

## **IMPORTANT INFORMATION**

### **Transfer of European Insurance Business of Domestic & General Insurance Plc and Domestic & General Europe AG**

#### **Summary of the Independent Expert Report on the Scheme**

##### **Introduction**

Domestic & General Insurance Plc ("**DGI**") is seeking an order from the High Court of England and Wales (the "**High Court**") to transfer all of its "**European Business**", being its EEA general insurance business (excluding any business where the state of risk is the UK), to Domestic & General Europe AG (the "**Proposed Transfer**"). On receiving authorisation to carry on insurance business, it will be re-registered as Domestic & General Insurance Europe AG ("**DGIEU**"). DGI is a privately-owned, public limited company incorporated in England and Wales and a member of the Domestic & General group of companies. DGIEU is a wholly-owned subsidiary of DGI, registered in Germany and, at the time of the Proposed Transfer, will be duly authorised to carry on insurance business in Germany and certain other EEA-member states.

DGI has appointed Mr Alex Marcuson of Marcuson Consulting Ltd as the "**Independent Expert**", a role established pursuant to section 109(2)(b) of the Financial Services and Markets Act 2000. As Independent Expert, he is required to provide a report to the High Court on the effect of the Proposed Transfer on the policyholders of DGI and DGIEU (the "**Report**"). Mr Marcuson is a Fellow of the Institute and Faculty of Actuaries. His appointment has been approved by the UK's Prudential Regulation Authority, in consultation with the UK's Financial Conduct Authority.

The Report contains the reasoning behind Mr Marcuson's conclusions, including his assumptions, a description of the detailed analysis underpinning his work, a number of important limitations relevant to understanding the conclusions reached, and a statement of the Report's purpose and the terms of its use. This additional material has not been included within this summary.

While Mr Marcuson is satisfied that this summary provides an appropriate synopsis of the Report, reliance on this summary alone may not give you the whole picture and anyone wishing to understand the analysis that has led to Mr Marcuson's conclusions should request a copy of the full Report. Information on how copies of the Report can be obtained or downloaded free of charge are set out at [www.domesticandgeneral.com/PartVIITransfer](http://www.domesticandgeneral.com/PartVIITransfer).

## **Purpose of the Scheme**

The Report explains the Independent Expert's understanding of the purpose of the Scheme. This is to enable DGI to ensure that its European Business policyholders can enjoy continuity of cover under their insurance policies, and to enable the D&G Group to continue to write new European Business, even if DGI's current permissions cease to apply following the departure of the UK from the European Union ("**Brexit**").

## **Overview of the Arrangements alongside the Scheme**

The Independent Expert has outlined an overview of the arrangements that will take place alongside the Scheme:

1. Establishment of DGIEU, a new wholly-owned subsidiary of DGI domiciled and authorised in Germany.
2. DGI will inject shareholders' funds into DGIEU to enable DGIEU to meet its accounting and prudential capital requirements for the foreseeable future.
3. DGI and DGIEU will enter into a new, legally binding agreement that will pass the majority of DGIEU's insurance claims liabilities back to DGI. This will respond to the transferring portfolio of business and the future underwriting of DGIEU.
4. Transfer of all of DGI's European Business to DGIEU, including all of the associated assets and liabilities.

## **The Independent Expert's Work**

The Independent Expert has reviewed the terms of the Scheme and considered its impact on the security of policyholders of DGI before the Proposed Transfer. DGIEU does not have any policyholders before the Proposed Transfer, so has not needed to consider them.

To reach his conclusions, the Independent Expert has:

- Reviewed the actual and/or projected balance sheets of DGI and DGIEU, including the insurance reserves of each company;
- Reviewed the way in which DGI and DGIEU have calculated their actual and/or projected capital requirements and compared the risks, capital requirements and available financial resources of each company;
- Looked at how the Proposed Transfer will affect non-financial matters, including: (i) the manner in which the companies are managed and their policies are administered; and (ii) any changes in the legal and regulatory protections provided to policyholders; and
- Reviewed the proposed notification and publicity arrangements.

## **Summary of findings**

The Proposed Transfer only relates to DGI, being the sole insurer within D&G Group. As the assets and liabilities being transferred are to a wholly-owned subsidiary, the Proposed Transfer essentially brings about no change to the consolidated financial position of DGI or D&G Group.

*Conclusions – Financial Impact of the Proposed Transfer on DGI's Policyholders*

Based on his review, the Independent Expert concluded that:

- Both DGI and DGIEU will be able to meet their regulatory capital requirements and the chance of their policyholders not having their claims paid in full as they fall due is remote; and
- The Proposed Transfer is unlikely to have a materially adverse impact on the financial position of the DGI's Policyholders.

*Conclusions – Non-Financial impacts – Levels of Service*

Based on his review of DGIEU's proposed arrangements for policy administration and claims handling, compared to those which DGI have in place, the Independent Expert has concluded that the Scheme will have no effect on the administration of either the business transferring to DGIEU or the business remaining in DGI.

*Conclusions – Non-Financial impacts – Other considerations*

The Independent Expert has identified three aspects of the Scheme which give rise to notable changes for some of DGI's policyholders. Overall he does not consider that they are likely to materially adversely affect policyholders.

1. The policyholders transferring from DGI to DGIEU will lose rights to protection that they would have had under the UK's Policyholder Protection Scheme, a statutory UK scheme responsible for meeting claims of individuals and small businesses in the event that a UK insurer becomes insolvent. Only claims arising after the anticipated date on which the Proposed Transfer will take place will lose this protection. He notes that there is no equivalent scheme in operation in Germany, but that the scenario of non-payment of claims by DGIEU as a result of its insolvency is remote.
2. A new legally binding agreement between DGIEU and DGI will be put in place that will pass the majority of DGIEU's insurance claims liabilities back to DGI. The agreement will allow for funds to meet expected claims payable under it to be held by DGIEU in order to meet these claims. In the event of insolvency of DGI, the agreement terminates and DGI's rights to assets held by DGIEU are limited. While the impact on individual policyholders would need to be determined at the time of such an event, overall he is satisfied that the agreement is appropriate,

and does not seek to advantage either the transferring or the non-transferring policyholders.

3. The third change is the loss of eligibility of certain Transferring Policyholders to access the UK's independent disputes resolution service, the Financial Ombudsman Service, should complaints arise relating to the administration of a policy or handling of a claim. DGIEU has confirmed that all Transferring Policyholders will be protected by the German Ombudsmann für Versicherungen which the Independent Expert has concluded provides an equivalent mechanism for redress to the Financial Ombudsman Service in the case of the business transferring to DGIEU.

Based on this analysis the Independent Expert has concluded that while there are some changes to the non-financial arrangements for policyholders arising from the Proposed Transfer, he does not believe they are likely to give rise to a material adverse impact.

#### *Conclusions – notification and publicity arrangements*

The Independent Expert has reviewed the notification and publicity arrangements for all affected policyholders and believes that they are appropriate, including the general waivers sought by DGI from the requirement to notify certain policyholders, and the measures intended to be put in place to compensate for the effect of the waivers.

#### **Supplemental Report**

Mr Marcuson's analysis in his Report is based upon the material supplied to him, including actual and projected balance sheets and other information, based on accounting positions as at 31 March 2018. He has also taken into account DGI's business plans, including its ongoing major transformation projects. Since the proposed effective date for the Scheme is 22 March 2019, he will revisit the analysis closer to the time to confirm that there have been no material changes to the position that he has reviewed that would affect his overall opinion. He will then prepare and issue a supplemental report to be made available to the High Court prior to its hearing of the application for it to approve the Proposed Transfer. Copies of this supplemental report will be made available for free download at [www.domesticandgeneral.com/PartVIITransfer](http://www.domesticandgeneral.com/PartVIITransfer).