

**Third 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**

13 January 2011

Prepared by:

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TOWERS WATSON The logo for Towers Watson, featuring the company name in a bold, black, sans-serif font followed by a stylized red 'w' symbol.

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Section 1: Introduction & Scope

The Independent Expert

- 1.1 I have been appointed by Sompo Japan Insurance Inc. ("Sompo") 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 Sompo Japan Insurance Inc. ("Sompo 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 Towers Watson Limited ("Towers Watson") and Sompo, although the costs and expenses relating to my appointment are ultimately being shared between Sompo and 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").
- 1.4 Subsequent to the completion of my Independent Expert Report, a number of new pieces of information became available. I therefore produced a supplemental report dated 8 March 2010 (my "Supplemental Report") in order to opine on whether the conclusions set out in my Independent Expert Report had changed in light of these new pieces of information. My Supplemental Report confirmed that my view on the effect of the Proposed Scheme remained unchanged.
- 1.5 Following completion of my Supplemental Report, an application to approve the Proposed Scheme was listed to be heard by the Court on 26 March 2010. Before the date of that final hearing, a number of transferring policyholders raised certain objections (the "Objections") to the Proposed Scheme. These Objections had not initially been raised in response to my Independent Expert Report and were therefore not addressed in my Supplemental Report.
- 1.6 In accordance with a letter from Lovells dated 19 April 2010 and a further letter dated 23 April 2010 (together the "Instruction Letters"), I was instructed on behalf of Sompo to produce a second supplemental report in light of the Objections insofar as these related to the Independent Expert Report or the Supplemental Report.
- 1.7 I therefore reviewed the objections received and produced a second supplemental report dated 10 November 2010 (my "Second Supplemental Report"). The purpose of my Second Supplemental Report was to set out my comments on, and responses to, the Objections raised. I also considered whether there were any matters that I had addressed in either my Independent Expert Report or Supplemental Report that required amendment, amplification or supplemental work in respect of the Objections.

Scope of this third supplemental report

- 1.8 Since the completion of my Second Supplemental Report, I have requested updates on a number of pieces of information which I have received previously, and on which my conclusions were based.
- 1.9 The purpose of this third supplemental report (the "Third Supplemental Report") is to specify whether the conclusions set out in my Independent Expert Report, my Supplemental Report and, in particular, my Second Supplemental Report (collectively my "Previous Reports") have changed in light of the updated information which is now available.
- 1.10 The updated information I have received in order to produce this Third Supplemental Report is as follows:
- Unaudited half-year management accounts of Sompo as at 30 September 2010.
 - Transfercom's unaudited management accounts as at 30 September 2010.
 - Confirmation that the valuation of Transfercom's US\$30 million bond holding has not been updated since the valuation previously provided as at 30 September 2010, and that Transfercom are not aware of any likely significant variation in its valuation.
 - Confirmation that no updated actuarial report has been produced covering the existing business of Transfercom, subsequent to the most recent actuarial report being produced by Martin White and his actuarial colleagues at Resolute Management Services Limited ("Resolute") as at 30 September 2009.
 - Updated information on the position of the transferring business, specifically:
 - The updated claims position as at 30 September 2010, including narrative describing the recent developments for the key claims.
 - An update on the remaining uncertainties for the outstanding claims.
 - Confirmation that the estimated payment pattern previously provided remains unchanged.
 - An update on Transfercom's preparations for Solvency II, including the results of their Solvency II gap analysis and details of the results of their participation in the QIS5 exercise.
- 1.11 I have been provided with all the information I requested when producing this Third Supplemental Report. The management of Sompo and Transfercom have also confirmed that no material issues have arisen between the as at dates when the above information was prepared and the date of this Third Supplemental Report.
- 1.12 This Third Supplemental Report must be considered in conjunction with my Previous Reports. The reliances and limitations set out in my Previous Reports also apply to this report, together with the additional reliances and limitations which are set out throughout this

report. Any defined terms used in this report have the same meaning as in my Previous Reports.

Terms of reference

- 1.13 My Independent Expert Report, my Supplemental Report, my Second Supplemental Report and this Third 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.
- 1.14 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.
- 1.15 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 Third Supplemental Report, when taken together with my Previous Reports, complies with UK professional guidance, subject to the principles of proportionality and practicability where these principles are applicable.

Reliances & limitations

- 1.16 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.
- 1.17 A draft of this report has been made available to the FSA, whose comments have been taken into account.
- 1.18 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.
- 1.19 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, my Supplemental Report dated 8 March 2010 and my Second Supplemental Report dated 10 November 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

- 1.20 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

- 1.21 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 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 whether there are any changes in the likely effects of the Proposed Scheme on the three distinct sets of affected policyholders, based on the additional information I am considering when drafting this Third Supplemental 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.
- 2.4 In respect of the updated information received to produce this Third Supplemental Report, as set out in Section 1.10 above:
- The net assets of Transfercom as at 30 September 2010 have increased from the figure used in my Second Supplemental Report. Such an increase can only result in an improved position for the Post Scheme security levels of the policyholders transferring from Sompo UK to Transfercom and the Pre and Post Scheme security levels of the current policyholders of Transfercom.
 - There has been no update to the actuarial reports produced in respect of the existing business of Transfercom. I understand that the reason for this is that there is no information to suggest that the developments since the date of the White Report will result in any deterioration in the distribution of possible outcomes, including in the tail of the distribution on which my capital modelling relies, and that a marginal improvement may be possible. This will result in a largely unchanged position for the Post Scheme security levels of the policyholders transferring from Sompo UK to Transfercom and an unchanged or marginally improved position for the Pre and Post Scheme security levels of the current policyholders of Transfercom.
 - In respect of the transferring business, the developments in both settlements of claims and the key uncertainties around outstanding claims have resulted in the distribution of

possible outcomes, including the tail of the distribution on which my capital modelling relies, remaining broadly unchanged. As a result, this aspect will not cause any material change in the security levels for any of the groups of policyholders affected by the Proposed Scheme.

- The continuing payment of claims in respect of the transferring business has reduced the potential erosion of Transfercom's capital identified in my Second Supplemental Report as a result of the operation of the new Funds Withheld Endorsement under the reinsurance policy protecting the transferring business (see Section 3.88 of my Second Supplemental Report). In particular this will increase the Post Scheme security levels of the current policyholders of Transfercom, together with marginally increasing the Post Scheme security levels of the transferring policyholders.
- In respect of Transfercom's Solvency II gap analysis and QIS5 assessment the information confirms my views expressed in Sections 3.97 and 3.98 of my Second Supplemental Report, that:
 - Transfercom's preparations for Solvency II are satisfactory; and
 - Based on the current formulation of Solvency II I do not anticipate any issues with the level of capitalisation of Transfercom or the way in which its capital is structured when Solvency II comes into force.

2.5 In summary, therefore, in my opinion the updated information received to produce this Third Supplemental Report can only result in:

- An improved position for the Post Scheme security levels of the policyholders transferring from Sompo UK to Transfercom
- An improved position for the Pre and Post Scheme security levels of the current policyholders of Transfercom (with the Post Scheme security level improving more than the Pre Scheme security level).

Security of policyholders remaining in Sompo

2.6 I consider that the conclusions set out in Section 2.7 of my Independent Expert Report remain unchanged in that the financial effect of the Proposed Scheme on the security of the policyholders remaining in Sompo will be de minimis.

Security of policyholders transferring from Sompo UK to Transfercom

2.7 Based on the above findings my view is that the conclusions set out in Sections 2.12 to 2.25 of my Second Supplemental Report remain unchanged.

Security of current policyholders of Transfercom

2.8 Based on the above findings my view is that the conclusions set out in Sections 2.26 to 2.32 of my Second Supplemental Report remain unchanged.

Other considerations for all three groups of policyholders

- 2.9 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 Second Supplemental Report. I therefore consider that the conclusions set out in Sections 2.13 to 2.15 of my Independent Expert Report remain applicable and my opinions remain unchanged.

Duty to the Court

- 2.10 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

- 2.11 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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