SUMMARY INDEPENDENT EXPERT REPORT
OF PHILIP TIPPIN FIA
In the matters of

AXA ART VERSICHERUNG AG, UK BRANCH

AND

AXA CORPORATE SOLUTIONS ASSURANCE, UK BRANCH

AND

XL INSURANCE COMPANY SE, UK BRANCH

AND IN THE MATTER OF AN APPLICATION PURSUANT TO ARTICLE 27 OF AND

SCHEDULE 2 TO THE INSURANCE BUSINESS (JERSEY) LAW 1996

IN THE ROYAL COURT OF JERSEY

DATED 4 NOVEMBER 2019

Introduction

I, Philip Tippin, am a partner in the actuarial practice of KPMG LLP ('KPMG'). I have been a Fellow of the Institute and Faculty of Actuaries for 21 years. I have been appointed by XL Insurance Company Limited SE ('XLICSE') to act as the Independent Expert in connection with the proposed transfer described below (the 'Transfer'), between the UK branches of AXA Art Versicherung AG ('AXA Art UK') AXA Corporate Solutions Assurance ('ACS UK') and the UK branch of XLICSE (XLICSE UK) (together 'the Transfer Companies'). As at the date of this report, my appointment has been approved in principle by the PRA, following consultation with the Financial Conduct Authority ('FCA').

This summary report covers the main conclusions of my Independent Expert's Report. As noted in the Independent Expert's Report, I have not considered any alternative arrangements to those set out in the below section. I have relied on data and other information made available to me by the Transfer Companies. While I have received written confirmation from the Transfer Companies of the accuracy of the information provided to me, I have not sought independent verification and my work does not constitute an audit of the financial or other information provided to me.

This summary must be considered in conjunction with the Independent Expert's Report and reliance must not be placed solely on this summary. Both this summary and the Independent Expert's Report must be considered in their entirety, including the limitations on their use as set out in the Independent Expert's Report. In the event of any real or perceived conflict between this summary and the Independent Expert's Report, the latter shall be definitive.

The Proposed Transfer

The AXA Group is one of the leading global insurance and asset management businesses; the ultimate parent of the AXA Group is AXA SA, which is headquartered in France. Following the acquisition of the XL Group by AXA SA in September 2018, the AXA Group created the AXA XL Division, which is a group of AXA Group subsidiaries focusing principally on insurance and reinsurance of large property and casualty commercial lines and speciality risks. The AXA Group plans to re-organise the AXA XL Division's European structure. This involves the merger of three AXA XL Division companies: AXA Art Versicherung AG ('AXA Art'), incorporated in Germany and regulated by the Federal Financial Supervisory Authority ('BaFIN'), AXA Corporate Solutions Assurance ('ACS'), incorporated in France and regulated by the Autorité de Contrôle Prudentiel et de Résolution ('ACPR'), and XL Insurance Company SE ('XLICSE'), incorporated in Ireland and regulated by the Central Bank of Ireland ('CBI'). All three write European non-life property and casualty commercial lines business.

AXA Art and ACS will be legally merged into XLICSE through two respective European Cross-Border Merger processes (the 'Mergers'). The Mergers are a particular type of merger that are available to companies registered under the laws of a member state of the European Union ('EU'). The Mergers are currently set to take place on 31 December 2019, subject to regulatory approvals.

On 23 June 2016, the UK electorate voted to leave the EU in a referendum. The UK formally served notice under Article 50 of the Lisbon Treaty on 29 March 2017 and then underwent a period of staging negotiations regarding the terms of its exit from the EU. At the time of writing this report the set date for the UK to leave the EU was 31 October 2019. Should terms satisfactory to both parties not have been agreed by that time, the UK may have left the EU without any agreement, in what is commonly referred to as a 'no deal Brexit'. As the UK government and the EU have since agreed to an extension of the set date to leave to 31 January 2020, this has not occurred.

AXA Art and ACS both write business in the UK through their own UK branches ('AXA Art UK' and 'ACS UK' respectively; together the 'UK Branches'). XLICSE also writes business in the UK through its own UK branch ('XLICSE UK'). Following a no deal Brexit, the legal framework in the UK would have changed; under Chapter 5 of the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019 published by HM Treasury on 21 December 2018 (the 'FSMA amendment') , and following confirmation from the Prudential Regulation Authority ('PRA'), an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 would be required to transfer the UK Branches to XLICSE UK in connection with the Mergers.

As there has not been a no deal Brexit, this has not occurred, and the proposed Transfer is no longer needed to transfer the UK Branches business. As such, the Transfer application has been terminated.

In addition to the Transfer described above however, which would have taken place under the jurisdiction of the law of England and Wales and as such would have needed to be sanctioned by the High Court of England and Wales ('the Court), a parallel transfer of the Jersey risks within AXA Art UK and ACS UK to XLICSE UK is proposed in Jersey. The transfer of insurance business carried on in or from within Jersey must be approved by the Royal Court of Jersey, regardless of whether a no deal Brexit was to occur. **As such, even though my report was originally prepared for the purposes of the Transfer, which is no longer going ahead, the report will be used instead for the purposes of the Jersey transfer. I note therefore that the structure and content of the report hereafter is necessarily predicated on the requirements of the Transfer.** The conclusions still stand however, and for the avoidance of doubt, I have specifically considered the position of Jersey policyholders and my conclusions equally apply to those policyholders affected by the Jersey transfer. The proposed effective date for the completion of the transfer is 31 December 2019.

To the best of my knowledge, information and belief, I have no conflicts of interest in connection with the parties involved in the proposed Transfer, either through my professional work, my personal relationships or my financial relationships. I therefore consider myself able to act as an Independent Expert on this transaction. In reporting to the Court on the proposed Transfer my overriding duty is to the Court. This duty applies irrespective of any person or firm from whom I have been instructed or paid.

Copies of the Independent Expert's Report are available at the following link https://www.axaxl.com/insurance/part-vii-planning-related-to-brexit-and-the-legal-merger

Overview of my analysis

In considering the impact of the proposed Transfer on the security of policyholders, I have considered both the impact of the Transfer on the financial resources available to support policyholders and also a number of non-financial impacts on how a customer's experience may change as a result of the Transfer.

My approach to considering the effect of the Transfer on service levels experienced by policyholders has been to determine if a change in service arrangements would occur if the Transfer were to proceed, and to compare any changes with the arrangements that would be in place were the Transfer not to take place.

I have identified the following groups of policyholders and have considered the interests of each group separately:

i) Existing XLICSE policyholders;
ii) Transferring ACS policyholders (ACS UK policyholders);
iii) Transferring AXA Art policyholders (AXA Art UK policyholders);
iv) Non-UK Branches ACS policyholders; and,
v) Non-UK Branches AXA Art policyholders.

What is the non-financial impact of the Transfer?

In the Independent Expert's Report, I have considered the impact of any changes as a result of the Transfer to each of:

i) the FCA's Treating Customers Fairly principles;
ii) the ease of presenting a new claim;
iii) protection of customer data; and
iv) other considerations including regulatory framework, executive management and governance.

<u>*Treating Customers Fairly*</u>

Claims and policy administration

All employees of the Transfer Companies are employed by the service company XL Catlin Services SE. This will not change following the Transfer.

The administration and operational services used by the Transfer Companies will be aligned to XLICSE's business model starting from 1 April 2020. This is part of the integration following the acquisition and is happening regardless of the Transfer. As part of this, ACS and AXA Art will also be moving to XLICSE's complaints process model. Previously ACS and AXA Art did not have a formal complaints process in place.

XLICSE policyholders will not experience any change to claims and policy administration post Transfer.

The people, systems and processes employed to perform this work will be unchanged as a result of the Transfer; therefore, AXA Art and ACS policyholders will not experience any change as a result of the Transfer either.

The updated enhanced complaints process as part of the integration will positively impact AXA Art and ACS policyholders.

Therefore there is no anticipated impact on any group of policyholders with regard to claims and policy administration.

Conduct risk

The primary areas in which conduct risk can materialise for ACS, AXA Art and XLICSE are the policy origination and underwriting process, and claims handling. The majority of the changes in these areas are happening as a direct result of the integration following the acquisition, and will happen regardless of the Transfer.

XLICSE policyholders will see no changes as a result of the Transfer

Following the Mergers, the Boards of ACS and AXA Art will dissolve and conduct risk will be handled by the XLICSE Board. The XLICSE Board is both larger and contains an increased number of independent members than the ACS and AXA Art Boards.

Whilst the primary regulators of AXA Art and ACS will change from BaFIN and ACPR respectively to the CBI, conduct regulation is driven by the location of the risk and where the policy is sold, so the conduct regime applicable to each policy should not change. The UK branch business of AXA Art and ACS that is subject to the Transfer remains under conduct rules determined by the FCA.

I therefore do not consider that these changes cause an adverse impact on any group of policyholders.

<u>*The ease of presenting a new claim*</u>

There is no change in the way that claimants from any group of policyholders present a new claim as a consequence of the Transfer.

I do not, therefore, identify any adverse impact on the ease of presenting new claims for any of the policyholder groups as a result of the Transfer.

<u>*Protection of customer data*</u>

Cyber security risk is a relatively new and increasing threat to businesses today. Cyber-attacks on companies are becoming more frequent. These attacks can take forms such as gaining access to and selling or publicising customers' data, or preventing the business from operating as usual. Cyber security is, therefore, becoming ever more paramount. It is a reasonable expectation of a customer that their insurer should take appropriate steps to protect their confidential data.

ACS, AXA Art and XLICSE have established cyber security arrangements to protect against system breaches and data loss. There is no expectation that the protection of ACS or AXA Art customers' data will diminish as a result of the Transfer and I conclude that there is no risk of any material adverse impact on policyholders resulting from the Transfer. Cyber-attacks are attempted on businesses on a regular basis, so there is always the risk that one may be successful, but the Transfer does not appear to increase that risk in any way. I therefore identify no impact on any group of policyholders as a result of the Transfer.

<u>*Other considerations*</u>

Regulatory framework

AXA Art is domiciled in Germany and regulated by BaFIN while ACS is domiciled in France and regulated by ACPR. XLICSE is domiciled in Ireland and its primary regulator is the CBI. The UK Branches of each entity are additionally overseen by the FCA for conduct purposes.

There will be supervisory changes for AXA Art and ACS to the CBI from BaFIN and ACPR respectively. Whilst there are minor differences between precisely how prudential regulation has been implemented in each EU territory, the overall target level of capital that insurance undertakings should hold and the commitments to risk management required do not change. Therefore, there is no real risk of material differences in policyholder security resulting from changing from one EU regulator to another.

There will be a change in the European regulator that oversees ACS and AXA Art, but the UK Branches will retain the same additional oversight from the FCA, and from the PRA. The protections for all groups of policyholders are therefore materially the same post Transfer.

Additional policyholder protections

The FSCS is a statutory scheme funded by members of the UK financial services industry. It provides compensation to individual holders of policies issued by UK insurers in the UK or another EEA state who are eligible for compensation under the FSCS in the event of the insurer's default.

The policyholders of XLICSE, ACS and AXA Art that are eligible for protection under the FSCS will continue to be eligible for protection post Transfer in the event that claims cannot be paid in full out of current reserves, capital and reinsurance. The policyholders who are not currently eligible will also remain so.

In addition to this, the Transfer will also have no impact on the rights of the policyholders of XLICSE, ACS and AXA Art in relation to the Financial Ombudsman Scheme ('FOS'). The FOS is an independent public body that aims to resolve disputes between individuals and UK financial services companies.

Executive management and governance

As a result of the Transfer and Mergers, the Boards of ACS and AXA Art will be dissolved and governance roles and functions will be taken up by XLICSE. The ACS Board currently consists of four Executive Directors. The AXA Art Management Board currently consists of two Executive Directors, and the Supervisory Board of three Non-Executive Directors. The XLICSE Board consists of three independent Non-Executive Directors, one group Non-Executive Director and three Executive Directors. It is expected to have one additional group Non-Executive Director and one fewer Executive Director either prior to, or shortly following, the Transfer. There are no current planned changes to the governance of XLICSE's UK branch following the Transfer.

Executive management often drive the tone and culture of a company so it is important to look at any changes in the area in this context as well; as noted above, the XLICSE Board post Transfer will consist of a number of Non-Executive and Executive Directors, such that ACS and AXA Art policyholders will have the same, or a larger sized, Board than pre Transfer. Credit ratings can also be a reason that customers choose to do business with a specific company. All three companies are rated AA- Stable by both Standard and Poors and Fitch ratings companies; AXA Group also has an overarching rating of AA- Stable from the same ratings companies. More broadly, the three entities are all part of the AXA Group, which is a worldwide and well-known brand, and all groups of policyholders will remain with the AXA Group post Transfer.

Each Transfer Company has executive management who, where required, are regulatory approved to act in their roles and are required to comply with requirements around governance of the businesses. Each has independent, non-executive directors on their Board. Following the Transfer, the Boards of ACS and AXA Art will dissolve and the Board of XLICSE will take over the governance functions.

Conclusion

For policyholders whose policies remain with XLICSE, there will be no change in any of the executive management, governance arrangements or regulatory regime as a result of the Transfer, and hence no risk of adverse impact on these policyholders that might otherwise have arisen following such changes.

For policyholders that transfer from ACS and AXA Art to XLICSE, I note that the protections provided by the regulatory regime are such that, despite their policies moving to a new insurance carrier, there is little risk of any change to their customer experience as a consequence of the differences in executive managements and governance arrangements between ACS, AXA Art and XLICSE.

Furthermore, I do not see any reason why policyholder perception of the reputation of the entity where they hold their policy will decrease as a result of the Transfer.

I therefore see no reason why any group of policyholders would see an adverse impact in this regard as a result of the Transfer.

Will the Transfer impact the security of policyholders?

I identify no material adverse change in the economic circumstances of any of the relevant policyholder groups.

Capital security post Transfer

I have considered the ratio of available capital to the capital requirement (the 'Capital Cover Ratio') of each of the entities before and after the Transfer and Mergers.

I note that there will be additional capital provided to XLICSE as at the date of the Mergers, assuming the Mergers are sanctioned. This will be provided by means of a capital commitment deed from XL Bermuda Ltd, an AXA XL Division company domiciled in Bermuda, supported by a letter of credit issued by AXA SA.

Further to this, given XLICSE's capital management policy aims for a Capital Cover Ratio of 130% and allows for dividends above 130%, I also consider a minimum of a 130% Capital Cover Ratio for both pre and post Transfer XLICSE in my analysis below for prudence.

Before the Transfer, the ACS, AXA Art and XLICSE policyholders are all insured by companies that have a buffer over their regulatory requirement, such that they would be considered well capitalised.

XLICSE policyholders

As a result of the Transfer and Mergers, as at 31 December 2018, policyholders of XLICSE would see a drop in their Capital Cover Ratio from 123% to 116%, although the ratio is still comfortably in excess of 100%. However, at the time that the Transfer would actually be taking place, there would be an additional €90 million capital available in XLICSE pre Transfer and an additional amount of €590 million capital available in XLICSE post Transfer and Mergers, which would lead to an increase in the revised Capital Cover Ratios to 135% pre Transfer and to 145% post Transfer and Mergers.

Even at the minimum of 130% for pre and post Transfer, XLICSE is consistently well capitalised.

AXA Art policyholders

As a result of the Transfer and Mergers, policyholders of AXA Art will see a drop in their Capital Cover Ratio although the ratio is still comfortably in excess of 100%. AXA Art writes predominately short tailed business, and furthermore is a much smaller entity than ACS and XLICSE. In the event of any distress to post Transfer XLICSE, the substantial increase in nominal capital base would outweigh the reduction in proportionate coverage, as AXA Art policyholders claims are expected to be paid considerably more quickly than the other Transfer Companies business.

ACS policyholders

ACS uses a different regulatory capital measure to XLICSE and AXA Art to calculate their required capital; while XLICSE and AXA Art use the 'Standard Formula', which is a set of rules specified in EU legislation, ACS uses an approved internally developed economic capital model, an 'Internal Model'. ACS also calculates its required capital on the Standard Formula basis for business use.

These two measures derive different results as the Internal Model provides for a more detailed and tailored set of risks than the Standard Formula. The Standard Formula gives a more prudent result and as such results in a lower Capital Cover Ratio than the equivalent Internal Model result.

Along with assessing the Capital Cover Ratio for all entities on the regulatory capital measures described above, I have also assessed the ACS Capital Cover Ratio information on a Standard Formula basis. This is because given XLICSE uses the Standard Formula, it is the ACS position on a Standard Formula basis (rather than on the regulatory Internal Model measure) that will be transferring into the post Transfer XLICSE.

Policyholders of ACS will see a decrease in their Capital Cover Ratio on a regulatory basis post Transfer and Mergers, going from an Internal Model based Capital Cover Ratio of 144% pre Transfer to a Standard Formula based Capital Cover Ratio of 116% post Transfer and Mergers. However, they see an improvement on a consistent Standard Formula basis from 98% to 116%. After the Transfer and Mergers, the additional €590 million capital input will increase this coverage to 145%, which is similar to the starting point of 144% on the Internal Model basis even though it is now on the more prudent Standard Formula basis. Furthermore, even if taking the 130% minimum Capital Cover Ratio for XLICSE post Transfer, I note that both ACS and XLICSE are well-diversified insurance businesses for which the Standard Formula provides an appropriate but conservative estimate of the capital required to support the risks in the business.

I therefore conclude there is no material adverse impact on the capital security of these groups of policyholders as a consequence of the Transfer.

<u>Reinsurance protections post Transfer</u>

Reinsurance assets along with the liabilities associated with them will transfer under the Transfer with the reinsured party's name changing from ACS and AXA Art to XLICSE.

Any outwards reinsurance that does not transfer under the Transfer will do so under the Mergers in any case.

The Transfer has no effect on the current coverage provided by current or historic reinsurers of the Transfer Companies, apart from minor changes to AXA XL Division intragroup reinsurance. The Transfer does not create a material increase or decrease in the exposure of reinsurers of the Transfer Companies.

The Transfer is expected to have no effect on the reinsurance assets and liabilities associated with XLICSE policies, nor the non-transferring AXA Art and ACS policies

Given the above, I identify no material adverse impact to any policyholders of the Transfer Companies from the Transfer due to reinsurance arrangements.

<u>Pension Scheme Obligations</u>

There will be no changes to pension scheme obligations as a result of the Transfer. Both XLICSE and AXA Art are liable for defined benefit schemes, so they are not going to be exposed to a new risk post Transfer. XLICSE's defined benefit reserves are not material, and have been decreasing, and the scale of the total pension liabilities in the combined entity post Transfer and Mergers is also immaterial to its capital position.

The majority of AXA Art's defined benefit reserves sit with pensioner members, which reduces the risk of the liability growing materially; furthermore, the size of obligations under this scheme is not material to XLICSE post Transfer and Mergers. I also note that any pension scheme deficits are recognised on both the IFRS and Solvency II balance sheets that I reference in my report.

ACS is no longer liable for its defined benefit scheme so there is no adverse impact for AXA Art or XLICSE policyholders post Transfer as a result of this.

Therefore, I identity no effect from pension scheme obligations on XLICSE, ACS or AXA Art policyholders as a result of the Transfer.

Overall conclusion

I have considered the Transfer and its likely effect on each of the relevant policyholder groups. I have concluded that the risk of any policyholder being adversely affected by the proposed Transfer is sufficiently remote for it to be appropriate to proceed with the proposed Transfer as described in my report.

Philip Tippin
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4 November 2019