



Reliance National Insurance Company (Europe) Limited

Presentation for Policyholders in response to issues raised at the Scheme Convening Hearing

30 May 2024, updated 3 July 2024

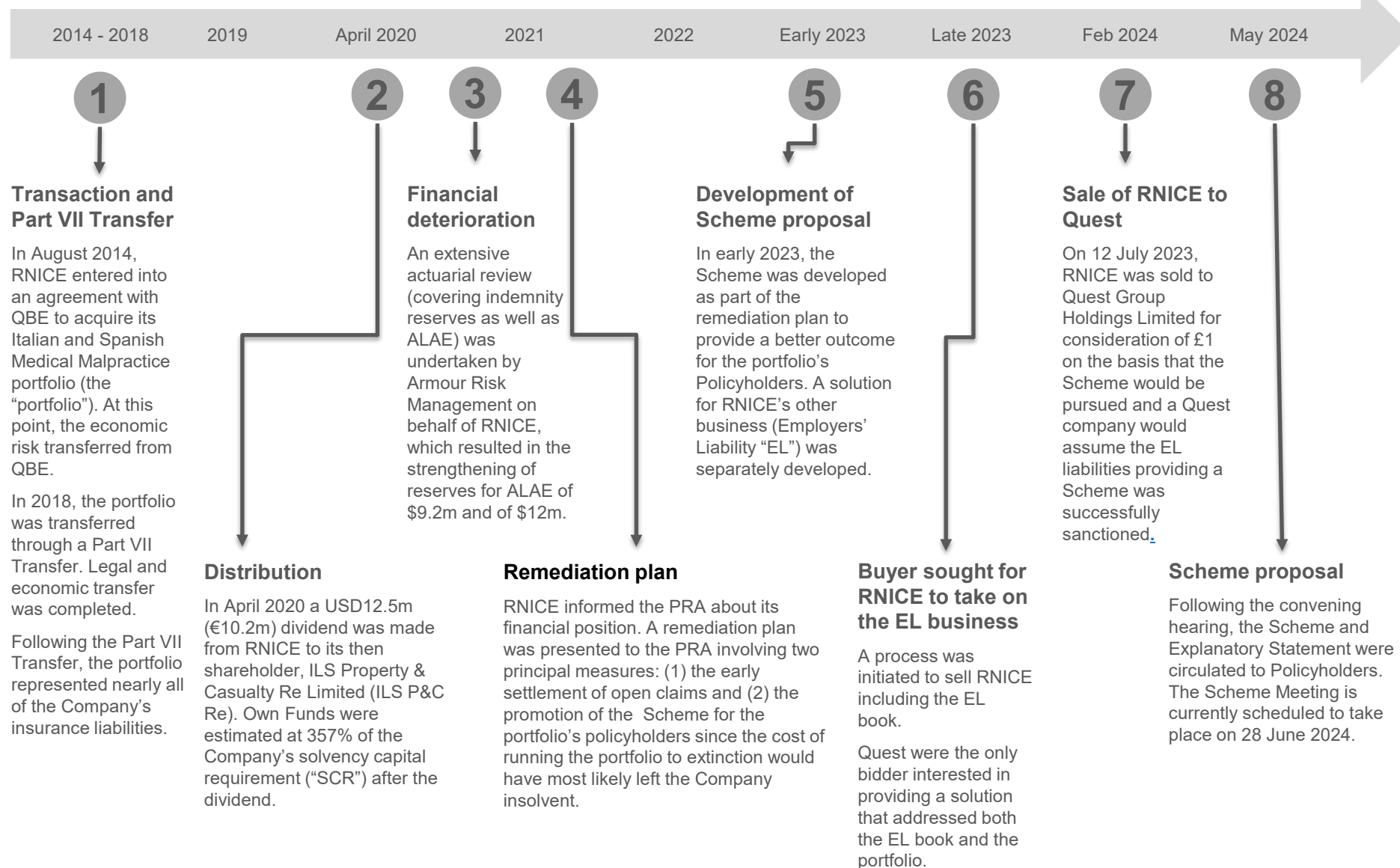
Background*

- RNICE is proposing a Scheme of Arrangement (“Scheme”) for Policyholders with a view to avoiding an insolvency of the Company. The view of RNICE is that this will provide the best outcome for all creditors.
- Two issues raised during the Scheme Convening Hearing may be of concern to other Policyholders:
 - The Part VII Transfer of liabilities from QBE to RNICE which completed in 2018, only a few years before the first signs of financial trouble emerged in 2021. How was the Company’s solvency position not contemplated at the time of the transfer and is an investigation appropriate?
 - The USD12.5m dividend paid by RNICE in April 2020. How was this approved and should that be investigated?
- The purpose of this paper is to address these issues to enable all prospective Scheme Policyholders to understand the recent history of the Company and to enable them to better assess the Scheme proposal and alternative options.
- The information is provided by the board of RNICE but it should be noted that Sean McDermott and James Bolton, directors of Quest joined the board in July 2023 following the acquisition of RNICE. This document has also been prepared with the assistance of EY and Clifford Chance who have been advising RNICE on the Scheme proposal.

THIS PAPER IS FOR INFORMATION PURPOSES ONLY AND TO HELP PROSPECTIVE SCHEME POLICYHOLDERS IN ASSESSING RELEVANT INFORMATION PRIOR TO VOTING ON THE SCHEME.

** Capitalised terms used in this presentation have the meanings given to them in the Explanatory Statement available on the Scheme website, if not otherwise defined.*

Timeline and history of RNICE since 2014



- ILS P&C Re entered into a business transfer agreement with QBE on 15 Aug 2014 to reinsure and then transfer QBE's legacy medical malpractice business via a Part VII Transfer. Therefore, as and from the date of this agreement, risk for the portfolio passed to RNICE. The transfer involved the regulators in the UK and Italy and was subject to sanction by the English Court. An application to the Court for a Part VII Transfer must be accompanied by a report by an Independent Expert (IE) who must be independent and suitably qualified. The IE has a specific duty to the Court in the relation to their work and report. John Charles of Willis Towers Watson was appointed IE and provided three reports.
- The IE is required to report if any group of creditors would be materially adversely affected by the Part VII Transfer. The IE consequently reported, at Section 2.25 of his first report that:

“Subject to RNICE maintaining an appropriate investment policy that is consistent with that indicated by its Post-Scheme SCR calculations, based on the above analysis I consider that the security of the Transferring Policyholders is not materially adversely impacted by the Proposed Scheme.”
- The Part VII Transfer documents are available on the internet at <https://qbееurope.com/qie-rnice-part-vii-information> .
- ILS P&C Re acquired RNICE for the purpose of receiving the portfolio from QBE. Prior to the QBE transfer, RNICE had a small amount of capital and some residual EL insurance business. QBE staff were also transferred to the ILS P&C group to work on the medical malpractice business.

Part VII Transfer (Continued)



- RNICE, at the time of the Part VII Transfer, received a capital contribution of \$74m. (See Note 20 to the 2018 Accounts).
- The Part VII Transfer, which transferred the legal liability for the portfolio, took place 4 years after the signing of the business transfer agreement (which transferred the risk).
- Selected extracts from the 'Reserve Strength of the Transferring Portfolio' section of the IE report dated 4 July 2018 are set out below:
 - Section 4.12: "I am satisfied that the claims provisions are a reasonable best estimate, having regard to the nature of the business which has been written, the changes in claims management processes and the allowance which has been made for deductibles and self-insured retentions"
 - Section 4.21: "The run-off of the Transferring Portfolio has been favourable during the past three years with claims tending to settle for amounts which are lower than the corresponding case reserves"

RNICE GAAP Balance Sheet showing the effect of the Transfer as per the IE Report	31/12/16 * before Part VII	31/12/18 ** (projected) after Part VII
	€'m	€'m
Assets		
Debtors	-	4.5
Cash at bank	5.3	58.3
Investments	-	54.8
Total assets	5.3	117.6
Liabilities		
Best estimate claims	0.4	61.8
Risk Margin	-	4.1
Other creditors	0.4	-
Total Liabilities	0.8	65.9
Net Assets / Total Equity	4.5	51.7

*Converted from USD at USD 1: EUR 0.9504 (BS – 2016 YE rate)

**Converted from USD at USD 1: EUR 0.8702 (BS – 2018 YE rate)

The Dividend in April 2020



- In April 2020 RNICE paid a dividend of USD12.5m (€10.2m). At Q1 2020, prior to the dividend, the net assets were €63.2m with reserves of €36m. At Q2 2020, after the dividend, the net assets were €54m.
- Before the dividend was paid RNICE's own actuarial function (an outsourced function carried out by Armour Risk Management) carried out a detailed review of claims in 2019. At the same time KPMG were retained to carry out an external actuarial review. This review projected that ultimate claims would settle within the value of the reported claims reserves as at 30 September 2019 (i.e. that IBNR was negative).
- PwC also carried out reviews of the reserves as part of their audit of the 31 December 2019 and subsequently of the 31 December 2020 accounts. None of these studies indicated that RNICE was under-reserved.
- RNICE produced an annual Scheme of Operations (a run-off plan submitted to the PRA) as at 30 June 2019, which was issued in October 2019, and this showed SCR ratios in excess of 300% before the dividend. By the time that the dividend was declared, the Company's calculations showed it would have an Own Funds to SCR ratio of 357% after the dividend of USD12.5 million.
- The PRA issued a policy statement on capital distributions by run-off firms in 2014. RNICE followed these requirements. The PRA were consulted prior to the dividend and did not object to its payment. It should be stressed that the final decision to make a distribution was down to the Company.
- It should also be noted that the ultimate shareholder (2 funds in the ILS P&C Re group) did not receive any of the benefit of this dividend – instead it was used to recapitalise another entity within the ILS P&C Re group, East West Insurance Company Limited, as part of a remediation plan although this ultimately proved unsuccessful and this company was placed into administration in 2020. The two ILS P&C Re's funds are understood to have been de-registered and these funds are in the process of being dissolved; we are advised that there will be no return to investors.

Financial position of the Company from 2018 to 2024



The table below shows the financial position of RNICE between 31/12/2018 and 31/03/2024, which includes the periods both pre and post the dividend payment in April 2020. We have provided an outline of the principal factors behind this deterioration on the following page, as well as a more detailed view of the Q4 2020 balance sheet reserve strengthening which occurred.

Reliance National Insurance Company (Europe) Limited Summary Financial information							
	2018*	2019**	2020***	2021	30/06/2023	31/12/2023	31/03/2024
	€'m	€'m	€'m	€'m	€'m	€'m	€'m
Balance Sheet							
Investments	109.0	107.0	72.4	44.0	5.5	7.3	16.7
Insurance debtors	5.5	1.5	2.2	3.2	1.9	2.7	2.3
Reinsurance debtors	-	1.2	0.4	-	-	-	-
Reinsurance on outstanding clai	1.1	0.4	-	0.2	0.9	0.9	0.9
Other debtors	1.0	6.1	0.2	0.5	-	0.6	0.6
Cash at bank	11.9	0.5	11.4	14.1	20.0	12.9	1.5
Total assets	128.5	116.8	86.7	62.0	28.3	24.4	22.0
Liabilities							
Insurance creditors	0.3	2.2	0.2	1.3	2.7	1.2	0.6
Outstanding claims	58.0	43.7	54.6	52.1	21.1	13.1	12.4
Other creditors	0.5	0.7	0.7	1.3	1.0	7.8	7.8
Total liabilities	58.9	46.6	55.5	54.7	24.8	22.1	20.8
Net assets	69.6	70.1	31.2	7.3	3.5	2.3	1.2
Shares capital/contribution	64.4	66.0	50.3	54.0	54.0	54.0	54.0
P&L Reserve	5.2	4.2	(19.2)	(46.7)	(50.5)	(51.9)	(52.8)
Total equity	69.6	70.1	31.2	7.3	3.5	2.1	1.2
Underwriting profit/(loss)	1.5	(2.0)	(18.8)	(23.8)	1.8	(1.3)	(1.0)
Costs less ULAE	(0.4)	0.3	(1.5)	(2.0)	(5.2)	(0.8)	-
FX - Conversion to €		1.6	(3.2)				
Income	0.2	1.6	0.5	1.9	(0.4)	0.7	0.1
Profit/(loss) in the period	1.2	1.5	(23.0)	(23.9)	(3.8)	(1.4)	(0.9)
Dividend			(11.0)				
Prior year adjustment		(1.0)	(4.9)				

* Converted from USD at USD 1: EUR 0.8702 (BS – 2018 YE rate) and 0.8488 (IS – 2018 average rate)

** Converted from USD at USD 1: EUR 0.8913 (BS – 2019 YE rate) and 0.8929 (IS – 2019 average rate)

*** Converted from USD at USD 1: EUR 0.8186 (BS – 2020 YE rate) and 0.8799 (IS – 2020 average rate)

The 2018 accounts were restated in 2019 by a prior year adjustment in respect of irrecoverable VAT. This had the impact of reducing the profit for year to €0.2 million.

The 2019 accounts were restated in 2020 by a prior year adjustment in respect of the ALAE provision. This had the impact of reducing the reported results by €4.9 million

Financial position of the Company from 2018 to 2024 (continued)



2018 and 2019 showed a small underwriting loss (€0.5m) but an overall profit after taking into account investment income.

In 2020, as a result of a number of adverse claims developments (principally adverse court decisions or reversal of favourable decisions on appeal), there was a substantial underwriting loss (€18.8m), which in addition to the dividend paid in the first quarter of the 2020, resulted in a reduction in net assets from ~ €70m to €31m. The Company's solvency ratio (Own Funds:SCR) as at 31 December 2020 was 119%.

2021 showed a continuation of this trend with further adverse claims developments. As a result of this trend, an extensive re-reserving exercise was undertaken in Q4 2021, with a detailed review of each individual outstanding claim. This resulted in a substantial strengthening of both indemnity reserves and reserves for allocated loss adjustment expenses (ALAE) in respect of the cost of litigation of each case. This review resulted in case reserves being strengthened which led to a €23.8m underwriting loss. As a result NAV reduced from €31.2m in 2020 to €7.3m in 2021.

The Company's solvency ratio (Own Funds:SCR) as at 31 December 2021 was 16%, i.e. below its SCR requirement, and accordingly, the directors entered into discussions with the PRA regarding a remediation plan to restore the Company's financial position to a point where it met its SCR.

As noted elsewhere, the remediation plan had two principal components:

- The promulgation of an accelerated settlement and commutation plan to reduce the overall size of the book and reduce the inherent risks within it; and
- The promotion of a scheme of arrangement for all of the Company's medical malpractice Policyholders, to enable claims to be valued and paid in an accelerated timeframe thereby avoiding substantial future costs.

Claim settlements through 2022 and 2023 (and attendant ALAE costs) have been broadly in line with reserves set as part of the reserving exercise referred to above in 2021. NAV has however reduced further from €7.3m in 2021 to €1.2m in 2024, largely due to ongoing expenses and a small increase in overall claims reserves. It is the attritional nature of the ongoing expenses that is primarily responsible for now promoting the proposed Scheme.

The Company has had formal correspondence with QBE and a copy of this correspondence is available on request. QBE has reiterated in its correspondence that the legal and regulatory position is that the Part VII Transfer fully and finally transferred any and all legal and economic liabilities that it had on the portfolio to RNICE on and with effect from the date of the Part VII Transfer. As such the payment of claims to Policyholders has been solely a matter for RNICE since the transfer completed in 2018 and QBE has no legal or financial liability whatsoever for these liabilities. The Company has also received legal advice that QBE's position is correct.

As part of the sale agreement in 2014 between QBE and ILS P&C Re, QBE has an indemnity from RNICE for claims presented against QBE from Policyholders.

- QBE's indemnity claims will not be part of the Scheme. If any claims are made by QBE it is very unlikely that RNICE will have the financial resources to meet these liabilities.
- RNICE has notified QBE of the planned Scheme.
- QBE has reiterated in formal correspondence that it has no legal or financial obligations whatsoever to RNICE or that of RNICE's policyholders.

Possible actions by administrator / liquidator



The following section has been prepared in consultation with EY and Clifford Chance, the Company's insolvency and restructuring advisers.

If the Company entered into insolvency proceedings in the UK, the administrator (or alternatively liquidator) may have certain actions of recovery under the Insolvency Act 1986 (the Insolvency Act). These possible actions are considered in the remainder of the slides.

Ultimately Policyholders will need to take their own advice and make their own decisions about whether there are any possible recovery actions that an insolvency practitioner could take, which might support the position that, notwithstanding the costs and potential delay, it was in Policyholders' best interests for the Company to be placed in administration or liquidation.

Policyholders should note that if Policyholders vote against the proposed Scheme, the Company will need to be placed in administration or liquidation as explained in detail in the explanatory statement to the Scheme.

Possible actions by administrator / liquidator (Continued)



Potential avenues for recovery	Description	Time period	Comment
Breach of duty or misfeasance (Section 212 of the Insolvency Act)	<p>A breach of a fiduciary duty by a director could include an:</p> <ul style="list-style-type: none"> unlawful dividend paid to shareholders (e.g. where there are no or insufficient distributable reserves) 	<p>Statutory limitation period to bring a claim (mostly 6 years)</p>	<p>The main consideration is the risk of an unlawful dividend. An administrator would need to assess whether proper procedures were followed and recorded, including what advice was obtained at the time of when the dividend was declared. Whilst a potential administrator would be within the time limit to bring a claim, they would need to consider factors that limit the prospects for a successful action including:</p> <ul style="list-style-type: none"> the Company commissioned two actuarial reviews prior to declaring a dividend; an internal review by RNICE's actuaries as well as an external KPMG review, which indicated a lower reserve figure than the internal estimate. The Company booked the higher internal actuarial review estimate in its 2019 statutory accounts which were also the subject of audit by PwC. distributable reserves at the time of making the dividend (per the audited accounts at 31 December 2019) were USD73m (restated per 2020 accounts). based on the higher estimates as at 31 March 2020, the Company had an Own Funds:SCR ratio of 426% pre dividend and 357% post dividend. as a regulated run-off entity, the proposed dividend followed the PRA policy on distributions, and the PRA provided a "not-objected to" indication prior to declaration. <p>Clifford Chance have advised the Company that based on the above factors, any such recovery action is likely to be unsuccessful</p>

Possible actions by administrator / liquidator (Continued)



Potential avenues for recovery	Description	Time period of look back	Comment
Wrongful Trading (Section 214 of the Insolvency Act)	During the course of the insolvency of the Company, if it appears that any or all of the directors knew or ought to have concluded that there was no reasonable prospect of avoiding insolvent liquidation and they failed to take every reasonable step with a view to minimising the losses to creditors, the Court may, on an application by the liquidator declare that a director or directors shall be liable to make a contribution (if any) to the assets of the company as the Court thinks proper	Statutory limitation period to bring a claim (typically 6 years) An action can only be brought by a liquidator (i.e. the company must be placed in liquidation), although in practice the initial assessment may be made by an administrator if appointed.	<p>An assessment by an administrator / liquidator would need to cover:</p> <ul style="list-style-type: none"> • Whether, in continuing to trade, the directors had considered that there was no reasonable prospect of avoiding insolvent liquidation. • If the directors had determined that the company was insolvent or likely to become so, had they taken every step with a view to minimising the potential loss for creditors, <p>Relevant points that the administrator / liquidator would need to consider, include the following:</p> <ul style="list-style-type: none"> • The remediation plan prepared by the directors in 2021 and updated at regular intervals thereafter, based on the detailed reserve review referred to above. The remediation plan (which was discussed at regular intervals with the PRA) included detailed cash flow and solvency projections assuming a natural run off and also assuming a scheme of arrangement to accelerate the closure of the portfolio/Company. • The remediation plan showed that, while there was a material uncertainty as to whether the Company was solvent on a balance sheet basis were it to run-off its portfolio in the ordinary course, a scheme of arrangement should enable Policyholders to be paid in full. • Legal advice was taken regularly concerning the Company's solvency position and the alternative options should it become insolvent and in particular, whether a scheme of arrangement would be considered the most appropriate alternative and which at best, would enable Policyholders to be paid in full and at worst, would minimise their loss • The remediation plan sought to minimise the potential loss for Policyholders by reducing the overall exposure to Policyholders and, where broadly in accordance with reserved amounts, enter into settlements with Policyholders to finalise their claims <p>Clifford Chance have advised the Company that based on the above factors, any such recovery action is likely to be unsuccessful.</p>

Possible actions by administrator / liquidator (Continued)



Potential avenues for recovery	Description	Time period of look back	Comment
Transactions at Undervalue (Section 238 of the Insolvency Act)	<p>Where the Company has entered into a transaction with any person at an undervalue, the Court on application by an administrator or liquidator may make such order as it thinks fit for restoring the position to what it would have been if the Company had not entered into that transaction. Transactions at Undervalue include transactions which are or involve:</p> <ul style="list-style-type: none"> • gifts • no consideration • the value of the consideration being less than the value of the asset <p>The company must be insolvent at the time, or as a result of the transaction</p>	<p>2 years from the date the company is placed in administration or wound up</p>	<p>The main consideration here is the risk of an unlawful dividend. See comments above on the payment of the dividend and the reasons why the Company considers it to be lawful.</p> <p>In any event the dividend payment was made more than two years ago and therefore outside of the potential challenge period under this provision.</p> <p>Clifford Chance have advised the Company that based on the above factors, any such recovery action is likely to be unsuccessful</p>

Possible actions by administrator/ liquidator (Continued)



Potential avenues for recovery	Description	Time period of look back	Comment
Preference (Section 239 of the Insolvency Act)	<p>A liquidator or administrator may apply to the Court to avoid a preference given at the relevant time to a company's creditor or a surety for any of the company's debts, which has the effect of putting that person into a position which, in the event of the company entering into insolvency proceedings, will be better than the position he would have been in if that transaction had not taken place.</p> <p>The liquidator or administrator will need to show that the dominant reason for the transaction was to prefer a particular party. The company must be insolvent at the time the (preference) transaction took place. The Court may, on such an application, make such order as it thinks fit for restoring the position to what it would have been if the company had not given that preference.</p>	<p>6 months from appointment date (unconnected person)</p> <p>2 years from appointment date (connected person)</p>	<p>The main consideration here is the risk of an unlawful dividend. No preference has occurred because the Company did not make a payment to a creditor or other surety.</p> <p>See comments above on the payment of the dividend and the reasons why the Company considers it to be lawful.</p> <p>In any event the dividend payment was made more than two years ago and therefore outside of the potential challenge period under this provision.</p> <p>Clifford Chance have advised the Company that based on the above factors, any such recovery action is likely to be unsuccessful.</p>

Possible actions by administrator/ liquidator (Continued)



Potential avenues for recovery	Description	Time period of look back	Comment / Conclusion
Transactions defrauding creditors (Section 423 of the Insolvency Act)	<p>This provision allows for the avoidance of transactions which were designed to defraud creditors. Its provisions are intended to prevent parties from disposing of assets so as to frustrate creditors.</p> <p>A claim can be brought against a company or individual following a transaction at an undervalue (TUV) as set out above but which was undertaken with the purpose of putting assets beyond the reach of creditors.</p> <p>Note that recovery under s423 does not necessarily involve formal insolvency proceedings.</p> <p>The purpose of the transaction is key (i.e. to defraud creditors) whereas the purpose of a TUV under s 238 and 339 is not relevant.</p> <p>The Court may, as with a TUV, make such order as it thinks fit for restoring the position to what it would have been if the transaction had not been entered into.</p>	<p>Statutory limitation period to bring a claim</p> <p>(commonly six years)</p>	<p>The main consideration here is the risk of an unlawful dividend.</p> <p>An administrator or liquidator (or the victim of the transaction) would need to satisfy themselves amongst other things, that the sole purpose of the transaction (e.g. payment of a dividend) was to put assets beyond the reach of the Company's creditors.</p> <p>The administrators' review would need to be evaluated against the background and circumstances of the dividend which included obtaining extensive professional advice and discussions with the PRA. See comments above on the payment of the dividend and the reasons why the Company considers it to be lawful.</p> <p>Clifford Chance have advised the Company that based on the above factors, any such recovery action is likely to be unsuccessful.</p>