

*Summary Report of the Independent Expert on  
the proposed transfer of insurance business from*

***Domestic & General Insurance PLC***

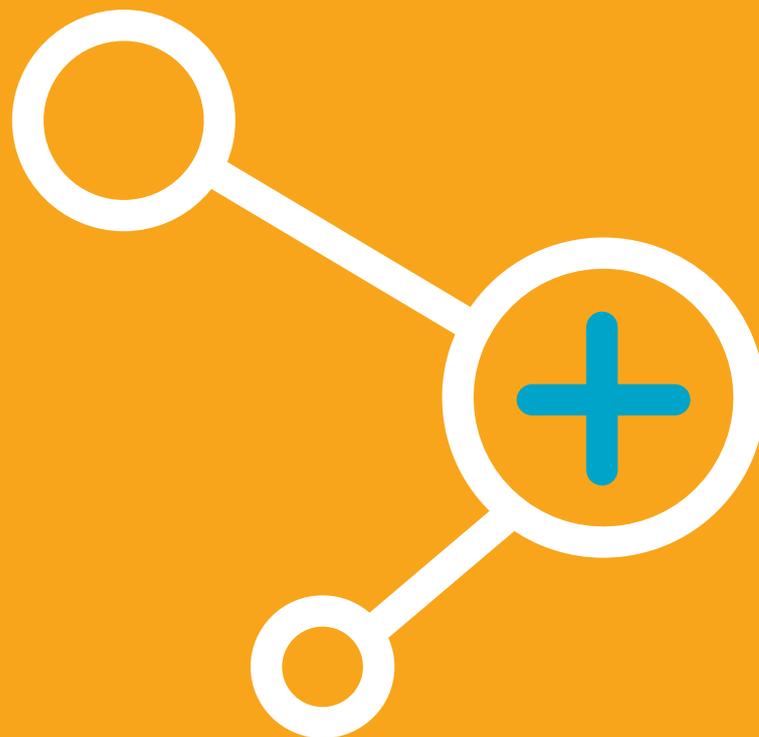
***to***

***Domestic & General Insurance Europe AG***

*in accordance with Part VII of the Financial  
Services and Markets Act 2000*

**For the High Court of Justice of England and Wales**

24 August 2020



Prepared by:

**Tom Durkin FIA**

LCP



*Domestic & General Insurance PLC  
to Domestic & General Insurance Europe AG  
Transfer of insurance business  
**Summary of the Independent Expert's Scheme Report for the  
High Court of Justice of England and Wales***

## 1. The Proposed Transfer

Domestic & General Insurance (DGI) is a UK insurer and currently operates across the UK, the European Economic Area (EEA) and Australia. Its operations across the EEA utilise the EEA's Freedom of Services (FoS) and Freedom of Establishment (FofE) arrangements.

If negotiations between the European Union (EU) and United Kingdom (UK) result in the withdrawal of FofS and FofE rights (or equivalent) for DGI upon expiry of the Brexit transition period, DGI may not legally be able to carry on the non-UK EEA business. For example, DGI would not be able to issue new or renewal insurance policies across the EEA, and might not legally be able to pay valid claims to existing non-UK EEA policyholders.

To provide certainty that DGI can continue to carry on non-UK EEA business after the Brexit transition period with minimum disruption, DGI is proposing to transfer the relevant non-UK EEA business from DGI into its wholly-owned subsidiary, Domestic & General Insurance Europe (DGIEU), a German-domiciled insurance company (the Proposed Transfer). The planned Effective Date of the Proposed Transfer is 31 December 2020.

On 23 October 2019, DGI sought and obtained the approval of the High Court for an equivalent transfer of business to DGIEU. That transfer was only intended to proceed if the UK left the EU without a withdrawal agreement. Given that the UK agreed its withdrawal from the EU, the previous transfer lapsed. The Proposed Transfer follows on from the previously approved (but not completed) transfer and comprises a new application to the High Court.

## 2. My role as Independent Expert

In order to proceed, the Proposed Transfer will need to be approved by the High Court of Justice of England and Wales (the Court). To assess the Proposed Transfer, the Court requires a Scheme Report to be prepared by a suitably qualified independent person, the Independent Expert (IE).

DGI and DGIEU have jointly appointed me to act as the IE for the Proposed Transfer. The Prudential Regulation Authority (PRA), in consultation with the Financial Conduct Authority (FCA), has approved my appointment.

I am a Fellow of the Institute and Faculty of Actuaries (IFoA) and am a holder of Chief Actuary (non-Life

with Lloyd's) practising certificate. I am a Partner in the Insurance Consulting practice at LCP and have experience in a wide range of areas of general insurance actuarial work.

As IE, my overall role is to assess whether:

- The security provided to policyholders of DGI and DGIEU will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards experienced by policyholders.

## 3. Summary of my conclusions

To assess the effect of Proposed Transfer, I have considered it from three perspectives:

1. **“Non-transferring Policyholders”, who will remain with DGI after the Proposed Transfer.**
  - I have concluded that the security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer.
  - I have concluded that no material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.
2. **“Transferring Policyholders”, who will transfer from DGI to DGIEU as a result of the Proposed Transfer.**
  - I have concluded that the security provided to Transferring Policyholders is unlikely to be materially adversely affected by the Proposed Transfer.
  - I have concluded that no material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.
3. **“Existing DGIEU Policyholders”, ie policyholders of DGIEU at the time of the Proposed Transfer, who will remain with DGIEU after the Proposed Transfer.**
  - I have concluded that the security provided to Existing DGIEU Policyholders will not be materially adversely affected by the Proposed Transfer.
  - I have concluded that no material impact on service standards is expected for Existing DGIEU Policyholders following the Proposed Transfer.

#### 4. The IE's Scheme Report

This is a summary of the IE's full Scheme Report, "Scheme Report of the Independent Expert on the proposed transfer of insurance business from Domestic & General Insurance PLC to Domestic & General Insurance Europe AG in accordance with Part VII of the Financial Services and Markets Act 2000".

A copy of the full Scheme Report is available for download free of charge on the Domestic & General website.

I will also prepare a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions on the Proposed Transfer, based on any new material or issues that arise.

#### 5. Non-transferring policyholders

**In my opinion, the security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer.**

##### Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and IFRS technical provisions for DGI are appropriate, and DGI has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for DGI is projected to decrease from 202% to 189% as a result of the Proposed Transfer. I do not consider the security provided to Non-transferring Policyholders to be materially adversely affected by this decrease as DGI remains well capitalised. Further, DGI's coverage ratio is projected to increase to pre-transfer levels by March 2021, ie within 3 months of the Proposed Transfer, and is projected to stay above this level throughout the projected period to March 2025.
- I am satisfied that DGI is expected to remain well capitalised under a range of adverse scenarios. In more extreme adverse scenarios, such as DGI's reverse stress test, I am satisfied that Non-transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.

**In my opinion, no material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.**

##### Summary rationale:

- DGIEU is not planning any material changes to how the business is carried out. In particular, there are no plans to change how Non-transferring Policyholders are serviced post-transfer.

#### 6. Transferring Policyholders

**In my opinion, the security provided to Transferring Policyholders is unlikely to be materially adversely affected by the Proposed Transfer.**

##### Summary rationale:

- The Transferring Policyholders will remain within the Domestic & General Group of companies (D&G).
- I am satisfied that the approaches used to calculate the Solvency II and IFRS technical provisions for DGIEU are appropriate. The approaches used by DGI and DGIEU are materially the same.
- The SCR coverage ratio for Transferring Policyholders is expected to increase from 202% (DGI pre-transfer) to 280% (DGIEU post-transfer) as a result of the Proposed Transfer. D&G has committed to make an additional capital injection into DGIEU simultaneously with the Effective Date of the Proposed Transfer, so that DGIEU is projected to remain well capitalised throughout the projected period to March 2025.
- DGIEU has submitted a pre-application to the German regulator, BaFin, to use Undertaking Specific Parameters (USPs) in the Solvency II standard formula when calculating DGIEU's SCR, and plan to make a full application in September 2020. Assuming this application is approved (expected by 31 March 2021), DGIEU is expected to remain very well capitalised throughout the projected period to March 2025.
- If the application for USPs is not approved, DGIEU is projected to have a lower SCR coverage, but still remain well capitalised, partly due to the additional capital injection from DGI mentioned above.
- I am satisfied that DGIEU is expected to remain well capitalised under a range of adverse scenarios (with or without approval to use USPs). In particular, the amount of the additional capital injection mentioned above has been set by D&G to help ensure that DGIEU is expected to remain well capitalised under these adverse scenarios. In more extreme adverse scenarios, such as DGIEU's reverse stress test, I am satisfied that Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- Policyholder security for DGIEU is provided through a combination of assets held within DGIEU itself and security provided by DGI, in the form of a significant quota share arrangement (with 90% of DGIEU's business reinsured back to DGI). In the event of insolvency of DGI, amounts owed to DGIEU under the reinsurance would ordinarily rank behind DGI policyholder claims. Therefore, without appropriate additional security

in place for DGIEU, this could materially adversely affect Transferring Policyholders in the event of DGI insolvency.

- To help ensure that Transferring Policyholders are not adversely affected in this scenario, DGI and DGIEU will have in place a Reinsurance Account. In the event of DGI insolvency, the Reinsurance Account would be ringfenced which means that the assets in the Reinsurance Account would remain available to DGIEU. Based on my analysis of how the Reinsurance Account will operate, I am satisfied that this arrangement is expected to provide appropriate protection to Transferring Policyholders.
- Transferring Policyholders will lose access to the Financial Services Compensation Scheme (FSCS) as a result of the Proposed Transfer. I have concluded that it is unlikely that the policyholders will be materially adversely affected by the loss of access to the FSCS given an insolvency scenario, which would be required to trigger FSCS protection, is unlikely. In addition, the Transferring Policyholders may value the certainty that valid claims can be lawfully paid after the Effective Date more than the loss of access to the FSCS which only benefits them in the event of the insolvency of DGI.
- Transferring Policyholders, all of whom currently have access to the Financial Ombudsman Service (FOS), will lose access to the FOS in respect of acts and omissions taking place after the Effective Date of the Proposed Transfer, but will gain access to a similar insurance ombudsman in Germany.

**In my opinion, no material impact on service standards is expected for these policyholders following the Proposed Transfer.**

**Summary rationale:**

- DGI and DGIEU, through the D&G Group, are planning to minimise any changes as to how the transferring business is carried out, to avoid disruption to the operating model or its customers. For example, DGIEU is not planning any changes to how Transferring Policyholders are serviced following the Proposed Transfer.

## 7. Existing DGIEU policyholders

**In my opinion, the security provided to Existing DGIEU Policyholders will not be materially adversely affected by the Proposed Transfer.**

**Summary rationale:**

- I am satisfied that the approaches used to calculate the Solvency II and IFRS technical provisions for DGIEU are appropriate, and DGIEU has confirmed that these will be materially unchanged post-transfer.

- The SCR coverage ratio for DGIEU Policyholders is expected to increase from 244% to 280% as a result of the Proposed Transfer. Further, as set out above, DGIEU is projected to remain well capitalised throughout the projected period to March 2025.
- I am satisfied that DGIEU is expected to remain well capitalised under a range of adverse scenarios (with or without approval to use USPs). In more extreme adverse scenarios, such as DGIEU's reverse stress test, I am satisfied that Existing DGIEU Policyholders are not materially adversely affected as a result of the Proposed Transfer.

**In my opinion, no material impact on service standards is expected for Existing DGIEU Policyholders following the Proposed Transfer.**

**Summary rationale:**

- DGIEU is not planning any material changes to how the business is carried out. In particular, there are no plans to change how Existing DGIEU Policyholders are serviced following the Proposed Transfer.

## 8. Further information and next steps

Further details on my conclusions, and other supporting information, are set out in my full Scheme Report.

I will be reviewing these conclusions and preparing a Supplementary Report before the Court considers its final approval of the Proposed Transfer at the Sanctions Hearing. The purpose of the Supplementary Report is to confirm and/or update my conclusions based on any new material or issues that arise.



*Tom Durkin*

*Fellow of the Institute and Faculty of Actuaries*

*24 August 2020*

## Professional standards

Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 200: Insurance, and Actuarial Profession Standard X2: Review of Actuarial Work.

## The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with Domestic & General Insurance PLC. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Summary Report, which is our work, has been prepared for the purpose of summarising the full Scheme Report accompanying the application to the Court in respect of the insurance business transfer scheme described in that report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Scheme Report and this Summary Report are not suitable for any other purpose.

A copy of the Summary Report and the Scheme Report will be sent to the Prudential Regulatory Authority, the Financial Conduct Authority and the full Scheme Report will accompany the Scheme application to the High Court.

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