



## Frequently Asked Questions

- **What is a Part VII transfer?**

“Part VII transfer” is the name sometimes given to a transfer of insurance business under the Financial Services and Markets Act 2000. It is a statutory scheme whereby the liabilities of one insurer (or, as here, a group of insurers) are transferred to another entity. To be effective the scheme requires the approval of the High Court, which is assisted by a report from an Independent Expert. The Financial Services Authority (“FSA”) also has the right to object to the scheme in Court. In practical terms it is not likely that we would proceed to Court should the FSA object to the scheme. A scheme such as this is sometimes generally referred to as a “novation” insofar as it allows the transfer of both rights and liabilities although, unlike a novation, it does not require the consent of the transferred policyholders and is more comprehensive in scope; for example, it allows the rights to reinsurance recoveries to be transferred as well as the underlying policies.

- **Why did you do the transaction in two phases?**

At the time of Phase I in March 2007 the relevant legislation did not allow us to apply for a Part VII transfer by Names who had ceased to be members of Lloyd's before 24 December 1996. The legislation was amended in 2008 by The Financial Services and Markets Act 2000 (Control of Transfers of Business Done at Lloyd's) (Amendment) Order 2008.

- **Where will the liabilities be transferred and who decided this? What factors were relevant to this decision?**

The transfer will be made to a newly incorporated company, currently called Speyford Limited (“Speyford”), which is a direct subsidiary of Equitas Holdings Limited. The Equitas Trustees, who are its ultimate owners, intend to change its name to “Equitas Insurance Limited” when it receives authorisation from the FSA. National Indemnity Company elected not to take ownership of this company and therefore its regulatory capital must be provided by the Equitas Group. It remains open for Equitas Holdings Limited to sell Speyford at a later date. In such eventuality, National Indemnity Company has a right of first refusal.

- **Do you anticipate objections from policyholders to the Part VII transfer?**

If the Part VII transfer takes effect on or before 31 December 2009 Equitas has the right (but not the obligation) to purchase up to a further \$1.3 billion reinsurance cover from National Indemnity Company for a premium of up to a further £40 million. In the absence of unforeseen developments before the effective date of the Part VII transfer Equitas intends to purchase all of this additional reinsurance. This additional reinsurance will protect Speyford in respect of the liabilities it assumes from Names and will therefore ultimately benefit policyholders.

In view of this we believe the Part VII transfer is clearly beneficial to policyholders, so we see no valid reason why they should object although any person has the right to do so.



- **Why can't you pay a further Return Premium?**

At Phase I we explained that any further distribution to Names would depend on requirements for regulatory capital and other constraints. The FSA has decided that, having regard to such matters, they will not permit a further return premium to be paid at this time.

- **Is Phase II *really* finality?**

In the English Courts and in Europe, yes.

The effect of a Court sanctioned Part VII transfer is that the transferors (the Names in this case) cease, as a matter of English law, to have any continuing liability for the business transferred. Once the Part VII transfer is sanctioned in the UK it will automatically (subject to the rights of the relevant regulator to object) be recognised throughout the European Economic Area (comprising the member States of the European Union plus Iceland, Norway and Liechtenstein).

It is theoretically possible that policyholders may, nevertheless, make claims against Names in overseas jurisdictions arguing that the Part VII transfer should not be recognised by the courts of those jurisdictions. We are therefore giving careful consideration, with our legal advisers, to the extent to which it is possible and reasonably practicable to take steps in other major relevant overseas jurisdictions to protect Names from such action.

- **What happens if the Part VII transfer is not approved?**

If the Part VII transfer is not successful, for whatever reason, then Equitas will retain the \$5.7 billion reinsurance cover from National Indemnity Company. We will do all that we reasonably can to ensure that Names have legal finality through the Part VII transfer process, but we believe Names already have practical finality as a result of Phase I.

- **What happens if the Part VII transfer is approved in the UK and EEA but not ultimately recognised in other relevant overseas jurisdictions?**

In the unlikely event that any claims were, nevertheless, to be brought against Names after the Part VII transfer, National Indemnity Company has agreed to indemnify them within the limits of the reinsurance cover. However, as a condition for such indemnity cover, Names must ensure that they keep National Indemnity Company informed of any action or claim (actual or threatened) brought against them and generally permit National Indemnity Company to control the conduct of any such action or claim.

After the Part VII transfer, Names will also be indemnified by Speyford in the unlikely event that claims are brought against them.

# EQUITAS



- **What happens to Equitas and the Trustees after the Part VII transfer has occurred?**

The Trustees, together with the Chairman and CEO of Equitas, will constitute the first Board of Directors of Speyford. It is not yet possible to say how long it will be before they will have fully discharged their residual responsibilities.

- **Will you let Names know how things are progressing with the Part VII transfer?**

The most recent information as to progress of the Part VII transfer will be posted on our website. [www.equitas.co.uk](http://www.equitas.co.uk) Other sources of information are set out in the Chairman's letter.

- **Do I need to do anything now?**

**Names are not required to take any action in connection with the Part VII transfer.**

If you intend to attend the Open Meeting for Names on 2 June 2009 please return the enclosed reply paid card by Tuesday 26 May 2009.

- **Will Names get a vote?**

The Part VII transfer is not subject to a vote. However anyone, including open and closed year Names, who believes they will be adversely affected by the Part VII transfer has the right to make written representations and/or to appear at the Court hearing. It would be helpful to us if any such written representations or written notice of intention to appear at Court and details of any questions or concerns are provided to us as soon as possible, and preferably by no later than 9 June 2009, using the contact details set out in the Chairman's letter.

- **I am a Name reinsured by Centrewrite / Lioncover – how does this affect me?**

The insurance business of Names reinsured by Centrewrite and Lioncover will also be transferred under the Part VII transfer. Although you will therefore no longer have liabilities to your policyholders under UK law (and the law of EEA states) the indemnity given by Lloyd's to accepting PCW Names under the PCW Settlement Agreement will remain in place. Further information is being provided to PCW Names by Lloyd's and on the Lloyd's website. [www.lloyds.com](http://www.lloyds.com)

Policyholders of Names reinsured by Centrewrite and Lioncover will not be prejudiced since arrangements will be put in place so that they continue to have the benefit of the Lloyd's covenants, currently in the form of unlimited bonds issued to Lioncover and Centrewrite.

# EQUITAS



- **Do I have to keep telling you if I change address? Do my executors have to tell you when I die?**

Names will not be required to keep Equitas informed of any address changes after the Part VII transfer. However, should there be a return premium payment in the years to come, Names or their estates may not receive their entitlement if they have lost touch with Equitas.

- **Why have you not sent information about the Part VII transfer to closed year Names?**

Equitas does not have (and is not required to have) name and address information in respect of closed year Names. Closed year Names were not required to pay an Equitas premium as they had (by definition) already paid a reinsurance to close premium when reinsuring their liabilities in the ordinary course of business at Lloyd's. Closed year Names have therefore never been entitled to a return premium from Equitas. In addition, closed year Names are reinsured either by other closed year Names or by open year Names. Equitas' reinsurance obligation to closed year Names therefore arises only if for any reason one of these intermediate reinsurances to close were to fail or be set aside. This has never happened. None of this affects the fact that all Names remain liable to their policyholders on the policies that they underwrote until the Part VII transfer takes effect. Accordingly Equitas is seeking the Part VII transfer on behalf of all Names, closed year and open year alike.

In any case, as with open year Names, in the unlikely event that claims were to be brought against closed year Names after the Part VII transfer, they will be protected by the indemnities from National Indemnity Company and Speyford that are referred to above.

- **Will my executor still need to go through the In Re Yorke process to close my estate?**

The Re Yorke process is a procedure under English law to obtain a court order to protect the executors or personal representatives of a deceased Name's estate against any claims for having distributed the estate to beneficiaries whilst there is still the potential of a Lloyd's related claim arising against the estate.

Following the Part VII transfer, Names will have no further liability under English law (and the law of EEA states) for the business reinsured by Equitas. As you will be aware, there is no obligation on any executor to obtain a Re Yorke order and whether or not an executor should do so is dependent on the particular circumstances of the Name's estate. In most cases an executor of a Name's estate in the UK will no longer need to seek the protection of a Re Yorke order after a the Part VII transfer has taken place. However, given that the Part VII transfer may not be recognised in overseas jurisdictions outside the EEA, the risk of an executor being sued in a foreign jurisdiction is likely to be dependent ultimately on the particular estate's exposure to foreign claims. Each executor should seek his or her own legal advice as to whether a Re Yorke order would be appropriate in any particular case.

# EQUITAS



- **Will the Chairman or any other Director or employee of Equitas or any of the Equitas Trustees receive a bonus on completion of Phase II?**

No.

- **Is it planned to follow the Part VII transfer with a Scheme of Arrangement?**

We do not have any plans for any Scheme of Arrangement following the Part VII transfer.

- **Will the current economic crisis mean the Part VII transfer might not go ahead?**

We see no reason why the global economic downturn should affect the Part VII transfer. As of today the terms on which we will be able to purchase the additional reinsurance from National Indemnity Company if the Part VII transfer is completed before the end of this year have become more favourable because of the weakening of sterling relative to the US dollar, although of course that can change any day.

- **Aren't you worried about taking even more exposure to National Indemnity Company?**

National Indemnity Company continues to be one of the few insurance companies in the world to have a AAA insurer financial strength rating from Standard & Poor's, indicating that the prospect of their insolvency is extremely remote.<sup>1</sup> If the rating of National Indemnity Company by Standard & Poor's falls below AA- prior to the Part VII transfer, the contract requires it to provide security for the remaining reinsurance and run-off obligations. This arrangement will provide significant protection for Names and policyholders. However, if National Indemnity Company were to become insolvent shortly following such a rating downgrade, it is theoretically possible that it would not, as a matter of law, be able to provide such security.

- **Does Equitas really need to buy this additional protection? If it is so important would you consider buying it even if the Part VII transfer does not happen?**

The option to purchase additional reinsurance from National Indemnity Company exists only if the Part VII transfer is successful. We believe that as a result of Phase I Names already have practical finality, and it is extremely unlikely in our view that the existing reinsurance protection will not be sufficient to enable all liabilities to be settled in full. The additional reinsurance will, however, reduce any remaining doubt, and we believe it is prudent to purchase it if we are able to do so. We do not believe that purchasing this level of additional reinsurance protection is feasible outside the arrangements with National Indemnity Company.

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<sup>1</sup> On 8 April 2009, Moody's Investors Service downgraded the "Insurer Financial Strength" rating of National Indemnity Company from the highest to the second highest available rating. The Independent Expert intends to issue a supplemental report before the Court hearing to assess the impact, if any, of this downgrade on the scheme.

## EQUITAS



- **Do you have to buy the additional reinsurance from National Indemnity Company? Can't you get a better deal from anyone else?**

We are not obliged to purchase the additional reinsurance from National Indemnity Company, however in the absence of unforeseen circumstances we intend to purchase all of the additional reinsurance if the Part VII transfer occurs this year. We do not believe there is any prospect of securing better terms from any other insurance carrier. As stated previously, National Indemnity Company is currently one of the most highly rated insurers in the world.