



**Equitas Policyholder and Reinsurer Road Show
New York, Tuesday 26 May 2009**

JANE BARKER

Good morning and welcome to what is the first of our roadshows.

Let me introduce the members of the panel.

My name is Jane Barker. I am the Chief Executive of the Equitas Group of companies. I have been with Equitas since its formation and until the transaction in 2007 with National Indemnity I was the Finance Director.

To my right is Dan Schwarzmann a partner in the UK firm of PricewaterhouseCoopers. Dan is an expert in the Insurance run off practice and is well known in the UK for his work in many reconstructions of insurance businesses.

To his right is Philip Hertz a partner in the UK firm of Clifford Chance, legal advisers to Equitas. Philip has more than 15 years experience in insurance run-off and restructuring and has been involved in advising on matters related to Equitas for the last 10 years or so.

The purpose of the meeting today is to inform you about the Insurance Business Transfer of the 1992 and prior years' non life liabilities of Lloyd's Names into a limited liability company. We will talk about the background and reasons for the transfer. We will then talk about the transfer process and the independent expert who has prepared a report for the Court. We will take you through what it means for the different groups of stakeholders and outline the queries raised to date. We will consider the issue of recognition in jurisdictions other than the UK. Finally we will explain what you need to do and give you a chance to ask any questions you might have.

First let me give you a little background.

Lloyd's Names are the individuals who underwrote the policies at Lloyd's. They operated in syndicates and had several, not joint, liability for the policies underwritten by their syndicates. The liability of Names in respect of their share of the policies underwritten is defined as being unlimited although clearly any one Name's liability is limited by the value of his assets. The syndicates operated as a series of annual ventures, called a year of account, which in the normal course of events remained open for three years. At the end of the three year accounting period, the syndicate purchased a reinsurance in order to close the year of account, generally from the next syndicate year of account. This allowed a distribution of profits or an allocation of losses and it also allowed the Names to resign from Lloyd's if they so chose.

Thus in most cases, the 1984 year of account for a syndicate would be reinsured by the 1985 year of account of that same syndicate, which in turn would be reinsured by the 1986 year of account and so on. This process of closure was called "Reinsurance to Close". Because of the now well documented problems that afflicted the Lloyd's market from the early 1980s, mainly escalating asbestos, pollution and health hazard claims, it became impossible for many managing agents to calculate the premium needed to close each year of account. An increasing number of syndicates therefore remained open. There was also widespread litigation.

In response, Lloyd's implemented its Reconstruction & Renewal plan or "R&R". The centrepiece of R&R was the formation of Equitas, which reinsured all the open years of account up to and including 1992 and by doing so took on the responsibility through the Reinsurance to Close mechanism for all the liabilities of all the prior years. Equitas

also indemnified those Names on years already closed into later years in case their reinsurance is set aside or does not perform.

In the very unlikely event that any valid claim is not paid in full by Equitas the Names remain liable for their share of any unpaid amounts. A policyholder only has a claim against the Names on the syndicate that underwrote the policy. Thus policyholders would have to claim against the original Names; the policyholders cannot claim directly against the Names further along the Reinsurance to Close chain or directly against Equitas.

Since Equitas was formed in 1996 it has paid over \$27 billion in claims and is currently estimated to have further claims of about \$8.8 billion still to pay. Taking into account the external outwards reinsurance, other than from National Indemnity, the net reserves stood at \$7.8 billion at 31 December 2008.

In 2007, Equitas entered into a retrocession agreement with National Indemnity that provides cover now estimated to amount to \$13.1 billion. That is \$5.3 billion over and above the net reserves at 31 December 2008.

Enough of the background, turning now to the Transfer of Business.

Why are we doing this?

If the transfer is approved by the Court on or before 31 December 2009, Equitas will be entitled to exercise its option to purchase an additional US\$1.3 billion of reinsurance cover from National Indemnity Company thus providing additional security for policyholders as well as achieving its objective of obtaining legal finality for Names.

Under the Transfer, the liabilities of the Names will be transferred away from them into a limited liability company which will be an authorised insurance company in the UK.

At the same time we do not wish to prejudice policyholders and cedants but to improve their security. We will do this by buying the extra \$1.3 billion of cover from National Indemnity for £40 million, approximately \$60 million. This will take the total cover to \$14.4 billion, \$6.6 billion above the estimated net reserves.

I am now going to ask Philip to take you through the details of the transfer.

PHILIP HERTZ

Thank you Jane. As Jane explained, my name is Philip Hertz and I am a partner in the firm of Clifford Chance, UK legal advisers to Equitas.

As Jane explained, I will look in more detail at the proposed transaction.

A transfer of the type contemplated in respect of the 1992 and prior years' non life liabilities of Lloyd's Names is permitted under English law under Part VII of the UK Financial Services and Markets Act 2000 - that is the reason why you will sometimes hear us and others refer to it as a "Part VII transfer".

It is a UK Court approved process moving insurance business from one insurer (or in this case multiple insurers, the Names) to another (in this case a newly established limited liability company to be owned by the Equitas group). This company is presently called Speyford Limited but will, once authorised by the Financial Services Authority (or the FSA), be called Equitas Insurance Limited. Today, I shall simply refer to it as "Newco".

This process not only transfers the insurance and reinsurance policies underwritten but also transfers the assets, such as outwards reinsurance contracts protecting the insurance business, to the new insurer.

As already mentioned, no Part VII transfer may take place without UK Court approval.

Under the governing legislation, an expert independent of the parties is appointed to report to the Court on the impact of the transfer on policyholders and other key stakeholders, with particular reference to their security.

In addition, the FSA is involved at all stages of this process.

The FSA's regulatory objectives include maintaining market confidence and securing protection for consumers. In the Part VII transfer context, this means ensuring that policyholders affected by a transfer receive sufficient information about it and that their interests are protected. To this end, Equitas has provided notice directly to policyholders, cedants and reinsurers and has advertised in over 100 countries worldwide in a number of publications in a manner approved by the FSA and in accordance with an order of the High Court made last November. Equitas has also provided notice directly to brokers and claims handlers of the transferring business. All information that was provided by direct notice to these people can be found on the Equitas website.

The FSA will also produce a report to the Court setting out its views. The FSA also has the right to be heard at the Court hearing for the approval of the transfer.

At the Court hearing, Counsel for the applicants, in this case Equitas and Newco, will explain to the Court the proposals, the notifications they have given and any responses received. The Court will then hear from any person who claims to be adversely affected and will consider the views of both the Independent Expert and of the FSA before reaching a conclusion as to whether it is appropriate to approve the transfer.

The Court has a wide discretion as to whether to grant this approval and will be concerned with whether anyone will be adversely affected if the transfer is implemented. The Court will not approve it unless it is satisfied that, as a whole, it is fair as between the interests of the different groups of persons affected. In coming to its conclusion, the Court will rely heavily on the views of the Independent Expert and those of the FSA.

The Court hearing is currently scheduled to commence on 24 June 2009 at the High Court in London. If you wish to attend the hearing you should check on the Equitas website which will be updated should the hearing date change.

Anyone (including policyholders and cedants) who believes that they are adversely affected can make written representations and/or appear at the Court hearing, either in person or by Counsel. As has been said in Equitas' communications, if you do have any concerns we encourage you to raise them with us as soon as possible so that we can discuss them with you.

Given the key role played by the Independent Expert, I thought it would be helpful if I spent a few minutes looking at his role and function. As the name suggests, the Independent Expert is not an advisor to anyone involved in the transfer but a person independent of the parties involved whom the FSA considers has the necessary skills to assess its effect.

The FSA must approve the appointment of the Independent Expert. Once appointed, the Independent Expert is required to prepare a report, in a form approved by the FSA, for the Court setting out his conclusion regarding the effects of the transfer on policyholders and other key stakeholders. In doing so, the Independent Expert has an overriding duty to the Court.

In this case, the Independent Expert approved by the FSA is Mr Allan Kaufman of Navigant Consulting, a US actuary who has worked for many years in the UK.

Mr Kaufman's report was produced on 8 April 2009 in a form approved by the FSA. It is worth noting that, subject to any different findings in a supplementary report (as to which a bit more later), the main conclusion in Mr Kaufman's lengthy and considered first report is that "*there are no groups of policyholders, or other parties, ..., that are materially disadvantaged in the event of the transfer*".

Mr Kaufman has indicated that he would be producing a supplemental report. The production of a supplemental report is fairly routine given that any initial report will have been issued some months prior to the final court hearing. This report will address some additional areas including, an update on National Indemnity's financial position; the result of his review of certain supporting documentation which had not been finalised at the time of his first report; and any issues which may have arisen or need clarification since the date of the first report.

The key issue, of course, is what the transfer will mean, in practice, for stakeholders.

As Jane has already explained, Equitas is promoting this because, if it is approved, it will significantly increase the security for policyholders by virtue of the additional reinsurance cover and it will achieve its objective of obtaining true finality for Names under English and European law.

Newco, the replacement insurer, will be an Equitas group company and will be authorised as an insurer by the FSA before the transfer takes effect. Newco will simply replace Names in the existing chain of reinsurance, with the result that the reinsurance now provided to Names by Equitas Reinsurance Limited will be transferred, as a matter of English and European law to Newco. Equitas Reinsurance Limited will continue to be reinsured by Equitas and Equitas will continue to be reinsured by National Indemnity Company.

Newco's main asset for the payment of claims, therefore, will be the same reinsurance that now funds claims paid by Equitas on behalf of the Names. In other words, Newco will be reinsured in the same way that the Names are currently reinsured by Equitas and National Indemnity but it will have \$1.3 billion more than is now available. Equitas will buy this additional reinsurance protection from National Indemnity Company for a premium of £40 million.

Therefore, as a matter of English and European law the impact on policyholders and cedants will be that their insurer will become Newco, a UK insurance company authorised by the FSA. They will no longer be insured by the Names.

It follows, therefore, that policyholders and cedants will have no further claims, as a matter of English and European law, against the Names who underwrote their policies at Lloyd's. Instead they will have claims against Newco but with substantial additional security in the form of the extra US\$1.3 billion of reinsurance coverage from National Indemnity Company.

In effect, therefore, the potential benefit of unlimited several liability provided by the Names will be exchanged for the additional reinsurance provided by National Indemnity Company.

The benefit of unlimited several liability will be of value only in the event that the assets available via Equitas prove insufficient to pay all claims. The additional reinsurance significantly reduces the already small risk of such insufficiency.

Furthermore, the practical value of unlimited liability is limited as explained in the report of the Independent Expert. In particular, the recovery from Names (including the estates of deceased Names) will be affected by a number of factors including:

- 1.1. death and bankruptcy;
- 1.2. various practical and legal impediments to making recovery;
- 1.3. the costs of recovery; and
- 1.4. inevitable delays in the event any recovery is, in fact, made.

Based on his modelling work, the Independent Expert said he believes a reasonable recovery rate from Names for the average policyholder is no more than about 20% of the shortfall and that no policyholder group could expect to receive more than 30%.

Quite apart from this, however, policyholders' and cedants' rights to access overseas trust funds should not be impacted by the transfer.

In addition, and focussing on cedants for a moment:

- 1.1. any set-off rights that existed before the transfer will be preserved; and
- 1.2. US cedants should be able to continue to take credit for the reinsurance provided to them whether or not the transfer is recognised in the US (as to which, more later).

As regards outwards reinsurers, there should be no impact. All external syndicate reinsurance was assigned to Equitas at the time of R&R and any residual interest in such reinsurance that may have resided with the Names will also transfer. Any set-off rights will be preserved.

Finally, notice of claims should be given in the same way as before i.e. as required by the policy (for example, to your broker or designated agent for service). There will be no change to the claims agreement or payment process. In particular, policyholders and cedants will still be required to provide evidence that they held a policy that

constituted 1992 and prior years non-life business at Lloyd's and establish in the same way as now the subscribing syndicates.

In sum, Equitas believes that the transfer does not materially disadvantage policyholders / cedants or other stakeholders and this is a conclusion with which the Independent Expert concurs.

At this juncture, it is perhaps worth me touching on some queries which have been made and my views on them.

To date, it is fair to say that responses have been either positive or neutral. For the most part, the queries that have been raised have been relatively minor and are mostly all dealt with by the information on the Equitas website.

There have, however, been two queries raised which I wish to touch on:

- 1.1. whether Equitas has the authority to facilitate this transfer on behalf of all Open and Closed Year Names; and
- 1.2. whether it is right that we should seek to novate the liabilities of Closed Year Names (which, in turn, depends on whether the Lloyd's mechanism of reinsurance to close - already explained by Jane - is really a novation or reinsurance).

Dealing with each issue in turn:

(a) Authority

Equitas Reinsurance Limited was given absolute and irrevocable authority to manage the 1992 and prior years' non-life business on behalf of the Names as part of Lloyd's Reconstruction and Renewal in 1996 ("R&R"). This authority was delegated to Equitas.

On 24 September 2008, Lloyd's exercised its statutory power to certify that Equitas has the authority to act on behalf of the Names for the purposes of this transfer.

Therefore, we are in absolutely no doubt that Equitas has the requisite authority.

(b) Reinsurance to Close

It has been asserted that we are misconceived in attempting to transfer the 1992 and prior years' non-life liabilities of all Lloyd's Names (that is, Names on syndicates which were open at the time of R&R and those that had already been reinsured to close by that time) because it is asserted that the liabilities of those Names who have been reinsured to close were actually novated to the Names on succeeding years, with the result that we need only deal with the Names on syndicates which were open at the time of R&R.

The argument that reinsurance to close is a novation and not a reinsurance is unconvincing and inconsistent with law and practice. As a result, we consider it right and indeed essential that we should seek to transfer the 1992 and prior years' non-life liabilities of all Lloyd's Names.

It is also worth noting that if it is approved by the English Court, this whole issue will become completely irrelevant in any event.

Finally, I would like to touch upon the recognition of the Part VII transfer overseas and, in particular, in the US.

If the English Court approves it, the decision will bind all policyholders and cedants as a matter of English law and will automatically be recognised throughout Europe.

It should be appreciated, however, that this is a relatively new development in English law. There is, therefore, very little experience on which to form a conclusion as to whether the courts of overseas jurisdictions would recognise it in the event that a claim is brought against a Name in their jurisdiction after the transfer takes effect. We as Equitas' legal advisors are giving careful consideration to the extent to which it is possible and reasonably practicable to take steps in other major relevant overseas jurisdictions to obtain recognition of the UK Court Order. These jurisdictions are the USA, Canada and Australia.

Focussing for a moment on the US, no decision has yet been made as to whether Equitas will seek formal recognition of the transfer throughout the US.

That issue aside, you should be aware that there have been ongoing informational discussions with several leading US insurance regulators, including the New York Insurance Department, who act as the domiciliary regulator of Lloyd's Underwriters.

In the light of these discussions:

- 1.1. Equitas intends to establish a new trust fund in the US to ensure policyholders and cedants continued access to the Equitas American Trust Fund;
- 1.2. in addition, U.S. cedants who continue to have claims against underwriters under US law after the transfer is approved by the English Court should continue to be permitted to take credit for reinsurance from such Underwriters; and
- 1.3. moreover, based on the facts and law as they exist today and based on proposals to establish a further new trust fund dedicated to U. S. cedants, if and when the transfer is ultimately recognised in the US, it is our belief that U.S. cedants should also be able to continue to take credit for reinsurance in that eventuality.

More generally, regardless, however, of whether an overseas jurisdiction recognises the transfer, policyholders and cedants will benefit from the increased reinsurance that will be provided to Equitas if the transfer is approved before the end of this year.

So what do you need to do now? Well, no action is required by any policyholder or cedant.

However, as already explained, if you believe you are adversely affected and would like to make written representations and/or appear at the Court hearing, either in person or by Counsel, we ask that you provide written representations or written notice of your intention to appear at Court and details of your concerns as soon as possible, and preferably by no later than 9 June.

The relevant contact details can be obtained from the website or the notices which have already been circulated.

That is all I had to say but I would be happy to answer any questions once Jane wraps up...Jane.

JANE BARKER

Thank you Philip

The key formal documents that have been lodged with the Court in the UK are now available on the Equitas web site. The slide shows the details.

We also have a help line and of course you can contact us by email.

But now it is time for questions and I have asked Dan if he will chair this session.

Questions & Answers

DAN SCHWARZMANN

Thank you very much, Jane. Good morning, ladies and gentlemen. This is your opportunity to ask whatever questions you would like of us. There will be a roaming mic. I'd be very grateful if you could start by giving us your name and who you represent and then your question. Many thanks indeed. We have our first question here.

JOANNE HOWELL

Good morning. This is Joanne Howell, I'm with AIG, and I just have a question concerning the rights and obligations of the Names that will not be transferred. I understand from reading some of your papers on the website that rights and obligations that are not deemed wholly related to the reinsurance are being retained by

them, and you give examples of premium and return premium that they continue to have the right to. Could you specify and clarify exactly what other rights and obligations are not being transferred?

DAN SCHWARZMANN

Are you saying that some of the Names' rights and obligations are not being transferred?

JOANNE HOWELL

Correct.

DAN SCHWARZMANN

I'm not sure where you picked that one up from, but I will handover. Philip, would you be happy to take that?

PHILIP HERTZ

It's true to say that the Transfer scheme, the Transfer documentation, does specify certain rights that aren't being transferred. For example, Names will retain certain rights and obligations under the reinsurance contract. And one of those rights is the right to return premium, if there ever is one. Another right is the right to be represented by a run-off agent and those are set out in the formal documentation. It's quite complicated, because we've had to transfer some rights under the reinsurance contract with Equitas Reinsurance Limited while retaining others. But for all intents and purposes all liabilities are transferred, and to the extent that any residual rights that Names had in relation to reinsurances, they will also transfer automatically as a matter of English and European law under the transfer.

JOANNE HOWELL

I just want to clarify. You said they're set out. Because on looking at the documents on those two examples mentioned, are there any other rights? Are they set out anywhere else?

PHILIP HERTZ

Yes. It may be better if I take that offline with you.

JANE BARKER

Could I help?

PHILIP HERTZ

Yes.

JANE BARKER

I think Philip's got it right. The two main rights that are being continued is the right to return premium, because Equitas will remain with some surplus in it. It will have something of the order of £80 million of assets. So at some point, some long distance into the future, Names should be entitled to that return premium, but it would need probably a lot of the claims to have been paid and it would certainly need the FSA in the UK to approve a return premium. But that's a right for the Names. And the second one, as Philip says, is the right to be indemnified by the different parties, including NICO. I can't remember myself an obligation that the Names retain. I'm almost willing to say to you without checking that the Names retain no obligations.

PHILIP HERTZ

Yes and at the moment RMSL continue to act for them to the extent that the Transfer isn't recognised in a particular jurisdiction. So there are some theoretical rights that they retain and we've covered those off.

JANE BARKER

But they retain no obligations to pay liabilities. I mean that's the point we should make as clear as we can to you, because it would be wrong to give anybody in this room the idea that the Names retain an obligation to pay claims. They don't.

PHILIP HERTZ

As a matter of English law.

JANE BARKER

I should keep saying as a matter of English law.

JOANNE HOWELL

Okay.

DAN SCHWARZMANN

That's what happens when you have an English lawyer on the stage; it will be as a matter of English law. It was the obligations bit of the question that flummoxed me, and thank you for that, Jane. But you do understand the overriding point that all the liabilities, and any reinsurance that they had, will transfer. Thank you.

PETER WEDGE

Peter Wedge here from SCOR. I've just got a couple of observations. I think you're doing a good job, and of course it's a very difficult process you're going through, but I think we've got an extremely fast timetable here. We got the letter I think the 27th of April, the presentation now the 26th of May, and we have to put everything in writing by the 9th of June. On the one hand that's very clever, because obviously not many people have turned up to say anything, but on the other hand I think it doesn't give people the right opportunity to go through all the different policies and look at the wording, especially as you say you haven't yet decided whether you're going to seek any legal recognition of this in the US, which is probably the biggest question if you're based in the US which is a bit strange. I'm not sure if that's really true, but it's a bit weird. But anyway, the other day I sent an email to info@equitas.co.uk and got the response 'this email doesn't work'. So that wasn't a good start. I asked for a list of policies. I still haven't got any response to that question; I just got the name of a person called Deirdre who should answer all these questions. I still haven't got a response. The problem is I have to give a response by the 9th of June. So if I don't have a list of contracts I can't really read through them and see how I really can come back. So I think that is a bit unfair.

The other thing is there's only really one independent person, as you did say, who is the independent expert. Unfortunately, he's not here today apparently. So I think he's really the one who could answer the questions on an independent basis, because everyone else of course is slightly biased – they want this thing to go through. The second point is about the claims handling. I mean it's well known in reinsurance that Berkshire is very slow at handling claims. So I think as a big point you could say if we want legally, but technically what's going to happen Berkshire is not going to be the same as Equitas. Equitas are very good at paying claims; they have a very good record. Berkshire has slightly different interests and they're world-famous for it. So is there any response on that?

DAN SCHWARZMANN

Okay, Peter, quite a few points there. And what I'm going to do is I'm going to deal with one at a time and then hopefully we'll address all those issues. I just firstly want to apologise to you. If you've asked a query and haven't had an immediate response, apologies for that. I'll take that one offline and make sure that happens shortly. Let me take the timing issue to start with first. I'm going to ask Jane to talk to you on this, but there is a reason that everything's been done quickly and I'm going to ask Jane, if possible, to talk us through the reasons

JANE BARKER

Well, the most important point to make is that the option we have, to buy the extra cover of \$1.3 billion, expires on the 31st of December this year. Now, when we did the original contract we thought that was plenty of time. But in the time since we did the first part of the contract and now, we had to wait for a law change in the UK and that took longer than any of us had expected. So, we are under the cosh a little bit in terms of time. I think all of you are well experienced in the market to know that £40 million to buy \$1.3 billion is not something we can buy elsewhere. So, it's for that reason that we are pushing as hard as we can. On the email query point, I echo Dan, because I take responsibility for this, in apologising to you. I didn't know that "info@equitas.co.uk" was not working. We have got lots of emails, and as I'm sure you know when you get emails you think it's working. So we will sort that one out. Does that finish that part of it?

DAN SCHWARZMANN

It does. Thank you very much for that, Jane. I'm just going to make one further comment about the timing if I may? I will probably hand over to Philip for this, but it's just I want to clarify your exact timing.

And the other thing I do want to just emphasise, Peter, is that I don't think anybody's not trying to answer the questions. It is quite unusual to hold something like this, and as Jane mentioned earlier there's a website and there's a helpline – they will work – and therefore we're more than willing to take further questions. But I just want to clarify exactly on the timing if I may. You mentioned the 9th of June, and I wouldn't mind just Philip just talking to that date.

PHILIP HERTZ

Yes. What I wanted to get across was that we would prefer if any responses are in by the 9th June, or as soon as possible really. What we don't want is to be in a situation where we get to two days from the court hearing and get a load of responses in, because we've got to look at those and the independent expert needs to look at those. The other thing on timing, of course, is that, I don't know whether you have the same here, in England their Lordships go on vacation for the summer. So if we don't get the hearing done this side of the summer Court recess we're then delayed to September, and that then makes the deadline that Jane was talking about even more imperative.

JANE BARKER

And, Dan, could I say a point on Allan Kaufman? As Philip tried to explain and I hope clearly in his report, although Equitas recommended the appointment of Allan Kaufman to the FSA who approve his appointment, he is actually responsible to the Court. Therefore it's not 'usual practice', for the independent expert to subject himself to public meetings and questions in public meetings, and that's why he's not here. It's not because we didn't want him to be here, or he didn't want to be here, it's just not the way this is done. He, if you like, has court protection and would not normally submit himself to public questioning.

DAN SCHWARZMANN

That's right.

JANE BARKER

I hope I've said that correctly.

DAN SCHWARZMANN

That's perfect, Jane. Peter, just before we move on I'd just like to come back on another matter. We are trying to be as clear as possible today, so please do push us if we're not being. You talked about the fact that you haven't got a list of contracts, and that will, to the extent it can be, be sorted. The thing I would also just say to everybody in the room is that this should work whether you have one contract or you have numerous contracts. So you should be looking at: does the Part VII put you in a better position or a worse position and you should be asking yourself that question irrespective of the contracts.

JANE BARKER

And, Dan, can we say also, just really to try and help Peter, that there's nothing in the Part VII that changes any wording of any of the contracts, and indeed the judge is very keen to make sure that that's the case. So, it's not any sort of sleights of hand, whereby you change where the responsibility to the liability lies and oh, by accident a policy won't work in the future when it worked before. That's the whole point of this, the policies, whatever their wording, and I'm sure there are different wordings represented in the room, because that's the way Lloyd's did business, remain the policies with the wordings that you've had the right to rely on and they remain in place.

DAN SCHWARZMANN

I hope this is helping you with your question. I find sometimes there is some confusion between policyholders about the various different processes in the UK. This isn't a process that there is a vote on; this is a process you should be comfortable on and if you're not comfortable and you want to raise queries with the Court you can. But, as Jane highlighted, the independent expert is there for the Court, and there are other checks in place for you, including the fact that this is being very carefully looked at by the regulator, and the regulator and the Court are looking at the transfer from a policyholder's perspective.

DAN SCHWARZMANN

Mindy, before I come to you, Peter, there's one other issue you raised which was on claims handling, and I just want to address that. Have we adequately dealt with the other queries you've raised? Thank you. Just on the claims handling, the claims handling is being run by RMSL at the moment. That occurred when the reinsurance, the first reinsurance contract that Jane mentioned, was put in place. So there actually will be no change in the claims handling now and post the Part VII. And that's the question that the policyholders should be looking at; is there any different pre and post and if there is a difference you know am I worse off or am I better off, or am I the same off? That's what you should be asking. So claims are being handled by RMSL already, and that was put in place when the reinsurance contract was put in place back in 2007. I don't know if Jane or Philip would like to anything further to that?

JANE BARKER

No.

DAN SCHWARZMANN

Peter, have we dealt with all your questions? Thank you very much indeed. Mindy?

MINDY KIPNESS OF AMERICAN INTERNATIONAL GROUP, INC

I have a couple of questions. First of all, back to Jane's comment earlier, what law was it that changed and when did it change?

DAN SCHWARZMANN

Mindy, I'm sorry, I didn't understand the question. Sorry.

MINDY KIPNESS

Jane made a comment that the reason for the delay was because you were waiting for a change in a certain law; that that law changed and that enabled you to now do a Part VII for Equitas. So that's question number one: when did it happen and what exactly was that law? The second one is relative to the New York Trust Fund. Philip, you mentioned a new trust fund. What does that mean? More? Bigger? Smaller? Completely different? What is the change that's expected or anticipated? Knowing that you haven't yet negotiated with the New York Insurance Department, what is the expectation relative to that fund? Going back to Joanne's question regarding the premiums going back to the Names, those kind of premiums you would think would come to fund a run-off company and be available to pay future claims, even though they're not related specifically on a one-to-one basis to the loss payments that are due in the future. However, if the benefit of return premium or a future profit comes to the Names, that takes it away from the policyholders and ceding companies to whom there are liabilities from Equitas. So can you explain that a little bit more? Flesh that one out?

DAN SCHWARZMANN

Sure.

MINDY KIPNESS

And finally, excuse me for being cynical, but you know me.

DAN SCHWARZMANN

I was trying not to laugh then.

MINDY KIPNESS

I know. Well, I gave you the option. Part VII usually feels like a prelude to a solvent scheme, where once the Part VII is done and the dust settles off, that was the left hook and then the right hook comes along with a solvent scheme where you bring ultimate closure, net present value real quick, maybe even quicker than this April/June thing. What's the expectation of a solvent scheme relative to the Equitas after you've finished the Part VII?

DAN SCHWARZMANN

Thank you Mindy. I'm glad that you asked lots of questions like that, so I'm pleased that you're slightly cynical because it enables you to ask questions which I'm sure everybody else wants to ask. Let me deal with the last one. There were three questions there. I'm probably going to ask Philip to deal with the first couple on the

legal side, and then we'll look at premiums and I think I'll ask Jane to talk about the premium one again. But let me just talk about solvent schemes straightaway, because when I'm up on a stage here I'm normally talking about solvent schemes. And I see a few of you laughing, so I think I should address that one. Let me say there is absolutely no contemplation whatsoever of doing a solvent scheme of arrangement. This is a Part VII. I do work other than solvent schemes, and I do Part VII work, and this is just part of the work I do. There is absolutely – I hope this is very clear – no contemplation of doing a solvent scheme at all.

JANE BARKER

And, Dan, maybe I should agree with that just so nobody thinks that we're playing some silly game here. We're not. There is no contemplation whatsoever of doing a solvent scheme. None. And actually, if you think about where I sit in that chain, which is the Equitas piece, there's no benefit to Equitas once we've done the Part VII in doing a solvent scheme. So you would actually need another party that's on that slide to want to do a solvent scheme, and if you're a cynic so am I, you would need National Indemnity to want to do a solvent scheme. And my understanding, probably the same as yours, is that National Indemnity don't support solvent schemes. I think I've got that about right.

DAN SCHWARZMANN

Yes. There's no solvent scheme. No contemplation of a solvent scheme it's very, very clear.

MINDY KIPNESS

And it's on the record.

JANE BARKER

It's on the record. Absolutely it is on the record.

MINDY KIPNESS

It's definitely. Right.

DAN SCHWARZMANN

This is being taped.

PHILIP HERTZ

It's in the independent expert's report.

DAN SCHWARZMANN

Yes, it is actually addressed in the independent expert's report.

PHILIP HERTZ

It's actually dealt with in the independent expert's report. And he rightly says that you can't do a solvent scheme without the support of your reinsurers and Speyford would need the support of both Equitas and NICO.

MINDY KIPNESS

It's not an absolute?

PHILIP HERTZ

Well no. No. But you know...

JANE BARKER

He's an independent expert. They don't give absolute assurances.

DAN SCHWARZMANN

Mindy, I think hopefully that's dealt with that question. That independent expert report by the way is publicly available. Okay, Mindy, two other questions you asked actually three, but I'm just going to ask Philip to deal with the first two. And just to remind the audience, the first one was about the change of law which was required in order to allow this particular Part VII to occur and the timing around that? Philip, I think it would be helpful to set out the whole timeline. And then you also wanted to Philip just to come back on the trust fund. Is that okay, Philip?

PHILIP HERTZ

Okay. Yes, absolutely. Dealing with the change of law, under the Insurance Companies Act 1982, it was always possible to use the predecessor to Part VII, which was Section 51 Transfers and then Schedule 2c Transfers to transfer the business of Names. And that included former Names. When the Financial Services and Market Act came into effect in 2000, there was just an oversight, and the definition of underwriting member, for the purposes of the transfer provisions, excluded former Names. So, we wouldn't have been able to transfer closed year Names' liabilities. And although the change of that law, the amendment of that definition, happened last July, we have been actually pushing for that change for a long time before then; it just took a long time to get through. And it just so happened to coincide and get more urgent after the National Indemnity deal. So there was a very simple change, but it was actually a crucial change for this transaction.

DAN SCHWARZMANN

And it did take a while to come through.

PHILIP HERTZ

It just took ages.

DAN SCHWARZMANN

That was out of our control. Philip, I think that answers the question. Could you also talk about the trust fund comment you made?

PHILIP HERTZ

Yes. I'll preface my comments by saying that there have been ongoing informational discussions with the regulators. We're not there yet and those discussions are ongoing, but the hope is that by the time we get to Court in June, we will either have in place and signed the trust fund deeds, or we'll be almost there. You're aware that there's the Equitas American Trust Fund and there's a Lloyd's American Trust Fund. And what we want to do is put in place a parallel trust fund, we call it the Speyford American Trust Fund or the Equitas Insurance Limited American Trust Fund, which will simply allow policyholders, to the extent they recognise the Transfer or to the extent it's binding on them, because there maybe policyholders in the UK who have done US denominated business, to actually access the Equitas American Trust Fund. So that's one trust fund. Then there will be an additional trust fund, as I mentioned, we intend to put in place an additional trust fund – a credit for reinsurance trust fund, which will again enable, once the transfer is recognised in the US – and we haven't made a decision yet, but if we seek formal recognition – to allow people to take credit for reinsurance from Speyford, from the new company. But again that is subject to continuing discussions with the regulators and that's really all I can say about it at the moment. We're just pushing hard to be able to get there. If we don't get there, for whatever reason, on that trust fund, that second trust fund, we still feel that it will be okay, because - as we understand the position - cedants will still be able to take credit from the Names anyway post transfer pre-recognition in the US. That position will just simply continue after the Transfer.

DAN SCHWARZMANN

Can I just add one thing, Philip?

PHILIP HERTZ

Yes.

DAN SCHWARZMANN

I just want to make sure we answer your question really directly. You said, "Do I have a worst trust fund afterwards or have a better trust fund or do I have the same trust fund?" The answer is you get the same trust fund.

PHILIP HERTZ

What we're trying to do is to replicate the structure for policyholders

MINDY KIPNESS

It's the form of the trust fund not the amount.

PHILIP HERTZ

Correct.

DAN SCHWARZMANN

Correct.

MINDY KIPNESS

...whether it's Equitas or Speyford?

DAN SCHWARZMANN

Correct and it's just mirroring the fund that's in place already. So "the same" is the answer to your question. Just on the premium point, forgive me – I thought Jane was quite clear on this – there's no premiums going back to Names. That's not being allowed by the regulator at present. I think Jane was talking about in 70, 80, 90 years time there might be some premiums that might go back to the Names or whenever that might be, but there's no immediate necessity for that now. That's what I heard from here. Does that answer your question, Mindy, or did I miss something?

JANE BARKER

Let me try.

DAN SCHWARZMANN

Please try.

JANE BARKER

Let me try again. I agree with all that you said in your question. You said that that money should be available for policyholders, cedants, in the case of the reinsurance failing. The FSA, the UK regulator, absolutely agree with you. They have not permitted any return of premium now. What I was talking about is in many, many years time when, if there ever comes a day, regulators could be satisfied that all claims have been settled, or that the amount of money available – you remember we've got cover above our reserves – the percentage cover over and above the reserves becomes so huge that a regulator would feel confident to say, "This £80 million," whatever it's grown to with investment income should there ever be any, "that that can be paid back." But this is not today, and as I say, it's many, many years into the future.

DAN SCHWARZMANN

Thank you very much, Jane. Thank you, Mindy. I just want to re-emphasise again, I'm going to keep re-emphasising this, this is what you've got to keep asking yourself, are you in as good as or a better position post the Transfer than you are pre the Transfer and I hope that answers the question, giving you comfort. Are there other questions, please?

KATE PERLMAN

Again on the trust funds, could you give us an idea of whether you expect to have these in place before year end? You know when we have to file our statutory statement and how's that going to work?

DAN SCHWARZMANN

Okay. Understood.

I know who you are, but I'm afraid everybody else doesn't know who you are.

KATE PERLMAN

My name's Kate Perlman of General Re

JANE BARKER

Thank you.

DAN SCHWARZMANN

I'm sorry. That was my weakness because we know each other. So, Philip, do you just want to talk about timing?

PHILIP HERTZ

Yes. Our absolute ideal, Kate, is to have these documents signed before the 24th of June. In the event that doesn't happen there will be some arrangement in place, some intent, and we would definitely want to try and get them in place before the end of the year. Absolutely.

KATE PERLMAN

Then my next question. You're assessing whether or not you should file for recognition in the United States. When do you think you're going to have a decision on your assessment?

JANE BARKER

Shall I? We won't decide on our assessment until after we've got the Part VII. So, we're not saying that we're going to decide between now and the 24th of June. So I think it's right to say this, that from the point of view of a US dollar policyholder, the situation vis-à-vis the trusts that currently exist and how they will exist afterwards will be the same and we're very keen that that should be the case. What Philip is talking about with these extra trusts is, if you like, just extra security to make sure that the system and the way in which the trust funds work for all policyholders whether they are in the US or not, continues. Is that fair?

PHILIP HERTZ

That's right.

DAN SCHWARZMANN

So, Kate, what Jane was just emphasising there was that there will be no change between now and the contemplated Court hearing and you therefore shouldn't be impacted. You should have the same access to the trust funds post the Part VII as you do now. Recognition will be assessed post transfer, Kate - there's work to be done and there will be heavy consultation with regulators. So that's why it can't be done immediately.

WENDY TAYLOR

Wendy Taylor, Chubb. What sums will be in the trust fund? Will the amount be the same as what we have today?

DAN SCHWARZMANN

Thank you very much, Wendy. I am going to ask Philip just to clarify that position.

PHILIP HERTZ

The equivalent of the LATF will simply be a conduit fund. It will be able to feed off of the Equitas American Trust Fund and the Equitas American Trust Fund won't change in amount. In terms of the Reinsurance Trust Fund, the separate trust fund, that's under discussion at the moment with the department.

DAN SCHWARZMANN

Wendy, did that fully answer your question?

WENDY TAYLOR

[INAUDIBLE]

DAN SCHWARZMANN

Well, can I just say on that second fund that Philip's is talking about doesn't exist at the moment, so it can only be better.

PHILIP HERTZ

You know the Regulations say that there needs to be a \$20 million trust deed surplus above liabilities. So we want to be as compliant as we can.

WENDY TAYLOR

[INAUDIBLE]

DAN SCHWARZMANN

Just in case anybody didn't hear that question because there wasn't a microphone with you at the time you asked it, I'm going to repeat that question because it's a really important one. Is there any contemplation of

any money being taken out as a result of these movements? Now that was what I was trying to emphasise before; clearly didn't do a very good job on it. Philip, do you want to just answer that question with a yes or no?

PHILIP HERTZ

Taken out of where? Taken out of what the Equitas American Trust Fund?

DAN SCHWARZMANN

At all?

PHILIP HERTZ

No.

DAN SCHWARZMANN

Wendy, I don't want to lose this point, but it's clearly causing some concern. Wendy, are you now comfortable?

WENDY TAYLOR

Sorry?

DAN SCHWARZMANN

Are you now comfortable?

WENDY TAYLOR

Yes

JACK WINSBRO

Hi. My name's Jack Winsbro. I'm with the law firm Dickstein Shapiro. I understand the benefit of this transaction for policyholders is we get about \$1.3 billion more in reinsurance. Am I correct in understanding the benefit, the reason the Names want to have this transaction, is simply for closure, so basically more money is being put up so that they're finally relieved of all liabilities and that's what's motivating the transaction from the perspective of Equitas and the Names?

DAN SCHWARZMANN

Can I answer that question, Jack? See I look at it slightly differently.

JACK WINSBRO

Okay.

DAN SCHWARZMANN

The job that's being done here, the paramount focus is on the policyholders and on the cedants. And the driver here is the fact that there's this additional reinsurance which is going to give additional protection to the policyholders and cedants. And if there's any doubt about that then you should challenge us on that today. The added part of this deal is that the Names' liabilities transfer. But the driver for this is the additional security for the policyholders and cedants.

JACK WINSBRO

Now Lloyd's is a defendant in quite a few coverage litigations in the United States. Is the new entity going to appear as a defendant in those coverage litigations or in place of the Lloyd's Names or current defendants?

DAN SCHWARZMANN

That's an excellent question and thank you for that. Did everybody hear Jack's question about who's actually going to appear if there's some litigation in the future? And unsurprisingly I'm going to head over to a lawyer to deal with that question. So over to you, Philip.

PHILIP HERTZ

When you say will Lloyd's appear it's really a question for RMSL as to whether they will appear... Will they seek to substitute in or add? I mean, put the question the other way. As a policyholder attorney when you initiate action or you've got a continuous action would you seek to add the new company as the defendant?

JACK WINSBRO

Frequently we'll sue an insurance company, and then another company will appear for the company that we've sued essentially saying "You sued the wrong company. I'm the successor to the company that you sued."

And I guess here we have a situation where there's pending litigation against Lloyd's Underwriters and I'm just wondering whether the new company would anticipate appearing in those cases as essentially the real party at interest or whether litigations would simply continue against the Names? If the Names are going to ultimately be relieved of liability, it would seem like you're going to have a new entity appearing for them.

DAN SCHWARZMANN

Jack, can I just, because I know Philip will struggle because he's a lawyer and would want to be very exact, but I want to say that what we can't do in this forum is give advice that policyholders are going to take as individual advice for them. So you might, Philip, want to talk about this in a more general perspective as to what you suspect you might see going forward.

PHILIP HERTZ

Well the day after the Transfer there will be a number of decision points for RMSL as to what they do; whether they put in an affirmative defence on the basis that there is another entity as a matter of English law. And those are questions which are actually being considered right now by RMSL and Equitas as to what would be the proper course. And the reason I'm struggling and can't answer you directly is because we haven't quite got to the stage of advising in terms of exactly what they should be doing. But you know thinking about it, if you're a claims handler acting for a Name and you have duties to that Name, you would think that it might be a sensible thing to do; at least one of your defences to raise the fact that a transfer has happened. But that's about as far as I can take it at the moment.

JACK WINSBRO

Okay. That's fine. Just one other question I just want to confirm. If the English court approves this transaction, I understand then the \$1.3 billion additional reinsurance will be purchased, irrespective of whatever recognition American courts may give the transaction, is that right?

PHILIP HERTZ

Correct.

JACK WINSBRO

Okay, thank you.

JANE BARKER

And American policyholders would have every right to their part of that \$1.3 billion, so it's not it's only outside the US that it works.

JACK WINSBRO

Okay. Thank you.

DAN SCHWARZMANN

Yes, thank you for that, Jack. That was a good question.

DAN SCHWARZMANN

How are we doing? More questions. Plenty of time.

DELEGATE

I did not read the independent advisor's report. Does he address in there the impact of the UK asbestos on Equitas' reserves? The new UK asbestos emergence.

DAN SCHWARZMANN

Yes, you should read it. It's quite a good read actually and UK asbestos is dealt with in the report. It's fair to say, by the way, that report is not yet final, in that there ...

DELEGATE

I'm sorry?

DAN SCHWARZMANN

The report is not totally final. There is a supplemental report that will deal with items listed in Section 14 of the Independent Expert report.

JANE BARKER

Dan, can I add something to that?

DAN SCHWARZMANN

Please.

JANE BARKER

It's this thick and there is a warning on the website that if you were thinking of printing it off you can go away and come back again another day. But just to make a point on the asbestos question you raised, whatever happens to Equitas vis-à-vis UK asbestos of course will be the same before and after the Part VII. And that's the point that comes out loud and clear really on any questions you might have about individual reserving issues within the Equitas reserves. And I think that's brought out well by Allan Kaufman in his report.

DAN SCHWARZMANN

Kate?

KATE PERLMAN

How did you arrive at the name Speyford Limited?

DAN SCHWARZMANN

Do you know I knew there was going to be a question we couldn't answer.

JANE BARKER

Can I answer this?

DAN SCHWARZMANN

You can answer this one. We're going to blame Philip for this one.

JANE BARKER

Yes.

PHILIP HERTZ

So it's our fault. It just happened to be the next company on the rank when we were creating a company.

JANE BARKER

But there's a very tiny little bit of UK regulatory matters to make clear to you all which you may not know. We're not allowed to form a company in the UK with the word 'insurance' or 'reinsurance' in it until we have approval for that company. So you sort of have to have a holding name until you get approval, and then you can have a company with the name 'insurance' or 'reinsurance' in it. This of course is to make sure that nobody sets themselves up as the 'Jane Barker Insurance Company Limited' when they have no approval. It's to protect policyholders from buying policies from unapproved companies. It's just a silly little matter, but you would be surprised the number of times we've been asked the question 'where does the name Speyford come from.

DAN SCHWARZMANN

But I'm glad we had the opportunity to publicly blame Philip for it. The name will change in due course. It will change to Equitas Insurance Limited, as soon as that vehicle becomes authorised.

KATE PERLMAN

And when will that happen? Will it happen before year end as well?

JANE BARKER

It has to.

PHILIP HERTZ

It has to happen before the Transfer is sanctioned.

DAN SCHWARZMANN

So we're talking about in the next month?

PHILIP HERTZ

Yes.

KATE PERLMAN

Could you just repeat. It is Speyford Limited and then once it's sanctioned in the Part VII it will change to?

PHILIP HERTZ

No, it will be authorised just before. I mean we hope it will be authorised very shortly, but at the latest right before the sanction hearing, and at that time the name will be changed to Equitas Insurance Limited. So all the court papers will bear the name Equitas Insurance Limited.

DAN SCHWARZMANN

I can just see in the audience that a few people are just querying that. So can I just say this once again if that's okay? I think Philip's made it very clear, but just to be clear that the Transfer to Speyford cannot take place until that vehicle is authorised as an insurance company. And at the same time as it authorised its name will be changed.

JANE BARKER

And I'm told we can change names in very quick order, so.

PHILIP HERTZ

Yes.

DAN SCHWARZMANN

There's a microphone just coming to you.

CHRIS REICHOW

Chris Reichow with PRO. Operationally have there been any decisions as to UK versus US? I know there's some migration of claims handling to the US, but have they made any other announcements or decisions after this transfer goes forward?

DAN SCHWARZMANN

Yes, Chris, that's a good question. I think what I would say to that is, yes, as most operations of this size evolve over time the claims handling procedures change, as you know. However, wherever the claims handling takes place, you know it is in respect to a UK authorised vehicle and it will be under the control of the FSA. I think that you know it will evolve.

DAN SCHWARZMANN

Wendy, back to you.

WENDY TAYLOR

Just one other question. The letter that was sent out by Equitas was referring to the reinsurers and the retrocessionaires of the policyholders, it didn't refer to cedants. Was there a reason for that, like in this notification about this meeting?

DAN SCHWARZMANN

Do you know there's so many letters that have gone out. There was a letter that was sent out to put the reinsurers and retrocessionaires on notice, although you know we're talking about the liabilities that are being transferred. So, the letter that went to policyholders and cedants, we just put the reinsurers and

retrocessionaires on notice of that. I wonder if that's the letter you're referring to.

WENDY TAYLOR

I think so, yes.

DAN SCHWARZMANN

Yes. I think it was just to make sure that everybody was aware of what was happening.

PHILIP HERTZ

I think we just wrapped cedants and policyholders together in the letter to policyholders.

WENDY TAYLOR

I see. Okay. It just wasn't clear that's all.

PHILIP HERTZ

Oh. Apologies for that.

DAN SCHWARZMANN

Any more questions, ladies and gentlemen?

Okay. I'm just going to give the opportunity to Jane and to Philip if there was anything that they thought that just needed further clarification on those questions. Is there anything that you would like to add at this stage?

PHILIP HERTZ

No.

DAN SCHWARZMANN

Okay. Jane?

JANE BARKER

No, I think I've had my turn. Thank you.

DAN SCHWARZMANN

Okay. Thank you. So, on behalf of Jane and on behalf of Philip, I would just like to say to you thank you very, very much for making the time to come here today, there have been some really good questions and hopefully we've been very clear. If there are any questions that you need further clarity on, we're not running away, we're here to answer them now.

And indeed if you think of any further questions or you know of anybody who's not at this meeting who's got any questions, then please do contact us you know on the helpline number or by the email, which, Peter, we will definitely make sure is working as quickly as possible. Thank you very much again for attending today. Thank you.

JANE BARKER

Thank you.