Supplementary 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

27 November 2020

Prepared by:

Tom Durkin FIA

LCP

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1. Executive summary

1.1. 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 (FofS) 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 AG (DGIEU), a German-domiciled insurance company (the Proposed Transfer). The planned Effective Date of the Proposed Transfer is 31 December 2020.

The Scheme Report and other associated scheme documents related to the Proposed Transfer were presented to the High Court at the Directions Hearing on 2 September 2020, where approval was received to start notifications in line with D&G's communications plan.

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 (and entered a Brexit transition period), 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.

1.2. My role as Independent Expert

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

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.

DGI has no outwards reinsurance arrangements, so I have not needed to consider the impact of the Proposed Transfer on reinsurers covering the transferring business.

I provided my Scheme Report for the Proposed Transfer (dated 24 August 2020) ahead of the Directions Hearing, which was held on 2 September 2020.

The purpose of this Supplementary Report is to confirm and/or update the conclusions of the Scheme Report, based on any material new developments in the intervening period, ahead of the Sanctions Hearing. This Supplementary Report should be read in conjunction with the Scheme Report.

1.3. Summary of developments since the Scheme Report

The main activities in relation to the Proposed Transfer since the Scheme Report was issued on 24 August 2020 have been as follows:

Proposed Transfer

- The Scheme Report and other associated scheme documents were presented to the High Court at the Directions Hearing on 2 September 2020, where approval was received to start notifications in line with the communications plan.

Reserving

- DGI and DGIEU have provided the final audited provisions as at 31 March 2020 and also prepared updated provisions as at 30 June 2020.
- As at 30 June 2020, DGIEU no longer applies a 20% "new branch uplift" when calculating the best estimate claims provision. This is discussed further in section 4.1.
- As at 30 June 2020, DGI was holding £3.6m of specific IBNR in respect of known COVID-19 backlogs that relate to repair agents being unable to submit claims or policyholders requesting to delay repairs. This is discussed further in section 4.2.

Capital

- DGI and DGIEU have updated their analysis of projected SCR coverage ratios based on more recent data and changes in their business forecasts, particularly in the light of the COVID-19 pandemic. DGIEU has also updated its methodology due to corrections in calculations for deferred tax and counterparty default risk. This is discussed further in section 5.1.
- The projected SCR coverage ratios immediately pre- and post- the Proposed Transfer are now as follows:
  - For Non-transferring Policyholders, the SCR coverage ratio is projected to decrease from 221% to 200%.
  - For Transferring Policyholders, the SCR coverage ratio is projected to increase from 221% to 268%.
  - For Existing DGIEU Policyholders, the SCR coverage ratio is projected to increase from 262% to 268%.
- DGIEU submitted a pre-application for USPs to BaFin in August and was planning to submit a full application in September 2020 in order to have USPs in place by March 2021. However, following discussion with BaFin, DGIEU now expects to submit the full application in January 2021 to have USPs approved by July 2021.

Policyholder communications and other

- DGI and DGIEU have communicated with policyholders and placed notices in all planned publications in line with the communication plan agreed with the High Court at the Directions Hearing.
- As at 22 November, D&G had received 47,744 responses as a result of the communication with policyholders. The vast majority of these responses are general enquires and cancellations of policies, with 162 objections in response to the 2.2 million email and postal notifications (excluding email bounce backs) sent, ie less than 0.01%. I have reviewed the objections and none of these have caused me to change my view on the Proposed Transfer. Policyholder responses to communications and objections are discussed further in section 7.
- DGIEU submitted an application to BaFin in August 2020 to establish a UK branch on an FofE basis. BaFin completed their review of the UK passported branch application on 2 November 2020. The application is now with the PRA for review and PRA consent is anticipated by 2 December 2020. This is discussed further in section 8.1.

1.4. Additional considerations for the Supplementary Report

In reaching my conclusions in this Supplementary Report, I have considered the following new information that has become available since the Scheme Report was issued on 24 August 2020:

- D&G's updated assessment of the potential impact of COVID-19 on the Proposed Transfer;
- Findings from the audits of the DGI and DGIEU 31 March 2020 accounts;
- Updated IFRS provisions as at 30 June 2020;
- Updated SCR coverage ratio and balance sheet projections;
- Updated levels of capital injections into DGIEU;
- DGIEU's USP pre-application submitted to the German regulator;
- Updated scenario analysis;
- Updated impact on the balance sheets of DGI and DGIEU immediately pre- and post- the Proposed Transfer;
- Final confirmation of the reinsurance arrangement between DGI and DGIEU;
- Communications and/or objections related to the Proposed Transfer raised by stakeholders; and
- DGIEU's UK branch application.

1.5. Summary of my conclusions

I have set out below my summary conclusions, considering the effect of the Proposed Transfer on the following groups of policyholders:

- “Non-transferring Policyholders”, who will remain with DGI after the Proposed Transfer.
- “Transferring Policyholders”, who will transfer from DGI to DGIEU as a result of the Proposed Transfer.
- “Existing DGIEU Policyholders”, ie policyholders of DGIEU at the time of the Proposed Transfer, who will remain with DGIEU after the Proposed Transfer.

My overall conclusions are unchanged from those set out in the Scheme Report.

Non-transferring Policyholders

At the Effective Date of the Proposed Transfer, there are projected to be 8.4 million Non-transferring Policyholders which represent 68% of DGI’s projected pre-transfer business by number of policyholders and 77% based on projected IFRS technical provisions.

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.

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 221% to 200% 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 very well capitalised. Further, DGI’s coverage ratio is projected to increase to similar levels to pre-transfer by March 2021, ie within 3 months of the Proposed Transfer, and is projected to increase above pre-transfer levels by March 2022 and 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.
- 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.

Transferring Policyholders

At the Effective Date of the Proposed Transfer, there are projected to be 4.0 million Transferring Policyholders which represent 32% of DGI’s projected pre-transfer business by number of policyholders and 23% based on projected IFRS technical provisions.

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.

Summary rationale:

- The Transferring Policyholders will remain within the Domestic & General Group of companies.
- 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 221% (DGI pre-transfer) to 268% (DGIEU post-transfer) as a result of the Proposed Transfer. Whether or not the Proposed Transfer goes ahead, D&G has committed to making a capital injection of €6m into DGIEU simultaneously with the Effective Date of the Proposed Transfer. If the Proposed Transfer does go ahead, D&G has committed to make a further capital injection of €14m resulting in a total capital injection of €20m into DGIEU simultaneously with the

Effective Date of the Proposed Transfer, so that DGIEU is projected to remain very well capitalised throughout the projected period to March 2025.

- DGIEU submitted a pre-application to the German regulator, BaFin, in August 2020 to use Undertaking Specific Parameters (USPs) in the Solvency II standard formula when calculating DGIEU's SCR, and plans to make a full application in January 2021. Assuming this application is approved (expected by 31 July 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 very well capitalised throughout the projected period.

- 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 that 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 who 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. DGIEU has submitted an application to establish a UK branch on a FofE basis. If the application is approved and a UK branch of DGIEU is established, transferring Republic of Ireland (ROI) policyholders will retain access to FOS for complaints related to certain administrative tasks undertaken by the regulated UK branch.

- DGI and DGIEU, through the D&G Group, are planning to minimise any changes in 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.

Existing DGIEU Policyholders

At the Effective Date of the Proposed Transfer, there are projected to be 2.0 million Existing DGIEU Policyholders which represent 33% of DGIEU's projected post-transfer business by number of policyholders and 40% based on projected IFRS provisions.

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.

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 262% to 268% as a result of the Proposed Transfer. Further, as set out above, DGIEU (with or without approval to use USPs) is projected to remain very 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.

- 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.

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

1.6. Potential impact of COVID-19 on the Proposed Transfer

The uncertainty around the impact of COVID-19 is expected to continue over the coming months until the Effective Date of the Proposed Transfer and beyond.

DGI and DGIEU's view, based on emerging experience, is as follows:

- The most significant impact of COVID-19 on DGI and DGIEU's business so far has been a fall in new business (and therefore premium) volumes during the pandemic, as a result of social distancing being enforced across Europe, particularly the closure of retail stores and the corresponding reduction in sales of new appliances. However, during June to September, new business volumes were back up to levels similar to the levels that D&G were expecting before the emergence of COVID-19.
- DGI and DGIEU also observed lower claims volumes than usual during April to June 2020, with COVID-19 related backlogs being identified. As at October 2020, DGI and DGIEU believe the majority of the COVID-19 backlogs have been cleared. Both insurers expect claims volumes from October 2020 to return to the levels expected before the emergence of COVID-19, and are monitoring experience closely. As at 30 June 2020, DGI's claims provisions included £3.6m of specific IBNR in respect of known COVID-19 backlogs that relate to repair agents being unable to submit claims or policyholders requesting to delay repairs. DGIEU's claims provisions also included an implicit allowance for COVID-19.

DGI and DGIEU have informed me that there are no other operational issues arising from COVID-19 that have impacted or are expected to impact policyholders. In particular they have stated that the service team has been sufficiently resourced and has been able to maintain coverage with minimal disruption. Customers continue to be positive about continuity and service levels; as evidenced by an increase in D&G's Net Promoter Scores over the initial COVID-19 period (January 2020 vs May 2020). Should additional resource be needed to support the service teams, D&G has confirmed that it continues to have budget for additional temporary staff to help service the Proposed Transfer.

DGI has also informed me that it has reviewed the impact of COVID-19 on the value of its products in line with the FCA's product value guidance (Product value and coronavirus: guidance for insurance firms). DGI's view is that appliance usage has typically gone up during COVID-19 as customers are spending more time at home, and therefore COVID-19 has not had an adverse impact on the value of DGI's insurance products.

All of the base case figures in this report reflect DGI and DGIEU's best view of the potential impact of COVID-19, which has been revised from the view underlying the projections in the Scheme Report. This is discussed further in section 5.1. I also consider an adverse and more severe scenario under which the impact of COVID-19 on DGI and DGIEU is more severe than expected. Under the more severe scenario, DGI and DGIEU are assumed to experience reduced business volumes until March 2022.

2. Introduction

2.1. Background

Part VII, Section 109 of the Financial Services and Markets Act 2000 (FSMA) requires that a scheme report (the Scheme Report) must accompany an application to the High Court of Justice of England and Wales (the High Court) to approve an insurance business transfer scheme (Part VII transfer).

The Scheme Report should be produced by a suitably qualified independent person (the Independent Expert or IE) who has been nominated or approved by the Prudential Regulation Authority (PRA) having consulted with the Financial Conduct Authority (FCA). The Scheme Report should address the question of whether any policyholders or reinsurers impacted by the insurance business transfer are adversely affected to a material extent.

DGI and DGIEU have jointly nominated Tom Durkin (I or me) of Lane Clark & Peacock LLP (LCP, we, or us) to act as the Independent Expert for the proposed insurance business transfer scheme (the Proposed Transfer) of the insurance business of DGI to DGIEU under Section 105 of the FSMA. The Proposed Transfer is intended to be effected on 31 December 2020 (the Effective Date).

In my role as Independent Expert, I prepared a Scheme Report for the Proposed Transfer. This was issued on 24 August 2020 and was presented to the High Court on 2 September 2020. In the Scheme Report I stated that, ahead of the Sanctions Hearing for the Proposed Transfer, I would prepare a Supplementary Report (this report), covering any relevant matters which have arisen since the date of the Scheme Report. In particular, I have considered whether any developments since the Scheme Report cause my conclusions in the Scheme Report to change.

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 (and entered a Brexit transition period), 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.

On 9 November 2020, the Chancellor announced that, through the Solvency II Regulation Equivalence Directions 2020, the UK will be granting equivalence to the EEA States. This announcement reduces uncertainty related to the treatment of EEA insurers by the UK, but does not have a material impact on the overall Proposed Transfer.

If the EU does not similarly grant the UK equivalence, there is a potential impact on the recognition of the reinsurance arrangement between DGI and DGIEU. In this scenario, if DGI was an unrated reinsurer (as was the case at the time of the Scheme Report), DGIEU would no longer be able to take credit for the reinsurance provided by DGI when calculating its SCR. In response to this risk, DGI applied for, and on 12 November 2020 was given, a BBB credit rating by DBRS Morningstar. The BBB credit rating ensures that even if the UK is not granted equivalence, DGIEU is able to take credit for the reinsurance arrangement with DGI when calculating its SCR.

As noted in section 3.1 of the Scheme Report, DGI continued to write a small amount of repair and protect business for a client in the Netherlands. DGI confirmed that it ceased to write the Netherlands business on 1 September 2020 and that since that date all new business for clients in the Netherlands had been written by DGIEU.

The following table presents projections for the number of policyholders and IFRS provisions as at the Effective Date of the Proposed Transfer, 31 December 2020.

Projection as at 31 December 2020	Number of policyholders (000s)		IFRS provisions gross of reinsurance Converted £m
Non-transferring Policyholders	**8,390**		**382.8**
Transferring Policyholders	**4,000**		**114.0**
Spain	2,340	58.5%	62.3
Portugal	760	19.0%	23.7
Germany	540	13.5%	21.5
Republic of Ireland	300	7.5%	2.2
France	20	0.5%	1.7
Netherlands	20	0.5%	1.7
Belgium	10	0.2%	0.7
Italy	10	0.2%	0.1
Austria	1	<0.1%	<0.1
Poland	<1	<0.1%	<0.1
Total DGI Policyholders	**12,390**		**496.8**
Existing DGIEU Policyholders	**1,980**		**75.0**

Source: DGI, DGIEU. DGIEU figures converted assuming £1 = €1.17
The IFRS provisions are made up of the earned claims reserves and unearned premium reserves. Note policyholder numbers except for Austria and Poland have been rounded to the nearest 10,000.
Corresponding table in the Scheme Report is within section 3.2

As at the Effective Date of the Proposed Transfer, there are projected to be 12.4m DGI policyholders, of which there are projected to be 4.0m policyholders in scope to transfer to DGIEU. The transferring policies are projected to represent IFRS provisions of £114.0m compared to total IFRS provisions for DGI of £496.8m.

The table below compares the projections for the number of policyholders and IFRS provisions as at the Effective Date of the Proposed Transfer, prepared for this Supplementary Report to those presented in the Scheme Report.

Projection as at 31 December 2020	Number of policyholders (000s)		IFRS provisions gross of reinsurance Converted £m	
	Supplementary Report	Scheme Report	Supplementary Report	Scheme Report
Non-transferring Policyholders	8,390	7,651	382.8	341.9
Transferring Policyholders	4,000	4,167	114.0	114.1
Total DGI Policyholders	12,390	11,818	496.8	456.0
Existing DGIEU Policyholders	1,980	1,741	75.0	70.5

The movements are explained as follows:

- Non-transferring Policyholders – the increase in the number of Non-transferring Policyholders and IFRS provisions is attributable to higher new business volumes between March and June 2020 compared to the projections at the time of the Scheme Report.

- Transferring Policyholders – the projected number of Transferring policyholders and IFRS provisions at the Effective Date of the Proposed Transfer are similar to those in the Scheme Report.
- Total DGI Policyholders – the increase in the total number of DGI Policyholders and IFRS provisions is attributable to the increase in Non-Transferring Policyholders noted above.
- Existing DGIEU Policyholders – the number of Existing DGIEU Policyholders and IFRS provisions has increased. This is attributable to higher new business volumes between March and June 2020 compared to the projections at the time of the Scheme Report.

DGI expects that all policies it plans to transfer to DGIEU will be able to transfer at the Effective Date. Should this not be possible for any reason, there are provisions in the Scheme Document to allow for the transfer of such policies at a later date.

2.2. Scope of this Supplementary Report

This Supplementary Report must be read in conjunction with the Scheme Report as the Supplementary Report does not contain the full details of the work I have performed in considering the Proposed Transfer. Reading the Supplementary Report in isolation may be misleading.

In combination with the Scheme Report, it complies with the professional actuarial guidance and standards set out in section 2.5 of this report. All terms used in the Supplementary Report are as defined in the Scheme Report.

The use of “I”, “me” and “my” in this report generally refers to work carried out by me or by the team operating under my direct supervision. However, when it is used in reference to an opinion it is mine and mine alone.

2.3. Use of this Supplementary Report

This Supplementary Report has been produced by Tom Durkin FIA of Lane Clark & Peacock LLP under the terms of our written agreement with DGI. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Supplementary Report has been prepared for the purpose of accompanying the application to the High Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Supplementary Report is not suitable for any other purpose. The Supplementary Report must be read in conjunction with the Scheme Report of 24 August 2020.

A copy of the Supplementary Report will be sent to the PRA and the FCA and will accompany the Scheme application to the High Court.

This report is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Supplementary Report for any other purpose other than that set out above.

2.4. Reliances

I have based my work on the data and other information made available to me by DGI and DGIEU. Appendix 3 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of DGI, DGIEU and their advisors.

My analysis is based on data from two separate dates:

- 31 March 2020 data has been used for any analysis as at that date, including DGI and DGIEU’s balance sheet as at that date. This is the latest set of audited year-end accounts available at the time of preparing this report.
- 30 June 2020 data has been used for any analysis as at that date, including DGI and DGIEU’s balance sheet as at that date. 30 June 2020 data has also been used by D&G as the starting point for projections to 31 December 2020 and beyond. This data has been used to be consistent with the projections that each of DGI and DGIEU’s management use to manage their businesses. The projections reflect DGI and DGIEU’s best view of the potential impact of COVID-19 at the time of preparing this report

I have received all the information that I have requested for the purposes of the production of my report. In this respect:

- DGI and DGIEU will submit witness statements to the High Court stating that all information provided to me (and to the High Court) by DGI and DGIEU is correct and complete in all material aspects to the best of their knowledge, information and belief.
- Each of DGI and DGIEU has provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer is accurate and complete.
- DGI and DGIEU have each provided attestations that there have been no material adverse changes to the financial position of DGI or DGIEU since that information was provided to me.
- DGI and DGIEU have each read this Supplementary Report, and agreed that it is correct in terms of all factual elements of the Proposed Transfer.
- I have conducted basic checks on the data provided to me for internal consistency and reasonableness.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the integrity of the information provided for this report.

The conclusions in my report take no account of any information that I have not received, or of any inaccuracies in the information provided to me.

As set out in sections 7.4 and 7.7 respectively of the Scheme Report, D&G's legal advisers have advised me on specific aspects of the Reinsurance Agreement between DGI and DGIEU, and insurance regulation. I have not needed to take any other third-party legal advice on any aspects of the Proposed Transfer. DGI and DGIEU have confirmed that they have received no other specific legal advice relevant to my role as IE for the Proposed Transfer.

Figures in this report may be subject to small rounding differences and so totals within the tables may not equal the sum of the rounded components. D&G's assumed exchange rate of £1 = €1.17 has been used throughout this report to ensure consistency.

2.5. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for scheme reports set out by the PRA in their Statement of Policy, the FCA guidance to their approach to review of Part VII transfers issued in May 2018 and by the PRA Rulebook and the FCA Handbook.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 200: Insurance (TAS 200) issued by the Financial Reporting Council (FRC). The FRC is responsible for setting technical actuarial standards in the UK.

I have considered The Actuaries' Code as issued by the IFoA when producing this report.

This report has been subject to independent peer review prior to its publication, in line with Actuarial Professional Standard X2: Review of Actuarial Work (APS X2) as issued by the IFoA. This peer review has been undertaken by another Partner at LCP. The peer reviewer was not involved in the production of the report. They have the appropriate experience and expertise to act as peer reviewer of this report and have themselves been the Independent Expert for a number of other transfers.

2.6. Materiality

The FRC considers that matters are material if they could, individually or collectively, influence the decisions to be taken by users of the actuarial information. It accepts that an assessment of the materiality is a matter of reasonable judgement that requires consideration of the users and the context.

I have applied this concept of materiality in planning, performing and reporting the work described in this Supplementary Report. In particular, I have applied this concept of materiality when using my professional judgement to determine the risks of material misstatement or omission and to determine the nature and extent of my work.

In complying with the reporting requirements of TAS 100, I have made judgements on the level of information to include in this Scheme Report. For example, to make the report easier to read, I have not included all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments.

2.7. Definition of "materially adverse"

In order to determine whether the Proposed Transfer will have a "materially adverse" impact on any group of policyholders, it has been necessary for me to exercise my judgement in the light of the information that I have reviewed.

The Proposed Transfer will affect different policyholders in different ways and, for any one group of policyholders, there may be some effects of the Proposed Transfer that are positive, and others that are adverse. When assessing whether the Proposed Transfer will have a "materially adverse" impact, I have considered the aggregate impact of these different effects on each group of policyholders.

Throughout the report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether policyholders are materially adversely affected or otherwise.

3. My approach as IE and conclusions

My approach to assessing the Proposed Transfer, as set out in the Scheme Report, has been to perform five steps analysing evidence provided by DGI and DGIEU to support the Proposed Transfer.

My approach for the Supplementary Report has been to revisit each of these five steps and to consider whether any of the updated analysis or information available now would cause me to change my conclusions in that report.

The five steps and my considerations are detailed in the sections as follows:

- Step 1: Assessing the provisions of DGI and DGIEU – considered in section 4.
- Step 2: Assessing the capital positions of DGI and DGIEU – considered in section 5.
- Step 3: Assessing overall policyholder security – considered in section 6.
- Step 4: Assessing policyholder communications – considered in section 7.
- Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders – considered in section 8.

A list of additional information considered is included in Appendix 3. Further details on my approach as IE are set out in section 4 of the Scheme Report.

4. Reserving considerations

As IE, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for Non-transferring, Transferring and Existing DGIEU Policyholders; and
- whether any aspects of the reserving may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 5 of the Scheme Report, based on data and provisions as at 31 March 2020.

In this Supplementary Report, I have also considered the following:

- Updated data and IFRS provisions as at 30 June 2020.
- Latest position regarding DGI and DGIEU's management margins.
- Summary of findings from the audits of the DGI and DGIEU 31 March 2020 accounts.

DGI and DGIEU have each confirmed that the approach and basis for calculating the IFRS technical provisions and Solvency II technical provisions has not changed since the Scheme Report, with the exception that DGIEU no longer applies a 20% "new branch uplift" when calculating the best estimate claims provision. This is discussed further in section 4.2.

4.1. Summary of IFRS technical provisions at 30 June 2020

The following table shows the level of IFRS technical provisions as at 30 June 2020 (the latest available figures at the time of writing my report) for DGIEU and DGI, split between the Non-transferring, Transferring and Existing DGIEU Policyholders. The provisions for Transferring Policyholders represent 29% of DGI's total IFRS technical provisions as at 30 June 2020; this is a reduction from 31% at 31 March 2020, and is projected to reduce further to 23% as at the Effective Date of the Proposed Transfer.

Gross of reinsurance £m	As at 30 June 2020	As at 31 March 2020 (Audited figures)
Non-transferring Policyholders	372.9	358.8
Transferring Policyholders	150.3	160.9
Total DGI	**523.1**	**519.7**
Existing DGIEU Policyholders	**43.5**	**33.2**

Source: DGI and DGIEU. DGIEU figures converted assuming £1 = €1.17
The provisions are made up of the earned claims reserves and unearned premium reserves
Corresponding table in the Scheme Report is within section 5.5

Total DGI and DGIEU gross of reinsurance provisions increased by £3.4m and £10.3m respectively between 31 March 2020 and 30 June 2020. The key movements over the period were:

- **Non-transferring Policyholders**: £14.1m increase in provisions mainly driven by growth in the UK book (£6.5m, includes strong retention during the UK lockdown period), additional reinsurance as DGIEU grows (£4.7m) and higher UK claims provisions (£3.3m).
- **Transferring Policyholders**: £10.6m decrease in provisions in line with DGI's expectations given all new non-UK EEA business is already being written by DGIEU (excluding renewals) and hence DGI's unearned premiums in respect of EEA business is reducing.
- **Existing DGIEU Policyholders**: £10.3m increase in provisions which is directionally in line with DGIEU's expectations given it is still within its first year of trading, although the magnitude of the increase is lower than forecast due to the impact of the COVID-19 lockdown on DGIEU's retail stores, especially in Spain.

4.2. Latest position regarding DGI and DGIEU's management margins

As discussed in section 5.5 of the Scheme Report, DGI and DGIEU each hold a management margin within their respective IFRS claims provisions.

At 30 June 2020, the management margin accounted for around 33% of DGI's IFRS claims provision (ie, the IFRS provisions are around 50% higher than the best estimate projections). When preparing the Scheme Report, DGI had noted that this margin had built up over the past 12-18 months as a result of better than expected claims experience, which had not been reflected in the IFRS claims provision. DGI is holding £3.6m of specific IBNR in respect of known COVID-19 backlogs that relate to repair agents being unable to submit claims or policyholders requesting a delay to repairs. This specific IBNR is held as part of DGI's best estimate claims provisions and is split £2.3m in respect of Non-transferring Policyholders, and £1.3m in respect of Transferring Policyholders.

Since 30 June 2020, DGI has confirmed it has released €1m of the management margin held in respect of the transferring business, which occurred at the end of October 2020.

The IFRS provisions for the Transferring Policyholders, including the corresponding management margin at the time of the Proposed Transfer, will transfer to DGIEU.

At 30 June 2020, the management margin accounted for around 34% of both DGIEU's IFRS and best estimate provisions.

DGIEU no longer applies an additional 20% "new branch uplift" when calculating the best estimate claims provision. This was originally in place to reflect the additional uncertainty of estimating the claims provision based on only a small amount of historical data. This was a planned change in DGIEU's reserving approach, as set out in section 5.5 of the Scheme Report. Other planned changes post the Proposed Transfer are to utilise the historical monthly paid claims data as the starting point for the best estimate provisions, and to no longer include the management margin within the best estimate. DGIEU's current approach to calculating ultimate claims using a loss ratio approach means that an allowance for any reporting delays, including those due to COVID-19, is already implicit in DGIEU's best estimate claims provision.

Based on data as at 30 June 2020, DGI and DGIEU have calculated implied management margins as a percentage of IFRS and best estimate claims provisions, allowing for DGIEU's intended future approach. The calculations allow for the €1m management margin release on the transferring business, which occurred at the end of October 2020.

Margin as a % of:	IFRS provisions	Best estimate provisions
Total DGI	**30%**	**43%**
Non-transferring business	25%	33%
Transferring business	36%	56%
Total DGIEU	**34%**	**51%**

Source: DGI and DGIEU
Corresponding table in the Scheme Report is within section 5.5

The implied margin percentages in the table above shows that DGI and DGIEU have similar margins following the €1m release of margin from DGI.

4.3. Summary of findings from the audits of the DGI and DGIEU 31 March 2020 accounts

DGI

Following the audit review of the DGI statutory accounts as at 31 March 2020, several changes were made to figures in DGI's statutory accounts compared to the unaudited figures provided to me for the Scheme Report.

The following table shows key financial information of DGI as at 31 March 2020, based on the audited year-end accounts. The unaudited figures provided to me for the Scheme Report are also included for comparison.

DGI key financials – £m as at 31 March 2020					
IFRS Profit and Loss Account			IFRS Balance Sheet		
	Audited	Unaudited*		Audited	Unaudited*
Gross premiums written	502.4	502.4	Net assets	55.6	54.8
Net profits after tax	29.6	29.6	Technical provisions	519.7	519.0

*Source: DGI. *The unaudited figures are the figures set out in the Scheme Report*
Corresponding table in the Scheme Report is within section 3.1

Net assets increased by £0.8m, driven by exchange rate differences of £0.2m, an IFRS9 accounting adjustment of £0.4m, and an adjustment to retained earnings of £0.3m (the total of these three impacts is slightly different to £0.8m due to rounding). Technical provisions increased by £0.7m, driven by an adjustment to the unearned premiums in respect of late notifications of £0.6m.

Following these changes, DGI's auditors issued an unqualified auditor's report for the annual financial statements and management report for the financial year from 1 April 2019 to 31 March 2020. In the auditor's opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework ("FRS 101"); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

DGIEU

Following the audit review of the DGIEU statutory accounts as at 31 March 2020, no changes were made to the IFRS or German GAAP figures compared to the unaudited figures provided to me for the Scheme Report.

DGIEU's auditors issued an unqualified auditor's report for the annual financial statements of the German GAAP accounts and management report for the financial year from 1 April 2019 to 31 March 2020. In the auditor's opinion the financial statements:

- comply in all material respects with German commercial law applicable to insurance companies;
- have been prepared in accordance with German general accounting principles; and
- present a true and fair view of the net assets and financial position of DGIEU as at 31 March 2020 and of its results of operations for the financial year from 1 April 2019 to 31 March 2020.

Following the auditor's review of DGIEU's tax position in the statutory accounts, DGIEU updated its approach to allowing for deferred tax assets for the purposes of calculating Own Funds on the Solvency II balance sheet. The impact on Solvency II figures is discussed in section 5.1.

The updated approach did not impact the IFRS or German GAAP figures as at 31 March 2020, but does result in a decrease in total liabilities in projected German GAAP balance sheets, with and without the Proposed Transfer. German GAAP figures are discussed in section 6.1

4.4. Overall conclusion: Reserving considerations

I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that the Non-transferring Policyholders, Transferring Policyholders and the Existing DGIEU Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

5. Capital considerations

As IE, my overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for both DGI and DGIEU;
- whether there are expected to be any material adverse changes in the strength of capital protection for any group of policyholders (I have assessed this by comparing the projected SCR coverage ratios pre- and post-the Proposed Transfer); and
- whether any other aspects of the capital considerations may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 6 of the Scheme Report.

In this Supplementary Report, I have also considered the following:

- Updated SCR coverage ratio and balance sheet projections, based on data as at 30 June 2020.
- Updated levels of capital injections into DGIEU.
- A review of DGIEU's USP pre-application, submitted to the German regulator in August 2020.

5.1. Projected SCR coverage ratios

For the purposes of this report and the Scheme Report, I describe a company as having "sufficient capital" if the SCR coverage ratio is between 100% and 150%. I describe a company as "well capitalised" if the SCR coverage ratio is between 150% and 200% and "very well capitalised" if the SCR coverage ratio is in excess of 200%.

Since providing my Scheme Report, D&G has updated its analysis of projected SCR coverage ratios based on more recent data and changes in its business forecasts, including D&G's latest views on the potential impact of COVID-19. As such, the coverage ratios quoted in this report have changed since those included in the Scheme Report.

DGI and DGIEU have revised their assumptions for the impact of COVID-19. The most significant impact of this change for both DGI and DGIEU is an increase in Own Funds to reflect greater than expected business volumes compared to the assumptions underlying the projections prepared for the Scheme Report. Projected post-transfer DGI and DGIEU SCR coverage ratios increase by 15% and 7% respectively as a result of the revised COVID-19 assumptions.

DGIEU also updated its approach to modelling due to corrections in calculations as follows:

- *Deferred tax:* DGIEU updated its approach to allowing for deferred tax assets for the purposes of calculating Own Funds on the Solvency II balance sheet following the auditor's review of DGIEU's tax position. The impact of this is to reduce the projected Own Funds at the Effective Date of the Proposed Transfer by €7.0m post-transfer, with the projected impact decreasing over time to €2.4m in March 2025. Pre-transfer the change increases Own Funds at the Effective Date of the Proposed Transfer by €1.8m.
- *Counterparty default risk:* DGIEU updated its approach to calculating counterparty default risk to reflect the view that after the Brexit transition period the reinsurance provided by DGI would be classified as reinsurance provided by a reinsurer in a Solvency II equivalent third-country, rather than one that is subject to the Solvency II regime. The impact of this is to increase the projected SCR at the Effective Date of the Proposed Transfer by €2.9m pre-transfer and €0.7m post-transfer. The projected impact increases for each successive year-end.

The overall impact of these corrections for DGIEU post-transfer is a reduction in eligible Own Funds (€7.0m) and an increase in counterparty default risk (€0.7m), both resulting in a reduction in the SCR coverage.

There is also a risk that the UK may not be granted equivalence under Solvency II. In this scenario, if DGI was an unrated reinsurer (as was the case at the time of the Scheme Report), DGIEU would no longer be able to take credit for the reinsurance provided by DGI when calculating its SCR, most notably the Insurance risk. In response to this risk, DGI applied for, and on 12 November 2020 was given, a BBB credit rating by DBRS Morningstar. The BBB credit rating ensures that even if the UK is not granted equivalence, DGIEU is able to take credit for the reinsurance arrangement with DGI when calculating its SCR. In addition, having a BBB credit rating decreases the counterparty default risk and therefore DGIEU's projected SCR at the Effective Date of the Proposed Transfer decreases by €1.6m pre-transfer and €0.5m post-transfer.

In response to the corrections made and a credit rating being obtained for DGI, D&G has reassessed the capital injections into DGIEU. D&G has agreed to inject an additional €7.0m of capital into DGIEU's Own Funds in order to return SCR coverage ratios to levels similar to the figures quoted in the Scheme Report. This brings the total capital injection into DGIEU's Own Funds simultaneously with the Effective Date of the Proposed Transfer to €20m. As discussed in section 5.2, if the Proposed Transfer does not take place, the capital injection made will be €6m.

The following table sets out the updated projected SCR and coverage ratios, prepared by DGI and DGIEU, as at 31 December 2020 immediately before and after the Proposed Transfer.

Projected as at 31 December 2020	Own Funds	SCR	Own Funds less SCR	SCR coverage ratio	Change in coverage ratio
Day 0 – before Transfer					
DGI £m	145.4	65.7	79.7	221%	
DGIEU (no USPs) €m	22.0	8.4	13.6	262%	
Day 1 – after Transfer					
DGI £m	130.6	65.2	65.4	200%	-21%
DGIEU (no USPs) €m	33.9	12.7	21.2	268%	+6%

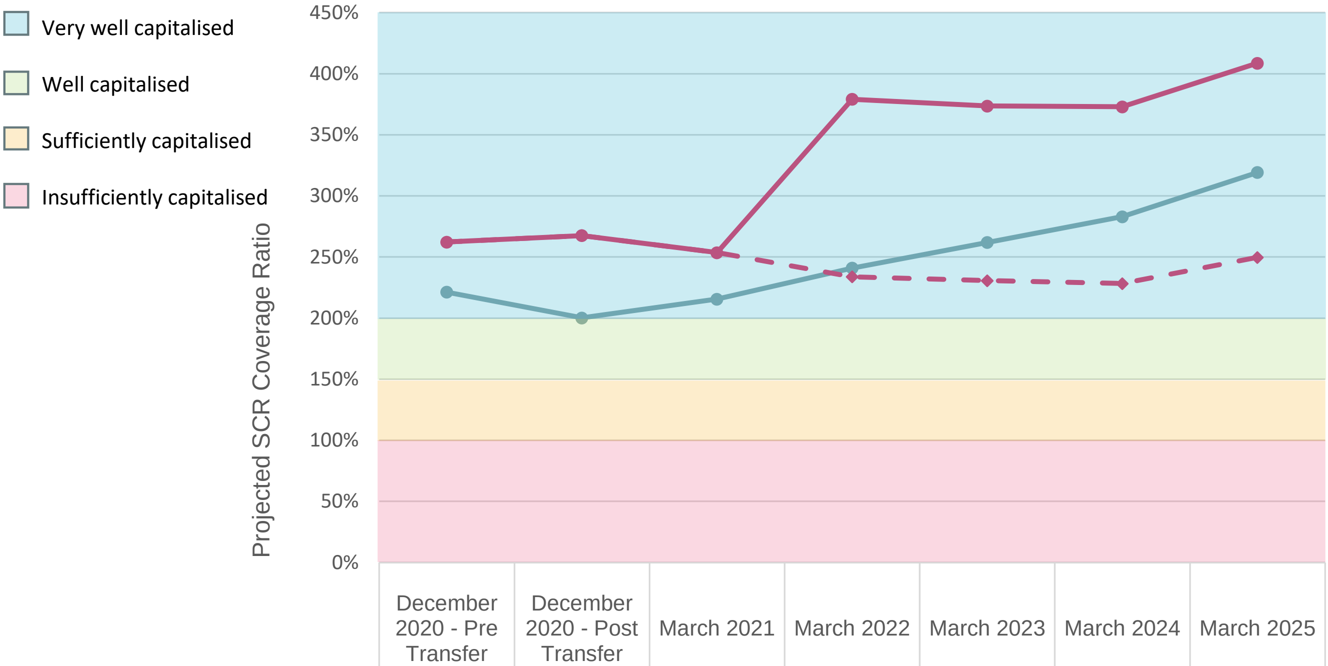
Source: DGI and DGIEU.
Corresponding table in the Scheme Report is within section 6.8

In summary:

- **Non-transferring Policyholders**: the SCR coverage ratio of Non-transferring Policyholders is projected to decrease from 221% to 200%. However, DGI is still projected to be very well capitalised immediately after the Proposed Transfer.
- **Transferring Policyholders**: The SCR coverage ratio for policyholders transferring from DGI to DGIEU is projected to increase from 221% to 268%.
- **Existing DGIEU Policyholders**: the SCR coverage ratio for Existing DGIEU Policyholders is projected to increase from 262% to 268% after the Proposed Transfer.

Based on this analysis, both DGI and DGIEU are projected to remain very well capitalised both immediately pre- and post- the Proposed Transfer. Therefore, I do not expect the changes in SCR coverage ratios immediately pre- and post- the Proposed Transfer to lead to any material adverse changes in the strength of capital protection for any group of policyholders.

Projected SCR coverage ratios for DGI and DGIEU



	December 2020 - Pre Transfer	December 2020 - Post Transfer	March 2021	March 2022	March 2023	March 2024	March 2025
DGI	221%	200%	216%	241%	262%	283%	319%
DGIEU (USPs from July 2021)	262%	268%	254%	379%	374%	373%	409%
DGIEU (without USPs)	262%	268%	254%	234%	231%	228%	250%

Source: DGI and DGIEU
Corresponding chart in the Scheme Report is within section 6.4

In practice, the actual coverage ratios may be higher or lower than these projections depending on the claims and other experience of each insurer. Both DGI and DGIEU will also routinely monitor their capital and projected capital position in line with their respective capital management policies – this could also lead to the coverage ratios being higher or lower than projected.

In particular, DGIEU has informed me that, if it receives authorisation to use USPs, then it is likely that it will review its capital position at that time. All else being equal, using USPs, DGIEU's SCR coverage ratio is projected to be around 370% or higher from March 2022 onwards. Based on my discussions with DGIEU, I understand it is likely that DGIEU would consider returning part of the capital injection back to D&G, as a capital distribution via DGI. For example, assuming that around 60% of the capital injection is returned to D&G, DGIEU's SCR coverage ratio would be projected to return to a similar level as DGI. Any release of capital would be subject to review by DGIEU's board, in light of DGIEU's stated risk appetite and the board's regulatory responsibilities.

5.2. DGIEU capital injections

As part of my discussions with D&G in my role as Independent Expert, at the point of issuing the Scheme Report, D&G committed to increase the capital injection into DGIEU's Own Funds simultaneous with the Effective Date of the Proposed Transfer by €8m, from €5m to €13m. DGIEU has since increased this additional planned capital injection by a further €7m, taking the total planned capital injection into DGIEU's Own Funds simultaneous with the Effective Date of the Proposed Transfer to €20m.

D&G has also increased the capital injection into DGIEU's Own Funds on the Effective Date if the Proposed Transfer does not take place by €1m, from €5m to €6m. Therefore, the additional planned capital on the Effective Date if the Proposed Transfer does take place is €14m.

The amount of the capital injection has been set by D&G to help ensure that DGIEU is expected to remain well capitalised under a range of adverse scenarios (see section 5.4) in the event that DGIEU does not receive approval from BaFin to use USPs.

If the Proposed Transfer does not take place, two €10m capital injections are planned on 30 April 2021 and 30 April 2023 respectively. These would be injected to support DGIEU's growth whilst maintaining capital coverage in the absence of the reserves that would have been transferred into DGIEU as part of the Proposed Transfer.

DGIEU capital injections (€m)

	Without Proposed Transfer	With Proposed Transfer
Up to 30 June 2020	36.8	36.8
31 December 2020 (simultaneously with the Proposed Transfer)	6.0	20.0
30 April 2021	10.0	-
30 April 2023	10.0	-
Total	**62.8**	**56.8**

Source: DGI and DGIEU
Corresponding table in the Scheme Report is within section 6.4

5.3. Review of DGIEU's USP pre-application

DGIEU submitted a pre-application to the German regulator, BaFin, in August 2020 to use USPs to calculate the underwriting risk capital requirement within the standard formula. Following this pre-application and further discussions with BaFin, DGIEU's latest plan is to submit its final USP application in January 2021 to target a June 2021 approval date.

I have reviewed the pre-application and supporting statistical analyses. These analyses support the view that the volatility of DGIEU's underwriting and reserve risk are lower than those implied by the standard formula's prescribed parameters. DGIEU has performed several statistical tests to support the use of USPs. Whilst one of these tests has failed, I do not believe that this invalidates the appropriateness of the proposed USPs.

I am therefore satisfied to rely on the USPs calculated by DGIEU for the purposes of the 31 July 2021 SCR and future projections as, based on my review of the submitted pre-application and understanding of DGIEU's business, I have no reason to believe that DGIEU will not achieve regulatory approval to use USPs, or that its calculated USPs are inappropriate.

5.4. Scenario analysis

I have again considered the impact of a range of adverse and extreme scenarios on each of DGI and DGIEU, based on updated projections prepared by D&G. These scenarios are consistent with those included in the Scheme Report. I have considered each scenario assuming the Proposed Transfer does and does not go ahead, both with and without USPs for DGIEU. Further details of the scenarios considered are set out in section 6.10 of the Scheme Report.

The purpose of the analysis is to assess whether DGI and DGIEU can withstand plausible adverse experience on their business and whether, under these circumstances, each insurer still provides appropriate security to all groups of policyholders. Except where stated, each scenario has been applied to both DGI and DGIEU simultaneously.

I have split the scenarios into two groups:

- Adverse scenarios: Scenarios that have an adverse, but not extreme, impact on the businesses. These are scenarios that might be expected to occur more frequently than every 20 years.
- Extreme scenarios: More severe scenarios, that could potentially lead to a materially adverse impact on the businesses. These are scenarios that might be expected to occur less frequently than every 20 years.

The assessment of how often a particular scenario is expected to occur is very subjective. I have assessed these based on a combination of analysis of D&G's historical experience prepared by D&G and my judgement based on my wider experience of actuarial and insurance work.

The extreme scenarios include a "reverse stress tests" – reverse stress tests are scenarios that, by design, consider potential events that could lead to insolvency of an insurer.

The following tables summarise the adverse and extreme scenarios considered.

Adverse scenarios

Scenario	Description
A. 10% higher claims	A 10% increase in claims reported for the 2021 financial year
B. 10% increase in expenses	An increase in expenses of 10% starting from the 2021 financial year
C. 20% less new business	A 20% decrease in new business for the 2021 financial year
D. More adverse COVID-19	A decrease in new business sales and renewals persists until the end of September 2020 due to COVID-19 combined with a slower recovery in sales over the 2021 financial year
E. Worsening combined ratio	The worst combined ratio that DGI/DGIEU has experienced in the past 15 years is assumed for all future years
F. 10% more renewal cancellations	A 10% increase in renewal cancellations for the 2021 financial year
G. Invested assets devalued by 10%	A 10% fall in the value of invested assets (excluding cash)
H. Credit downgrade for DGI	A credit downgrade for DGI which will impact the counterparty default risk for DGIEU

Extreme scenarios

Scenario	Description
I. Insolvency of key client	Insolvency of the biggest client for each of the DGI and DGIEU
J. Combined underwriting stress	An increase of 10% in the cost of claims, a reduction in new business of 20% and an increase in non-renewals or lapses of 10%
K. Data breach	A severe data breach leading to a GDPR fine of €20 million or up to 4% of the annual worldwide turnover of the preceding financial year (whichever is greater)
L. Non-equivalence of solvency regimes	A scenario where the UK solvency regime, following the expiry of the Brexit transition period, is not given Solvency II equivalence status by EU insurance regulators
M. More severe COVID-19	A decrease in new business sales and renewals persists until the end of March 2022 due to COVID-19.
N. Reverse stress test	See appendix 1 for details of the stressed assumptions

For each scenario, I have considered the projected SCR coverage ratio for the period to 31 March 2025 and assessed whether each of DGI and DGIEU:

- Is expected to remain well capitalised during the projected period – ie, a SCR coverage ratio of 150% or higher.
- Is expected to meet its risk appetite – ie, a SCR coverage ratio of 130% or higher.
- Is expected to remain solvent under Solvency II – ie, an SCR coverage ratio of 100% or higher.

In each case, these assessments are done across the projection period. For example, if the SCR coverage ratio for one of the insurers falls below 130% at any point during the projection, then this insurer would be deemed as not meeting its risk appetite.

The assessments for each scenario are set out in appendix 2. This includes the assessment for each scenario assuming the Proposed Transfer does and does not go ahead, both with and without USPs for DGIEU. The assessments are summarised as follows:

- With or without the Proposed Transfer proceeding, DGI is expected to remain well capitalised under all of the scenarios except the reverse stress test.
- With or without the Proposed Transfer proceeding, DGIEU, both with and without USPs, is also projected to remain well capitalised throughout the projected period to March 2025 under all of the scenarios except the reverse stress test.

My conclusions from this analysis are as follows:

Non-transferring Policyholders

- For Non-transferring Policyholders, I compared the impact of the scenarios on DGI with and without the Proposed Transfer proceeding.

- In both cases, DGI is able to withstand a range of plausible adverse experience on its business.
- Therefore, under these scenarios, I am satisfied that Non-transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.

Transferring Policyholders

- For Transferring Policyholders, I compared the impact of the scenarios on DGI without the Proposed Transfer proceeding to DGIEU with the Proposed Transfer proceeding.
- In both cases, each of DGI and DGIEU are able to withstand a range of plausible adverse experience on its business. This is the case whether or not DGIEU's application to use USPs is successful.
- Therefore, under these scenarios, I am satisfied that Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.

Existing DGIEU Policyholders

- For Existing DGIEU Policyholders, I compared the impact of the scenarios on DGIEU with and without the Proposed Transfer proceeding.
- In both cases, DGIEU is able to withstand a range of plausible adverse experience on its business. This is the case whether or not DGIEU's application to use USPs is successful.
- Therefore, under these scenarios, I am satisfied that Existing DGIEU Policyholders are not materially adversely affected as a result of the Proposed Transfer.

5.5. Overall conclusion: Capital considerations

I am satisfied that my conclusions related to capital remain unchanged from the Scheme Report. In summary:

- **The projected capital requirements have been calculated materially appropriately for both DGI and DGIEU.**
- **Following the Proposed Transfer, and after allowing for the additional capital injection into DGIEU, I do not expect there to be any materially adverse changes in the strength of capital protection for any group of policyholders**.

6. Policyholder security

As IE, my overall assessments related to policyholder security are:

- whether the likelihood of valid policyholder claims being paid is maintained following the Proposed Transfer for Non-transferring, Transferring and Existing DGIEU Policyholders.
- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 7 of the Scheme Report.

In this Supplementary Report, I have also considered the following:

- Updated projected balance sheets of DGI and DGIEU immediately pre- and post- the Proposed Transfer.
- Final confirmation of the reinsurance arrangement between DGI and DGIEU.

6.1. Updated impact on the balance sheets of DGI and DGIEU

I have updated the analysis set out in section 7.1 of the Scheme Report to reflect D&G's latest projections based on data as at 30 June 2020. This updated analysis is based on projected balance sheets immediately pre- and post- the Proposed Transfer, on the anticipated Effective Date of 31 December 2020.

IFRS balance sheets of DGI and DGIEU: Projection as at 31 December 2020

The table below shows simplified balance sheets for DGI and DGIEU pre- and post- the Proposed Transfer. Figures have been shown on an IFRS basis, consistent with the Scheme Report.

Converted £m	Pre-Transfer		Post-Transfer	
	DGI	DGIEU	DGI	DGIEU
Deferred acquisition costs	159.4	44.8	106.3	98.2
Cash and deposits	77.6	22.5	20.5	79.8
Investment in subsidiary	38.6	0.0	50.5	0.0
Intercompany Assets	0.0	1.4	0.0	1.5
Warranty Debtors	359.4	30.0	329.0	60.6
Trade receivables	8.6	(0.0)	8.7	(0.0)
Other debtors	34.0	0.0	81.3	0.0
Prepayments and accrued income	54.7	6.9	54.1	7.4
Other Assets	4.3	2.5	4.2	2.8
Total Assets	**736.7**	**108.0**	**654.5**	**250.3**
Technical provisions	542.7	46.4	473.2	116.3
Intercompany Liabilities	22.3	0.0	22.0	0.0
Claims payables	9.4	0.6	8.6	1.3
Commissions payables	14.5	9.0	10.6	12.9
Marketing payables	17.8	0.3	17.5	0.5
Accruals	13.0	4.0	9.3	7.7
Reinsurance payables	0.0	18.4	0.0	66.0
Other taxation and social security	32.7	2.0	30.1	4.7
Other Liabilities	3.4	2.3	2.0	4.0
Total liabilities	**655.8**	**83.1**	**573.4**	**213.4**
Total equity	**80.9**	**25.0**	**81.1**	**36.9**

Source: DGI, DGIEU. DGIEU figures converted assuming £1 = €1.17

Corresponding table in the Scheme Report is within section 7.2

The table above shows simplified IFRS balance sheets for DGI and DGIEU pre- and post- the Proposed Transfer. The impact of the transfer is that around 13% of DGI's IFRS provisions are expected to be transferred out of DGI (net of the reinsurance back from DGIEU to DGI).

As expected given the Proposed Transfer, the key movements in the balance sheet for DGI are the reduction in technical provisions, together with a corresponding reduction in deferred acquisition costs, and a reduction in investments and cash.

In total across both insurers, assets increase by £60.1m (from £844.7m to £904.8m) and liabilities increase by £48.0m (from £738.8m to £786.8m) as a result of the Proposed Transfer. D&G has stated that the main reasons for this are as follows:

- The Reinsurance Account increases, which creates a larger receivable (asset) for DGI and larger payable (liability) for DGIEU, both going up by £47.5m.
- An additional €14m (£12m) capital injection (Investment in subsidiary) into DGIEU if the Proposed Transfer takes place (as set out in section 5.2, the total planned capital injection to be made simultaneous with the Proposed Transfer is €20m if the Proposed Transfer takes place and €6m if it does not take place).

These total movements in assets and liabilities compare to projected increases of £17.3m and £15.5m respectively in the projections made by DGI and DGIEU at the time of the Scheme Report. This shift is due to a change in the planned timing for DGIEU to transfer funds from the Reinsurance Account back to DGI – this transfer is now expected a few days after the Effective Date, whereas previously the transfer of funds was assumed to take place simultaneously with the Proposed Transfer.

DGIEU's own accounts will be prepared under German GAAP, rather than IFRS. The table below shows a comparison between German GAAP and IFRS balance sheets for DGIEU pre- and post-transfer.

Comparison of IFRS and German GAAP for DGIEU as at 31 December 2020

Converted £m	Pre-Transfer		Post-Transfer	
	IFRS	German GAAP	IFRS	German GAAP
Goodwill	0.0	9.5	0.0	36.9
Customer/OEM relationships	0.0	0.0	0.0	1.5
Deferred acquisition costs	44.8	0.0	98.2	(0.1)
Cash and deposits	22.5	22.5	79.8	79.8
Intercompany Assets	1.4	1.4	1.5	1.5
Warranty debtors	30.0	13.7	60.6	17.5
Prepayments and accrued income	6.9	6.9	7.4	7.4
Other assets	2.5	2.5	2.8	2.8
Total assets	**108.0**	**56.4**	**250.3**	**147.2**
Technical provisions	46.4	4.5	116.3	53.8
Deferred tax liabilities	0.0	0.7	0.0	0.0
Claims payables	0.6	0.6	1.3	1.3
Commissions payables	9.0	9.0	12.9	12.9
Marketing payables	0.3	0.3	0.5	0.5
Accruals	4.0	4.0	7.7	7.7
Reinsurance payables	18.4	12.6	66.0	50.8
Other taxation and social security	2.0	2.0	4.7	4.7
Other Liabilities	2.3	2.3	4.0	4.0
Total liabilities	**83.1**	**36.2**	**213.4**	**135.7**
Total equity	**25.0**	**20.2**	**36.9**	**11.5**

Source: DGIEU. Figures converted assuming £1 = €1.17
Corresponding table in the Scheme Report is within section 7.2
The goodwill and deferred tax liability lines are only applicable to the German GAAP balance sheet

Under German GAAP, the Part VII transfer results in a number of adjustments to the balance sheet from IFRS. The main adjustments are:

- Future instalments of monthly paid premiums are not included in the assets.
- Deferred acquisition costs are not included in the assets.
- An additional asset is included for goodwill. Post-transfer there is total goodwill of £36.9m which is made up of two components:
  - Pre-transfer goodwill of £9.5m at the Effective Date of the Proposed Transfer which reflects the intangible value of client relationships and people knowledge. This amount was based on a valuation conducted for DGIEU by a third-party valuation firm in November 2019 when DGIEU was being set up.
  - Goodwill of £27.3m as a result of the Proposed Transfer reflecting the renewal rights on the transferred business. The same third-party valuation firm as above valued DGIEU's allowable goodwill at £33.9m under German GAAP, and DGIEU is booking a lower amount than this.

- An additional asset is included for the “Value in Force” of the transferred policies in Customer/OEM relationships, although this is reduced by 90% due to the reinsurance.
- The reinsurance ceding commission is realised immediately when the premium has been collected, which decreases the liabilities. However this is almost entirely offset by the reinsurance premium being earned quicker which increases the liabilities.

6.2. Reinsurance arrangement between DGI and DGIEU

I have been provided with confirmation that the amended reinsurance arrangement between DGI and DGIEU was approved by the German Commercial Registry on 23 September 2020. Further details of the reinsurance arrangements between DGI and DGIEU, including my conclusions on the reinsurance, are set out in section 7.4 of the Scheme Report.

6.3. Overall conclusion: Policyholder security

Based on the analysis set out above, I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that it is unlikely that policyholders will be materially adversely affected by the Proposed Transfer.

7. Policyholder communications

As IE, my overall assessments related to policyholder communications are:

- the appropriateness of DGI's communication strategy to inform policyholders of the Proposed Transfer.
- whether the policyholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them.

These assessments were considered in section 8 of the Scheme Report.

In this Supplementary Report, I have also considered the following:

- Policyholder responses to D&G's communications
- Policyholder objections to the Proposed Transfer

7.1. Policyholder responses to D&G's communications

DGI and DGIEU have confirmed that communications with policyholders have been carried out in line with the communications plan agreed with the High Court at the Directions Hearing on 2 September 2020.

As at 22 November 2020, which was the latest available data prior to finalising this Supplementary Report, D&G had received 47,744 policyholder responses. The reasons for the contact are summarised in the following table:

Reason	Number of responses	% of notifications sent
General enquiry	39,060	1.76%
Cancellation	8,508	0.38%
Objection	162	<0.01%
Complaint	14	<0.01%
Technical enquiry	0	0.00%
Other	0	0.00%
Total	**47,744**	**2.15%**

As of 22 November 2020, 2.2m email and postal notifications (excluding email bounce backs) had been sent as part of the communications plan. As the table above shows, general enquiry and cancellation numbers are 1.76% and 0.38% of notifications sent respectively. General enquiries are typically things such as changes of address, name, confirmation on what's covered. D&G has informed me that it is normal for it to receive a 1 to 2% general response rate from any mass policyholder communication.

D&G has confirmed to me that over 90% of acknowledgements/initial responses were sent with 48 hours, and where further responses were required, 90% were sent within 7 days. D&G has only sent one detailed non-standard response, which related to an objector that wrote directly to the Court, and I have seen a copy of this. All responses are in local languages and I have been provided with the standard wording (in English) used where a formal response is required.

The nature of the policies is that in some cases the insured item is no longer owned by the policyholder or they just want to cancel cover. I understand that the majority of the cancellations are policyholders who have been reminded that they have a policy and have decided to cancel it, rather than objections to the Proposed Transfer. D&G is allowing policyholders to cancel policies over the communication period of the Proposed Transfer even if the policy terms would not normally permit this.

Having reviewed the 14 complaints from policyholders, my view is that only one of the complaints is related to a perceived impact of the Proposed Transfer. This complaint is about whether the transfer is necessary, and the loss of FSCS coverage. As set out in section 1.1, the Proposed Transfer is necessary in order to provide certainty that DGI can continue to carry on non-UK EEA business after the Brexit transition period with minimum disruption. In section 7.2 I have summarised my findings in respect of the loss of FSCS coverage.

This complaint also raised specific procedural issues related to the Proposed Transfer, including that a Court reference number was not included in the initial correspondence from D&G related to the Proposed Transfer and, when the individual called D&G, the call handler was not able to provide this information. In addition, the policyholder raised a concern that policyholders may need to make objections to the Proposed Transfer in English. I have discussed this complaint with D&G, who has confirmed that objections do not need to be submitted in English, and have updated the procedures to ensure that all call handlers have the Court reference number available. I have also reviewed the detailed written complaint and D&G's response to the policyholder, and confirm that these do not change my view on the Proposed Transfer.

The other 13 complainants have either not provided reasons for their complaints yet, ie they have communicated an intention to complain in writing but are yet to provide any further details, or the complaints relate to policyholders who are raising a complaint specific to their circumstances, eg a policyholder whose name was misspelled on communications.

I also note that only one of the 14 complainants has cancelled their policy, stating that this was because they were unaware of the policy.

I have separately considered the objections in section 7.2. I have reviewed details of the complaints received and my view is that the complaints relate predominantly to individual policyholder circumstances and do not give rise to concerns with the communications plan or the Proposed Transfer. Additionally, I view the actions D&G is taking to respond to the complaints as appropriate.

Taking into account the above responses, I still view the communication strategy to be appropriate in ensuring the relevant parties are adequately notified of the Proposed Transfer.

7.2. Policyholder objections to the Proposed Transfer

As at 22 November 2020, 162 objections to the Proposed Transfer had been received. The reasons for objection are summarised in the table below:

Reason	Number of objections	Number of cancellations following an objection
Policyholder does not want the Scheme to happen but does not justify their reason	152	104
Concerns expressed regarding personal data	5	4
Brexit implications (ie not related to Proposed Transfer)	2	0
The right to opt out or have an option to choose an insurer	1	1
Increased costs and inconvenience for policyholders	1	1
Loss of FSCS coverage	1	0
Total	**162**	**110**

I have focused my review on objections with an identifiable reason, as I am not able to assess the merits of the objections where a reason for the objection is not given. I have summarised the findings of my review below:

- **Concerns expressed regarding personal data:** All but one of the policyholders who have expressed concerns regarding the transfer of personal data have cancelled their policies. The policyholder who has not cancelled their policy has not provided specific details on the reason for their objection. Both DGI and DGIEU are currently subject to the General Data Protection Regulation (GDPR) which is a regulation in EU law on data protection and privacy in the European Union (EU) and the European Economic Area (EEA). GDPR will be adopted into UK regulation following the expiry of the Brexit transition period, ie personal data transferred to DGIEU respect of the Transferring Policyholders will be subject to the same data protection regulations. Therefore, these objections do not change my view on the Proposed Transfer.
- **Brexit implications:** I have reviewed the objections from policyholders who have objected on the grounds of Brexit, and my view is that these relate to general objections to Brexit, rather than to the Part VII transfer itself. Therefore, these objections do not change my view on the Proposed Transfer.

- **Right to opt out or choose an insurer / Increased costs:** Both the policyholder who has objected on the grounds of a change in insurer and the policyholder who has objected on the grounds of increased costs and inconvenience have cancelled their policies. Therefore, these objections do not change my view on the Proposed Transfer.
- **FSCS coverage:** In section 7.5 of the Scheme Report, I concluded that it is unlikely that the policyholders will be materially adversely affected by the loss of access to the FSCS. 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. Also, D&G is allowing policyholders to cancel their policies ahead of the Proposed Transfer, even if the policy terms would not otherwise have allowed this. Therefore, whilst I note that Transferring Policyholders could be materially adversely affected in the event of the insolvency of DGI following the Effective Date of the transfer, on balance my view remains that this is unlikely, and any concerned policyholders have the alternative available to them of cancelling their policy. Therefore the objection on the grounds of loss of FSCS coverage has not caused me to change my overall view on the Proposed Transfer

As of 15 November 2020, objections accounted for less than 0.01% of the 2.2m email and postal notifications (excluding email bounce backs) sent. Therefore, I do not view the volume of objections as a concern. In addition, as set out above, I have not identified any objections that have caused me to change my overall conclusions related to the Proposed Transfer.

7.3. Objections from German policyholders

A very high proportion of the total objections and complaints received by D&G in relation to the Proposed Transfer are from German policyholders. German policyholders accounted for over 90% of objections (150 out of 162), but only account for 13% of the total Transferring Policyholders.

I have discussed this with both D&G and D&G's legal advisors, and I am not aware of any particular reason why there would be a concentration of objections from German policyholders. However, in response to this, and to help ensure that these policyholders have as much information as possible related to the Proposed Transfer, D&G are planning to provide a translated copy of this Supplementary Report in German on the Brexit section of its website, and provide a copy of this to all German policyholders that have raised an objection. This will be in addition to my previous Summary Report that has already been translated into 10 languages.

7.4. Overall conclusion: Policyholder communications

The communications have been carried out in line with the communications plan agreed with the High Court at the Directions Hearing on 2 September 2020. I have not identified any objections or complaints that have caused me to change my overall conclusions related to the Proposed Transfer. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded the communications strategy will ensure adequate coverage of affected parties.

I have also concluded that the communication is sufficiently clear for policyholders to understand the effects of the Proposed Transfer and that D&G has sufficient resources to deal with any objections, enquiries or complaints received following the Part VII communication exercise.

8. Customer service and other considerations

The assessments related to the customer service and other considerations were considered in section 9 of the Scheme Report.

In this Supplementary Report, I have also considered the latest position related to DGIEU's UK branch application.

8.1. DGIEU's UK branch application

DGIEU submitted an application to BaFin in August 2020 to establish a UK branch on a FofE basis. BaFin completed their review of the UK passported branch application on 2 November 2020. The application is now with the PRA for review and PRA consent is anticipated by 2 December 2020 which is the statutory deadline for host state regulator consent. DGIEU has an advanced draft of the third country branch application which it intends to submit as soon as practicable after the passported branch has been established and in any case in advance of the 31 December 2020 deadline to benefit from the UK's Temporary Permissions Regime (TPR).

The purpose of the UK branch is to minimise customer disruption and to ensure the availability of suitable personnel, as DGIEU will utilise DGI's existing infrastructure in the UK (principally an English language call centre) to operate the ROI business and to service Transferring Policyholders located in the ROI.

As DGIEU's UK branch will be carrying out sales activities and processing mid-term adjustments (which are regulated in the UK) DGIEU also needs to apply to the PRA for regulated status. I understand that, as the UK has not been able to negotiate a free trade agreement with the EU, the UK branch will become a "third country branch" for UK regulatory purposes upon expiry of the Brexit transition period. DGIEU intends to apply to the UK Regulators for approval for a third country branch under the UK's Part IV A of the Financial Services and Markets Act 2000 (FSMA) as soon as possible so it can benefit from the UK's TPR (pursuant to The EEA Passporting Rights (Amendment Etc., and Transitional Provisions) (EU Exit) Regulations 2018). The TPR will permit DGIEU to continue to operate the ROI Business through the UK branch while its application for "permanent" approval under Part IV A of FSMA is pending. As discussed above, to benefit from the TPR DGIEU UK needs to submit the application to the PRA by 31 December 2020, but it will not be assessed until after that date.

I have discussed the UK branch application with DGIEU and I am satisfied with the rationale for establishing a UK branch.

In addition, if a UK branch of DGIEU is established, I understand that transferring ROI policyholders will retain access to FOS for any actions undertaken by the UK branch in respect of their ROI policy. This will include sales activities, claims handling and complaints handling activities.

8.2. Overall conclusion: Customer service and other considerations

Since the Scheme Report, there have been no material changes to the Proposed Transfer that affect my analysis on customer service and other aspects of the Proposed Transfer. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that no material impact on service standards (or any other considerations within this section of the report and section 9 of the Scheme Report) is expected following the Proposed Transfer.

9. Conclusions and Statement of Truth

I have considered the Proposed Transfer and its likely effects on the Non-transferring Policyholders, the Transferring Policyholders and the Existing DGIEU Policyholders.

In reaching the conclusions set out below, I have applied the principles as set out in relevant professional guidance, being the Technical Actuarial Standards (TASs) TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance.

I have concluded that:

- The security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.
- The security provided to Transferring Policyholders is unlikely to be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.
- The security provided to Existing DGIEU Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Existing DGIEU Policyholders following the Proposed Transfer.

9.1. IE duty and declaration

My duty to the High Court overrides any obligation to those from whom I have received instructions or paid for this Report. I confirm that I have complied with that duty.

I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer. I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

I confirm that I am aware of the requirements applicable to experts in Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Guidance for the Instruction of Experts in Civil Claims 2014. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I have understood and complied with my duty to the Court.

Tom Durkin, FIA
Partner

27 November 2020

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

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

This work is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Scheme Report for any other purpose other than that set out above.

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.

About Lane Clark & Peacock LLP

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The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. Locations in London, Winchester, Ireland, and - operating under licence - the Netherlands.

https://www.lcp.uk.com/emails-important-information contains important information about this communication from LCP, including limitations as to its use.

Appendix 1 – Description of best estimate projections and reverse stress tests

Best estimate projections

The best estimate projections are based on DGI and DGIEU's historical experience and forward looking business plan. They represent DGI and DGIEU's best estimate view of each insurer's projected financial position, and are in line with the projections that each of DGI and DGIEU's management use to manage their businesses.

In addition, the following assumptions have been made related to the COVID-19 pandemic. These reflected DGI and DGIEU's current best view on the expected future (post-30 June 2020) impact of COVID-19 on each business:

- UK monthly subscription sales rise by between 13% and 15% between July and October 2020 and then an average of 1% thereafter until March 2021. For FY21 (financial year from 1 April 2021 to 31 March 2022) UK monthly subscription sales are projected to increase by 2% monthly.
- UK monthly retail cash sales fall by between 12% and 28% for retail cash sales between July and October 2020 and then an average of 4% thereafter until March 2021. For FY21 UK monthly retail cash sales are projected to fall by 20% monthly.
- EU monthly subscription sales rise by between 12% and 30% between July and September 2020 (with a peak rise in August 2020) and then an average fall of 16% thereafter until March 2021. For FY21 EU monthly subscription sales are projected to fall by 6% monthly.
- EU monthly retail cash sales fall by an average of 4% between July and November 2020 (with a peak rise in July 2020 and a peak fall in November 2020) and then an average fall of 2% thereafter until March 2021. For FY21 EU monthly retail cash sales are projected to fall by 11% monthly.
- UK monthly renewals increase by an average of 3% until March 2021. For FY21 UK monthly renewals are projected to continue to rise by 3% monthly.
- EU monthly renewals increase by an average of 4% until March 2021. For FY21 EU monthly renewals are projected to rise by 5% monthly.
- Client stores that are open stay open throughout the projection period, with online sales continuing to substitute in-shop sales.
- A recession occurs after remaining stores open. This will reduce the sales of new appliances and both DGI and DGIEU will see higher cancellations on existing policies.
- Best Estimate Lapse rates have been increased by 1% for UK and 3% for EU (this applies to both DGI UK business and DGI EU business).
- Furloughing of outbound staff benefit has been included in the model.
- As D&G Group is projected to make a profit in this year, the losses will allow for a tax relief.

Reverse stress tests

DGI and DGIEU have performed two Reverse Stress Tests which use the same set of assumptions, but with and without the Part VII. The Reverse Stress Tests assume the same capital injections into DGIEU that are assumed in the base projections, as set out in section 5.2.

The Reverse Stress Tests use the following common assumptions:

- New business for DGI and DGIEU reduces by 100% for both entities for FY21.
- Renewals cancellations for both entities increase by 50% for FY21.
- Lapse rate has increased to account for the increase in cancellation rate.
- No savings from internal acquisition costs.
- Claims reduce as risk exposure decreases.
- Commission related to sales reduces in line with contractual terms.
- Savings will be made from contact centre staff dealing with fewer claims and calls.
- Loss in sales feeds into renewals offered in following years.
- Remaining claim costs and expenses increase by 10% for FY21 respectively.
- DGI and DGIEU will receive fines of £5.0m and €9.9m respectively for a GDPR Data Breach.
- A 10% increase in claims reported for the 2021 financial year.
- Cash and investments increase by £30m (due to use of a Letter of Credit), with an offsetting intercompany liability.

Appendix 2 – SCR scenario analysis

For each scenario, I have considered the projected SCR coverage ratio for the period to 31 March 2025 and assessed whether each of DGI and DGIEU:

- Is expected to remain well capitalised during the projected period – ie, a SCR coverage ratio of 150% or higher.
- Is expected to meet its risk appetite – ie, a SCR coverage ratio of 130% or higher.
- Is expected to remain solvent under Solvency II – ie, an SCR coverage ratio of 100% or higher.

In each case, these assessments are done across the projection period. For example, if the SCR coverage ratio for one of the insurers falls below 130% at any point during the projection, then this insurer would be deemed as not meeting its risk appetite. The assessments for each scenario are set out below:

DGI

	Remains well capitalised?		Remains within risk appetite?		Remains solvent?	
Scenario:	Without transfer	With transfer	Without transfer	With transfer	Without transfer	With transfer
A. 10% higher claims	Yes	Yes	Yes	Yes	Yes	Yes
B. 10% increase in expenses	Yes	Yes	Yes	Yes	Yes	Yes
C. 20% less new business	Yes	Yes	Yes	Yes	Yes	Yes
D. More adverse COVID-19	Yes	Yes	Yes	Yes	Yes	Yes
E. Worsening combined ratio	Yes	Yes	Yes	Yes	Yes	Yes
F. 10% more renewal cancellations	Yes	Yes	Yes	Yes	Yes	Yes
G. Invested assets devalued by 10%	Yes	Yes	Yes	Yes	Yes	Yes
H. Credit downgrade for DGI	Yes	Yes	Yes	Yes	Yes	Yes
I. Insolvency of key client	Yes	Yes	Yes	Yes	Yes	Yes
J. Combined underwriting stress	Yes	Yes	Yes	Yes	Yes	Yes
K. Data breach	Yes	Yes	Yes	Yes	Yes	Yes
L. Non-equivalence of solvency regimes	Yes	Yes	Yes	Yes	Yes	Yes
M. More severe COVID-19	Yes	Yes	Yes	Yes	Yes	Yes
N. Reverse Stress Test	No					

DGIEU (with USPs from 31 July 2021)

	Remains well capitalised?		Remains within risk appetite?		Remains solvent?	
Scenario:	Without transfer	With transfer	Without transfer	With transfer	Without transfer	With transfer
A 10% higher claims	Yes	Yes	Yes	Yes	Yes	Yes
B. 10% increase in expenses	Yes	Yes	Yes	Yes	Yes	Yes
C. 20% less new business	Yes	Yes	Yes	Yes	Yes	Yes
D. More adverse COVID-19	Yes	Yes	Yes	Yes	Yes	Yes
E. Worsening combined ratio	Yes	Yes	Yes	Yes	Yes	Yes
F. 10% more renewal cancellations	Yes	Yes	Yes	Yes	Yes	Yes
G. Invested assets devalued by 10%	Yes	Yes	Yes	Yes	Yes	Yes
H. Credit downgrade for DGI	Yes	Yes	Yes	Yes	Yes	Yes
I. Insolvency of key client	Yes	Yes	Yes	Yes	Yes	Yes
J. Combined underwriting stress	Yes	Yes	Yes	Yes	Yes	Yes
K. Data breach	Yes	Yes	Yes	Yes	Yes	Yes
L. Non-equivalence of solvency regimes	Yes	Yes	Yes	Yes	Yes	Yes
M. More severe COVID-19	Yes	Yes	Yes	Yes	Yes	Yes
N. Reverse Stress Test	No					

DGIEU (without USPs)

	Remains well capitalised?		Remains within risk appetite?		Remains solvent?	
Scenario:	Without transfer	With transfer	Without transfer	With transfer	Without transfer	With transfer
A 10% higher claims	Yes	Yes	Yes	Yes	Yes	Yes
B. 10% increase in expenses	Yes	Yes	Yes	Yes	Yes	Yes
C. 20% less new business	Yes	Yes	Yes	Yes	Yes	Yes
D. More adverse COVID-19	Yes	Yes	Yes	Yes	Yes	Yes
E. Worsening combined ratio	Yes	Yes	Yes	Yes	Yes	Yes
F. 10% more renewal cancellations	Yes	Yes	Yes	Yes	Yes	Yes
G. Invested assets devalued by 10%	Yes	Yes	Yes	Yes	Yes	Yes
H. Credit downgrade for DGI	Yes	Yes	Yes	Yes	Yes	Yes
I. Insolvency of key client	Yes	Yes	Yes	Yes	Yes	Yes
J. Combined underwriting stress	Yes	Yes	Yes	Yes	Yes	Yes
K. Data breach	Yes	Yes	Yes	Yes	Yes	Yes
L. Non-equivalence of solvency regimes	Yes	Yes	Yes	Yes	Yes	Yes
M. More severe COVID-19	Yes	Yes	Yes	Yes	Yes	Yes
N. Reverse Stress Test	No					

Appendix 3 – Summary of data provided

The following is a list of the key additional data items I have requested and received, or accessed directly, in assessing the Proposed Transfer for the purpose of this Supplementary Report. I continue to also rely on all data items received that are listed in Appendix 6 of the Scheme Report. All data I have requested has been provided to me. Each of DGI and DGIEU has provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

- Draft High Court and regulatory documents prepared by DGI for the Proposed Transfer, including:
    - DGI second witness statement (provided on 26 November 2020)
    - DGIEU second witness statement (provided on 26 November 2020)
    - Scheme document (provided on 26 November 2020)
    - Scheme summary (provided on 26 November 2020)
    - Post-sanctions legal order (provided on 26 November 2020)
- Responses and objections from stakeholders to the Proposed Transfer
    - Summary of the communications received from policyholders (as of 22 November 2020)
    - Number of objections received to date and a summary of the nature of the objections (as of 22 November 2020)
- Documents relating to provisions and reserving processes, including
    - DGI and DGIEU summary of IBNR provisions as at 30 June 2020
    - DGI and DGIEU audited year-end accounts at 31 March 2020
- Documents relating to capital and related processes, including:
    - DGI and DGIEU standard formula SCR calculations
    - Various additional stress scenarios for DGI and DGIEU
    - Projections of future balance sheets and capital requirements up to 31 March 2025 for DGI and DGIEU
- Data Accuracy Statement
    - For each of DGI and DGIEU (DGI dated 26 November 2020, DGIEU dated 27 November 2020)

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