

**Supplemental Report of the Independent
Expert on the Proposed Insurance
Business Transfer Scheme from the UK
Branch of Sompo Japan Insurance Inc. to
Transfercom Limited under Part VII of the
Financial Services & Markets Act 2000**

8 March 2010

Prepared by:

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Section 1: Introduction & Scope

The Independent Expert

- 1.1 I have been appointed by Sampo Japan Insurance Inc. ("Sampo") as the Independent Expert in connection with the proposed transfer ("the Proposed Scheme") of the vast majority of the business of the UK Branch of Sampo Japan Insurance Inc. ("Sampo UK") to Transfercom Limited ("Transfercom"), which is part of the Berkshire Hathaway group.
- 1.2 My appointment as the Independent Expert in connection with the Proposed Scheme was approved by the Financial Services Authority ("FSA") on 2 November 2009. In connection with this appointment there is an engagement letter in place between Watson Wyatt Limited (a Towers Watson company) and Sampo, although the costs and expenses relating to my appointment are ultimately being borne by Transfercom.
- 1.3 My view on the effect of the Proposed Scheme is set out in my Independent Expert report dated 21 January 2010 (my "Independent Expert Report").

Scope of my report

- 1.4 Since the completion of my Independent Expert Report, a number of new pieces of information have become available, specifically:
 - The actuarial report undertaken by Martin White and his actuarial colleagues at Resolute Management Services Limited ("Resolute") as at 30 September 2009 for Transfercom.
 - Unaudited half-year management accounts of Sampo as at 30 September 2009.
 - Unaudited management accounts of Transfercom as at 31 December 2009.
 - A change in the credit rating for the Berkshire Hathaway group of companies, including National Indemnity Company ("NICO").
 - A change in the extension of the limit of the existing reinsurance policy written by NICO, covering the existing business of Transfercom, on the Proposed Scheme becoming effective.
- 1.5 The purpose of this supplemental report (the "Supplemental Report") is to specify whether the conclusions set out in my Independent Expert Report have changed in light of the new pieces of information, as listed above, which are now available.
- 1.6 The management of Sampo and Transfercom have also confirmed that no material issues have arisen between the dates of the above unaudited management accounts and the date of this Supplemental Report.

- 1.7 This Supplemental Report must be considered in conjunction with my Independent Expert Report. The reliances and limitations set out in my Independent Expert Report also apply to this report, together with the additional reliances and limitations which are set out throughout this report.

Terms of reference

- 1.8 My Independent Expert Report and this Supplemental Report in combination are intended to aid the Court's deliberations as to whether the Proposed Scheme should be approved. In reporting on the Proposed Scheme in accordance with Part VII of the FSMA, I owe a duty to the Court to help the Court on matters within my expertise. This duty overrides any obligation to any person from whom I have received instructions or by whom I am paid. I have complied, and continue to comply, with this duty.
- 1.9 In preparing this report I have taken account of the following:
- Part 35 of the Civil Procedure Rules
 - The Practice Direction supplement to Part 35 of the Civil Procedure Rules
 - The protocol for the instruction of experts to give evidence in civil claims drafted by the Civil Justice Council
 - Guidance in paragraphs 18.2.31 to 18.2.41 inclusive of the FSA's Supervision Manual which sets out the FSA's guidance on the form of the scheme report.
- 1.10 I am required to comply with professional guidance adopted by the Board for Actuarial Standards in the UK, including the current version of Guidance Note 12. This Supplemental Report, when taken together with my Independent Expert Report, complies with UK professional guidance, subject to the principles of proportionality and practicability where these principles are applicable.

Reliances & limitations

- 1.11 In carrying out my review and producing this report I have relied without independent verification upon the accuracy and completeness of the data and information provided to me, both in written and oral form. Where possible, I have reviewed the information provided for reasonableness and consistency with my knowledge of the insurance and reinsurance industry.
- 1.12 A draft of this report has been made available to the FSA, whose comments have been taken into account.
- 1.13 No limitations have been imposed on the scope of my work and the opinions in this report about the Proposed Scheme are mine, based on the information provided and the answers to any questions I have raised.

- 1.14 This report has been prepared on an agreed basis for the purpose of reporting on the Proposed Scheme, and must not be relied upon for any other purpose. It must be considered in its entirety as individual sections, if considered in isolation, may be misleading. It must also be considered in combination with my Independent Expert Report dated 21 January 2010. This report is subject to the terms and limitations, including limitation of liability, set out in my firm's engagement letter of 2 November 2009.

Legal jurisdiction

- 1.15 This report is governed by and shall be construed in accordance with English law and the parties submit to the exclusive jurisdiction of the English courts in connection with all disputes and differences arising out of, under or in connection with this report. If any part of a provision of this report is held invalid, illegal or unenforceable then the remainder of such provision shall remain valid and enforceable to the fullest extent permitted by law.

Structure of this report

- 1.16 The structure of this report is as follows:
- Section 1 summarises the scope of my work as the Independent Expert
 - Section 2 summarises my overall conclusions
 - Section 3 considers any changes in the likely effects of the Proposed Scheme on the three affected groups of policyholders in respect of security considerations, based on the additional information I am considering when drafting this Supplementary Report (as listed in Section 1.4 above).

Section 2: Summary & Opinion

Summary of the Proposed Scheme

- 2.1 The effect of the Proposed Scheme would be to transfer the vast majority of the business of the UK Branch of Sompo Japan Insurance Inc. ("Sompo UK") to Transfercom Limited ("Transfercom"), a subsidiary of the Berkshire Hathaway group.
- 2.2 In this report I have considered any changes in the likely effects of the Proposed Scheme on the three distinct sets of affected policyholders in respect of security considerations, based on the additional information I am considering when drafting this Supplementary Report. The three distinct sets of affected policyholders are:
- The policyholders remaining with Sompo
 - The policyholders transferring from the UK Branch of Sompo to Transfercom
 - The current policyholders of Transfercom

Summary of findings

- 2.3 In forming my view on the effect of the Proposed Scheme, I have considered the likely effects of the Proposed Scheme on the level of security enjoyed by the affected policyholders. I have also considered the potential effects of the Proposed Scheme on the other factors which can impact security or service levels to the affected policyholders.

Security of policyholders remaining in Sompo

- 2.4 Based on my review of the unaudited half-year management accounts of Sompo as at 30 September 2009, I consider that the conclusions set out in Section 2.7 of my Independent Expert Report remain applicable. My opinion therefore remains unchanged that the financial effect of the Proposed Scheme on the security of the policyholders remaining in Sompo will be de minimis and their security levels will remain effectively unchanged, given the small decrease to the total liabilities of Sompo as a result of the Proposed Scheme and the minimal net effect on capital.

Security of policyholders transferring from Sompo UK to Transfercom

- 2.5 The transferring policyholders are moving from a large, well diversified and strongly capitalised company, whose rating level implies a security level well beyond the FSA's ICA solvency criterion of 99.5% value-at-risk over a one year time horizon.
- 2.6 After the Proposed Scheme, it is my opinion that the likelihood of Transfercom being able to pay all future claims is 97.5%.

- 2.7 While I therefore consider that the level of security for the transferring policyholders will reduce if the Proposed Scheme is approved, I believe that the level of security of the transferring policyholders will remain satisfactory after the Proposed Scheme.

Security of current policyholders of Transfercom

- 2.8 In conjunction with the Proposed Scheme the limit of the reinsurance with NICO which protects the current business of Transfercom will increase by US\$80 million, although there are some factors which offset the benefit of this reinsurance, to some extent. At the time of finalising my Independent Expert Report, the limit of this reinsurance with NICO was due to be increased by slightly less at US\$75 million.
- 2.9 However, on balance it is my opinion that the Proposed Scheme will result in an improved level of security for the current policyholders of Transfercom and therefore I believe that the current policyholders of Transfercom will be advantaged by the Proposed Scheme.

Other considerations for all three groups of policyholders

- 2.10 With respect to other potential considerations, I am not aware of any new pieces of information which are relevant to these considerations and which have become available since the completion of my Independent Expert Report.
- 2.11 I therefore consider that the conclusions set out in Sections 2.13, 2.14 and 2.15 of my Independent Expert Report remain applicable and my opinions remain unchanged.

Duty to the Court

- 2.12 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court, I have complied with that duty and I will continue to comply with that duty.

Statement of truth

- 2.13 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.



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8 March 2010

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Section 3: Security Considerations

Introduction

- 3.1 In this section I discuss considerations arising from the effect of the Proposed Scheme on the security of policyholders' contractual rights. In other words I have considered whether the Proposed Scheme will make it more or less likely that policyholders' claims will be paid and to what extent it will affect that likelihood.
- 3.2 Only those considerations which are impacted by the new pieces of information which have become available since the completion of my Independent Expert Report are considered and discussed in this section.
- 3.3 I have considered the likely effects of the Proposed Scheme on:
- The policyholders remaining with Sampo
 - The policyholders transferring from the UK Branch of Sampo to Transfercom
 - The current policyholders of Transfercom.
- 3.4 In each case I have considered the security of the policyholders on two bases:
- The current position which corresponds to the position should the Proposed Scheme not proceed ("the Pre Scheme Position")
 - The position should the Proposed Scheme proceed ("the Post Scheme Position").
- 3.5 In general security for policyholders is provided by a combination of:
- Assets backing the technical reserves
 - Reinsurance protections
 - Net shareholder assets.
- 3.6 In respect of Transfercom (and hence to the Post Scheme Position of the policyholders transferring from Sampo UK to Transfercom and to the Pre and Post Scheme Position of the current policyholders of Transfercom) security is provided in the first instance by the specific reinsurance arrangements in place with NICO (which in turn are subject to the general security levels of NICO) for each set of policyholders, with further security provided by the net shareholder assets/free capital of Transfercom. There are no other assets backing the technical reserves. The free capital will be available for both sets of policyholders to utilise, after, and if, the Proposed Scheme is sanctioned, if claims exceed the upper limit of the applicable reinsurance protection with NICO. This capital also covers other risks of

Transfercom, of which the largest is counterparty credit risk on the NICO reinsurance protections.

- 3.7 At the time of finalising my Independent Expert Report, it was proposed that the limit of the existing reinsurance policy written by NICO, covering the existing business of Transfercom, would be extended by US\$75 million, from US\$482 million to US\$557 million, on the Proposed Scheme becoming effective. This extension has now been increased to US\$80 million, such that the limit of the existing reinsurance policy written by NICO will be extended from US\$482 million to US\$562 million, on the Proposed Scheme becoming effective.
- 3.8 Given the relative payment tails of the two sets of business, if both reinsurance protections with NICO are breached then it is very likely that the transferring business would erode the capital before the existing business, since the transferring business is likely to result in claim payments being made sooner.
- 3.9 If one of the books of business stayed within its reinsurance protection while the other eroded not just the full extent of the applicable reinsurance protection but also the entire capital of Transfercom, then Transfercom would be insolvent. It is possible that in such an insolvency the full assets of Transfercom (including reinsurance recoveries) would be made available to settle, as far as possible on a pro-rata basis, the full liabilities of Transfercom. In this event, therefore, the payouts to policyholders of both books of business may be reduced.

Security of policyholders remaining in Sompo – comments and conclusions

- 3.10 Based on my review of the unaudited half-year management accounts of Sompo as at 30 September 2009, I consider that the conclusions set out in Sections 4.8 to 4.10 of my Independent Expert Report remain applicable. My opinion therefore remains unchanged that the financial effect of the Proposed Scheme on the security of the policyholders remaining in Sompo will be de minimis and their security levels are effectively unchanged on both the Pre Scheme Position and Post Scheme Position.
- 3.11 I have based this opinion on my assessment that the Proposed Scheme will result in a very small decrease to the liabilities of Sompo and with a de minimis net effect on the capital of Sompo. I do not expect the Proposed Scheme to have any effect on the credit rating or regulatory capital position of Sompo.
- 3.12 The Proposed Scheme represents the separation of run-off London market aviation (and to a lesser extent marine and non-marine) exposures, involving in some cases large and complex legal cases, from Sompo's remaining portfolio of pre-dominantly personal lines exposures. In my opinion this is in the interests of the remaining policyholders.

Modelling of security

- 3.13 In order to assess the Post Scheme Position of the policyholders transferring from Sompo UK to Transfercom and the Pre and Post Scheme Position of the current policyholders of Transfercom, I have built a simple capital model which allows for a distribution of possible outcomes and for each group of policyholders assesses whether the claims will be paid in full.

3.14 The key drivers of this capital model are:

- Reserve uncertainty on the book of business transferring from Sompo UK
- Reserve uncertainty on the existing book of business in Transfercom
- Correlations between the reserve uncertainty on the two books of business

Reserve uncertainty on the current book

- 3.15 For my Independent Expert Report, in order to assess the reserve uncertainty on the current business within Transfercom I relied on a report titled "Transfercom 31 December 2008 Reserves for Losses and Loss Expense" prepared for Transfercom on 28 March 2009 by Ronald Wilson of Beneficial Consultants, LLC (the "Wilson Report"), together with some further information from Ronald Wilson which provided additional percentiles of the loss distribution.
- 3.16 Since finalising my Independent Expert Report, a new report titled "Transfercom Limited – Actuarial review as at 30 September 2009" has been prepared by Martin White and his actuarial colleagues at Resolute ("the White Report"). For this Supplemental Report, I am relying on the White Report to assess the reserve uncertainty on the current business within Transfercom.
- 3.17 I have carried out a detailed review of this report, including discussions with Martin White to check my understanding of the methods used and to clarify various areas of my understanding around the report. In carrying out this review I have satisfied myself that this report is reliable and both fit and fully adequate for my purpose.
- 3.18 Like the Wilson report, the White Report provides a best estimate reserve together with a distribution of potential claim outcomes. The estimates provided by both reports project the cost of claims to be paid after the effective date of the respective report (31 December 2008 for the Wilson Report and 30 September 2009 for the White Report). Any comparison of the estimates provided in the reports therefore needs to allow for the cost of claims paid between these two dates of US\$11.3 million.
- 3.19 In the case of the White report, the report gives specific consideration to the possibility of the projected claims exhausting the original NICO reinsurance cover (before its extension as part of the Proposed Scheme) and the Transfercom capital. In addition the White report is more detailed in its methodology than the Wilson report, as it makes use of data which was not readily available as at 31 December 2008. In particular it includes a more detailed examination of the nature of the business based on discussions with the relevant claims teams, including the proportion of asbestos business and the amount of direct / reinsurance / retrocessional business.
- 3.20 The White Report followed a similar approach to that followed by the Wilson Report, applying two benchmark methods:
- Survival ratios (future claims expressed as a ratio of normalised annual paid claims)

- IBNR/case ratios (IBNR claims expressed as a ratio of current outstanding claims)
- 3.21 For a small part of the account the White Report also used a modelling, or exposure based, approach.
- 3.22 Based on an examination of the claims information and discussions with the claims teams, the benchmarks were set separately for eight main books of business:
- asbestos direct;
 - asbestos reinsurance;
 - asbestos retrocession;
 - unusually long tail asbestos retrocession;
 - pollution, health hazard and other ("PHO") direct;
 - PHO reinsurance;
 - PHO retrocession; and
 - unusually long tail PHO retrocession.
- 3.23 There are therefore 16 benchmarks in total. Before applying the selected survival ratios adjustments were made to the historical paid claims data to reflect special settlements (where a backlog of disputed claims are resolved and therefore paid) and commutations. Consideration was also given as to whether any current payments were being delayed (potentially giving rise to future special settlements), although the claims staff were not aware of any such situations so no allowance was made.
- 3.24 When compared with the Wilson Report, the approach followed by the White Report has resulted in a few changes:
- Firstly, the selected benchmarks are slightly lower. This was anticipated in my Independent Expert Report which commented that "the mean selected benchmarks in the Wilson Report appear to be at or even above the high end of the typical range of factors used for best estimate". The reduction in the selected benchmarks was lower than expected, however, since the complexity of the existing book of business in Transfercom meant that detailed modelling was only possible on a small part of the book.
 - In addition, in the White report more detailed adjustments have been made to reflect special settlements and commutations.
 - Both the reduction in the selected benchmarks and the allowance made for special settlements and commutations would have resulted (all other things being equal) in a reduction in the projected claims estimate. This reduction, however, was offset by the assumed portions of both asbestos and longer tailed reinsurance and retrocessional business being higher than in the Wilson report.

- 3.25 A distribution of possible outcomes was then obtained using distributions for each of asbestos and PHO, together with an assumed correlation factor of 0.30. Some of the key percentiles on the loss distribution produced by this stochastic model are set out in the table below.

Percentile on loss distribution for existing business in Transfercom	US\$ millions
50%	288.5
70%	345.4
80%	384.5
90%	449.1
95%	509.1
97.5%	575.4
99%	649.4
99.5%	711.3

- 3.26 Based on the above loss distribution (and making allowance for the US\$11.3 million of claims which Transfercom have paid between the effective date of the Wilson Report and that of the White Report), the White Report shows a slight deterioration in the projected ultimate level of claims for the percentiles greater than around 70%. For example, at the key 97.5th percentile, the projected future claims at 30 September 2009 have deteriorated marginally from US\$570 million according to the Wilson Report to US\$575 million according to the White Report.
- 3.27 As at 30 September 2009, the capital resources in Transfercom amount to US\$492.7 million. This amount consists of US\$445.7 million of unpaid limit on the NICO reinsurance protection (US\$482 million original limit, less US\$25 million in paid claims to 31 December 2008, less US\$11.3 million in paid claims during the first nine months of 2009) plus US\$47.0 million of free capital. Ignoring the implications of the credit and liquidity risks associated with the capital resources of Transfercom, these capital resources equate to the 93.7th percentile of the loss distribution produced in the White Report.

Modelling approach

- 3.28 I have assessed the Post Scheme Position of the policyholders transferring from Sompo UK to Transfercom and the Pre and Post Scheme Position of the current policyholders of Transfercom using:
- The reserve distribution discussed above for the existing book of business in Transfercom
 - The reserve distribution discussed in my Independent Expert Report for the book of business transferring from Sompo UK
 - An assumption as to the correlation between the two books of business. As for my Independent Expert Report, I have assumed a correlation of 0.30.

3.29 In my modelling I have made no allowance for the investment return to be earned on the capital levels of Transfercom during the run-off of claims. During the first nine months of 2009, the net assets of Transfercom increased by US\$2 million. In my view the positive impact on security from the investment return to be earned is counterbalanced by the additional risk factors which I have not considered in my modelling, in particular:

- Counterparty credit risk in respect of the reinsurance arrangements with NICO.
- The additional risks associated with the form of the capital of Transfercom, including the credit risk and liquidity risk associated with the US\$30 million bond holding.

3.30 The results of my updated analysis are described in the following sections.

Credit rating of NICO

3.31 At the time of finalising my Independent Expert Report, NICO's AAA rating from Standard & Poor's was on "CreditWatch with negative implications" in the wake of Berkshire Hathaway's announcement on 3 November 2009 that it is to buy railroad operator Burlington Northern Santa Fe.

3.32 On 4 February 2010, Standard & Poor's credit rating of the Berkshire Hathaway group of companies, including NICO, was lowered from AAA to AA+ (with the rating also being removed from CreditWatch). I have reviewed the research document provided by Standard & Poor's in conjunction with the lowering of the credit rating. The reasons provided by Standard & Poor's include a reduction in the historically extremely strong capital adequacy and liquidity of the Berkshire Hathaway group, with investment risk remaining very high.

3.33 I have considered the implications of this credit downgrade and consider that my allowance for the counterparty credit risk in respect of the reinsurance arrangements with NICO, as set out in my Independent Expert Report, remains appropriate. The key reason for this conclusion is that the downgrade from AAA to AA+ still places the security of the reinsurance arrangement at a level much greater than FSA's ICA solvency criterion of 99.5% value-at-risk over a one year time horizon (or the lower equivalent percentile on a run-off to ultimate basis).

Security of policyholders transferring from Sompo to Transfercom – conclusion

3.34 The transferring policyholders are moving from a large, well diversified and strongly capitalised company, whose rating level implies a security level well beyond the FSA's ICA solvency criterion of 99.5% value-at-risk over a one year time horizon.

3.35 In conjunction with the Proposed Scheme a reinsurance policy is being put in place to cover the transferring business, and my modelling estimates that the likelihood of the cost of claims from the transferring business remaining within the limit of the reinsurance with NICO is 99.5% (in line with the FSA's ICA solvency criterion although on a run-off to ultimate basis).

- 3.36 The most significant risk to the transferring business is the possibility that the claims on the existing business within Transfercom exhaust on an actual basis or are projected on a future best estimate basis to exhaust both the applicable reinsurance policy with NICO and the capital levels of Transfercom. In this situation Transfercom would become insolvent. Such insolvency is likely to be at best a severe inconvenience to the transferring policyholders leading to a reduction in service standards and delay in claims payments. Further it may adversely impact the ultimate payout to the transferring policyholders, even if claims on the transferring business do not exceed the upper limit of the applicable reinsurance arrangement with NICO.
- 3.37 Combining my selected distributions for the transferring business and the existing business within Transfercom, together with my chosen correlation, my modelling estimates that the likelihood of Transfercom being able to pay all future claims after the Proposed Scheme has been effected is 97.5%.
- 3.38 Based on my analysis, I consider that the level of security for the transferring policyholders will reduce if the Proposed Scheme is approved. However, I believe that the level of security of the transferring policyholders would remain satisfactory in that the probability of Transfercom being able to pay all future claims to the transferring policyholders (and avoiding insolvency) after the Proposed Scheme would be approximately 97.5%.

Security of current policyholders of Transfercom – conclusion

- 3.39 If the Proposed Scheme does not go ahead, my modelling estimates that the likelihood of the existing assets within Transfercom being sufficient to pay all claims from the existing business within Transfercom is 93.7%.
- 3.40 In conjunction with the Proposed Scheme the limit of the reinsurance with NICO which protects the current business of Transfercom will increase by US\$80 million. The benefit of this increase in reinsurance is offset, but only to a limited extent, by the following:
- an increase in the counterparty credit risk in respect of the increase in the reinsurance arrangements with NICO; and
 - the possibility of the transferring business exceeding its applicable reinsurance protection, and accessing, or possibly exhausting, the free capital in Transfercom.
- 3.41 However, as stated in Section 3.37 above, I have estimated that the likelihood of Transfercom being able to pay all future claims after the Proposed Scheme has been effected is 97.5%.
- 3.42 This represents a significant improvement in security for the current policyholders of Transfercom and therefore I believe that the current policyholders of Transfercom will be advantaged by the Proposed Scheme.

