

Peer Review of Actuarial Report – Transfer of Insurance Business

Swiss Reinsurance Company Ltd –
Australia Branch

September 2019

6 September 2019

Evelyn Chow
Appointed Actuary
Swiss Reinsurance Company Limited
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SYDNEY NSW 2000

Dear Evelyn

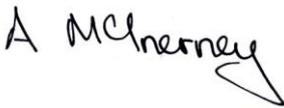
Peer Review of Actuarial Report – Transfer of Insurance Business

I have undertaken an independent peer review of the actuarial report prepared by Evelyn Chow on the proposed transfer of insurance business from Swiss Reinsurance Company Ltd, Australia Branch (SRAU) to Swiss Re Asia Private Limited, Australia Branch (SRALAU).

This report presents my findings and opinions, in addition to describing the information I have received and the approach I have followed.

Please do not hesitate to contact me if you have any questions.

Yours sincerely

A handwritten signature in black ink that reads "A McNerney". The signature is written in a cursive style with a large, sweeping flourish at the end.

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Fellow of the Institute of Actuaries of Australia

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1 Introduction and Scope

Finity Consulting Pty Ltd (Finity) has been engaged by Swiss Reinsurance Company Ltd – Australia Branch (SRAU) to undertake an independent peer review of the actuarial report prepared by Evelyn Chow, regarding the proposed transfer of the general insurance business of SRAU to Swiss Re Asia Private Limited, Australia Branch (the Transfer). Evelyn is the Appointed Actuary of SRAU who has been asked to prepare the actuarial report on which the Transfer is based and I refer to her as the Scheme Actuary in this report.

This report has been prepared by Andrew McInerney, an experienced actuary and a Principal at Finity. A curriculum vitae for Andrew is included as Appendix A of this report.

I have read the Expert Evidence Practice Note of the Federal Court (GPN-EXPT 2016) and this report is intended to comply with the Practice Note.

Throughout this report I have used the following acronyms:

- SRZ: Swiss Reinsurance Company Ltd (a major global reinsurer domiciled in Switzerland).
- SRAU: The APRA-authorised Australian branch of SRZ.
- SRAL: Swiss Re Asia Private Limited, a reinsurer domiciled in Singapore that is a subsidiary of SRZ
- SRALAU: The APRA-authorised Australian branch of SRAL (authorised from 12 August 2019).

1.1 Outline of Transaction

In essence the transaction is simple. SRAU is presently a branch of SRZ, the major operating company in the Swiss Re group.

The transaction will transfer almost all of the assets and all of the liabilities of SRAU from SRZ to SRAL; the only asset not being transferred is \$5.1 million of cash that will remain with SRAU so that it continues to meet its minimum capital requirements. The new Australian branch of SRAL will be referred to as SRALAU, and will carry on the same business that SRAU did.

At the same time the intra-group retrocession that protects SRAU will switch from SRAL being the provider to SRZ being the provider.

SRZ will no longer have an Australian branch after the transfer, once APRA has revoked the authorisation of SRAU.

The purpose of the transaction has been made clear - worldwide the Swiss Re group is changing various corporate structures to better align with the markets served by, and the management structures in place for, the group. This is a logical business purpose that does not raise any concerns.

1.2 Scope of Work

The purpose of the peer review is to give an additional objective view to APRA and the Court on the Scheme Actuary's report on the proposed scheme. The peer review does not constitute an audit or verification of any of the factual information provided in the report or other documents relied on by the Scheme Actuary.

In undertaking the peer review, I have (with the assistance of Geoff Atkins – also a Principal at Finity):

- Reviewed the methodology adopted by the Scheme Actuary
- Considered whether the conclusions reached by the Scheme Actuary are soundly based, and
- Considered whether there are any other issues or views to which I should draw attention.

I understand that this report will be provided to APRA and to the Court, and may be provided to affected policyholders on request.

1.3 Information Provided

I was provided with the following information for the purpose of carrying out the peer review:

- An actuarial report by the Scheme Actuary dated 6 September 2019 titled “Actuarial Report on the Scheme for the Transfer of the Australian Reinsurance Business of Swiss Reinsurance Company Ltd, Australia Branch to Swiss Re Asia Pte. Ltd., Australia Branch effective 1 January 2020”.
- A draft Business Transfer Agreement between SRZ and SRAL, dated 6 August 2019
- A draft deed of Novation and Substitution for Retrocession between SRZ and SRAL, dated 24 June 2019.
- A draft Scheme document.
- A draft Scheme Summary document.
- A shareholder structure diagram of Swiss Re group, SRAU and SRAL, including the proposed transfer.
- A copy of the 2018 financial statements for SRAL.
- A copy of the 30 June 2019 SRAL “Form A4 – Statement of Fund Solvency and Capital Adequacy Requirements” submitted to the Monetary Authority of Singapore.
- APRA Returns for SRAU for the period ending 31 December 2018.
- The actuary’s Financial Condition Report for SRAU, dated 26 March 2019.
- The Internal Capital Adequacy Assessment Process Summary Statement, dated 30 November 2018.
- The 2019 – 2021 Business Plan for SRAU, dated November 2018.
- Swiss Re Australia & New Zealand ANZ Risk Management Strategy, dated 30 November 2018.
- Reinsurance information, including
 - ▶ The SRAU reinsurance arrangement statement, dated 11 January 2019.
 - ▶ The SRAU 2019 Reinsurance Management Strategy, dated 30 November 2018.

I have also had discussions with the Scheme Actuary.

1.4 Reliances and Limitations

I have relied on the information provided as being complete and have accepted all information as valid. I have not verified the accuracy of the information provided to me or relied on by the Scheme Actuary. This report has been prepared solely for the use of SRAU, SRZ, SRAL and their legal advisers for the stated purpose. Permission is granted for distribution of this report to APRA, the relevant Federal Minister, the Federal Court, and any affected policyholders of SRAU (collectively referred to as the Authorised Third Parties) for the stated purpose.

Third parties, whether authorised or not to receive this report, should recognise that the furnishing of the report is not a substitute for their own due diligence and should place no reliance on the report or the data contained herein which would result in the creation of any duty or liability by Finity to the third party.

No other use of, nor reference to, this report should be made without prior written consent from Finity, nor should the whole or part of the report be disclosed to any other person.

This report should be considered as a whole. I am available to answer any queries, and the reader should seek that advice before drawing any conclusions on issues in doubt.

2 Key Findings of Actuarial Report

2.1 Details of the Transfer

My understanding of the details of the Scheme can be summarised as follows:

- SRAL has been authorised by APRA to conduct insurance business in Australia from 12 August 2019. It has initially been capitalised with \$5.0 million of capital. The Australian branch is referred to as SRALAU.
- Effective 1 January 2020, following necessary approval for the Transfer, all liabilities and obligations of SRAU will become liabilities and obligations of SRALAU.
- Similarly, effective 1 January 2020, all assets of SRAU will become assets of SRALAU, with the exception of \$5.1 million of cash which SRAU will retain in order to meet SRAU's minimum capital requirements.
- An adjustment will be made on 30 April 2020 based on the final 31 December 2019 position
- The Intra-Group Reinsurance protection for SRAU (currently provided by SRAL) will be novated such that the Intra-Group Reinsurance for SRALAU is provided by SRZ. This novation will include all entitlements under historical Intra-Group Reinsurance arrangements. External retrocession is also transferred.

2.2 Policyholder Interests

The Scheme Actuary considers the impact of the proposed Transfer on policyholder interests in terms of:

- Financial security (capital adequacy or solvency)
- The continuity of claims management procedures
- The nature of risks faced
- Contractual rights.

Each of these is considered from the viewpoint of SRAU policyholders after the Transfer relative to the position before the Transfer. The Scheme Actuary has also considered policyholder interests in terms of operational risks.

I believe that this approach adequately considers the relevant interests of the policyholders.

2.3 Methodology

With regards to capital adequacy, the Scheme Actuary has considered adequacy as measured using APRA's capital framework and the company's Internal Capital Adequacy Assessment Process (ICAAP). The comparison of the capital adequacy positions pre- and post-Transfer was performed using the projected balance sheet and projected APRA capital requirements as at 31 December 2019 of SRAU.

I am satisfied that the methodology adopted by the Scheme Actuary considers appropriately the relevant capital adequacy issues.

2.4 Findings

The Scheme Actuary's conclusions can be summarised as:

- The APRA capital position will remain the same pre- and post- Transfer. The target capital position will also remain the same.
- SRALAU will effectively be the same as SRAU in terms of capital, management and governance, claims management practices and policies, risk management, retrocession protection, and the nature of the business.
- Most importantly, Swiss Re Group remains the parent with strong financial strength.

On this basis, the Scheme Actuary concludes that the Transfer will not adversely impact on the policyholders of SRAU.

3 Peer Review Comments

3.1 Findings

In my opinion, the methodology used by the Scheme Actuary to assess the impact of the Transfer on policyholders correctly addresses the interests of policyholders.

Given the information provided to the Scheme Actuary, her conclusions are fully supported.

There are no other matters that I regard as relevant to the assessment of the Transfer and that I believe should have been addressed in the Scheme Actuary's report.

3.2 Comments on Financial Security

The Appointed Actuary of SRAU prepared a valuation of the insurance liabilities of SRAU as at December 2018. I conducted an external, independent, review of that valuation. I concluded that "nothing has come to our attention that would lead us to believe that the AA's insurance liability valuation results as at 31 December 2018 are unreasonable." These liabilities are a key element in SRAU's December 2018 financial position, and form the basis of the Transfer.

The Scheme Actuary has prepared a forecast of the assets, liabilities, and capital position as at 31 December 2019, and has used this as the basis for assessing the capital impact of the Transfer on 1 January 2020. Table 1 summarises the impact of the Transfer on the capital adequacy of each branch, based on the forecast position. The figures are those calculated by the Scheme Actuary.

Table 1 – Capital Adequacy as at 31 December 2019 (\$ million)

	As at 31 Dec 2019		As at 1 Jan 2020	
	SRAU	SRALAU	SRAU	SRALAU
Assets	2,600	5.0	5.1	2,600
Liabilities	1,989	-	-	1,989
Net Assets	611	5.0	5.1	611
Adjustments to Net Assets for Capital	12	-	-	12
APRA Capital Base	623.0	5.0	5.1	622.9
Prescribed Capital Amount (PCA)	343	n/a	n/a	343
Capital Adequacy Multiple (CAM)	1.81	n/a	n/a	1.81

As at 31 December 2018 SRAU had net assets in Australia of \$503 million (measured as capital per the APRA standards). These are forecast to grow to \$623 million by 31 December 2019. All liabilities and all assets (less \$5.1 million retained by SRAU) will be transferred to SRALAU on 1 January 2020. SRALAU currently has \$5.0 million of net assets. When the transfer is completed, SRALAU will be in the same capital position as SRAU was on the day prior to the transfer (subject to a \$0.1 million difference, which is immaterial).

The actual 31 December 2019 figures will differ from the forecast, but the capital position of SRALAU on 1 January 2020 will be the same as the capital position of SRAU on 31 December 2019.

The ICAAP is just as important as the current capital when considering financial security. Swiss Re has been a relatively active manager of capital in Australia, with annual additions and repatriations of capital to stay in line with its capital target. The capital target is set as the PCR plus an Internal Capital Buffer (ICB) currently \$170m or 46% of the PCR. The ICB is determined by risk modelling in conjunction with the risk appetite),

SRAU then has a Target Operating Range (TOR) of 90% to 110% of this capital target and has a track record of annual capital adjustments to be within the range.

I understand that the approach of SRALAU will be unchanged and therefore equally sound.

3.3 The Relevance of Retrocession

As a major global reinsurer, SRAU takes on very large amounts of risk including billions of dollars of catastrophe reinsurance from Australian and NZ insurers. Retrocession (i.e. the reinsurance of a reinsurer) is therefore a key part of financial security for Australian policyholders.

With the significant global resources of Swiss Re, the retrocession is largely provided from within the group – the programs are referred to as Intra-Group Reinsurance (IGR) and are outlined in the Scheme Actuary's report.

At present the retrocession of SRAU is provided by SRAL (which is a subsidiary of SRZ). This arrangement is tightly within the group and meets relevant legal and prudential requirements.

After the Transfer SRALAU will be a branch of SRAL. A company cannot have a retrocession treaty with itself. An integral part of the transaction, therefore, is that the retrocession will be novated to SRZ. In a sense the roles of SRZ as reinsurer and SRAL as retrocessionaire are swapped.

This essential element of the Transfer maintains the same security provided by the retrocession arrangements as exists at present.

3.4 Parental Support

While the corporate structure within the Swiss Re Group is important for legal and regulatory purposes, in the marketplace insurance companies commercially buy their reinsurance from 'Swiss Re', not from SRAU based on its Australian capital. Market participants have full confidence that the financial security of the Australian branch is the same as the overall Swiss Re Group.

The ratings of SRZ and SRAL, as core and highly strategic subsidiaries of the Swiss Re Group, are the same for each of the international rating agencies. SRAU and SRALAU both benefit from the same financial ratings. In addition, SRAU and SRALAU follow the same capital management policy as documented in both ICAAP's. Therefore, we have high confidence in the financial strength of SRAU and SRALAU.

3.5 Conclusion

In my opinion the actuarial report on the proposed Transfer is sound and on the basis of the information presented in that report, I concur with the opinion of the Scheme Actuary that there is no material detriment or disadvantage to the policyholders of SRAU from the Transfer.

Appendix

A Curriculum Vitae

A.1 Andrew McInerney



Andrew McInerney

Director, BActStud, BCom, BPhys, FIAA

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Andrew McInerney is a Director at Finito and leader of the firm's workers compensation practice. He has almost 15 years experience in workers compensation, asbestos liabilities, CTP, and the broader general insurance and disability sector. Andrew acts as a 'centre of knowledge' for all workers compensation schemes across Finito. He has undertaken scheme reform work in a range of jurisdictions and advised on agent remuneration in three states.

During the course of his career he has worked on a range of private and public projects, including working with clients such as ReturnToWorkSA, icare/WorkCover NSW, Comcare, the Accident Compensation Corporation, the Department of Employment and Workplace Relations, the Insurance Council of Australia (ICA), MAC(SA), the National Disability Insurance Agency (NDIA), Queensland Workers Compensation Regulator and private sector insurers.

Workers Compensation

Actuarial services, ReturnToWorkSA (RTWSA)

2003 - current

Andrew was appointed as the Scheme Actuary to RTWSA in 2014, following a 12 month handover process from the former Lead Actuary (who is now the Finito Peer Reviewer for the scheme). Andrew has been working with RTWSA for 13 years and has supported the scheme throughout significant periods of change such as the transferring from WorkCoverSA to RTWSA, transitioning of four CEOs, providing advice on the new RTW Act and supporting and helping the scheme internalise a significant portion of the actuarial work. Projects Andrew has been involved in:

- Implementation of a new IT system (2010)
- Development of a new fee model for rehabilitation services (2013)
- Advice to the Board in setting its strategic plan (2013)
- Asbestos reviews (ongoing)
- Development of pricing and funding policies (2015)
- Development of targeted liability management projects (ongoing)
- Review of the dispute resolution system (2013).

Scheme benchmarking, icare

2015 - current

icare works under the NSW Workers Compensation Scheme and became active on 1 September 2015. Andrew was involved in the development of scheme benchmarks to establish best practice performance on claims management and internal expenses for icare. The work included review of workers compensation schemes across Australia and providing advice on industry best practice.

Actuarial services, Comcare

2014 - current

Andrew is the key engagement manager with the Federal Government workers compensation scheme Comcare. For the past two years he has led a number of projects with the scheme that have led to increased efficiencies and cost savings across the organisation. These include:

- **Claims file reviews:**
Andrew is the Engagement Manager and Peer Reviewer of 700 of Comcare's claim files. The project which is under a tight deadline is aiming to provide both individual claim file recommendations to identify systemic trends and/or drivers of scheme outcomes. The project was delivered on time and to budget with negotiations currently underway for Finity to complete an additional 1,400 claims file reviews
- **External Peer Review of Claims and Premium Pools:**
Andrew is the Engagement Manager and Lead Actuary providing Finity's EPR of Comcare's scheme valuation and premium pools. The project includes review of both Commonwealth and ACT employer valuations and premiums.
- **Asbestos claim reserving:**
Since 2016 Andrew has led Finity's team which sets the reserves for Comcare's common law asbestos liabilities.
- **Operational benchmarking:**
Andrew led the team responsible for the review of Comcare's new Active Management Model. This included benchmarking the cost of the model to the cost of providing similar services in other schemes.

Actuarial services, Various clients

2008 - 2019

- **WorkSafe Victoria Review of Agent Remuneration Incentive Measures 2015:**
Andrew was brought in as an independent expert to support WorkSafe's development of remuneration arrangements for its new agent contracts.
- **Pricing Large Private Workers Compensation contracts, Allianz and CGU 2015:** These involved technical pricing for large private contracts (>\$25million per annum) and assessment of risks and uncertainties in the portfolio.
- **Claims Agent Support, Xchanging, Allianz, Gallagher Bassett 2007 - 2014:** These projects involved working with claims agents to assist developing their understanding of agent remuneration drivers to develop business models and addressing issues.
- **WorkSafe Victoria 2015:**
Review of Deemed Diseases List
- **Territory Insurance Office 2013:**
Scheme Review
- **Queensland Workers Compensation Regulator 2012:**
Parliamentary Inquiry Assistance
- **Suncorp 2008 - 2016:**
Asbestos valuation
- **SwissRe 2012:**
Asbestos model benchmarking.
- **RailCorp NSW 2004 - 2006:**
Asbestos valuation
- **NSW Dust Diseases Board 2004 - 2006:**
Asbestos valuation

Compulsory Third Party Motor Insurance

NSW CTP Reform Support, Insurance Council of Australia

2016 – 2017

On behalf of the private insurers operating in NSW CTP, Andrew assisted the ICA steering committee to support SIRA with the significant CTP reforms undertaken over 2016 and 2017. Andrew's roles included:

- Development of reform options to meet specific financial and/or benefit requirements
- Costing of alternative reform options
- Joining work streams to develop market practice guidelines/requirements, such as those relating to: pricing, dispute resolution, and claims management model minimum requirements
- Review and refinement of the new 'Risk Equalisation Measure' which was intended to reduce the cross-subsidy between very high risk and very low risk drivers.

NSW CTP Support, QBE

2016 – 2017

Andrew supported QBE's internal CTP team in 2016 and 2017 following unexpected internal staffing changes. This required Andrew to become involved in a range of areas that were business critical, including:

- Premium filings
- Development of lead indicators for performance reporting
- Industry risk premium assessment
- Post-Risk Equalisation Measure profitability assessment
- Assessment of underwriting competitive advantage and subsequent review of Bonus-Malus (discounts and loadings, within the regulatory limits) structure.
- Claims handling model development and determination of staffing requirements.

QLD CTP Scheme Review, Insurance Council of Australia

2017

Andrew worked with the ICA steering committee to prepare its submission to the external Scheme Review. This included summarising current scheme performance and identifying areas of potential legislative or regulatory change that would lead to improvements in the operation of the scheme.

Point to point premium model, State Insurance Regulatory Authority

2017

Andrew provided technical support to the Finity team engaged by SIRA to help develop a new premium model for point to point vehicles (i.e. both taxis and ride share). This required the collection and manipulation of data from a range of sources and ensuring that the proposed model could fit within existing technical and logistical constraints.

Queensland CTP Reforms, Suncorp

2017

Andrew assisted Suncorp to develop reform costing options for submission to the Scheme Review. Our work was provided to both the Regulator and External Review team.

Liability Review and Claims Manager Incentives, Motor Accident Commission SA

2012 – 2013

Finity were engaged to review a number of aspects of the agent incentive structure following unexpected results that had not been well communicated by the existing actuary. Finity was tasked with identifying the reasons for the significant movements, commenting on their reasonableness and then assisting in the communication and commercial negotiation with the claims manager.

Finity was later asked to assist in the development of a new incentive structure that would align the claims manager's financial incentives with MAC's strategic aims.

Thought leadership

Year	Title	Author/s	Published / Presented
2015	Outcomes for psychological claims under different management approaches	McInerney, A., Cordiner, R., Worthington-Eyre, P.	Injury Schemes Seminar
2015	Role of the Regulator in Statutory Schemes	McInerney, A., Atkins, G.	Injury Schemes Seminar
2013	Stress and Mental Injuries – How to Compensate?	McInerney, A., Gregory, D.	Injury Schemes Seminar
2013	The Comcare Self-Insurance Option	McInerney, A., Hurst, M.	Injury Schemes Seminar
2011	Scheme Governance	McInerney, A., Curley, S., Cutter, A.	Accident Compensation Seminar
2010	An Ageing Workforce and Workers Compensation	McInerney, A.	ANZIIF Journal