service. The report is prepared for the use of the Court in connection with the Scheme.

I have prepared this summary for insertion in this document and for distribution to policyholders. I consider this summary sufficient to convey the general nature of my review and my conclusions on the Scheme. I note, however, that anyone wishing to understand the analysis that has led to these conclusions should refer to the full report.

This summary is subject to the same limitations on its use as are set out in the Report. In the event of any conflict of interpretation between this summary and the Report, the interpretation contained in the Report will prevail.

10. **The Scheme**

The description of the Scheme provided earlier in this document is consistent with my understanding of the Scheme.

I have considered the effect of the Scheme on policyholders of Great Lakes and Munich Re America. I have also considered third parties who rely on their policies.

11. **Information**

I have been provided with access to sufficient information and have had sufficient discussions with the relevant members of staff to understand the proposals under the Scheme and to assess the potential impact on policyholders.

12. **Great Lakes Existing Policyholders**

In assessing the likely effect of the transfer on the policyholders of Great Lakes (including those who become policyholders between the date of this report and the Effective Date), the main risk to consider would ordinarily be that the liabilities from the Transferring Policies deteriorate post-transfer to such an extent that Great Lakes' solvency is threatened. If the Scheme is approved, however, a loss portfolio transfer ("**LPT**") reinsurance contract will come into effect on the Effective Date under which Munich Re will reinsure Great Lakes in respect of the Transferring Liabilities.

Great Lakes' purchase of LPT reinsurance from Munich Re protects Great Lakes against any future deterioration in the transferring liabilities, that is, it effectively eliminates the reserving risk arising from the transferring business. The unlimited nature of the contract means that there is no risk of the cover becoming exhausted. In addition, the contract covers expenses associated with the transferring business, including direct and indirect claims handling costs, administrative costs, the cost of holding regulatory capital and the costs of implementing the Scheme. I have also considered the terms and conditions of the LPT contract and I am satisfied that the contract includes appropriate clauses restricting Munich Re's ability to terminate the contract or to avoid paying claims under it. Given that Munich Re is one of the world's largest reinsurers and is rated AA- ("Very strong") by Standard & Poor's, I believe that the risk of default is remote.

I have concluded that the security of Great Lakes policyholders would not be materially adversely affected by the proposed transfer.

13. **Munich Re America Transferring Policyholders**

In assessing the likely effect of the transfer on the transferring policyholders, the main risk to consider is that Great Lakes, post-transfer, would not be financially secure.

I began my assessment by considering the strength of Great Lakes pre-transfer: I considered the Individual Capital Assessment ("**ICA**") prepared by Great Lakes,

including the methodology, modelling techniques and key assumptions used, and how these compare to market practice. This led me to conclude that, before the proposed transfer, the level of capital held by Great Lakes is more than sufficient to meet its obligations at the level of confidence required by the FSA.

I considered how this assessment would change post-transfer, both in terms of changes to the level of capital held and changes to the risks that Great Lakes faces:

- The level of capital held by Great Lakes post-transfer would not be reduced by the transfer.
- There would be no increase in the reserving risk to which Great Lakes is exposed, as any potential deterioration in the transferred liabilities would be recoverable via the LPT.
- The transfer would lead to an increase in Great Lakes' exposure to reinsurance credit risk. Given that the reinsurer is Munich Re, however, and given that Munich Re is one of the world's largest reinsurers and is rated AA- ("Very strong") by Standard & Poor's, I believe that the risk of default is remote.
- The required level of regulatory capital will increase as a result of the transfer since it includes a capital charge related to the reinsurance credit exposure. The capital held by Great Lakes will, however, remain in excess of the Individual Capital Guidance issued to Great Lakes by the FSA.

Based on my assessment of the pre-transfer ICA and my assessment of the likely changes to capital and risks resulting from the proposed transfer, I am satisfied that the level of capital held by Great Lakes would be more than sufficient to meet its obligations at the level of confidence specified by the FSA for general insurance companies. Nothing emerged during the course of my work that would give me concerns as to the financial strength of Great Lakes if the Scheme were to go ahead. I have concluded that the security of the transferring policyholders would not be materially adversely affected by the proposed transfer.

14. **Munich Re America Remaining Policyholders**

The transfer will have little impact on the financial strength of Munich Re America, given the small size of the UK branch in relation to Munich Re America as a whole. I have concluded that the security of the policyholders remaining with Munich Re America would not be adversely affected by the proposed transfer.

15. **Service Levels**

Claims administration for the transferring business is currently the responsibility of Munich Re America's UK branch. After the transfer, claims administration will become the responsibility of Great Lakes. Great Lakes uses Munich Re General Services Ltd (a shared services company that performs services for a number of Munich Re companies)

to perform its claims handling; this will also be the case for the transferring business. Existing external claims handling agreements will continue after the transfer.

I do not anticipate any change in the level of service to transferring policyholders as a result of the proposed Scheme.

16. **Conclusion**

I have considered the Scheme and its likely effect on the policyholders of Munich Re America and Great Lakes. I have concluded that no policyholders (or third parties who rely on their policies) would be materially adversely affected by the proposed transfer.

Fred Duncan, September 2008