

Carl Edwards
Financial Controller
Realcover Insurances Pty Ltd
30-32 Wentworth Avenue
Sydney NSW 2000

27 April 2020

Dear Carl,

Re: Actuarial Review of Report on Proposed Transfer of the Insurance Business of Realcover Insurances Pty Limited ("Realcover") to QBE Insurance (Australia) Limited ("QIA")

Background and Purpose

The Real Estate Institute of New South Wales placed the insurance portfolio of its subsidiary insurance company, Realcover, into run off with effect from 1 July 2017. Realcover and QIA propose to enter into an arrangement to undertake a portfolio transfer under Part III Div 3A of the *Insurance Act 1973* (Cth).

I have been requested to review a report about the proposed scheme for the transfer of Realcover's run-off professional indemnity insurance portfolio to QIA (the "Scheme"), in my capacity as Appointed Actuary of Realcover. The purpose of this report is to comment on the independent Actuarial Report on the Scheme named "Proposed Transfer of the Insurance Business of Realcover Insurances Pty Limited to QBE Insurance (Australia) Limited" prepared by Ernst and Young (the "Actuarial Report") dated 7 February 2020.

Comments on the Report

The Actuarial Report provides an assessment of the impact of the Scheme on Realcover's policyholders as well as the impact on QIA's existing policyholders. The Report has been prepared by Warrick Gard, a partner of EY. Mr Gard's opinion is considered to be independent from Realcover.

I understand that Realcover has no objections with regards to the information related to its business presented in the Actuarial Report.

Mr Gard concluded that the interests of Realcover's transferred policyholders would not be materially adversely affected as a result of the Scheme becoming effective, and also that the interests of QIA's policyholders should not be adversely affected in any material way as a consequence of the Scheme.

I think that Mr Gard's conclusions are reasonable, noting the following points from the Actuarial Report:

- Solvency - While the QIA PCA coverage ratio is slightly lower than Realcover (1.58 vs 1.65), QIA's surplus capital is significantly larger (nearly 400 times the amount). QIA is also able to seek capital injections from QBE Group through the Contingent Capital Facility (CCF) arrangement detailed in the Actuarial Report. The Actuarial Report identified that the CCF arrangement has been approved by the Board and implemented. Mr Gard reasonably concludes that Realcover policyholders are therefore expected to be more secure after the transfer, and existing QBE policyholders are not expected to be materially affected due to the relatively small size of the Realcover insurance liability.
- Reinsurance - Realcover's existing reinsurance contracts are expected to be transferred to QIA (though reinsurer agreement will be required, it is expected this will be obtained).
- Claims management - the Actuarial Report notes that Realcover claims handling systems and processes have been aligned to that of QBE Group since it moved into run-off in 1 July 2017, and that QIA has been the insurer for all Realcover policies that renewed from 30 June 2017 and any new business incepting on or after 16 May 2017. QIA is expected to be familiar with these systems and processes, and will continue to manage the claims on those existing systems and processes. Mr Gard reasonably concludes that there is no expected adverse impact on claims management for existing Realcover claims.

- Policy administration – the Actuarial Report notes that policy terms and conditions are expected to remain the same after the transfer apart from the substitution of QIA for Realcover as the insurer.

As Appointed Actuary of Realcover, I am satisfied, based on the most recent financial information available to me, that Mr Gard has reasonably concluded that the interests of Realcover's transferred policyholders and the interests of the policyholders of QIA will remain adequately protected under the proposed Scheme.

Reliances and Limitations

The conclusions provided above are based on the Actuarial Report as well as the last Realcover Actuarial Valuation Report and Run-off Plan Review, effective 30 June 2018. There has not been a subsequent Actuarial Valuation or Actuarial Review of the Run-off Plan, as APRA has advised Realcover that they have been exempted from the requirement to prepare an annual Actuarial Valuation Report and Run-off Plan Review until 30 June 2020.

Yours sincerely



Kaise Stephan
Partner, Deloitte Consulting

Appointed Actuary for Realcover Insurances Pty Ltd

Fellow of the Institute of Actuaries of Australia



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