

Peer Review of Actuarial Report on MMI Australia Transfer Scheme under Insurance Act 1973 Part III, Division 3A

Prepared for Municipal Mutual Insurance Limited

January 2009

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27 January 2009

Mr Ian Willett
Municipal Mutual Insurance Limited
29 Buckingham Gate
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London
SW1E 6NF
UNITED KINGDOM

Dear Mr Willett

Peer Review of Actuarial Report on MMI Australia Portfolio Transfer

In accordance with our engagement letter dated 24 October 2008, I have undertaken an independent peer review of the actuarial report prepared by Mr Richard Wilkinson of KPMG Actuaries Australia on the proposed transfer of insurance business from the Australian branch of Municipal Mutual Insurance Limited to Gordian RunOff Limited.

This report presents my findings and opinions, in addition to describing the information I have received and the approach I have followed.

Please do not hesitate to contact me if you have any questions.

Yours sincerely

A handwritten signature in black ink, appearing to be 'G. Atkins', with a long horizontal stroke extending to the right.

Geoff Atkins
Fellow of the Institute of Actuaries of Australia

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Part I Detailed Findings

1 Introduction and Scope

Finity Consulting Pty Ltd (Finity) has been engaged by Municipal Mutual Insurance Limited (MMI) to undertake an independent peer review of the actuarial report prepared by Mr Richard Wilkinson of KPMG Actuaries Australia regarding the proposed transfer to Gordian RunOff Limited (Gordian) of the Australian branch of MMI (MMI Australia).

This report has been prepared by Mr Geoff Atkins, an experienced actuary and a Director of Finity, in accordance with a letter of engagement dated 24 October 2008. A curriculum vitae for Geoff is included as Appendix A of this report.

This report is intended to comply with the Guidelines for Expert Witnesses in Proceedings in the Federal Court of Australia (issued 5 May 2008).

1.1 Outline of Transaction

MMI Australia has been in run-off since March 1992. It has no premium remaining unearned and no applicable reinsurance.

Gordian has been in run-off since 1999. It was formerly known as GIO Insurance Limited and traded under the names GIO Re and GIO Corporate.

MMI intends to propose a transfer scheme pursuant to the Insurance Act 1973 Part III, Division 3A to transfer its insurance business to Gordian (Scheme). Should the proposed Scheme be approved by the Court and become effective, all the insurance liabilities of MMI Australia will transfer to Gordian.

1.2 Scope of Work

The purpose of the peer review is to give an additional objective view to APRA and the Court on the Appointed Actuary's report on the proposed scheme. The peer review does not constitute an audit or verification of any of the factual information provided in the report or other documents relied on by the Appointed Actuary.

In undertaking the peer review, I have:

- reviewed the methodology adopted by Mr Wilkinson
- considered whether the conclusions reached by Mr Wilkinson are soundly based, and
- considered whether there are any other issues or views to which I should draw attention.



I understand that this report will be provided to APRA and to the Court, and may be provided to affected policyholders on request.

1.3 Information Provided

I was provided with the following information for the purpose of carrying out the peer review:

- An actuarial report by Mr Wilkinson dated 22 January 2009 titled "Proposed Transfer of MMI Australia to Gordian Runoff Limited under Division 3A of Insurance Act".
- A draft Scheme document, dated 11 December 2008.

Discussion of the actuarial report was undertaken with Richard Wilkinson and James Makin of KPMG Actuaries Australia.

1.4 Reliances and Limitations

I have relied on the information provided as being complete and have accepted all information as valid. I have not verified the accuracy of the information provided to me or relied on by Mr Wilkinson.

This report has been prepared solely for the use of MMI and its legal advisers for the stated purpose. Permission will be granted for distribution of our report to APRA, the relevant Federal Minister, the Federal Court, and any affected policyholders of MMI Australia or Gordian (collectively referred to as the "Authorised Third Parties") for the stated purpose.

Third parties, whether authorised or not to receive our report, should recognise that the furnishing of the report is not a substitute for their own due diligence and should place no reliance on the report or the data contained herein which would result in the creation of any duty or liability by Finity to the third party.

No other use of, nor reference to, our report should be made without prior written consent from Finity, nor should the whole or part of our report be disclosed to any other person.

This report should be considered as a whole. I am available to answer any queries, and the reader should seek that advice before drawing any conclusions on issues in doubt.



2 Key Findings of Actuarial Report

2.1 Policyholder Interests

Mr Wilkinson considers the impact of the proposed transfer on policyholder interests in terms of:

- financial security
- policy terms and conditions, and
- operational risks.

In terms of considering financial security, Mr Wilkinson has considered the adequacy of financial security of both groups of policyholders (MMI Australia and Gordian) after the transfer relative to the position before the transfer.

I believe that this approach adequately considers the relevant interests of the policyholders.

2.2 Methodology

With regards to solvency, Mr Wilkinson has considered solvency as measured under APRA's solvency basis. The comparison of the solvency positions pre- and post-transfer was performed using financial information as at 30 June 2008. It should be noted that the MMI Australia provision for outstanding claims at 30 June 2008 was \$1.0 million higher than the actuaries' recommended provision of \$1.1 million. The comparison was updated to consider the impact of:

- changes in the balance sheets between 30 June 2008 and 30 September 2008, and
- other proposed portfolio transfers involving Gordian (namely, Cavell Insurance Company and Sphere Drake Insurance).

I am satisfied that the methodology adopted by Mr Wilkinson considers appropriately the relevant solvency issues.

2.3 Findings

Mr Wilkinson's conclusions can be summarised as:

- The financial security of Gordian remains well above the APRA minimum level post-transfer. For MMI Australia policyholders, the post-transfer financial security (i.e. within Gordian) is higher than the pre-transfer financial security.
- The transfer will not alter the policy terms and conditions of the affected policyholders in any material way.



- There are not expected to be any material additional operational risks arising for MMI Australia policyholders post-transfer.

On this basis, there is no material detriment or disadvantage to policyholders of either MMI Australia or Gordian from the transfer.



3 Peer Review Comments

3.1 Findings

In my opinion, the methodology used by Mr Wilkinson to assess the impact of the portfolio transfer on policyholders correctly addresses the interests of policyholders.

Given the information provided to Mr Wilkinson, his conclusions are fully supported.

Given the current economic environment (the so-called Global Financial Crisis), prior to the confirmation of the Scheme by the Court, it will be important to confirm that there have been no major changes to the capital positions of either company and if changes have occurred that these do not impact the conclusions made.

Although the APRA capital adequacy ratios provide useful diagnostics, facilitating easy comparisons of solvency between companies, it should be noted that they are not necessarily perfectly comparable measures. Notwithstanding this, the transfer to Gordian will mean that MMI Australia will form part of a much larger portfolio and this will reduce the likelihood that adverse claims experience will affect the financial position significantly. There will be a reduction in the uncertainty surrounding the estimation of insurance liabilities and a lower future claims handling expense burden.

The logic of closing MMI Australia by transferring the business to Gordian is compelling, and in my opinion, has no detrimental impact on policyholders of either company.

In my opinion, Mr Wilkinson has made all the inquiries that I believe are desirable and appropriate and that no matters of significance that I regard as relevant have, to my knowledge, been withheld from the Court.

3.2 Conclusion

In my opinion the actuarial report on the proposed portfolio transfer is sound and on the basis of the information presented in that report, I concur with the opinion of Mr Wilkinson that there is no material detriment or disadvantage to the policyholders of MMI Australia or Gordian from the portfolio transfer.



Part II Appendix

A Curriculum Vitae

A.1 Geoff Atkins

Geoff Atkins is a Director and the Chairman of Finity, the specialist insurance and actuarial consulting firm. He has been a general insurance consulting actuary since 1984.

His experience covers a wide range of insurance issues in both the public and private sectors. He has been an adviser to many insurance and reinsurance companies and also to a number of CTP and workers' compensation schemes in Australia and New Zealand.

During March to May 2001, Geoff led the actuarial support team for APRA's Inspector to the HIH group companies. From June 2001 to September 2001, he was the leader of the claims, reinsurance and actuarial team assisting ASIC with its investigation of HIH.

During 2002 Geoff led an advisory team for the Australian Treasury on the liability insurance crisis, including recommending a blue print for reform that has guided a major process of tort reform in all Australian jurisdictions between 2002 and 2004.

A former Chair of the General Insurance Committee of the Institute of Actuaries of Australia, Geoff played a key role in the establishment of professional standards for actuaries in general insurance.

In 2003 Geoff was named Actuary of the Year by the Institute of Actuaries of Australia for his contribution to issues of national significance including medical indemnity, tort reform, asbestos problems and terrorism insurance.

Qualifications and Professional Affiliations

- BA majoring in Actuarial Science from Macquarie University (1977)
- Fellow of the Institute of Actuaries of Australia (1980)
- Fellow of Institute of Actuaries (London) (1980)
- Member of Australian & NZ Institute of Insurance & Finance.

