

Independent actuarial opinion on the Transfer of
Zurich Australian Insurance Limited NSW CTP
Portfolio to Gordian RunOff Limited

14 November 2018



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James Goodchild
Chief Actuary
Zurich Australian Insurance Limited
Sydney NSW 2000

Dear James,

Zurich Australian Insurance Limited – Independent actuarial report on Transfer of Zurich Australian Insurance Limited NSW CTP Portfolio to Gordian RunOff Limited

Please find enclosed my report relating to the transfer of Zurich's NSW CTP portfolio to Gordian RunOff Limited. This incorporates feedback from APRA and SIRA.

I understand that this report will be used as part of an application to the Federal Court of Australia to transfer the CTP portfolio.

I am available to answer any questions you may have on my report.

Yours sincerely

A handwritten signature in black ink, appearing to read "Kaise Stephan". The signature is fluid and cursive, with a vertical stroke on the left side.

Kaise Stephan
Fellow of the Institute of Actuaries of Australia

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Glossary

Abbreviation	Meaning
APRA	Australian Prudential Regulation Authority
Cavello Bay	Cavello Bay Reinsurance Limited
CTP	Compulsory third party motor personal injury insurance
CTP Acts	Motor Accidents Compensation Act 1999 and the Motor Accidents Act 1988
CTP Portfolio	NSW CTP insurance policies written by Zurich between 1989 and 2016
Enstar	Enstar Australia Limited
Enstar Group	Enstar Group Limited
Gordian	Gordian RunOff Limited
GPS 114	APRA Prudential Standard GPS 114 <i>Capital Adequacy: Asset Risk Charge</i> February 2017
GPS 320	APRA Prudential Standard GPS 320 on <i>Actuarial and Related Matters</i> dated November 2015
GPS 410	APRA Prudential Standard GPS 410 on <i>Transfer and Amalgamation of Insurance Business for General Insurers</i>
Insurance Act	Insurance Act 1973 as amended by the General Insurance Reform Act 2001
OCP	Gross discounted outstanding claims provision including claims handling expenses and risk margins in respect of the CTP Portfolio calculated in accordance with GPS 320.
Scheme or Transfer	The proposed scheme to transfer the assets and liabilities relating to the CTP Portfolio to Gordian under Part III Division 3A of the Insurance Act
SIRA	State Insurance Regulatory Authority
ZFSA	Zurich Financial Services Australia Limited
Zurich	Zurich Australian Insurance Limited

1 Introduction

1.1 Background

1.1.1 Zurich Australian Insurance Limited

Zurich Australian Insurance Limited (Zurich) is authorised by APRA to conduct insurance business under the Insurance Act.

Zurich is a wholly owned subsidiary of ZFSA and is ultimately owned by the Zurich Insurance Group, a publicly listed insurance group domiciled in Switzerland.

1.1.2 CTP Insurance business

From 1989 to 2016 Zurich underwrote CTP in NSW as a private insurer under the CTP Acts. CTP in NSW is regulated by SIRA.

At 31 December 2017, Zurich reported¹ an outstanding claims provision of \$360M² (OCP) in respect of the CTP Portfolio. Since all the policies have expired, there were no premium liabilities in respect of the CTP Portfolio. The NSW CTP outstanding claims liabilities accounted for 27% of Zurich's total net insurance liabilities.

1.1.3 Reinsurance and Trust Fund

On 23 February 2018, Zurich entered into a 100% Reinsurance Agreement³ with Cavello Bay, a Bermudan regulated and domiciled reinsurer. Cavello Bay is ultimately owned by the Enstar Group, which is based in Bermuda.

As a consequence of this agreement, the liabilities for the CTP Portfolio have been transferred to Cavello Bay, providing claims development finality to Zurich.

As part of the Reinsurance Agreement, the Cavello ZAIL Trust (Trust Fund) was established by Cavello Bay and Zurich, and managed by NAB Trust Services Limited⁴. Key provisions of the Trust Deed relating to the Trust Fund include:

- The assets in respect of the Reinsurance Agreement are to be held in the Trust Fund supporting Cavello Bay's liabilities
- The Trust Fund will not be available for distribution to the creditors of Cavello Bay in the event of Cavello Bay's insolvency, other than Zurich
- The Trustee will only make payments to Zurich and Cavello Bay in accordance with the Reinsurance Agreement
- The Trustee must comply with any relevant requirements for an entity acting as trustee as prescribed by APRA in GPS 114.

In addition, the Reinsurance Agreement includes a collateral requirement that requires Cavello Bay to provide funds such that the assets of the Trust Fund exceed 105% of the outstanding claims provision (OCP) in respect of the CTP Portfolio as at each quarter end.

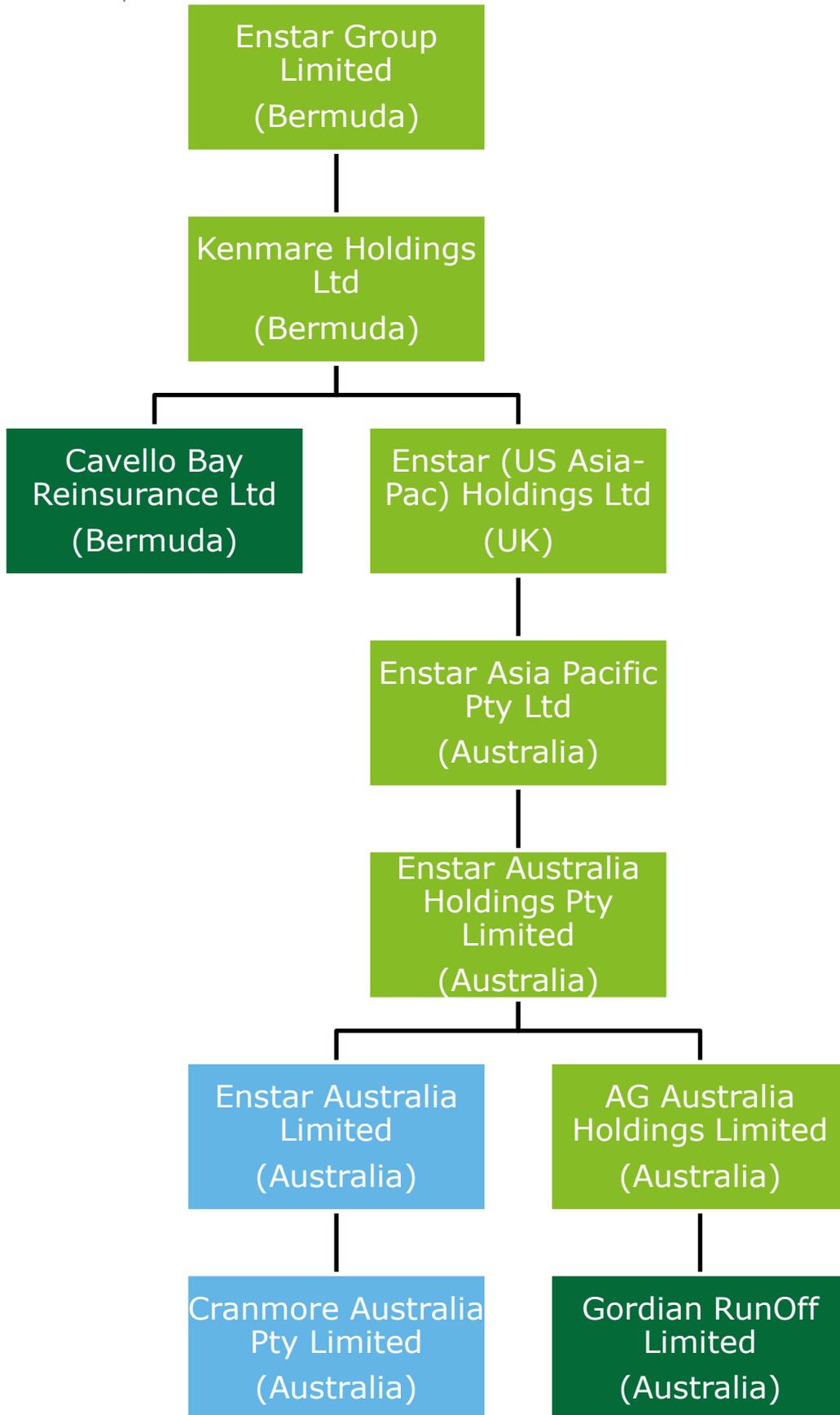
¹ Source: Zurich FCR 2017 (Section 3)

² Calculated consistent with GPS 320, inclusive of a 6.5% risk margin at a 75% probability of adequacy, Source: Zurich FCR 2017

³ Source: Reinsurance Agreement (Section 3)

⁴ Source: Trust Deed (Section 3)

Figure 1.1 Enstar Group structure⁵



1.1.4 Claims management transfer

On 1 June 2018, SIRA consented to Zurich appointing Enstar Australia Limited (Enstar) to provide claims handling services in respect of the CTP Portfolio pursuant to the terms of a claims handling agreement⁶ between Zurich and Enstar, and Enstar commenced providing these services on 15 June 2018. Enstar's ultimate parent is the Enstar Group Limited (Enstar Group).

1.1.5 Gordian RunOff Limited

Enstar also manages Gordian, which is authorised by APRA to conduct Run-off insurance under the Insurance Act. Gordian's ultimate parent is also the Enstar Group.

1.1.6 Scheme of transfer

Zurich now proposes to transfer the assets and liabilities relating to the CTP Portfolio to Gordian under Part III Division 3A of the Insurance Act (the Scheme or the Transfer). This would consist of the following steps:

- Gordian obtaining a NSW CTP licence from SIRA, which includes the requirement that Gordian enter into the CTP sharing agreements in NSW and with the CTP insurers in the ACT and Queensland.
- Zurich and Enstar obtaining the requisite consent from SIRA and APRA and approval by the Federal Court for the transfer.

Under the proposed Scheme all rights, obligations, and insurance liabilities arising from the CTP Portfolio policies issued by Zurich will transfer to Gordian, including the reinsurance agreement between Zurich and Cavello Bay, and the associated Trust Deed and Specific Security Agreement.

Due to the reinsurance agreement with Cavello Bay, this transaction has no net impact on the profit and loss statement and balance sheet of Gordian.

However, as discussed in Section 2 below, there are implications for the prudential capital requirement and solvency position for both Zurich and Gordian. Further, Zurich's profit and loss statement and balance sheet will recognise the profit on the reinsurance transaction once the legal transfer is complete and also a proposed dividend payment is approved by APRA⁷.

Policyholders, who rely on the CTP policies to indemnify them from personal injury claims from third parties arising from motor accidents, will be insured by Gordian and rely on Enstar to manage and settle those claims.

1.2 Principal, purpose and use

Kaise Stephan of Deloitte Consulting Pty Ltd (Deloitte) has been commissioned by Zurich to provide an independent actuarial opinion on the Transfer.

My scope, as agreed in our engagement letter dated 26 June 2018 (attached at Appendix A), and consists of providing a report covering the following issues (which have been refined since the engagement letter was signed):

- The security provided to the transferring policyholders, the remaining post-Transfer policyholders of Zurich, and the pre-Transfer policyholders of Gordian
- Any change in contractual rights of policyholders
- The type and level of claims service provided to the policyholders
- Impact of the Transfer on policyholders of Zurich
- The impact of the Transfer on assets, liabilities and solvency of Zurich and Gordian
- Gordian's ability to service the needs of the transferred CTP Portfolio

⁵ See Enstar CTP Licence Application Letter in Section 3

⁶ Source: Claims Handling Agreement (Section 3)

⁷ Source: Zurich revised capital projections (Section 3)

I note that Geoff Atkins of Finity Consulting Pty Ltd has been appointed by Enstar to provide an actuarial report on the scheme. Geoff Atkins is also the Appointed Actuary for Gordian. I have reviewed that report⁸ as part of this review. However, this report represents my own independent view of the Transfer.

1.3 Professional standards

The Insurance Act and GPS 410 set out the procedural requirements for insurers transferring or amalgamating insurance business, which required an actuarial report on the scheme.

While GPS 410 provides no specific guidance on the content of actuarial reports on which insurance business transfers are based, it is usual for such actuarial reports to provide an opinion as to whether or not the interests of policyholders are materially adversely affected by the proposed scheme. This typically includes an actuarial opinion on the issues set out in Section 1.2.

1.4 Code of Conduct

I acknowledge that I have read and agree to be bound by the *Harmonised Expert Witness Code of Conduct* as approved by the Council of Chief Justices' Rules Harmonisation Committee (Code of Conduct), and the *Expert Evidence Practice Note* (GPN-EXPT) of the Federal Court of Australia.

I am a Fellow of the Institute of Actuaries of Australia and so am qualified to prepare this report. My opinions are based on specialised knowledge arising out of my actuarial training.

I have been asked to address the issues set out in section 1.2.

I have set out in this report the assumptions and material facts on which my opinions are based. These include the materials and reference documents set out in Section 3, which include the documents I have been asked to consider.

I have made all the inquiries which I believe are desirable and appropriate, and I declare there are no matters of significance which I regard as relevant, to my knowledge, that have been withheld from this report.

1.5 Approach

I have:

1. Reviewed the information provided to me by Zurich, Gordian and Enstar regarding the Scheme and the financial position of the relevant entities, as listed in Section 3
2. Discussed the Scheme and information provided with:
 - Zurich's Chief Actuary James Goodchild
 - Enstar's CEO Sandra O'Sullivan and Actuarial Services Manager Vu Pham
 - Geoff Atkins of Finity Consulting Pty Ltd.

1.6 Distribution and use

This report has been prepared for use of Zurich and Gordian for the purpose of the Scheme as set out in Section 1.2. I understand that the report will also be provided to:

- Zurich's legal advisers, King & Wood Mallesons
- Gordian's legal advisers, HWL Ebsworth
- APRA
- SIRA
- The Federal Court of Australia

⁸ Source: Finity Report (Section 3)

I understand that a copy of this report will be made available to the public. Furthermore, policyholders and claimants may request a copy of the report be provided to them. No other use of, or reference to, this report may be made without my prior written consent.

Previous draft versions of this report are withdrawn and no longer applicable.

I have performed the work assigned and prepared in this report in conformity with its intended use by persons technically familiar with the areas addressed and for the stated purposes only. Judgements about the conclusions drawn in this report should be made only after considering the report including appendices in its entirety.

Third parties, whether authorised to receive this report or not, should place no reliance on this report that would create any duty or liability by myself or Deloitte to any third party.

1.7 Uncertainty

There is inherent uncertainty in the assessment of ultimate claims arising from insurance contracts. Actual claims arising may differ, perhaps materially, from expected claims due to:

- Limitations on historical information, assumptions and methods used to project future experience
- Unanticipated future events, including changes in the legislative, social and economic environment.

The ultimate liability in respect of the CTP Portfolio may differ materially from that projected.

In this report I have only considered the impact of the Transfer on policyholders. While I have reviewed the underlying valuations of the liabilities for reasonableness, I have not conducted independent valuations of the OCP. Further, I have conducted a high level review of the three-year solvency projections contained in the Zurich FCR 2017 and Gordian's projected balance sheet for 2018 to 2020 based on Gordian's financial position at September 2018, but I have not conducted independent projections.

2 Opinion

2.1 Summary opinion

Having reviewed the information noted in Section 3, and having discussed the Transfer as outlined in Section 1.5, in my opinion, after the proposed Transfer:

- **the financial security provided to transferring policyholders will not be materially reduced**
- **there will be no change in the contractual rights of transferring policyholders**
- **there will be no material change in the service provided to the policyholders**
- **there will be no material impact on non-transferring policyholders of Zurich**
- **I do not expect any adverse deterioration in the capital position or solvency of Gordian arising from the transfer**
- **Gordian has sufficient claims administration ability to service the needs of the transferred policyholders**

I have concluded that the interests of the transferring CTP Portfolio policyholders, remaining post-transfer policyholders of Zurich and existing pre-transfer policyholders of Gordian are not materially adversely affected by the Transfer. With respect to the transferring CTP Portfolio policyholders, I note that it is a statutory class of insurance which limits benefit and other discretions and that staff and processes remain the same after transfer (refer Sections 2.4 and 2.7 below).

I have set out below the information and analyses on which I have based my opinion.

2.2 The financial security provided to transferring policyholders

2.2.1 Financial security provided to transferring policyholders before Transfer

Prior to the Transfer the CTP Portfolio policyholders enjoyed the following financial security:

- The assets of the Trust Fund, including surplus capital of 5% of the OCP
- In the event that the assets of the Trust Fund fall below 105% of the OCP, the assets of Cavello Bay to provide additional capital to restore the assets of Trust Fund to 105% of the OCP
- In the event of the insolvency of Cavello Bay, the guarantee provided by Enstar Group to meet Cavello Bay's obligations under the Framework Deed⁹
- In the event of the insolvency of Cavello Bay and Enstar Group, the assets of Zurich
- Any potential capital support from members of the Zurich Group.

I note that:

- As at 31 December 2017, Cavello Bay reported¹⁰ assets of US\$3.5B, liabilities of US\$2.2B, and Shareholder Equity of US\$1.4B.
- Cavello Bay's assets¹⁰ are predominately investments, cash and reinsurance balances, and no discernible intangible assets.
- As at 31 December 2017, Cavello Bay further disclosed¹⁰ that under the Bermuda Solvency Capital Requirement, it had sufficient assets to meet its statutory capital requirements.

⁹ Source: Framework Deed

¹⁰ Source: Cavello Bay CFS 2017

- As at 31 December 2017, Enstar Group reported¹¹ assets of US\$13.6B, liabilities of US\$10.0B, and Shareholder Equity of \$3.1B. Enstar Group's assets are predominately investments, cash and reinsurance balances. Deferred tax assets, deferred acquisition costs, goodwill and intangible assets amount to \$0.3B as at 31 December 2017.
- As at 31 December 2017, Enstar Group disclosed¹¹ that it is in compliance with the Bermudan Regulatory Authority's requirement that it maintain a group target capital level equal to 120% of the group's statutory capital requirements.
- As at 31 December 2017 (but after allowing for changes in Zurich's reinsurance program which took effect on 1 January 2018), Zurich reported¹² a Prescribed Capital Amount (PCA) of \$335M and a Capital Base of \$682M, giving a Capital Adequacy Multiple (CAM) of 2.04.
- Prior to the Reinsurance Agreement and Transfer, Zurich projected¹² the CAM to be remain above its target capital ratio by 31 December 2020.

Table 2.1 Capital support pre transfer as at 31 December 2017

Source of capital	Capital Support	Ratio of APRA Capital Base to PCA	Ratio of capital support to PCA	Notes
Trust Fund surplus of 5% of OCP	\$18M	0.87	0.87	OCP ¹² of \$360M
Capital of Cavello Bay	\$1,778M	-	86	Shareholder Equity ¹⁰ of Cavello Bay converted to AUD at 1.27AUD = 1USD
APRA Capital Base of Zurich	\$682M	33	33	Capital Base ¹²
Total Capital Support	\$2,478M	34	120	
PCA	\$20.6M			Estimated based on the ratio of PCA to OCP post transfer applied to the OCP at 31 December 2017.

In Table 2.1, I have attempted to estimate the capital support available to the CTP Portfolio based on each of these sources of capital.

In terms of capital domiciled in Australia and regulated by APRA, the policyholders are supported by the Trust Fund surplus and the APRA Capital Base of Zurich, giving a CAM of 34.

Cavello Bay is regulated by the Bermudan Monetary Authority. I have assumed that the Shareholder Equity for Cavello Bay, less any identifiable intangible assets, is a reasonable approximation of its capital on a solvency basis. Allowing for this additional source of capital, the policyholders are supported by capital amounting to 120 times the estimated PCA for the CTP Portfolio.

Over a three-year horizon, I note that the Zurich FCR 2017 projects an increasing CAM for Zurich. This supports the view that the CTP Portfolio policyholders would continue to be supported by significant capital over a three-year horizon in the absence of any Transfer.

2.2.2 Projected financial security provided to transferring policyholders at 31 December 2018 after transfer

Post Transfer, the CTP Portfolio policyholders will have the following financial security:

- The assets of the Trust Fund, including surplus capital of 5% of the OCP
- In the event that the assets of the Trust Fund fall below 105% of the OCP, the assets of Cavello Bay to provide additional capital to restore the assets of Trust Fund to 105% of the OCP

¹¹ Source: Enstar Group Report 2017

¹² Source: Zurich FCR 2017

- In the event of the insolvency of Cavello Bay, the assets of Gordian
- Any potential capital support from members of the Enstar Group, including the limited guarantee of regulatory capital support for Gordian provided by the Enstar Group¹³.

I note that:

- As at 31 December 2018, Gordian estimated¹⁴ the OCP for the CTP Portfolio as \$219M, and an increase in PCA due to the CTP Portfolio of \$13.4M. This PCA consists of \$14.0M in respect of the Asset Risk Charge, offset by an \$0.6M increase in the aggregation benefit. There is no increase in other risk charges underlying the PCA as the CTP Portfolio has no net of reinsurance liabilities.
- As at 31 December 2018, Gordian also estimated¹⁴ a post Transfer PCA of \$30.5M for Gordian as a whole and a Capital Base of \$67M, giving a CAM of 2.2. As part of this estimate¹⁴, Gordian note that the Enstar Group will need to provide additional capital of \$14.5M to ensure that the CAM exceeds 2.2. Given the strong capital position and available assets of the Enstar Group as discussed in Section 2.2.1, I have assumed that this additional capital will be provided.
- Going forward, Gordian's capital management plan¹⁴ assumes that any capital in excess of a CAM of 2.2 will be transferred to the Enstar Group.

Table 2.2 Capital support post transfer at 31 December 2018

Source of capital	Capital Support	Ratio of APRA capital base to PCA	Ratio of capital support to PCA	Notes
Trust Fund surplus of 5% of OCP	\$11M	0.36	0.36	OCP ¹² of \$219M
Capital of Cavello Bay	\$1,778M	-	142	Shareholder Equity ¹⁰ of Cavello Bay at 31 December 2017 converted to A\$ at 1.27AUD = 1USD
Capital of Gordian	\$67M	2.2	2.2	Capital Base ¹⁴
Total Capital Support	\$1,856M	2.6	61	
PCA	\$30.5M			Gordian Estimate ¹⁴

Table 2.2 shows a similar calculation of the capital support available to the CTP Portfolio post-Transfer.

In terms of capital domiciled in Australia and regulated by APRA, the policyholders are supported by the Trust Fund surplus and the APRA Capital Base of Gordian, giving a CAM of 2.6.

In the absence of any contrary indications, I have assumed that Cavello Bay will continue to provide capital support equivalent to the shareholder equity as at 31 December 2017.

Allowing for this additional source of capital, the policyholders are supported by capital amounting to 61 times the estimated PCA for the CTP Portfolio.

Over a three-year horizon, Gordian plans to maintain a CAM of 2.2, and based on Gordian's projected balance sheet for 2018 to 2020 based on Gordian's financial position at September 2018, this will not require any additional capital injections from Enstar Group. While I have not examined any projections of Cavello Bay's and the Enstar Group's solvency over three years, in my view it is likely that the significant shareholder equity provides substantial capital support on an ongoing basis.

¹³ Source: From my discussions with Enstar I understand that Gordian has a limited guarantee from Enstar Group as part of Gordian's ongoing day to day operations

¹⁴ Source: Gordian's projected balance sheet for 2018 to 2020 based on Gordian's financial position at September 2018

Consequently, I have concluded that over a three-year horizon, the CTP Policyholders will continue to be supported by significant capital resources post Transfer.

2.2.3 Comparison of APRA solvency coverage pre and post transfer at 31 December 2018

Table 2.3 below summarises the APRA solvency coverage of Gordian at September 2018 as well as the projected coverage pre and post transfer at 31 December 2018.

Table 2.3 Gordian revised solvency projection given actuals to September 2018

\$M	At Sep 2018 (actual) ¹⁵	31 December 2018 (projected)		
		Pre-Scheme ¹⁶	Post-Scheme ¹⁷	Impact
APRA Capital Base	47.0	52.5	67.0	14.5
PCA	18.5	17.1	30.5	12.9
CAM	2.54	3.07	2.20	(0.79)

I note that:

- the PCA is projected to decrease from \$18.9M at September 2018 to \$17.6M at December 2018 pre-Scheme transfer due to the continuing run-off of liabilities, and the revised outstanding claims provision in Gordian's existing portfolio following a full ground up actuarial valuation, taking into account movement for the 12 month period
- the CAM is projected to increase from 2.54 at September to 3.07 at December pre-Scheme transfer because the asset base is stable but the liabilities run off
- the key change in PCA as a result of the Transfer is a projected doubling of the asset risk charge due to the additional assets held in trust of an amount equal to the gross claims liabilities of \$218.6M
- based on my conversations with Enstar, I understand that the intent is for Gordian to receive a capital injection of about \$14.5M from Enstar Group to bring the APRA capital base to \$67M and the CAM to its target level of 2.20 post Transfer.

2.3 Any change in contractual rights of transferring policyholders

The terms and conditions for the CTP insurance contract purchased by policyholders is defined by the CTP Acts and is unchanged by the Transfer.

2.4 The type and level of the service provided to the policyholders

Prior to the transfer, Enstar provides the service of managing and settling third party personal injury motor claims on behalf of the policyholders. This will be unchanged following the transfer.

2.5 Impact of the Transfer on the policyholders, assets, liabilities and solvency of Zurich

As noted above, non-transferring policyholders of Zurich are supported by the capital resources of Zurich. This was equivalent to a CAM of 2.04 (after the Reinsurance Arrangement) and Zurich projects¹⁸ a CAM above Zurich's target capital ratio (including after the planned dividends from Zurich to its parent, subject to approval by APRA) by 31 December 2020. Consequently, I have concluded that there is no material impact on non-transferring policyholders of Zurich from the Transfer.

2.6 The impact of the Transfer on assets and liabilities and solvency of Gordian

I have reviewed Gordian's projected balance sheet post Transfer for 2018 to 2020 based on Gordian's financial position at September 2018, and have not identified any material issues. Table 2.4 summarises

¹⁵ Source: Gordian's capital calculations as at 30 September 2018 updated after the September 2018 quarterly return was submitted, following feedback from APRA

¹⁶ Source: Gordian's capital calculations as at 30 September 2018 updated after the September 2018 quarterly return was submitted, following feedback from APRA and Gordian's projections to December 2018

¹⁷ Source: Gordian's projected balance sheet for 2018 to 2020 based on Gordian's financial position at September 2018

¹⁸ Source: Zurich revised capital projections

these projections post Transfer, and shows that Gordian expects to maintain a CAM of 2.2, and further to release capital as the PCA reduces over time in line with the settlement of the CTP Portfolio liabilities.

Table 2.4 Gordian assets, liabilities and solvency projections¹⁹

\$M	31 December 2018	31 December 2019	31 December 2020
Cash and investments	110.9	106.3	84.1
CTP Reinsurance recoveries	218.6	135.0	79.6
Other assets	2.8	2.3	1.8
Total assets	332.4	243.6	165.5
CTP liabilities	218.6	135.0	79.6
Other liabilities	44.9	38.2	32.6
Total liabilities	263.5	173.2	112.2
Net assets	68.9	70.4	53.3
Inadmissible assets	2.8	2.3	1.8
Potential capital transfers	0.0	0.0	18.6
APRA Capital Base	67.0	51.1	39.5
PCA	30.5	23.2	17.9
CAM	2.2	2.2	2.2

The projected APRA capital base of \$67.0M at 31 December 2018 includes the amount of the expected capital injection of \$14.5M, which I understand will be revised closer to the date of the Transfer. The inclusion of this \$14.5M is the reason for the difference between \$67.0M above and \$52.5M in Table 4.2 of the Finity report.

Table 2.4 summarises the quarterly projections of CTP Portfolio liabilities post Transfer, and are consistent with those in Appendix B of the Finity report.

Table 2.5 Gordian CTP liabilities projections²⁰

\$M	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
CTP liabilities	218.6	197.7	176.8	155.9	135.0	121.2	107.3	93.5	79.6	71.2	62.8	52.4	46.0

2.7 Gordian's ability to service the needs of the transferred portfolio including claims administration

As noted in Section 1.1.4, the claims administration for the CTP Portfolio was transferred to Enstar on 15 June 2018. This was accomplished by a transfer of the people, processes and active claims files to Enstar from Zurich. Enstar continue to manage claims using Zurich's IT systems, and following the Transfer there will be an IT migration to Enstar's systems.

¹⁹ Source: Gordian's projected balance sheet for 2018 to 2020 based on Gordian's financial position at September 2018 and following feedback from APRA

²⁰ Source: interpolation based on Gordian CTP Business Plan up to 20Q4; extrapolation to 21Q4 based on 18Q4, 19Q4 and 20Q4

Enstar have provided SIRA with detailed migration plans²¹, and have applied for a CTP licence from SIRA²², including preparation of:

- Business continuity framework and plans
- Fit and proper policy
- Procurement and outsourcing policy
- Risk management strategy
- Remuneration Policy
- Corporate Governance Charter
- Board Audit & Risk Committee Terms of Reference
- Remuneration Committee Terms of reference
- Privacy policy and collection notice

Enstar have adopted a CTP claims manual, which is substantially the same as the Zurich CTP claims manual. From my discussions with Enstar management, I understand that Enstar and Gordian are parties to an existing service level agreement. Prior to the Transfer I understand this agreement will be amended to include the CTP Portfolio and to provide that the claims handling processes and procedures with respect to the CTP Portfolio will continue in the same manner after the transfer as they were prior to the transfer.

From my discussions with Enstar and Zurich management I understand that the migration of claims management has proceeded without major issues arising.

The majority of Zurich's CTP claims management team have agreed to new contract terms with Enstar.

²¹ Source: Migration Plan Stage 3

²² Source: Enstar CTP Licence Application Letter

3 Information

Short name	Title	Supplied by
Zurich FCR 2017	Financial Condition Report as at 31 December 2017, including the Insurance Liability valuation Report Zurich Australian Insurance Limited, Zurich Australian Insurance Limited (NZ Branch) Zurich Financial Services Australia Limited (general insurance liabilities only) dated 20 March 2018 by James Goodchild	Zurich
Reinsurance agreement	Reinsurance Agreement dated 23 February 2018 between Zurich Australian Insurance Limited and Cavello Bay Reinsurance Limited	Zurich
Framework Deed	Framework Deed dated 23 February 2018 between Zurich Australian Insurance Limited, Gordian RunOff Limited, Cavello Bay Reinsurance Limited and Enstar Group Limited	Zurich
Specific Security Agreement	Specific Security Agreement dated 23 February 2018 between Cavello Bay Reinsurance Limited and Zurich Australian Insurance Limited	Zurich
Enstar CTP Licence Application Letter	Letter dated 15 June 2018 to Ms Mary Maini, Executive Director at SIRA, from Sandra O'Sullivan, CEO of Enstar Australia	Enstar
Trust Deed	Trust Deed – Cavello ZAIL Trust, established by Cavello Bay and Zurich and managed by NAB Trust Services Limited	Zurich
Cavello Bay CFS 2017	Cavello Bay Reinsurance Limited – Consolidated Financial Statements for the years ended December 31, 2017 and 2016	Enstar
Gordian CTP Business Plan	Gordian RunOff Limited – Business Plan for NSW CTP Licence, June 2018	Enstar
Independent Valuation 2017	Independent Valuation of NSW CTP Portfolio as at 31 March 2017 – Zurich Australia Insurance Ltd, dated May 2017 by Estelle Pearson and Geoff Atkins	Zurich
Migration Plan Stage 3	Enstar Group Limited – Catapult Migration Plan – Stage 3, June 2018	Enstar
Zurich revised capital projections	Email from Clare Wen of Zurich dated 6 July 2018	Zurich
Finity Report	Actuarial report on scheme transfer – Gordian RunOff Limited and Zurich Australian Limited – November 2018, by Geoff Atkins of Finity Consulting Pty Limited, dated 13 November 2018	Enstar
Enstar Annual Report 2017	Enstar Annual Report 2017	Enstar Group website

Short name	Title	Supplied by
Gordian capital calculations at September 2018	Gordian's capital calculations as at 30 September 2018. This information was updated after the September 2018 quarterly return was submitted, following feedback from APRA.	Enstar
Gordian's capital modelling files	Spreadsheets showing Gordian's capital calculations at September 2018 and projected to December 2018, pre and post Transfer	Enstar
Gordian's 3 year projections	Spreadsheet showing Gordian's projected balance sheet for 2018 to 2020 based on Gordian's financial position at September 2018	Enstar

Appendix A – Extract from engagement letter

26 June 2018

James Goodchild
Chief Actuary
Zurich Australian Insurance Limited
Level 7, 5 Blue Street, North Sydney

Dear James

Independent actuarial opinion on Finity's actuarial report on the proposed scheme transfer of Zurich's NSW CTP Portfolio to Gordian

We are pleased to confirm our capacity to give an independent actuarial opinion on Finity' Actuarial Report on the proposed transfer in accordance with a scheme ('Scheme') of Zurich Australian Insurance Limited's ('Zurich') NSW CTP insurance portfolio to Gordian Runoff Ltd. ('Gordian'). Deloitte will provide Zurich with an independent report on Finity's report focusing on whether the transaction materially adversely affects the interests of the policyholders. The report will cover our opinion on:

1. The security provided to policyholders
2. Any change in contractual rights of policyholders
3. The type and level of the service provided to the policyholders
4. Impact of the transfer on policyholders of Zurich
5. The impact of the transfer on assets and liabilities of Zurich and Gordian
6. Solvency of Zurich and Gordian before and after transfer
7. Gordian ability in claim admin, reinsurance strength and management strength

This letter and our standard terms and conditions ("the Terms") which are enclosed with this letter set out the basis on which we will provide the Services to you.

Terms of the arrangement

Our understanding is that the term of the Services will be for a period of 3-4 weeks commencing on 25th June 2018. Should you require Kaise, Rick and/or their team members earlier or beyond that period, we would agree to extend the services subject to availability under this engagement letter terms and conditions.

Roles and Responsibilities

Kaise will serve in the role of independent actuarial expert to provide an independent opinion on the work has been done by Finity and Rick will act as a QA partner. Kaise and Rick will be supported by other staff members as needed. We envisage that the engagement activities will include:

- Undertake analysis and investigation to help land an opinion on the items 1-7 mentioned above
- Providing draft report and interact with Zurich, Gordian and Scheme lawyer to seek feedbacks and comments
- Providing the final report
- Presenting report in Federal Court or other forums as needed

Use of Report

This report has been prepared for use of Zurich and Gordian for the purpose of the Scheme. We understand that the report will also be provided to:

- Zurich's legal advisers, King & Wood Mallesons

- Gordian's legal advisers, HWL Ebsworth
- APRA
- SIRA
- The Federal Court of Australia

We understand that a copy of the full report will be made available to the public. Furthermore, policyholders and claimants may request a copy of the report be provided to them. No other use of, or reference to, this report may be made without our prior written consent, nor should the whole or part of the report be disclosed to any unauthorised person.

Privacy and Confidentiality

We acknowledge our responsibility to ensure our team are aware of and is instructed to comply with the Privacy Act in relation to the services and not improperly use, access or interfere with any personal or confidential information of Zurich. We will indemnify you for any loss you incur or suffer as a result of any breach of the Privacy Act and this clause by our team.

Fees

We base our fees on a scale of hourly rates related to the experience and qualifications of each member of our staff. The estimated fee to fulfil the scope of the work given in this letter will be [Redacted].

We will consult you in advance if it appears that the scope of our work may not be completed within this estimate because of information relating to the assignment that we learn only after commencing the assignment. If the scope of the work alters, we will seek agreement from you for additional fees before commencing additional work.

Invoicing

Unless we agree with you otherwise, we will issue our invoice at the end of the project when the Term ends.

Acceptance

Please confirm that you accept the Terms of our offer by signing, dating and returning the enclosed copy of this letter to us. Please contact Kaise Stephan or Rick Shaw if you would like to discuss this letter and the terms of the engagement with us. We look forward to working with you.

Yours sincerely

Kaise Stephan
Partner

Rick Shaw
Partner

Sign off by recipient:



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