

Transfer of the insurance business of the Transferor to the Transferee

Summary of the Scheme

It is proposed that the insurance business of USAA Limited (the **Transferor**) will be transferred to USAA S.A. (the **Transferee**) (the Transferor's EEA insurance business will be transferred to the Transferee's head office in the Grand-Duchy of Luxembourg whereas the Transferor's UK insurance business will transfer to the Transferee's UK branch). This will mean that the Transferee will become the insurer in place of Transferor and will run-off all remaining policies of the Transferor and pay liabilities connected with the transferring business. The transfer will be effected by means of an insurance business transfer scheme pursuant to Part VII of the Financial Services and Markets Act 2000 (**Scheme**).

The approval process

Before the Scheme can become effective, notice is required to be given to all parties that may be affected and the Scheme must then be approved by the Court. The Court will approve the Scheme if it considers that it is appropriate to do so given all of the circumstances. The Court requires a report to be prepared by an independent expert, whose appointment is approved by the Prudential Regulation Authority (the **PRA**) (the regulator in the UK responsible for the prudential regulation) following consultation with the Financial Conduct Authority (the **FCA**) (the regulator in the UK responsible for conduct regulation), which will include an analysis of whether any group of policyholders will be adversely affected. The Court will also consider the views of the PRA and the FCA in deciding whether to approve the Scheme.

If approved by the Court, the Scheme is expected to become effective at 23:59 (Central European Time) on 31 December 2022 (**Effective Date**).

Key terms of the transfer

The business to be transferred will include all of the insurance policies of the Transferor along with the assets and liabilities relating to that business.

In relation to the transferred business, with effect from the Effective Date:

- policyholders will continue to have the same rights, benefits and obligations and be subject to the same terms and conditions in relation to their policies save that the Transferee will be substituted as the insurer in the place of the Transferor;
- all premiums will become payable to the Transferee in the place of the Transferor;
- any legal proceedings started by (or against) the Transferor will be continued by (or against) the Transferee in the place of the Transferor (including, for the avoidance of doubt, any open complaints with the Financial Ombudsman Service). The Transferee will be entitled to any and all defences, claims, counterclaims and rights of set-off that the Transferor would have had in relation to the legal proceedings; and
- any judgment, order or award which is not fully satisfied before the Effective Date, will become enforceable by or against the Transferee in the place of the Transferor.

If for any reason any policy that is intended to be transferred to the Transferee is not transferred by the Effective Date, then that policy will be retained by the Transferor until such time as it is capable of being transferred. All liabilities in relation to such policies will be reinsured in their entirety into the Transferee from the Effective Date. When such policies become due for renewal, they will (subject to normal underwriting criteria) be renewed by the Transferee in the place of the Transferor.



IMPORTANT INFORMATION

Proposed Transfer of Business from USAA Limited to USAA S.A.

Summary of the Independent Expert Report

1. Introduction

USAA Limited ("**USAA LTD**"), the "**Transferor**", and USAA S.A. ("**USAA SA**"), the "**Transferee**", are seeking an order from the High Court of England and Wales (the "**High Court**") to transfer all of the **Transferor's** insurance business (the "**Transferring Business**") to the **Transferee** (the "**Proposed Transfer**"). The business written by USAA LTD in the European Economic Area ("**EEA**") will transfer directly to USAA SA and the business written by USAA LTD in the United Kingdom ("**UK**") will transfer into the newly authorised branch of USAA SA in the UK, ("**USAA SA UK Branch**").

USAA LTD is a general insurance company domiciled in the UK, authorised and regulated by the Prudential Regulation Authority in the UK (the "**PRA**") and regulated by the Financial Conduct Authority in the UK (the "**FCA**"). USAA SA is a general insurance company domiciled in Luxembourg, authorised and regulated by the Commissariat aux Assurances (the "**CAA**"). USAA SA UK Branch is authorised and regulated by the CAA by virtue of being a branch of USAA SA. USAA SA UK Branch is also authorised by the PRA and regulated by the PRA and the FCA. The **Transferor** and the **Transferee**, together, the "**Parties**", are all indirect wholly owned subsidiaries of USAA, the ultimate owner of all of the companies within the "**USAA Group**".

The Parties have appointed Mr. Alex Marcuson of Marcuson Consulting Ltd as the "**Independent Expert**", a role established pursuant to section 109(2)(b) of the Financial Services and Markets Act 2000. As Independent Expert, Mr. Marcuson is required to provide a report to the High Court on the effect of the Proposed Transfer on the policyholders of the Parties (the "**Report**").

The Independent Expert is a Fellow of the Institute and Faculty of Actuaries with over twenty-five years of experience advising non-life (re)insurers. He has previously acted as an independent expert for, and advised a number of firms carrying out, insurance business transfers under Part VII of the Financial Services and Markets Act 2000. His appointment has been approved by the PRA, in consultation with the FCA.

The Independent Expert's conclusions are set out at Section 4. The Report contains the reasoning behind the Independent Expert's conclusions. In addition, it includes his assumptions, a description of the detailed analysis underpinning his work, a number of important limitations relevant to understanding the conclusions reached, a statement of the Report's purpose and the terms of its use, and a glossary of terms. The additional material referenced in this section has not been included within this summary of the Report.

While the Independent Expert is satisfied that this summary of the Report provides an appropriate synopsis, reliance on this summary alone may not give the reader the whole picture. Anyone wishing to understand the analysis that has led to the Independent Expert's conclusions should download or

request a copy of the full Report. Information on how copies of the Report can be obtained or downloaded free of charge are set out at: <https://www.usaa.com/Brexit>.

2. Purpose of the Proposed Transfer

The Report explains the Independent Expert's understanding of the purpose of the Proposed Transfer. In essence, the Parties are carrying out the Proposed Transfer in response to the departure of the UK from the European Union ("**Brexit**"). The Transferring Business consist of two portfolios:

- a) The "**EEA Transferring Business**" is a portfolio of expired policies with open claims relating to risks situated in EEA Member States. Prior to the withdrawal of the UK from the European Union and the subsequent loss of passporting rights, claims in relation to this portfolio were handled through the **Transferor's** German branch. The portfolio is being transferred to USAA SA in order to provide certainty that the EEA Transferring Business can be administered and claims settled post-Brexit by an EEA-domiciled (re)insurance company with the required licences and authorisations.
- b) The "**UK Transferring Business**" is a portfolio of UK business (active policies and open claims) which is being transferred to USAA SA UK Branch. The Proposed Transfer includes the UK Transferring Business because USAA believes that it will be more efficient and cost-effective to continue its UK insurance underwriting activities via USAA SA UK Branch and not to continue to have a separate UK-based insurance company.

3. The Independent Expert's Work

The Independent Expert has:

- Reviewed the terms of the Proposed Transfer and considered its financial and non-financial impacts on the policyholders of the Parties;
- Considered the impact of the Proposed Transfer on the reinsurers of the Transferring Business ("**Reinsurers**"); and
- Reviewed the approach adopted by the Parties to the notification of policyholders affected by the Proposed Transfer and the accompanying publicity arrangements.

To reach his conclusions the Independent Expert has:

- a) Reviewed the actual and projected balance sheets of the Parties before and after the Proposed Transfer, including the insurance reserves of each Party.
- b) Reviewed the way in which the Parties have calculated their actual and projected capital requirements and compared the risks, capital requirements and available financial resources of each Party.
- c) Looked at how the Proposed Transfer will affect non-financial matters, including: (i) the way in which the Parties are managed and their policies are administered; and (ii) any changes in the legal and regulatory protections provided to policyholders of the parties.
- d) Assessed whether there is a risk that the Proposed Transfer will not be recognised by any relevant jurisdiction (on the basis of the information provided to the Independent Expert regarding the governing law of the Transferring Business).

- e) Considered whether the Proposed Transfer could affect the level of claims arising under the reinsurance policies being transferred.
- f) Reviewed the proposed notification and publicity arrangements.

In reaching his conclusions, the Independent Expert has also taken into account the potential effect that four current issues might have on his conclusions, being (i) the COVID-19 pandemic, (ii) the Ukraine/Russia conflict, (iii) increased future expectations regarding inflation and (iv) the effects of climate change.

4. Summary of findings

Conclusions of the Independent Expert – Financial Security of Policyholders

Based on his review, the Independent Expert has concluded that:

- The Proposed Transfer does not have a materially adverse effect on the policyholders of the Parties.
- The chance that any of the Parties will fail to meet legitimate policyholder claims is remote.

Conclusions of the Independent Expert – Levels of Service

Based on his review, the Independent Expert has concluded that the Proposed Transfer will have no material effect on the administration of the Transferring Business or the existing business of the **Transferee**.

Conclusions of the Independent Expert – Other Non-Financial Considerations

The Independent Expert did not identify any other aspects of the Proposed Transfer that he considered to be materially disadvantageous to the policyholders of the Parties. In particular, he considered the effect of the Proposed Transfer on the rights of the policyholders within the Transferring Business to access the Financial Services Compensation Scheme (“**FSCS**”) and the Financial Ombudsman Service in the UK (“**FOS**”). In each case, the Independent Expert has concluded that the effect is unlikely to be material.

The FSCS

In the event of the insolvency of the **Transferor**, eligible policyholders of the Transferring Business currently have recourse to the FSCS to have their claims paid. The Independent Expert does not believe that there will be any loss of protection provided by the FSCS to the policyholders within the Transferring Business following the Proposed Transfer.

The FOS

In the event of a dispute with the **Transferor**, eligible policyholders within the Transferring Business currently have recourse to the FOS, which provides a free, independent service for resolving disputes and complaints.

If the Proposed Transfer proceeds, the Independent Expert has noted that the Transferor’s regulated activities relating to the EEA Transferring Business have been taking place since 1 January 2019 outside

the UK and should therefore not currently be eligible for referral to the Financial Ombudsman Service. However, if the FOS were to determine that activities in respect of a complaint fell within its scope, then a right of access to the FOS will be retained in respect of activities performed pre-Transfer (and the Scheme contains express provision under which the Transferee agrees to be bound by any such rulings made by the FOS), it will be lost in respect of activities carried out post-Transfer. Following the Proposed Transfer, policyholders with complaints will also be able to access one of the two Luxembourg ombudsman services.

The Independent Expert has considered the policyholder complaint arrangements provided by the Luxembourg ombudsman services and concluded that while they differ from the FOS, they appear to give rise to similar outcomes. He has noted however that without consideration of the facts and circumstances of a particular case, it is not possible for him to say conclusively that there will be no material change for these policyholders.

The Independent Expert believes that the policyholders within the UK Transferring Business will continue to have a right to access the FOS following the Proposed Transfer.

The Independent Expert has noted that recent experience of USAA LTD suggests that there is a low likelihood of a complaint being made to the FOS in respect of the UK Transferring Business.

The Independent Expert has therefore concluded that although there may be a theoretical reduction in the protection provided to the policyholders holding policies comprised within the EEA Transferring Business with respect to complaints as a result of the Proposed Transfer, it is unlikely to be material.

Conclusions of the Independent Expert – Effect of the Proposed Transfer on Reinsurers

Under the Proposed Transfer, the reinsurance arrangements protecting the Transferring Business (other than the stop loss reinsurance provided by USAA described below) will transfer to USAA SA and continue to operate as they currently do. The amount of the total liabilities of each external reinsurer of the Transferring Business will not change as a result of the Proposed Transfer.

Both Parties benefit from stop loss reinsurance from USAA. USAA LTD's stop loss reinsurance policy will not move to USAA SA as part of the Proposed Transfer. The risk of this policy being called upon will reduce considerably as it will no longer be exposed to risks arising from the Transferring Business. Conversely, the risk in respect of USAA SA's stop loss reinsurance policy will increase. The stop loss reinsurer, USAA, is the same for both stop loss policies.

The Independent Expert states in his Report that he has been told by employees of USAA LTD and USAA SA that the Proposed Transfer is being carried out with the involvement and approval of USAA.

Based on these arrangements, he has therefore been satisfied that the Proposed Transfer will not have a materially adverse effect on the Reinsurers.

Conclusions of the Independent Expert – consideration of additional issues

The Independent Expert has considered the following four additional areas of concern in preparing the Report:

- Potential implications of the COVID-19 pandemic, in particular the unprecedented nature of the pandemic and reduction in global economic activity.
- The Ukraine-Russia conflict is ongoing and there remains considerable uncertainty regarding its long-term consequences.
- The recent price inflation surge across western advanced economies is likely to have a knock-on impact on insurance claims inflation, bond yields and risk-free interest rates.
- Climate change related risks are an important area of emerging risk for the insurance industry.

He has satisfied himself that none of these issues cause him to change his conclusions. This is because:

- He was able to conclude from his analysis that the Parties have a suitable level of financial resources to meet such risks; and
- The Proposed Transfer does not change this position.

5. Supplemental Report

The analysis conducted by the Independent Expert is based upon the material supplied to him, including balance sheets and other information, based on accounting positions as at 31 December 2021.

Since the proposed Effective Date for the Proposed Transfer is 31 December 2022, he will revisit the analysis closer to the time to confirm that there have been no material changes to the arrangements that he has reviewed that would affect his overall opinion. He will then prepare and issue a Supplemental Report to be made available to the High Court prior to the High Court hearing, expected to take place on [21 November 2022]. Copies of this supplemental report, along with other documents and information relating to the Proposed Transfer and details of the High Court hearing will be made available for free download at: <https://www.usaa.com/Brexit>.