

Scheme Report of the Independent Expert on the proposed transfer of insurance business from

U K Insurance Ltd to Intact Insurance UK Limited

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

For the High Court of Justice of England and Wales

7 October 2025

Prepared by:

Stewart Mitchell FIA

LCP

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1. Executive summary

1.1. The Proposed Transfer

The firms involved

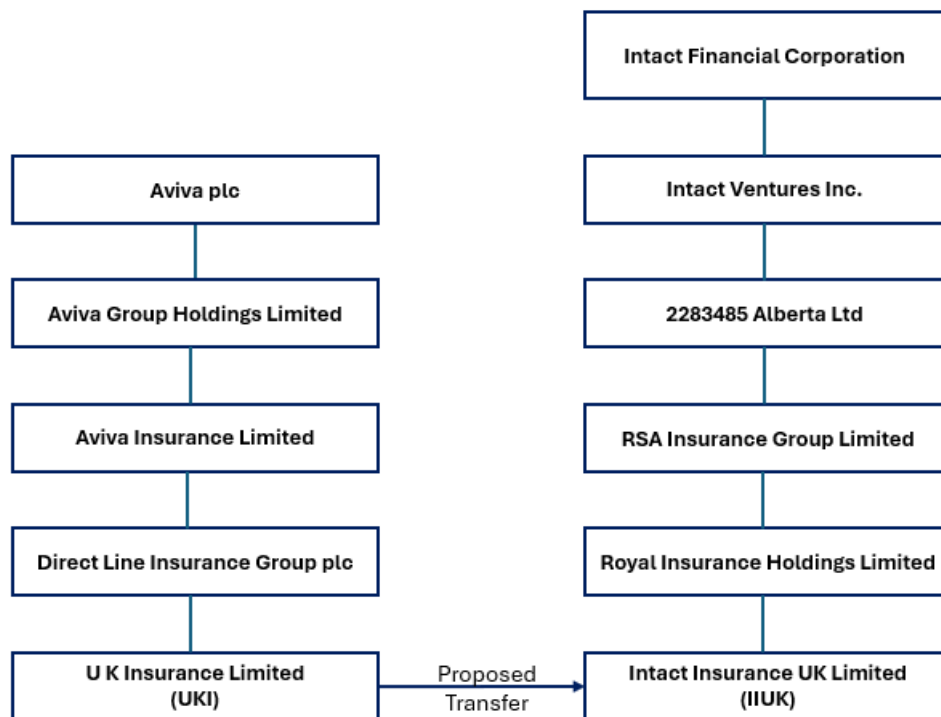
U K Insurance Limited (UKI) is the largest of the regulated entities within the group of companies owned by Direct Line Insurance Group plc (DLG and the Direct Line Group). It underwrites a variety of non-life insurance products, including motor, home and commercial policies. These products are marketed under brands such as Direct Line, Churchill, Privilege, Green Flag, NIG and FarmWeb.

In December 2024 Aviva plc (Aviva) and DLG announced that they had reached an agreement whereby Aviva would acquire DLG. Aviva is a British multi-national insurance company headquartered in London with c. 19m customers in the UK, Ireland and Canada. The acquisition was approved by the court and became effective on 1 July 2025.

Whilst Aviva has acquired DLG, UKI (a subsidiary of Aviva) remains the Transferor under the scheme. At this stage, the acquisition of DLG by Aviva has not led me to change my conclusions regarding the impact of the Proposed Transfer on any group of policyholders. However, I will continue to engage with DLG to understand the potential implications of the acquisition on the Proposed Transfer and will consider it further in my Supplementary Report.

Intact Insurance UK Limited (IIUK), formerly known as Royal & Sun Alliance Insurance Limited (RSAI) until 19 August 2025, is a British multi-national general insurance company offering a wide range of commercial insurance products including, but not limited to, property, casualty, marine, motor, professional indemnity, construction, engineering & renewable energy and accident & health. In 2021, RSAI became part of the Intact Financial Corporation group (Intact) following the acquisition of RSA Insurance Group plc by Intact and Tryg A/S. Following the acquisition, Intact retained RSA Insurance Group's Canadian, UK and International entities, Tryg retained RSA's Swedish and Norwegian businesses, and Intact and Tryg co-owned RSA's Danish business, which was subsequently sold to Alm. Brand Group. In 2023 RSAI announced plans to sell its UK direct personal lines business.

Below is a simplified organisational chart showing the entities involved in the Proposed Transfer.



Note: the transfer of legal title of the shares in Direct Line Insurance Group plc to Aviva insurance Limited is subject to completion of the stamp duty process with HMRC, which is expected to complete before the end of September 2025.

The Transferring Business

Various DLG entities (including UKI) and IIUK entered into a Business Transfer Agreement (BTA) on 6 September 2023 for the sale of DLG's Brokered Commercial Insurance Business to IIUK. The BTA provided for the transfer of the new business franchise as a going concern, including certain operations, brands, intellectual property rights, employees, contractors and data. The BTA was entered into before the announcement that Aviva was to acquire DLG.

UKI and IIUK entered into a 100% quota share reinsurance agreement dated 6 September 2023 (which was amended and restated on 1 May 2024 and 30 June 2025) (the QS Agreement) and effective from 1 October 2023, the 'Risk Transfer Date', relating to the reinsurance of new and certain existing business of the Brokered Commercial Insurance Business.

The Transferring Business is largely brokered commercial lines insurance for small and medium-sized companies/enterprises (SME) and the mid-market companies segment of the UK market through the NIG and FarmWeb brands, including dual branded, broker branded and co-insurance policies, underwritten by UKI. The NIG brand provides commercial insurance for UK SMEs and is exclusively sold through brokers and includes motor trade, property owners, motor fleet and commercial van policies. The FarmWeb brand provides specialist insurance for agriculture, motor, property and liability cover to UK farmers and is distributed through a network of specialist agricultural insurance brokers.

UKI will make it clear in the letters to NIG and FarmWeb policyholders notifying them of the Proposed Transfer that they are being notified because they have purchased a policy through the NIG or FarmWeb brands, including broker branded policies in scope.

UKI and IIUK also propose to make clear in the legal notice placed in newspapers/allied publications that the policies transferring are those connected with the NIG and FarmWeb brands to ensure clarity regarding the Transferring Business for customers.

IIUK provides reinsurance to UKI through the QS Agreement in respect of the following:

- the unearned portion of UKI policies that were live at the Risk Transfer Date; and
- policies written by UKI on and after the Risk Transfer Date.

I refer to these policies as the ‘front book’ in this report.

The earned portion of UKI policies (ie earned prior to the Risk Transfer Date) that were live as at the Risk Transfer Date I shall refer to as the ‘back book’. The back book, together with the front book, I refer to as the Transferring Portfolio.

The Part VII transfer seeks to legally transfer all policies within the Transferring Portfolio from UKI to IIUK (the Transferring Business). The Proposed Transfer includes a new reinsurance agreement (new QS arrangement) whereby UKI will provide a 100% quota share reinsurance to IIUK in respect of the back book at the Effective Date of the Proposed Transfer. Further detail on the Transferring Business is set out in section 3 of this report.

UKI policies that were not live at the Risk Transfer Date are not in scope of the Proposed Transfer (the retained book). The liabilities arising from these policies shall remain with UKI and will continue to be managed under its existing run-off arrangements.

Based on the definitions of the front book and the back book as set out above, policies that were live as at the Risk Transfer Date are categorised as:

- the portion of that policy which was unearned as at the Risk Transfer Date forms part of the front book; and
- the portion of that policy which was earned as at the Risk Transfer Date forms part of the back book.

In summary, the QS Agreement covers the reinsurance of the front book by IIUK. This agreement ends at the point of the Proposed Transfer at which point the front and back books transfer from UKI to IIUK, and the economic risk and rewards of the back book immediately returns to UKI via a new QS arrangement to become effective from the Effective Date. In effect the Proposed Transfer achieves the same commercial outcome as the current QS Agreement.

Transferring Policyholders

UKI have identified c. 390k transferring policies held by c. 340k policyholders, as some policyholders took out more than one policy. Within the transferring policies are 1,109 Jersey policies held by 1,038 policyholders.

Of the c. 390k transferring policies, virtually all are annual policies with less than 100 multi-year policies written. In terms of brand, 94% are NIG policies and 6% are FarmWeb policies. All the Jersey policies were NIG, other than one FarmWeb policy.

The breakdown of the underlying business of the policies is Van 34%, eTrade Landlords 24%, eTrade Shop/Tradesman 11% and eTrade FarmWeb Combined/Motor 6%. The remainder of business was spread over a large number of other classes.

Jersey policies

The Transferring Business includes policies issued as part of the business carried on by UKI in or from within Jersey, and the transfer of this business (the Jersey Transfer) is subject to approval by the Royal Court of Jersey under the Insurance Business (Jersey) Law 1996 and will take effect on the Effective Date.

These policyholders will be treated the same as the UK policyholders upon transfer, and my conclusions in this report apply equally to the Jersey policyholders and the Jersey Transfer. It is expected that this report will be made available to the Jersey Financial Services Commission and to the Royal Court of Jersey by UKI and IIUK when seeking approval for the transfer of these policies.

There is no conditionality to the Proposed Transfer if the Jersey transfer does not go ahead, but the Jersey transfer would not go ahead if the Proposed Transfer is not sanctioned by the UK Court.

Effective Date

The Effective Date of the Proposed Transfer is expected to be 1 April 2026, both in the UK and Jersey.

The Directions Hearings are scheduled for 15 October 2025 in the UK and 17 October 2025 in Jersey. The Sanctions Hearing are scheduled for 25 February 2026 in the UK and 5 March 2026 in Jersey.

Reinsurance

UKI maintains a number of reinsurance arrangements to which the transferring policies attach which, pursuant to the Proposed Transfer, will be transferred to IIUK in whole or in part with effect from the Effective Date. The Proposed Transfer will not affect the underlying terms and conditions of such reinsurance arrangements.

With effect from the Effective Date:

- certain of these reinsurance arrangements will be shared between UKI and IIUK, such that IIUK will be entitled to all reinsurance protections in respect of liabilities arising during the period from (and including) 1 October 2023 to (and including) 31 December 2023, while UKI shall continue to retain the corresponding protections in respect of liabilities arising from (and including) 1 January 2023 to (and including) 30 September 2023; and
- the remaining reinsurance arrangements will transfer to IIUK in their entirety.

Claims handling

Around 200 claims employees transferred from UKI to IIUK in May 2024 (as part of a wider transfer of employees involved in the Brokered Commercial Insurance Business to IIUK) and are currently seconded back to UKI, continuing to service the Transferring Business using UKI's claims handling systems. On the Effective Date of the Proposed Transfer, these secondments will end and the claims employees will transition to using IIUK's claims handling system. This will ensure continuity with no disruption to claims handling.

UKI has a number of claims solutions but predominantly uses Guidewire ClaimCenter (GWCC). IIUK is already using GWCC and so the transition for ex-UKI staff is mitigated. The Transferring Business is also aligned to IIUK's existing business.

By the time of the Effective Date of the Proposed Transfer, all NIG claims will sit on either UKI's GWCC v9 platform (for motor claims) or v10 platform (for property and casualty claims). All will migrate to IIUK's GWCC v10 platform (other than two small volume products which are still under discussion), benefitting from the alignment of data models and functionality present in the Guidewire software. Commercial van claims are hosted across two UKI legacy systems but these will also migrate to RSA's GWCC v10 platform, bringing enhancements to capability for both claim handlers and customers.

A number of third party applications support the claims process at both UKI and IIUK and commonality of usage has also been identified through the data migration preparation work that has been jointly undertaken.

From an employee transition perspective, a phased transition of claims employees has been underway since Q4 2024 and will continue into Q1 2026. Upon transfer to IIUK, each employee receives comprehensive training on IIUK systems before becoming operationally active. The synergy between UKI and IIUK core claims platforms and supporting applications noted above simplifies this transition and effectively mitigates the risk of disruption to customer journeys.

UKI estimates that there are c. 12,000 open claims as at August 2025 relating to the Transferring Business, but this number will reduce up to the Effective Date. By comparison, IIUK's in-house claims functions registered and handled c. 185,000 new claim notifications in 2024 (excluding Pet). The transferring claims therefore represent c. 6% of current annual claims activity.

Both UKI and IIUK operate mature, well-established claims handling functions with a strong focus on customer service. As such, both firms have confirmed that they do not envisage any material changes to the claims experience or service levels for any of the Non-transferring Policyholders, Transferring Policyholders or Existing Policyholders. To the extent that there are any material changes, both firms will employ reasonable endeavours to put in place measures to minimise the potential impact of these changes (where this is commercially practicable to

do so). The Proposed Transfer is therefore not expected to have any material impact on the servicing of claims for any policyholders.

From UKI, no material changes in the approach to claims handling are planned for the Non-transferring Policyholders. So far as is possible and practicable, any changes to the IIUK service provision for Transferring Policyholders will endeavour to be on a similar/comparable standard as enjoyed prior to the Proposed Transfer (where this is commercially practicable). Both UKI and IIUK will endeavour to minimise the impact of the Proposed Transfer to a customer's claims service experience.

Existing customer contact channel options (telephony, digital, email, post) will be maintained where appropriate for both Transferring and Non-transferring Policyholders. No material change is planned, and redirections will be provided for any exceptions.

Sanctions

DLG conducts sanctions screening on a daily basis using a strategic sanctions screening application. All relevant data held on core customer databases is screened against the Consolidated Sanctions List (CSL), which includes sanctioned individuals, entities, organisations and countries listed by the relevant Regulators. This list is regularly maintained and reviewed to ensure it remains compliant with relevant legal and regulatory requirements.

Screening is conducted at inception and on an ongoing basis at various trigger points throughout the lifecycle of the policy or claim, including each time the relevant external sanctions lists are updated. The sanctions screening application uses various configuration settings and fuzzy matching capability in line with best practice. Sanctions screening is undertaken against all customers, claimants, payees, employees, contractors, third party service providers and transactions.

DLG also has a dedicated sanctions team, with qualified and competent staff. Where sanctions screening cannot be completed via the automated batch process, manual screening is completed by the sanctions team using the Ad hoc screening functionality within the screening application. This uses the same screening functionality as the automated process.

All potential matches generated by the screening application are investigated by the sanctions team. If a positive sanctions match is identified this is escalated internally to the Head of Sanctions, Group Legal and relevant senior stakeholders. Payment blocks are applied to the policy/claim and the match is reported to the Office of Financial Sanctions Implementation (OFSI) and Financial Conduct Authority (FCA) where required.

A monthly dashboard containing management information relating to sanctions risk issues is presented to the Financial Crime Steering Committee with reporting to the Board where relevant.

UKI have identified no positive matches in respect of the Transferring Business under the Proposed Transfer and the UKI sanctions team continues to report the status to IIUK on a monthly basis.

IIUK screen every policy, claim, policyholder, and third-party claimant utilising their sanctions screening solution, and screen on an on-going basis to assess for potential sanctions hits. Any hits are investigated, to determine whether or not the hit was a false positive. Any true matches would be escalated to the UK Data Protection Officer and then notified to the OFSI and the FCA as appropriate. Screening is conducted by IIUK themselves, rather than through a third party, on a weekly basis and in real time at inception and renewal where higher risk factors are identified.

IIUK have identified no such true matches in respect of the Transferring Business under the Proposed Transfer.

1.2. My role as Independent Expert

DLG and RSAI (now known as IIUK) jointly appointed me to act as the Independent Expert (IE) for the Proposed Transfer. The Prudential Regulation Authority (PRA), in consultation with the FCA, has approved my appointment.

As IE, my overall role is to assess whether:

- The security provided to policyholders of UKI and IIUK 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.
- Any reinsurer of UKI/IIUK covering the Transferring Business will be materially adversely affected by the Proposed Transfer.

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

1.3. Summary of my conclusions

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

- 'Non-transferring Policyholders', ie policyholders of UKI where no part of their policy will transfer and who will remain with UKI after the Proposed Transfer.
- 'Transferring Policyholders', ie UKI policyholders whose policies relating to the Transferring Business will transfer to IIUK. This includes policies that:
 - were live as at the Risk Transfer Date and/or
 - incepted after the Risk Transfer Date.
- 'Existing Policyholders', ie policyholders of IIUK prior to the Proposed Transfer who will remain policyholders with IIUK after the Proposed Transfer.
- Reinsurers of UKI/IIUK covering the Transferring Business.

In drawing my conclusions, I have considered the impact of the Proposed Transfer on all underlying Claimants and Beneficiaries as described above and including eg the dependants of policyholders.

Non-transferring Policyholders

At the Effective Date of the Proposed Transfer, UKI expects to have c. 10m in-force policies.

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 IFRS and Solvency UK technical provisions for UKI, including the Transferring Business, are appropriate, and UKI has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for UKI is projected to remain unchanged at 184% as a result of the Proposed Transfer.
- Further, UKI has provided capital projections until 31 December 2028 which indicate that UKI will remain well capitalised until that date.
- I am satisfied that UKI is expected to have sufficient capital under a range of adverse scenarios. Even in more extreme adverse scenarios, such as UKI's reverse stress test, I am satisfied that Non-transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- UKI 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 following the Proposed Transfer.

Transferring Policyholders

UKI have identified c. 390,000 policies that will transfer to IIUK as a result of the Proposed Transfer. The vast majority of in-scope policies will have expired by the Effective Date.

I have concluded that the security provided to 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 Transferring Policyholders following the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the IFRS and Solvency UK and IFRS technical provisions for the Transferring Business in IIUK are appropriate, and IIUK has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for Transferring Policyholders is expected to reduce from 184% to 181% as a result of the Proposed Transfer. I do not consider the security provided to Transferring Policyholders to be materially adversely affected by this as IIUK will still be well capitalised.
- Further, IIUK has provided capital projections until 31 December 2027 which indicate that IIUK will remain well capitalised until that date.
- I am satisfied that IIUK is expected to have sufficient capital under a range of adverse scenarios in relation to both the Transferring Business and its other business. Even in more extreme adverse scenarios, where IIUK's SCR coverage ratio would fall below 100%, I am satisfied that the likelihood of such scenarios is sufficiently remote, such that Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer. I note that the scenarios make no allowance for management actions to restore capital levels.
- IIUK is a UK entity so the Transferring Policyholders will continue to be regulated in the UK following the Proposed Transfer. The rights of policyholders in respect of access to the Financial Services Compensation Scheme (FSCS) or Financial Ombudsman Service (FOS) will not change as a result of the Proposed Transfer.
- Around 200 claims employees transferred from UKI to IIUK in May 2024 (as part of a wider transfer of employees involved in the Brokered Commercial Insurance Business to IIUK) and are currently seconded back to UKI, continuing to service the Transferring Business using UKI's claims handling systems. On the Effective Date of the Proposed Transfer, these secondments will end and the claims employees will transition to using IIUK's claims handling system. This will ensure continuity with no disruption to claims handling.

Existing Policyholders

IIUK estimates that there will be over 3.5m live in-force policies as at September 2025. The number of transferring policies expected to be in-force at the Effective Date is immaterial relative to this.

I have concluded that the security provided to Existing 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 Policyholders following the Proposed Transfer.

Summary rationale:

- I am satisfied that the approaches used to calculate the IFRS and Solvency UK technical provisions for IIUK are appropriate, and IIUK has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for IIUK Policyholders is expected to remain at 181% as a result of the Proposed Transfer. Therefore I do not consider the security provided to Existing Policyholders to be materially adversely affected by the Proposed Transfer.
- Further, IIUK has provided capital projections until 31 December 2027 which indicate that IIUK will remain well capitalised until that date.
- I am satisfied that IIUK is expected to have sufficient capital under a range of adverse scenarios in relation to both the Transferring Business and its other business. Even in more extreme adverse scenarios, where IIUK's SCR coverage ratio would fall below 100%, I am satisfied that the likelihood of such scenarios is sufficiently remote, such that Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer. I note that the scenarios make no allowance for management actions to restore capital levels.
- IIUK is not planning any material changes to how its existing business is carried out. In particular, there are no plans to change how Existing Policyholders are serviced following the Proposed Transfer.

Reinsurers

I have considered the position of reinsurers of UKI and IIUK who currently provide cover for the Transferring Business. A list of existing reinsurance agreements that will transfer is in section 3.2.

I have concluded that reinsurers of UKI and IIUK who provide cover for the Transferring Business will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- The front book of the Transferring Business is currently reinsured by IIUK under the QS Agreement with UKI. At the time of the Proposed Transfer, the QS Agreement will cease.
- Following the Proposed Transfer, through a new QS arrangement, UKI will provide 100% quota share reinsurance to IIUK in respect of the back book.
- With the exception of the QS Agreement, UKI and IIUK have both confirmed that all other existing reinsurance arrangements that are in place for each respective entity will continue following the Proposed Transfer.
- The Proposed Transfer will not affect the underlying terms and conditions of the existing reinsurance arrangements. IIUK will assume all of UKI's rights and obligations under these arrangements for the Transferring Business including any entitlements in respect of reinsurance recoveries, with effect from the Effective Date.
- The reinsurers of the Transferring Business will be exposed to the same claims whether or not the Proposed Transfer goes ahead.
- All of the reinsurers of the Transferring Business with outstanding balances or allocated case reserves will be informed of the Proposed Transfer.

1.4. Next steps

The remainder of this report sets out my conclusions and other supporting information in more detail.

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

Specific issues that I have highlighted in this report which will require review in due course include:

- Any impact on DLG of the acquisition by Aviva relating to the Proposed Transfer;
- Any updates to the financial information provided in this report eg updated reserve estimates and financial projections including SCR coverage ratios and balance sheets;
- Any update on the approach to monitoring sanctions for UKI and IIUK;
- The implementation of the communication plan for Transferring Policyholders;
- Any policyholder objections received; and
- Any developments regarding the structure of the Proposed Transfer.

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 PRA having consulted with the FCA. The Scheme Report should address the question of whether any policyholders, reinsurers impacted by the insurance business transfer are adversely affected to a material extent.

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

Jersey policies

The Transferring Business includes policies issued as part of the business carried on by UKI in or from within Jersey, and the transfer of this business (the Jersey Transfer) is subject to approval by the Royal Court of Jersey under the Insurance Business (Jersey) Law 1996 and will take effect on the Effective Date.

These policyholders will be treated the same as the UK policyholders upon transfer, and my conclusions in this report apply equally to the Jersey policyholders and the Jersey Transfer. It is expected that this report will be made available to the Jersey Financial Services Commission and to the Royal Court of Jersey by UKI and IIUK when seeking approval for the transfer of these policies.

UKI have identified 1,109 policies registered with 1,038 policyholders in Jersey, all of which will have expired by the Effective Date.

2.2. Independent Expert appointment

My appointment

DLG and RSAI (now known as IIUK) jointly appointed me to act as the IE for the Proposed Transfer. The PRA, in consultation with the FCA, has approved my appointment. Both DLG and IIUK will bear the costs associated with the production of my report. I understand that no costs or expenses of the Proposed Transfer will be borne by policyholders.

My experience

I am a Fellow of the Institute and Faculty of Actuaries (IFoA) and am a holder of Chief Actuary (non-Life with Lloyd's) practising certificate.

I am a Partner in the Insurance Consulting practice at LCP. I have experience in a wide range of areas of general insurance actuarial work including reserving, capital, pricing and transactions.

I have acted as the IE on six previous Part VII transfers, the Independent Actuary on three Irish Section 13 transfers and as peer reviewer on five other insurance Part VII transfers.

Appendix 3 contains my CV with further details of my experience.

Independence statement

I confirm that I, Stewart Mitchell, and all members of the LCP team assisting me in my IE role are independent from the parties of the transfer and that I am able to act as the IE.

I confirm that neither I, nor any of the team, have any direct or indirect interests in DLG, UKI or IIUK (the firms), either personally or via LCP.

In particular:

- Neither I, nor any member of the team, is a shareholder in the firms or subsidiaries nor a member of any pension scheme under the management of any of these entities.
- Neither I, nor any member of the team, hold any insurance policies issued by the firms or any subsidiaries.

LCP has previously supported DLG with internal capital work and validation support. Neither I, nor any of the team, have been involved in this work. LCP has previously supported IIUK mainly in relation to pensions and related work. Neither I, nor any of the team, have been involved in this work. RSA licenses LCP's reserving software, InsurSight. I acted as the IE for IIUK's Brexit-related Part VII transfer which was sanctioned in 2018.

The previous internal capital work and validation support conducted for DLG is not related to the Proposed Transfer. The bulk of this work was performed in 2022/2023 and, given there have been several validation cycles since this work was performed, I do not consider this impacts my independence.

The fees from DLG represent less than 0.3% pa of LCP's annual income over the last five years, and less than 0.7% from RSAIG.

I do not consider that these matters affect my ability to act as IE on the Proposed Transfer.

2.3. Scope of this Scheme Report

Appendix 2 contains an extract from my terms of reference, which defines the scope of my work in relation to the Proposed Transfer. The actual work performed is in line with this agreed scope.

This Scheme Report considers the effect of the Proposed Transfer upon the policyholders of UKI and IIUK, and reinsurers of the Transferring Business. It contains a description of the Proposed Transfer, the methodology I have used to analyse the Proposed Transfer, the opinions I have formed, and reasons why I have formed those opinions.

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.

2.4. Use of this Scheme Report

This Scheme Report has been produced by Stewart Mitchell FIA of LCP under the terms of our written agreements with DLG and RSAI (now known as IIUK). It is subject to any stated limitations (eg regarding accuracy or completeness).

This Scheme 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, and to accompany the application to the Royal Court of Jersey in respect of the Jersey Transfer in accordance with the Insurance Business (Jersey) Law 1996. The Scheme Report is not suitable for any other purpose.

A copy of the Scheme Report will be sent to the PRA and the FCA and will accompany the Scheme application to the High Court. A copy of the Scheme Report will also be sent to the Jersey Financial Services Commission and will accompany the application in respect of the Jersey Transfer to the Royal Court of Jersey.

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 Scheme Report for any other purpose other than that set out above.

2.5. Reliances

I have based my work on the data and other information made available to me by UKI and IIUK. Appendix 4 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of DLG, UKI and IIUK.

My analysis is generally based on UKI and IIUK data as at 31 December 2024. This is the latest set of year-end accounts available at the time of preparing this report. UKI and IIUK have also provided projections as at the Effective Date and beyond based on data as at 31 December 2024.

Prior to the Sanctions Hearing for the Proposed Transfer, I will prepare a Supplementary Report to confirm and/or update my conclusions in this report, based on any new material or issues that arise, and based on updated data where appropriate.

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

- UKI and IIUK will submit witness statements to the High Court stating that all information provided to me by UKI and IIUK is correct and complete in all material aspects to the best of their knowledge, information and belief.
- Each of UKI and IIUK has provided a data accuracy statement confirming that the data and information provided to me regarding the Proposed Transfer is accurate and complete.
- UKI and IIUK have provided attestations that there have been no material adverse changes to the financial position of UKI or IIUK since that information was provided to me.
- UKI and IIUK have read this Scheme Report and each has 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 the purpose of 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.

I have not considered it necessary to take any third-party legal advice on any aspects of 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.

2.6. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for scheme reports set out in 'The PRA's approach to insurance business transfers' (Policy Statement 1/22, dated January 2022), 'The FCA's approach to the review of Part VII insurance business transfers (Finalised Guidance 22/1, dated February 2022) and by the PRA Rulebook and the FCA Handbook.

This report complies with Technical Actuarial Standard 100: General Actuarial Standards (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 while 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 appropriate experience and expertise to act as peer reviewer of this report, and have themselves been the Independent Expert for a number of other Part VII transfers.

2.7. 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 Scheme 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.

2.8. 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.

In the Court of Appeal judgement in the Prudential v Rothesay case, the judge set out the following definition for what constituted a ‘material adverse effect’.

“An adverse effect will only be material to the court’s consideration if it is:

- *a possibility that cannot sensibly be ignored having regard to the nature and gravity of the feared harm in the particular case,*
- *a consequence of the scheme; and*
- *material in the sense that there is the prospect of real or significant, as opposed to fanciful or insignificant, risk to the position of the stakeholder concerned.”*

The judge drew the distinction between ‘real’ and ‘fanciful’ risks and that the Court should address the former rather than the latter. I have borne this distinction in mind when reaching my conclusions as to whether any set of policyholders is materially adversely affected. Throughout this 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. Outline of Proposed Transfer

3.1. The firms involved

UKI is the largest of the regulated entities within the Direct Line Group, which was acquired by Aviva on 1 July 2025. UKI underwrites a variety of non-life insurance products, including motor, home and commercial policies. These products are marketed under brands such as Direct Line, Churchill, Privilege, Green Flag, NIG and FarmWeb.

IIUK (which changed its name from RSAI on 19 August 2025) is a British multi-national general insurance company offering a wide range of commercial insurance products, including but not limited to, property, casualty, marine, motor, professional indemnity, construction, engineering & renewable energy and accident & health. In 2021, RSAI became part of Intact following the acquisition of RSA Insurance Group plc by Intact and Tryg A/S. Following the acquisition, Intact retained RSA Insurance Group's Canadian, UK and International entities, Tryg retained RSA's Swedish and Norwegian businesses, and Intact and Tryg co-owned RSA's Danish business, which was subsequently sold to Alm. Brand Group. In 2023 RSAI announced plans to sell its UK direct personal lines business.

3.2. Description of the Proposed Transfer

The Transferring Business

The Brokered Commercial Insurance Business has been part of DLG since it was acquired in 2003 as part of the acquisition of Churchill. The strategic and operational differences between DLG's core business and its Brokered Commercial Insurance Business means that is no longer aligned with the Group's long-term focus on core direct insurance operations and retail and small business lines. The aim of the Proposed Transfer is to transfer the Brokered Commercial Insurance Business to IIUK.

Breakdown of transferring policies

Line of business	Number of policies	Number of outstanding claims as at Aug 2025	Number of policies where broker has no recognised firm reference number
Combined	25,913	1,173	249
Motor	160,583	6,378	279
Non-motor	186,639	2,918	12,084
Non-motor scheme	2,204	555	2
Motor Scheme	14,657	1,131	-
Total (UK business only)	389,996	12,155	12,552
Jersey business	1,109	35	9
Total	391,121	12,190	12,561

The Proposed Transfer was initiated before Aviva's acquisition of DLG. Post-acquisition, the boards of UKI and DLG delegated authority to an executive steering group to complete the Proposed Transfer. Any future changes to the executive steering group will be considered in my Supplementary Report.

Although DLG's strategic objectives may change following its acquisition by Aviva, the acquisition has not, at this stage, led me to change my conclusions regarding the Proposed Transfer in regard of any set of policyholders.

As noted in section 1.1, the Part VII transfer seeks to legally transfer all policies within the Transferring Portfolio from UKI to IIUK ie both the front book and back book as defined in section 1. To then ensure the same commercial outcome as the QS Agreement between UKI and IIUK, a further reinsurance agreement will be put in

place at the Effective Date, whereby UKI will provide 100% quota share reinsurance to IIUK in respect of the back book.

The distinction between the front book, the back book and the retained book is set out in section 1.1.

QS Agreement

- The QS Agreement between UKI and IIUK covers the front book only, with no reinsurance in respect of the back book.
- The QS Agreement contains details of the operation of the annual aggregate deductibles (AADs) relating to the UKI motor treaties covering policies underwritten in 2022 and 2023. UKI agreed with IIUK how the AADs would be attributed between UKI and IIUK and this arrangement will persist on both the front book and the back book. There are some minor updates required to the arrangement which will be agreed before the Proposed Transfer.

Proposed Transfer

- Under the Proposed Transfer, both the front book and the back book will transfer to IIUK.
- The back book will then, as at the Effective Date, be reinsured by UKI under a new 100% QS arrangement. This approach is designed so that the effect of the Proposed Transfer achieves the same commercial outcome as the QS Agreement ie that UKI retain the economic benefit and risk of the back book.

There will be no reinsurance on the front book after the Effective Date because IIUK is currently the reinsurer of the front book and the liabilities covered by the reinsurance will transfer to IIUK and the QS Agreement will end.

The liabilities of the back book will transfer to IIUK at the Effective Date but the economic benefit and risk will immediately transfer back to UKI via the 100% QS arrangement described above.

Effective Date

The Effective Date of the Proposed Transfer is expected to be 1 April 2026, both in the UK and Jersey.

The Directions Hearings are scheduled for 15 October 2025 in the UK and 17 October 2025 in Jersey. The Sanctions Hearing are scheduled for 25 February 2026 in the UK and 5 March 2026 in Jersey.

Reinsurance

At the time of the Proposed Transfer, the QS Agreement will cease. UKI and IIUK have both confirmed that all other existing reinsurance arrangements that are in place for each respective entity will continue following the Proposed Transfer. IIUK will assume all of UKI's rights and obligations as the ceding insurer under the relevant reinsurance treaties (or parts of such treaties) which are transferring so far as those treaties relate to the Transferring Portfolio ie the front book and the back book. There will be no change to the terms of any reinsurance treaty or facultative arrangements, which will continue to apply in line with their existing terms.

Existing reinsurance agreements that will transfer from UKI to IIUK (to the extent relevant of the Transferring Portfolio)

2022 DLG Catastrophe Excess of Loss Treaty

- Fully subscribed with multiple reinsurers and coverage period from 1st July 2022 to 30th June 2023

2023 DLG Catastrophe Excess of Loss Treaty

- Fully subscribed with multiple reinsurers and coverage period from 1st July 2023 to 31st December 2023

2022 DLG Motor Excess of Loss Treaty

- Fully subscribed with multiple reinsurers and coverage period from 1st January 2022 to 31st December 2022

2023 DLG Motor Excess of Loss Treaty

- Fully subscribed with multiple reinsurers and coverage period from 1st January 2023 to 31st December 2023

2022 DLG Liability Excess of Loss Treaty

- Fully subscribed with multiple reinsurers and coverage period from 1st January 2022 to 31st December 2022

2023 DLG Liability Excess of Loss Treaty

- Fully subscribed with multiple reinsurers and coverage period from 1st January 2023 to 31st December 2023

2022 DLG Property Per Risk Excess of Loss Treaty

- Fully subscribed with multiple reinsurers and coverage period from 1st July 2022 to 30th June 2023

2023 DLG Property Per Risk Excess of Loss Treaty

- Fully subscribed with multiple reinsurers and coverage period from 1st July 2023 to 31st December 2023

Engineering Breakdown / Cyber: Evergreen Transactional Treaty 100% Quota Share

Engineering Breakdown: Evergreen Transactional Treaty 100% Quota Share

Legal Expenses (NIG): 100% Quota Share and coverage period from 12th September 2018 to 6th September 2024

Legal Expenses (FarmWeb): 100% Quota Share and coverage period from 6th September 2022 to 6th September 2025

Professional Indemnity and D&O: 100% Quota Share and coverage period from 27th January 2023 to 30th April 2024

Terrorism (Pool Re): Period of coverage 1st January 2023 to 31st December 2023 (And subsequent renewals)

Environmental Liability Fac: Period of coverage from 1st May 2023 to 30th April 2024 (extended to 1st September 2024)

Property Auto Fac

- Fully subscribed with a single reinsurer and coverage period from 1st July 2023 to 30th June 2024 (mid-term cancellation occurred lapsing the policy on 31st December 2023)

Motor Auto Fac (Multiple)

- Period of coverage from 1st July 2023 to 30th June 2024

Flood Re: 100% Evergreen XoL Treaty

Claims handling

UKI's claims handling philosophy is to settle claims at the optimal time and cost by applying proactive claims handling practices. The Claims Technical Hub and Knowledge Bank teams are responsible for owning and maintaining technical best practices and claims processes which ensure that these resources remain easily accessible to all staff at all times. For more complex cases, UKI operates a dedicated Large and Complex Loss (L&CL) team which manages high-value and intricate claims, including those exceeding £100,000 in incurred value, or cases involving complex issues.

IIUK also operates a well-established in-house claims function, which is both mature and subject to clear internal governance rules that also leverages off from specialist external parties where this is required. A case reserve is recorded as soon as the first notification of a claim is received. For some claims, eg where coverage is being investigated, a manual process is followed involving case reserving committee approval and risk monitoring oversight.

Around 200 claims employees transferred from UKI to IIUK in May 2024 (as part of a wider transfer of employees involved in the Brokered Commercial Insurance Business to IIUK) and are currently seconded back to UKI, continuing to service the Transferring Business using UKI's claims handling systems. On the Effective Date of the Proposed Transfer, these secondments will end and the claims employees will transition to using IIUK's claims handling system. This will ensure continuity with no disruption to claims handling.

UKI estimates that there are c. 12,000 open claims as at August 2025 relating to the Transferring Business, but this number will reduce up to the Effective Date. By comparison, IIUK's in-house claims functions registered and handled c. 185,000 new claim notifications in 2024 (excluding Pet). The transferring claims therefore represent c. 6% of current annual claims activity, albeit the number of open claims may fluctuate, but is considered to be operationally immaterial in scale.

Both UKI and IIUK operate mature, well-established claims handling functions with a strong focus on customer service. As such, both firms have confirmed that they do not envisage any material changes to the claims experience or service levels for any of the Non-transferring Policyholders, Transferring Policyholders or Existing Policyholders. To the extent that there are any material changes, both firms will employ reasonable endeavours to put in place measures to minimise the potential impact of these changes (where this is commercially practicable to do so). The Proposed Transfer is therefore not expected to have any material impact on the servicing of claims for any policyholders.

From UKI, no material changes in the approach to claims handling are planned for the Non-transferring Policyholders. So far as is possible and practicable, any changes to the IIUK service provision for Transferring Policyholders will endeavour to be on a similar/comparable standard as enjoyed prior to the Proposed Transfer (where this is commercially practicable). Both UKI and IIUK will endeavour to minimise the impact of the Proposed Transfer to a customer's claims service experience.

Existing customer contact channel options (telephony, digital, email, post) will be maintained where appropriate for both Transferring and Non-transferring Policyholders. No material change is planned, and redirections will be provided for any exceptions.

3.3. Purpose of the Proposed Transfer

The acquisition of UKI's Brokered Commercial Insurance Business will strengthen IIUK's presence in the UK commercial insurance market, increasing its brokered market share to approximately 7% and positioning it as the third largest insurer in this segment. IIUK will gain access to established broker relationships and an expanded distribution network, which will improve its ability to provide services to a broader customer base.

The UKI employees that have transferred to IIUK, and been seconded back to UKI, will help to ensure continuity of service and ongoing support for the Transferring Policyholders. Policyholders moving to IIUK will benefit from its mature and well-established in-house claims operation and presence within the commercial business market.

The Transferring Policyholders will move from an insurer where the Transferring Business is no longer a strategic focus to become part of an insurer that is committed to writing broker-led commercial business going forward.

3.4. Alternative options considered

I understand that UKI and IIUK had considered alternative options in relation to the back book, including how much of the transferring back book liabilities post-transfer would stay with IIUK and how much may immediately transfer back to UKI through a subsequent reinsurance arrangement with UKI.

UKI and IIUK subsequently agreed that 100% of the back book liabilities would be reinsured by UKI immediately post-transfer.

Other than the above, no other alternative options to the Proposed Transfer were considered by UKI.

3.5. Key dependencies

The key dependencies of the Proposed Transfer are as follows:

- High Court approval is required for the Proposed Transfer – an initial hearing for directions in relation to the approach of publicising the Proposed Transfer (the Directions Hearing) is scheduled for 15 October 2025 and the Sanctions Hearing is scheduled for the 25 February 2026. The High Court will take into account whether the PRA and FCA have any objections to the Proposed Transfer.
- I will comment in my Supplementary Report on any objections raised by policyholders, reinsurers or any other interested parties who consider they would be adversely affected by the Proposed Transfer, following the approval of the policyholder communications strategy by the Court at the Directions Hearing.

4. My approach as IE

Overall role

As IE, my overall role is to assess whether:

- The security provided to policyholders of UKI and IIUK 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.
- Any reinsurers of UKI and IIUK covering the Transferring Business will be materially adversely affected.

The key affected parties

To make these assessments, I have considered the effect of the Proposed Transfer on the following parties:

- Non-transferring Policyholders, ie UKI policyholders whose policies will remain with UKI after the Proposed Transfer
- Transferring Policyholders, ie UKI policyholders whose policies will transfer to IIUK as a result of the Proposed Transfer.
- Existing Policyholders, ie policyholders of IIUK immediately prior to the Proposed Transfer, who will remain with IIUK after the Proposed Transfer.
- Reinsurers providing reinsurance cover for the Transferring Business.

Five-step approach to analysing the Proposed Transfer

My approach to assessing the Proposed Transfer has been to perform the following five steps analysing evidence provided by UKI and IIUK to support the Proposed Transfer:

Step 1: Assessing the provisions of UKI and IIUK

The first important form of security that an insurer provides to policyholders is the level of provisions. Provisions are based on an estimate of the amount of money the insurer will need to pay policyholders' claims and to cover the other costs associated with running the insurer.

Therefore, I have assessed the appropriateness of the provisions included on UKI's balance sheet and the approach to be used for the calculation of provisions for both UKI and IIUK pre- and post-transfer. Details of this step are set out in section 5.

Step 2: Assessing the capital positions of UKI and IIUK

In addition to the level of provisions, insurers hold capital designed to withstand more extreme levels of claims. The level of capital held is the second important form of security provided to policyholders.

For both UKI and IIUK, the level of capital required is set under the Solvency UK standard. A key regulatory solvency metric is the Solvency Capital Requirement. This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie a 1 in 200 probability adverse outcome).

I have assessed the appropriateness of the projected capital requirements of UKI and IIUK. Details of this step are set out in section 6.

Step 3: Assessing overall policyholder security

Under this step, I have considered the level of provisions and capital (from steps 1 and 2) in the context of the assets held by each of UKI and IIUK and other forms of security such as compensation schemes.

For this analysis, I have considered the current balance sheets of UKI and IIUK as well as the post-transfer pro-forma balance sheets for each of UKI and IIUK. Details of this step are set out in section 7.

Step 4: Assessing policyholder communications

I have assessed the appropriateness of UKI and IIUK's communication strategy to inform policyholders and other stakeholders of the Proposed Transfer. The key focus of my assessment was whether the policyholders and other stakeholders are to be provided with sufficiently clear and comprehensive information to understand how the Proposed Transfer may affect them. Details of this step are set out in section 8.

Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders

I have considered how the level of customer service provided to policyholders could change following the Proposed Transfer. I have also considered a range of other factors that might affect policyholders, such as ongoing expense levels and tax implications. Details of this step are set out section 9.

5. Reserving considerations

5.1. Introduction to insurance reserving

For an insurance firm, the primary purpose of reserving is to assess the provisions that need to be set in order to pay policyholders' claims and to cover the other costs associated with running an insurer.

Depending on how they are set, the provisions may be on a 'best estimate' basis (with no deliberate optimism or pessimism) or include a 'margin for prudence' (additional provisions to cover higher than expected claims). Where the provisions include a margin for prudence, this is typically designed to cover claims that are moderately higher than expected rather than more extreme levels of claims. A best estimate basis may indicate a single point estimate of the provisions, but practically there is often a range of estimates that could be justified as a best estimate.

In addition to any margin for prudence, the insurer would hold additional capital designed to withstand more adverse levels of claims. My considerations related to capital for the Proposed Transfer are set out in section 6.

Introduction to reserving bases

Insurers use a range of different reserving bases (ie different measures of the provisions), for different purposes.

For example, financial accounting standards require the provisions to be calculated in particular ways, and an insurer may also use a different basis for internal management accounts. Solvency regulations required provisions to be calculated in yet another way.

For the Proposed Transfer, I have considered the provisions under two reserving bases, which are each relevant for different purposes, namely:

- International Financial Reporting Standards (IFRS) – these are the accounting standards used to set the provisions underlying the consolidated published financial accounts of DLG Group (covering UKI) and IIUK. IFRS provisions are relevant for policyholders as they are used as a reference point when setting provisions to cover future claims and other costs. IFRS 17 relates to accounting for insurance contracts.
- Regulatory technical provisions eg Solvency UK technical provisions – these are calculated in line with Solvency UK regulations that came into effect on 31 December 2024, replacing the European Solvency II regulations that came into effect in the UK from 1 January 2016. These provisions are relevant for policyholders as they are the basis for calculating the capital required and assessing solvency.

5.2. My considerations relating to reserving

As IE, my overall assessments related to reserving are:

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

To make these assessments, I have considered the following areas:

- Appropriateness of provisions for UKI and IIUK (section 5.5);
- Key uncertainties when setting the provisions (section 5.7);
- Current UKI and IIUK reserving process and governance (section 5.8); and
- Future reserving approach and governance (section 5.9).

Within these areas, I have also considered any differences in the reserving approach between UKI and IIUK to understand how this may affect policyholders.

Further details on each of these considerations are set out below, and I have stated my overall conclusion related to reserving in section 5.10.

Approach to my review

I have reviewed a number of documents provided by UKI and IIUK relating to the setting of provisions, including the reserving process and governance. I have had meetings with UKI and IIUK to discuss the information provided and any questions I have had on the reserving approach. A list of the key data and documentation provided is detailed in Appendix 4.

I have considered the appropriateness of the following:

- IFRS 17 technical provisions for UKI as at 31 December 2024;
- IFRS 17 technical provisions for IIUK as at 31 December 2024;
- Calculation approach for the transferring liabilities;
- Solvency UK technical provisions for UKI as at 31 December 2024; and
- Solvency UK technical provisions for IIUK as at 31 December 2024.

5.3. UKI provisions (IFRS 17)

The following table shows the level of IFRS 17 technical provisions as at 31 December 2024 (the latest available figures at the time of my writing of my report) for UKI, split between the Non-transferring and Transferring Business.

UKI – Summary of IFRS 17 and Solvency UK technical provisions at 31 December 2024

£m	IFRS 17 Gross of reinsurance	IFRS 17 Net of external reinsurance	SUK Gross of reinsurance	SUK Net of external reinsurance
Non-transferring business	3,730	2,596	4,137	3,623
Transferring business	349	65	410	65
Total UKI	4,079	2,661	4,547	3,688

Source: UKI

The IFRS 17 provisions are made up of the earned claims reserves and unearned premium reserves, on a discounted basis, including risk adjustment but excluding liability for remaining coverage (LFRC). External reinsurance: excess of loss, flood reinsurance and IIUK.

The SUK provisions are discounted and exclude the risk margin.

The provisions for Transferring Business represent c. 9% and c. 2% of UKI's IFRS 17 technical provisions as at 31 December 2024 on a gross and net of reinsurance basis respectively.

Approach for setting IFRS 17 technical provisions

I have reviewed the process by which UKI calculates their IFRS 17 technical provisions.

- UKI uses standard actuarial techniques, including Development Factor Model (DFM) and Bornhuetter-Ferguson (BF) methods. Actuarial best estimates include an allowance for Events Not in Data (ENIDs) and booking adjustments (eg changes following the increase in the Personal Injury Discount Rate).
- A deep-dive analysis is performed at 3Q and updated at 4Q.
- Both IFRS 17 best estimate liability reserves and Solvency UK Technical Provisions (TPs) are subject to review and sign-off by DLG's external auditors. In addition, an independent review of best estimate liability reserves was performed by an external consultancy for the year ending 31 December 2024. The difference between UKI's estimate and the auditors' estimate, and UKI's estimate and the consultancy's estimate, were both within what I consider to be a range of reasonable best estimates.
- The IFRS 17 figures are used as the basis and starting point for the calculation of the Solvency UK technical provisions.

In my opinion, UKI's reserving approach is reasonable and in line with market practice.

The reserving for the non-transferring liabilities will continue to be performed by UKI following the Proposed Transfer. Therefore, the Non-transferring Policyholders will not be impacted following the Proposed Transfer.

5.4. IIUK provisions (IFRS 17)

The table below shows the level of IFRS 17 technical provisions as at 31 December 2024 (the latest available figures at the time of my writing of my report) for IIUK.

IIUK – Summary of IFRS 17 and Solvency UK technical provisions at 31 December 2024

£m	IFRS 17 Gross of reinsurance	IFRS 17 Net of external reinsurance	SUK Gross of reinsurance	SUK Net of external reinsurance
Non-transferring business	4,640	3,609	4,891	3,970
Transferring business	308	303	18	19
Total	4,948	3,912	4,909	3,989

Source: IFRS 17 IIUK financial statements note 11.6 - liability for incurred claims before net payables.
The SUK provisions are discounted and exclude the risk margin.

I have reviewed the process by which IIUK calculates their IFRS technical provisions.

- IIUK uses standard actuarial techniques including DFM, BF, average cost per claim and loss ratio methods. An allowance is made for ENIDs. The use of any bespoke or non-standard reserving approach requires prior approval from the relevant reserving specialist.
- Each quarter, a decision is made on whether a particular reserving class is subject to a full or light touch reserve review. A full review, which is performed at least once a year for each class, may lead to changes in the selected reserve methods and key assumptions whilst a light touch review involves adjustments to estimates to reflect actual versus expected (AvE) experience over the period the analysis was last performed.
- IIUK commission an external reserve review on a regular basis. Such reviews took place from 2021-2023 but there was no external review in 2024. As part of their 2024 audit, IIUK's external auditors reviewed a significant portion of the reserves. The difference between the auditor's estimates and IIUK's booked reserves is within what I consider to be a range of reasonable best estimates.
- The IFRS figures are used as the basis and starting point for the calculation of the Solvency UK technical provisions.

In my opinion, IIUK's reserving approach is reasonable and in line with market practice.

Following the Proposed Transfer, ongoing reserving of the transferring liabilities will move from UKI to IIUK. Given the similarities in the reserving approach of both entities, I am satisfied that this will have no material impact on the Transferring Policyholders or the Existing Policyholders.

5.5. Reserving estimates for the Transferring Business

The Transferring Business is subject to inherent uncertainty and there is a range of reasonable best estimates for the provisions.

One key area of uncertainty within the Brokered Commercial Insurance Business is Periodic Payment Orders (PPOs). UKI considers long-term liabilities from PPOs as a separate component within its technical provisions due to their unique and uncertain nature. This includes provisions for approved PPO claims, an IBNR allowance for expected future PPOs, and an additional ENID allowance above the actuarial best estimate.

PPO claims do not make up a material part of the Brokered Commercial Insurance Business reserves and there have been no new settled PPO claims since Q4 2023. The actuarial team sets both short- and long-term inflation assumptions annually, and PPO liabilities are discounted using the risk-free rate with a volatility adjustment to allow for an interest rate shock.

UKI have confirmed that there are currently no settled PPOs in the Transferring Business. As with any such portfolio, there could be PPOs in the future.

The Transferring Business is also exposed to latent claims eg asbestos and deafness, as part of its Liability classes. These claims are reserved for separately outside of the main reserving data. UKI relies on the benchmark projections provided by the IFoA UK Asbestos Working Party to reserve for asbestos claims.

I consider the impact of a deterioration in reserves eg arising from PPO or latent claims in scenario A in section 6.10.

Ultimately, the security of policyholders pre- and post-transfer depends on combined strength of reserves and capital held by UKI and IIUK.

As such, this section on reserving estimates for the Transferring Business should be considered in conjunction with the capital considerations in section 6.

I have been provided with the actuarial reviews undertaken by UKI and IIUK in respect of the liabilities of the Transferring Business.

The following table sets out UKI's IFRS technical provisions for the Transferring Business as at 31 December 2024. These are the latest available figures at the time of my writing of this report.

UKI – IFRS technical provisions for the Transferring Business as at 31 December 2024

£m	Gross of reinsurance	Net of external reinsurance
Front book	281	1
Back book	68	64
Total Transferring Business	349	65

Source: UKI, includes risk adjustment

UKI carried out a deep dive reserving exercise for the Transferring Business using Q3 2024 data. This was subsequently updated to reflect experience emerging up to 31 December 2024, including analysis of latent claims and an allowance for ENIDs.

As at 31 December 2024, UKI estimated the gross IFRS technical provisions for the Transferring Business at £349m, comprising £281m for the front book and £68m for the back book. As discussed in section 3.2, the front book is covered by the existing 100% QS Agreement between UKI and IIUK. As a result, the net IFRS reserves for the front book are £1m, compared to £64m for the back book, which is not covered by the QS Agreement.

UKI's front book reserves will be released when the QS agreement expires at the Effective Date.

The table below set's out IIUK's IFRS technical provisions for the front book of the Transferring Business, as at 31 December 2024.

IIUK – IFRS technical provisions for the front book of the Transferring Business as at 31 December 2024

£m	Gross of reinsurance	Net of external reinsurance
Front book	308	303

Source: IIUK, includes risk adjustment

As at 31 December 2024, IIUK has estimated the gross of reinsurance IFRS TPs at £308m, £303m net of reinsurance, primarily driven by the commercial motor and property classes. As at 31 December 2024, IIUK did not have its own provisions for the back book, as these liabilities were not reinsured by IIUK.

At the start of each quarter, IIUK reviews the classes within the front book of the Transferring Business and categorises them as either light-touch or full review, based on the results of AvE analysis. For a light touch review, IIUK rolls forward methods selected in the previous quarter, adjusted for updated data and recent experience, or maintains the previously selected ultimate costs. For the Q4 2024 review, IIUK performed a full review of the Motor Injury and Liability Large classes of business. This involved a review of development patterns and actuarial methods to reflect emerging trends.

Difference in UKI and IIUK's reserves estimates for the front book as at 31 December 2024

UKI and IIUK have each carried out independent projections of the Transferring Business.

IIUK's gross of reinsurance estimate for the front book is c. 10% higher than that of UKI as at 31 December 2024. I consider the difference in IIUK and UKI's estimates to be towards the top end of a range of reasonable best estimates. This is reasonable given the liability elements and the relative immaturity of the front book.

Whilst IIUK's estimate of the front book as at 31 December 2024 is higher than UKI's estimate, IIUK is well capitalised for the transferring liabilities.

Given that IIUK's current estimate of reserves for the Transferring Business is higher than UKI's, I do not consider that any group of policyholders to be materially adversely affected by this difference.

Day 0 estimates of the back book

UKI and IIUK have provided details of their estimates of the back book reserves as at Day 0 ie the day before the Effective Date. Both estimates are based on some simplifying assumptions which will be refined in further iterations. In particular IIUK is awaiting more details on the actual back book claims experience from UKI.

UKI's current estimate is £30m, IIUK's estimate is higher and in the range £35m to £45m.

I do not consider this difference in the Day 0 estimates to be material at this stage and my current view is that no group of policyholders, as defined in section 1.3, are materially adversely affected in this respect.

5.6. Approach for setting Solvency UK technical provisions

I have reviewed the approach taken by UKI and IIUK to convert the IFRS technical provisions into Solvency UK technical provisions (TPs). I have not sought to re-perform the calculation of the TPs or to perform detailed checking of the calculations performed by UKI and IIUK. Instead, I have focused on the appropriateness of the approach and the reasonableness of the results.

I have focused my review on the areas which, in my experience, are of greatest relevance to an independent reviewer. For the claims provision, this included ENIDs and removal of any margin for prudence. For the premium provision, this included ENIDs, the removal of the profit on unearned premium reserve (UPR) and the removal of future premium. I also reviewed the approach taken by UKI and IIUK to calculate the Solvency UK Risk Margin.

The table below shows the main steps involved in going from IFRS technical provisions to Solvency UK TPs for both UKI and IIUK, based on data as at 31 December 2024.

Steps from IFRS to Solvency UK technical provisions as at 31 December 2024

The Solvency UK technical provisions (TPs) comprise of a claims provision and a premium provision. The starting point for the calculation of claims provision is the IFRS actuarial best estimate claims reserves. A number of adjustments are applied to these reserves to reflect Solvency UK requirements.

Key adjustments to the claims provision include allowances for ENIDs, future claims handling and investment expenses and reinsurance bad debt. Future cash flows are discounted using the rates prescribed by the PRA.

For the premium provision, the starting point is unearned premiums ie the proportion of premiums that relates to unearned exposures. Similar to the claims provision, adjustments are made to reflect ENIDs, future expenses, reinsurance costs and expected future premium inflows. Profit margins are removed in line with Solvency UK requirements, and future cash flows are discounted using the PRA-prescribed rates.

A risk margin is added to reflect the cost of capital required to support the run off of liabilities.

I have discussed UKI's and IIUK's approaches to these adjustments in the following sections. The tables below show the key adjustments from IFRS net of reinsurance technical provisions to Solvency UK net of reinsurance technical provisions for UKI and IIUK:

UKI

£m	UKI
IFRS 17 reserves (excluding LFRC)	2,661
Removal of risk adjustment	(112)
Removal of other adjustments	18
Unearned claims and expenses	7,592
Investment expenses	67
Future premiums	(6,460)
Change in ENIDs	0
Discounting	(78)
Solvency UK TPs excluding risk margin	3,688
Solvency UK risk margin	143
Solvency UK TPs including risk margin	3,831

Source: UKI

IIUK

£m	IIUK
1) Claims provision	
IFRS claims provision*	3,951
Removal of PPO discounting	286
Best estimate claims provision	4,237
ENIDs	85
Additional expenses	27
Reinsurance default	19
Discounting	(567)
Future premiums and commissions	(244)
Solvency UK claims provision (A)	3,557
2) Premium provision	
Unearned premium	1,841
Adjustment for contract boundaries	(83)
Adjustment for unearned premiums	(1,758)
Unearned claims	1,118
ENIDs	25
Expenses	170
Reinsurance Treaty Spend	81
Adjustment for bound but not incepted business	(19)
Future premium and commission (net of adjustments)	(854)
Discounting	(89)
Solvency UK premium provision (B)	431
Solvency UK risk margin (C)	154
Solvency UK TPs including risk margin (A + B + C)	4,143

Source: IIUK

*Undiscounted IFRS reserves + Unallocated Loss Adjustment Expenses

ENIDs

UKI and IIUK include an allowance for ENIDs within the TPs because, as is typical for most insurers, the historical claims experience used to inform the reserving projections does not typically provide sufficient implicit allowance for extremely rare claim events.

For UKI, the ENID assessment is performed using scenario analysis. Product-specific scenarios are developed from emerging risk registers and scenarios. ENIDs are split into:

- 'Known events with unclear outcomes', which reflect the impact of events which are due to happen in the next year or soon after. There is high certainty that the event will happen, but the impact is uncertain.
- 'Unknown events with unclear outcomes', which reflect the impact of events which could take place over the next year. There is lower certainty on occurrence - both the event and its impact are uncertain.

At IIUK, each region conducts an annual assessment of ENIDs, led by local Reserving Specialists and involves discussions with relevant subject matter experts. The Chief Actuary is involved in these discussions and provides review and challenge to the assumptions made.

The ENID loads as at 31 December 2024 for UKI and IIUK are c. 1% and c. 3% of the total net best estimate technical provisions respectively. The loading is not expected to change materially post-transfer.

I have reviewed the approach taken by UKI and IIUK for making an allowance for ENIDs. In my experience, I consider these loadings to be broadly in line with those typically held by other insurers writing similar lines of business, and the approach used to calculate the ENID provisions is both reasonable and proportionate.

Risk margin

The risk margin within the TPs under Solvency UK represents the amount in addition to the best estimate provisions that a third-party insurer would require to take over the insurance obligations of an insurer.

UKI calculates the risk margin using their Internal Economic Capital Model. The cost of capital and risk-free discount rates are prescribed by the PRA.

IIUK calculates the risk margin as the present value of the cost of holding the SCR over the lifetime of insurance liabilities were they to be transferred to a (notional) reference undertaking who then effectively manages the transferred business. Future SCR is estimated using outstanding claims at each future point. As claims run off, long-tail classes will require a proportionally higher level of capital to support them. This method reflects the proportionally increasing levels of capital required in the future as the short-tail classes run off relatively more quickly.

The risk margin as at 31 December 2024 for both UKI and IIUK is c. 4% of the total net best estimate technical provisions. This risk margin allowance is not expected to change materially for UKI or IIUK post-transfer.

LCP's market review of Solvency II reporting as at 2023 year-end, based on 100 non-life insurers in the UK and Ireland, showed that, across the market, the risk margin was c. 6% of total net best estimate technical provisions. The majority of UKI and IIUK's business relates to the 'Motor vehicle liability insurance', 'Other motor insurance' and 'Fire and other damage to property insurance' Solvency UK lines of business, where the risk margin allowance ranged from 3% - 6%. Both UKI and IIUK's risk margins are in the range of what is typically observed for insurers writing similar lines of business.

I have reviewed the approach adopted by both UKI and IIUK for calculating the risk margin. In my experience, I consider the approach used by UKI and IIUK to be in line with regulatory expectations and therefore appropriate. I consider the risk margin loadings held by UKI and IIUK to be in line with those typically held by insurers writing similar lines of business and therefore appropriate given the nature of the liabilities.

Conclusion on Solvency UK technical provisions

In my opinion, the approaches used by UKI and IIUK to calculate the Solvency UK TPs are appropriate.

5.7. Key uncertainties when setting provisions

The ultimate cost of settling general insurance claims is subject to uncertainty in terms of both the frequency (ie how many valid claims there will be) and severity (ie the cost of settling each claim), including exposure to inflation in claim amounts over time. Therefore, there are uncertainties when setting the corresponding provisions.

In the sections below, I have described the key uncertainties in setting the provisions and provided illustrations of how sensitive the net of reinsurance reserves are to some of the assumptions used.

In addition to the reserving sensitivities described here, I have considered more extreme stress and scenario tests regarding uncertainty in the provisions in section 6, where I discuss my considerations regarding capital.

There are several uncertainties in setting provisions for the lines of business written by UKI and IIUK:

- There is potential for increases in the number and/or average cost of claims, for example due to a court award setting a new precedent, or the emergence of an expensive new treatment.
- Past data may no longer be a reliable guide for future projections due to changing external and internal factors.
- General price inflation rates have returned to a more normal level compared to recent years, but remain above the long-term Bank of England target of 2% for the Consumer Price Index. However, average costs of settling damage claims continue to inflate at a faster rate.
- The inflationary drivers of injury claims are very different from those for damage claims and will depend on the extent to which high price inflation feeds through to wage inflation, legal fees and tariff awards. Bodily Injury claims develop slowly and recently settled claims are unlikely to fully reflect recent high inflation. Given the long-term nature of liabilities, reserves for the Transferring Business are sensitive to heightened uncertainty around inflation.
- The threat of increasing global trade barriers as a result of increased tariffs may result in further inflationary pressure over 2025. The potential impact of increased tariffs, the timing, scope, and scale of such changes remain highly uncertain.
- Despite the current low materiality of PPOs in the context of the overall Brokered Commercial Insurance Business reserves, the key assumptions are uncertain. For example, a different mix of claims than expected, such as a higher proportion of young claimants with long-life expectancies, could materially impact the value of the gross and net PPO liabilities. There is also uncertainty around longevity, Annual Survey of Hours Earnings (ASHE) inflation, investment return, and propensity (ie the likelihood of claims settling as PPOs).
- The Transferring Business is exposed to latent diseases including asbestos-related diseases. It can take 40 years or more before symptoms of certain asbestos-related diseases emerge. Such diseases are often fatal, and compensation awards can be significant. Given the long latency period of these diseases, claims are expected to continue to emerge for many years into the future.
- Shifts in weather patterns may lead to more frequent, severe, and unpredictable natural catastrophe events, making events like storms, floods, and wildfires more difficult to predict and manage. This introduces additional uncertainty when projecting future claims experience. However, for the Transferring Business, much of the business is already expired, which mitigates the risk in this area.

Both UKI and IIUK regularly review sources of uncertainties as part of their Reserve Committee meetings. A mix of expert judgement and manual adjustments is applied to deal with these uncertainties.

5.8. Current reserving process and governance

UKI – reserving process and governance

UKI's Actuarial Function follows a structured reserving process, with responsibilities split between sub-teams for Motor and Household & Commercial business.

UKI's commercial business is reserved separately, differentiating between the Transferring Business (ie the business that was sold to IIUK and operates through the QS Agreement and which I refer to as the Transferring Portfolio in my report) and non-transferring business (ie business that will remain with UKI). This is due to differences in the underlying business mix, reflecting the fact that the Transferring Portfolio is brokered business, and the different sources from which the claims data is obtained.

Despite this distinction, the reserving team applies a consistent methodology across both portfolios and other UKI business lines. UKI use a proprietary actuarial modelling platform to carry out the reserving process. This involves the reserving team setting key reserving assumptions, based on an analysis of claims trends and wider benchmark experience, to derive best estimate reserves. In addition, key performance indicator outputs from the platform are used to monitor reserving results, helping to identify unusual movements or trends that may indicate a need for further investigation or model updates. While the projections are primarily based on incurred data (ie data for both claims that have been paid + case reserves for unpaid claims), paid data (ie just for paid claims) is reviewed in parallel to validate results and understand any differences.

IBNR for latent and disease claims is estimated outside of the main reserving platform and involves a greater element of expert judgement, reflecting the inherent uncertainty in such claims where there are often significant reporting and settlement delays.

Smaller or run off portfolios are estimated using simplified methods by Finance, with oversight from the Actuarial Function.

Each product and peril grouping undergoes a full reserve review at least annually. Results are shared in internal challenge meetings, where loss ratio projections and payment patterns are also reviewed by the Head of Reserving and presented to the reserves oversight committee. This committee supports the Chief Financial Officer (CFO) in forming a view on the reserves before recommendations are made to the Audit Committee and Board. The Board approves half-year and year-end reserves, with detailed review delegated to the Audit Committee.

IIUK – reserving process and governance

The UK and Ireland (UK&I) Corporate Actuarial team perform quarterly reserve reviews for each reserving class. This involves either a full review, which is performed at least once a year for each class, where a full analysis of the data and updates to the reserving methods are selected and actuarial assumptions made, or a light touch review, where the method is unchanged from the last full review but the estimate may be updated for AvE experience over the quarter. Each class is subject to at least one full reserve review each year.

The decision whether to perform a full or light touch review is agreed by the team based on the results of the monthly and quarterly AvE process and a review of key reserving and claim diagnostics emerging from a proprietary analytics and automated trend-identification reserving platform.

The selection of reserving methods and key assumptions is subject to a two-level review process within the Corporate Actuarial team with initial selections first peer reviewed by senior members, with further review as part of discussions with the relevant reserving specialist and the UK&I Chief Actuary.

The results are then discussed with senior management at the quarterly Reserving Committee with any booking decisions agreed before formal presentation to the RSA Insurance Group Limited (RSAIG) and Intact Audit Committees. The UK&I Chief Actuary presents a summary of the reserves and prior year development to the RSAIG Board of Directors, through the RSAIG Audit Committee, at least quarterly.

5.9. Future reserving approach and governance

UKI has confirmed that it plans to continue to use the same UKI approach to reserving for the business that remains with UKI after the Proposed Transfer, subject to any changes to the process that may arise following the acquisition by Aviva.

IIUK has confirmed that it plans to use the same IIUK approach to reserving for the front book and its existing business after the Proposed Transfer.

UKI and IIUK have both informed me that they do not expect any changes to their governance process for reserving post-transfer.

5.10. Overall conclusion: reserving considerations

I set out below my overall conclusions related to reserving. These reserving considerations should not be considered in isolation. For example, the overall level of protection for policyholders also depends on the level of capital held, and a range of other considerations. My overall conclusions on the Proposed Transfer are set out in section 10.

Non-transferring Policyholders

I have concluded that the Non-transferring Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- I am satisfied that the approaches used to calculate the IFRS and Solvency UK technical provisions for the Transferring Business are appropriate, and UKI has confirmed that these will be materially unchanged post-transfer.
- The front book portion of the transferring liabilities are already reinsured to IIUK and are relatively small compared to UKI's total provisions. The Proposed Transfer will have a limited impact. Whilst the reinsurance with IIUK will expire as at the Effective Date when the transferring liabilities move to IIUK, IIUK is well capitalised to absorb the transferring liabilities (albeit no longer under a reinsurance agreement).
- UKI has confirmed that no changes are expected to the reserving process or governance post-transfer, with the potential exception of those arising following the acquisition by Aviva. In any case, the Non-transferring Policyholders would be subject to the same changes whether the Proposed Transfer takes place or not.

Transferring Policyholders

I have concluded that the Transferring Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- I am satisfied that the approaches used to calculate the IFRS and Solvency UK technical provisions for the Transferring Business are appropriate, and IIUK has confirmed that these will be materially unchanged post-transfer.
- IIUK's estimate of the reserves for the Transferring Business is higher than that of UKI.
- IIUK has confirmed that the future reserving process and governance for IIUK will be unchanged post-transfer.
- Transferring Policyholders will move from being a policyholder of IIUK, whose liabilities are reinsured by IIUK through the QS Agreement, to become direct policyholders of IIUK following the Proposed Transfer, in respect of the front book portion of their policy.

Existing Policyholders

I have concluded that the Existing Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- I am satisfied that the approaches used to calculate the IFRS and Solvency UK technical provisions for the Transferring Business are appropriate, and IIUK has confirmed that these will be materially unchanged post-transfer.
- IIUK is already exposed to the front book of Transferring Business through the QS Agreement. On the Effective Date of the Proposed Transfer, the back book will transfer to IIUK and then be reinsured by UKI. As such, the Proposed Transfer will have no material impact on the Existing Policyholders.
- IIUK has confirmed that the future reserving process and governance for IIUK will be unchanged post-transfer.

6. Capital considerations

6.1. Introduction to insurance capital setting

A key reason why insurers hold capital is to withstand adverse or extreme levels of claims and other losses. The capital is held in excess of the provisions for policyholders' claims and for the other costs associated with running an insurer.

A key metric under the Solvency UK regulations is the Solvency Capital Requirement (SCR). This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie, a 1 in 200 probability adverse outcome). Firms are required to hold capital equal to at least 100% of the SCR.

An insurer's SCR coverage ratio is calculated as the available capital in excess of provisions (also known as Own Funds), divided by the SCR. This is a measure of capital strength, with a higher ratio indicating there is more capital available per £ of capital required. The SCR coverage ratio does not capture all aspects of policyholder protection, but a higher coverage ratio indicates more protection, all else being equal.

I consider the SCR coverage ratio an appropriate measure to consider as part of my assessment of policyholder security before and after the transfer for the following reasons:

- I consider the SCR to be a suitable measure for the overall risks of UKI and IIUK;
- The SCR coverage ratio is an objective measure of the financial strength of an insurer that can be compared on a consistent basis between insurers or for an insurer at different points in time; and
- The SCR is a risk-based metric that is disclosed to both regulators and the public.

My assessment of the capital considerations regarding policyholder security is also supported by consideration of capital beyond a 'one-year' view (section 6.4) and a review of the impact of a range of adverse scenarios on each of UKI and IIUK (section 6.10).

Definition of 'well capitalised' and 'very well capitalised'

For the purposes of this 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%.

6.2. My considerations related to capital

As IE, my overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for both UKI and IIUK;
- 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 before and after the Proposed Transfer); and
- whether any other aspects of the capital considerations may lead to policyholders being materially adversely affected by the Proposed Transfer.

To make these assessments, I have considered the following areas:

- UKI and IIUK's approach to calculating capital requirements (section 6.4);
- Capital requirements beyond a 'one-year' view (section 6.4);
- The capital policy for UKI and IIUK (section 6.6);
- Internal model appropriateness for UKI and IIUK (section 6.7);
- Projected SCR coverage ratios as at the Effective Date (section 6.8);
- The planned capital structures for UKI and IIUK (section 6.9); and
- The SCR under stressed scenarios (section 6.10).

6.3. Approach to my review

I have reviewed a number of documents provided by UKI and IIUK relating to the calculation of capital requirements and projected coverage ratios. A list of the key data and documentation reviewed is provided in Appendix 4.

6.4. Calculating capital requirements

For both UKI and IIUK, the level of capital required is set in line with the Solvency UK standard.

Under Solvency UK, there are three ways in which the SCR can be calculated:

- **Standard formula (SF):** under this approach, the SCR is set using a prescribed calculation and parameters, as specified in the Solvency UK/II regulations. Within the standard formula framework, insurers can use undertaking-specific parameters (USPs) to tailor specific aspects of the parameterisation of the calculation to better reflect their risk profile.
- **Internal model:** under this approach, the SCR is set using the insurer's own internal capital model. The internal model is developed and parameterised by the insurer to reflect their specific business.
- **Partial internal model:** under this approach, the SCR is set using a combination of the standard formula and the insurer's own internal capital model. Some aspects of the SCR are calculated using the internal model, and the remainder is calculated using the standard formula.

The choice of approach is made by the insurer. An insurer needs to obtain regulatory approval in order to use USPs, an internal model or a partial internal model to calculate its SCR. An insurer does not need approval to calculate its SCR using the standard formula without USPs. All insurers are required to complete their own assessment of the appropriateness of the standard formula for their own business.

How each firm calculates its SCR

UKI and IIUK both use an internal model to calculate their SCR. It is common for larger insurers to rely on an internal model, appropriately parameterised to reflect their business, to calculate their SCR. UKI's and IIUK's internal models are approved by the PRA.

Capital requirements beyond a 'one-year' view

The SCR is a 'one-year' view of risk, covering risks that insurers face over the next 12 months.

Both UKI and IIUK have provided projections of SCR coverage ratios as at the Effective Date and beyond, UKI until December 2028 and IIUK until December 2027. Both UKI and IIUK are projected to remain well capitalised over these periods.

Minimum Capital Requirement

In addition to the SCR, another key measure of capital under Solvency UK is the Minimum Capital Requirement (MCR).

The MCR is calculated using a formula based on volumes of premiums and Solvency UK technical provisions.

For non-life insurers, the MCR typically tends to be between 25% and 45% of the SCR.

Note that the MCR is subject to a minimum of £2.4m or £3.5m depending on the business written. This minimum typically only applies to the smallest insurers. The MCR as at 31 December 2024 for UKI was £508m and for IIUK was £547m.

Firms need to hold capital equal to at least 100% of the greater of the SCR and the MCR. The purpose of the MCR is to ensure that firms are holding at least a minimum level of capital. Breaching the MCR will result in more intensive regulatory intervention than would be the case for a breach of the SCR.

The MCR coverage ratio is calculated as the available capital in excess of provisions divided by the MCR. As at 31 December 2024, UKI and IIUK had MCR coverage ratios of 382% and 315% respectively, and will continue to be very well capitalised on this measure immediately pre- and post-transfer.

For both UKI and IIUK, both pre and post-transfer, the SCR is higher than the MCR. Therefore, I have not considered the MCR further as part of my assessment of capital considerations, and my primary focus is on the SCR.

6.5. Components of capital requirements

The key components of the SCR are:

- **Underwriting risk:** the risk that the value of insurance claims proves to be higher than expected. This includes the risk of an increase in claims and uncertainties related to existing liabilities included on the balance sheet (reserving risk). This also includes the risk of experience being worse than planned for business that will be earned or written over the following year (premium risk).
- **Operational risk:** the risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would include the risk of fraud or IT failure.
- **Market risk:** the risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this includes the risk of falls in the value of investment assets that are being held to make future claims payments.
- **Counterparty default risk:** the risk of defaults or downgrades by counterparties that either owe the insurer money or hold money on its behalf. For example, this includes the risk of the failure of a reinsurer.

For both UKI and IIUK, the most material component of the SCR is underwriting risk. For the liabilities being transferred, the key element of underwriting risk is reserving risk, which is the risk of an increase in claims and uncertainties related to the existing earned liabilities included on the balance sheet. There is an immaterial amount of premium risk in respect of the Transferring Business given that all but a small number of policies have expired.

UKI and IIUK have provided SCR projections which contain the SCR risk components. I have summarised the key risks as a percentage of the total SCR, both pre-transfer and post-transfer, below. I have also shown the figures as at 31 December 2024.

UKI: Projected breakdown of SCR risk components pre- and post-transfer

Risk components	As at 31 December 2024		Projected Day 0		Projected Day 1	
	£m	% of SCR	£m	% of SCR	£m	% of SCR
Underwriting risk	1,145	101%	1,148	106%	1,148	106%
Operational risk	305	27%	329	30%	329	30%
Market risk	159	14%	154	14%	154	14%
Counterparty default risk	116	10%	110	10%	110	10%
Diversification and other adjustments	(594)	(53%)	(653)	(60%)	(653)	(60%)
SCR	1,130	100%	1,087	100%	1,087	100%

Source: UKI

The most material component of the SCR for UKI is underwriting risk, which represents 101% of the 31 December 2024 SCR and 106% of the SCR pre- and post-transfer.

UKI's SCR is projected to decrease between 31 December 2024 to immediately prior to the transfer, from £1,130m to £1,087m. There is an immaterial change in the SCR immediately post-transfer. There is a change to UKI's risk profile following the Proposed Transfer due to the removal of counterparty default risk arising from the QS Agreement. However, the impact of this is too small to be noticeable in the above table.

IIUK: Projected breakdown of SCR risk components pre- and post-transfer

Risk components £m	As at 31 December 2024		Projected Day 0		Projected Day 1	
	£m	% of SCR	£m	% of SCR	£m	% of SCR
Underwriting risk	961	79%	873	77%	873	77%
Operational risk	465	38%	460	41%	460	41%
Market risk	316	26%	345	30%	345	30%
Counterparty default risk	63	5%	60	5%	60	5%
Diversification and other adjustments	(588)	(48%)	(605)	(53%)	(605)	(53%)
SCR	1,215	100%	1,133	100%	1,133	100%

Source: IIUK

The most material component of the SCR for IIUK is also underwriting risk, which represents 79% of the 31 December 2024 SCR and 77% of the SCR pre- and post-transfer.

For both IIUK and UKI underwriting risk is the most material driver of the SCR, followed by operational risk and market risk. Counterparty default risk is only a small contributor to the SCR for both entities.

IIUK's SCR is expected to decrease between 31 December 2024 and immediately prior to the transfer, from £1,215m to £1,133m. This follows the disposal of its personal lines business, which is unrelated to the Proposed Transfer. There is an immaterial change in the SCR immediately post-transfer. There is a change to IIUK's risk profile following the Proposed Transfer due to the additional counterparty default risk arising from IIUK's exposure to the risk of UKI defaulting on the quota share recoveries attached to the back book. However, this is too small to be noticeable in the above table.

Given the QS Agreement, the Proposed Transfer is not expected to materially change the risk profile of IIUK.

6.6. Risk appetite for UKI and IIUK

I have reviewed UKI's and IIUK's Own Risk Solvency Assessments (ORSA) and capital management policies.

DLG manages risks on a Group-wide basis, including its regulated entities UKI and Churchill Insurance Company Limited (Churchill), due to the similar nature of risks faced. It operates an ongoing process to assess principal risks and monitor the effectiveness of its risk management systems. The Board oversees strategy, risk appetite and the enterprise risk management framework, which follows a three lines of defence model.

For UKI, capital management actions will be considered if the SCR coverage ratio reduces below 130%. As at 31 December 2024, UKI's SCR coverage ratio was 172%. Based on UKI's projected capital requirements, UKI is expected to remain well capitalised (ie SCR coverage ratio in excess of 150%) in the years following the Proposed Transfer, based on projections provided for the period to 31 December 2028.

IIUK's risk appetite is expressed using qualitative statements and supporting Key Risk Indicators (KRIs) with operating targets and risk tolerances. The Board sets and approves risk appetite and KRIs annually for material risks, with additional KRIs set for secondary risks. These are reviewed quarterly, with breaches escalated to the Board Risk Committee.

IIUK target an SCR coverage ratio in excess of 160%. As at 31 December 2024, IIUK's SCR coverage ratio was 178%. IIUK is expected to remain well capitalised (ie SCR coverage ratio in excess of 150%) in the years following the Proposed Transfer, based

UKI - appropriateness of internal model

The internal model has been approved by the PRA to calculate the SCR for UKI.

DLG has a model validation standard which is reviewed annually to reflect regulatory and internal changes. The Risk function is responsible for leading the independent validation, providing assurance to Board sub-committees on model compliance and fitness for purpose. The model goes through an annual validation cycle, which includes testing, a rolling programme of deep dives into areas of the internal model and model change reviews. The scope of this validation is approved by the Board Risk Committee.

In addition to calculating the SCR for UKI, the internal model is also used to support capital planning, risk management, reinsurance decisions, investment strategy and business portfolio analysis by showing how different actions impact risk, capital and returns.

I have reviewed the internal model validation carried out performed by the DLG Model Validation Team (MVT), who are independent from the team responsible for building, maintaining and parameterising the internal model. The key conclusions from their latest review included the following:

- The high-level results were reasonable and the movements in key risk metrics were attributable, and therefore explainable, to known changes in the risk profile.
- All material changes in UKI's risk profile had been appropriately reflected in the internal model.
- All model changes, parameter updates and exposure data updates that were implemented in the latest modelling cycle (YE 2024) were considered materially reasonable.
- All material independent validation findings that were open during the previous year cycle (YE 2023) have been addressed and closed or following progress over the year, downgraded to 'low' materiality.
- From the testing performed to date, there were no new 'medium' or 'high' materiality quantitative validation issues identified during YE 2024.
- Two new low materiality findings were raised for Corporate Actuarial to address. These related to 1) increased model risk relating to Planned Approved View documentation not being finalised in time to then feed into the assessment process of key model inputs and 2) adding more detail on ENID judgements in reporting packs to allow for appropriate review and challenge of their reasonableness. However, the cumulative impact of these findings and others were c. 4% of the SCR, below UKI's 5% medium materiality threshold.

Overall, the MVT concluded that:

- the model is suitable for general business decisions;
- there are no material issues with the internal model and that the processes provide a reasonable basis for calculating the SCR; and
- the SCR is reasonable and calculated in line with applicable regulations.

I have reviewed the MVT's findings. In addition, I have reviewed management's response to the two new material findings and am satisfied that there is a clear action plan to address both of these points as part of the YE 2025 capital cycle.

In addition, an external actuarial consultancy was engaged to perform a review of the YE 2024 internal model. The overall conclusion from this external review was there was no reason to believe that the SCR is materially understated.

However, shortcomings were identified in respect of the model design and parameterisation, model governance and the independent validation being able to provide effective challenge and appropriate assurance over the internal model and its intended uses. There were also a number of specific findings around the quality of the documentation.

The review acknowledged that there were several contributory factors to the issues identified, and that this was exacerbated following the diversion of key resource in respect of other key modelling changes. A number of recommendations were made to address the issues identified, as part of a wider remediation program. DLG are actively considering these as part of the YE 2025 capital cycle.

The external review indicated that the impact of the shortcomings identified would more likely lead to a decrease rather than an increase in the SCR. As such, my view is that the SCR is not materially understated.

IIUK - appropriateness of internal model

RSAIG has approval from the PRA to use its internal model to calculate the RSAIG SCR. This approval also applies to IIUK.

Regulatory approval was received in 2024 to implement the Transferring Business into the formal modelling framework.

The internal model is subject to continuous development and plays a key role in decision-making, setting risk appetite, assessing risk exposures and mitigations, allocating capital across lines of business and informing key strategic decisions. There is a governance and assurance framework that oversees the model's operation, updates and the reporting of results.

The model undergoes a formal validation process to ensure it remains fit for purpose and aligned with business objectives. This validation is performed independently of model development, using techniques such as stress and scenario testing, back-testing and benchmarking. Findings from the validation process are reviewed by the Internal Model Governance Committee and reported at least annually to the Board Risk Committee and the relevant legal entity Board.

I have reviewed the latest available annual internal model validation report, outlining the independent review performed by the Line 2 team for RSAIG. The focus of the review was on the appropriateness of the internal model and its inputs and outputs. The Line 2 team are independent from the Line 1 team who are responsible for the development of the internal model. No recent external model validation has been performed relating to IIUK's insurance business.

Following the latest Line 2 review, there were no open high-materiality findings and no significant issues identified following deep-dive analyses into the internal model. In addition, progress had been made in addressing recommendations made in the previous year's review. Overall, the Line 2 team concluded that the capital position was an appropriate representation of IIUK's risk profile.

I have reviewed the validation team's findings. In addition, I have reviewed the response to the new findings and am satisfied that there is a clear action plan to address these points as part of the next review cycle. I do not expect these will have a material impact on the SCR given they relate to the less material risk drivers of the SCR.

Analysis of relative strength of internal models

Both UKI and IIUK perform analysis to support the relative strength of their internal models. It is usual for insurance firms to monitor the relative strength of their internal models by comparing and modelling the internal model SCR to the level of net written premium and also to the SCR calculated on the SF basis.

UKI

As at 31 December 2024, UKI's SCR was 38% of net written premium and IIUK's was 32%, a difference of 6%. A similar-sized difference was also observed as at 31 December 2023 where the ratios were 33% and 41% respectively. I do not consider these differences to be material, particularly given this is a fairly simplistic ratio on which to measure the relative strength of the internal models.

Both UKI and IIUK measure their internal model SCR compared to if the SCR was calculated using the SF approach, in order to model any 'model drift' over time ie the risk that the capital requirements calculated using the internal model weaken over time.

As at 31 December 2024, UKI's internal model SCR was £1,130m, ie £423m lower than, or 73% of, the SCR calculated using the SF of £1,553m.

Around 25% of this difference reflected the internal model's allowance for the expected profitability of the business over the next year, which is not explicitly captured under the SF. Differences in the calibration of insurance risk due to differences in UKI's definitions of lines of business compared to Solvency II definitions were broadly offset by

UKI's higher view of the frequency and severity of operational risk events. The remaining 75% of the difference was attributable to the greater diversification credit allowed for in the internal model.

As at 31 December 2023, UKI's internal model SCR was 79% of that calculated using the SF. The decrease in this ratio over the year was due to some changes in the SF calculation in respect of the treatment of contract boundaries of certain policies. This led to an increase in the SF SCR (+11%) that was larger than the increase in internal model SCR (+2%) over the year.

IIUK

As at 31 December 2024, IIUK's internal model SCR was £1,215m, ie £661m lower than, or 65% of, the SCR calculated using the SF of £1,876m.

Around 50% of this difference reflects the difference in calibration of underwriting risk between the internal model and the SF, particularly in respect of reserve risk. In addition, the SF requires an assessment of backward-looking premiums and so the run-off of the UK personal lines business will not have been captured to the same extent as it is in the internal model. Differences in the calibration of market risk, arising from investments in insurance subsidiaries of IIUK and the simple capital charges applied under the SF, were broadly offset by the internal model's allowance for the expected profitability of the business over the next year. The remaining balance of the difference was mostly attributable to the greater diversification credit allowed for in the internal model and other less material adjustments.

As at 31 December 2023, IIUK's internal model SCR was 74% of that calculated using the SF. The decrease in this ratio over the year followed an increase in the SF SCR (+6%) and decrease in the internal model SCR (-5%). Factors contributing to the reduction in the internal model SCR will not have been captured to the same extent in the SF eg the run-off of the UK personal lines business and the impact of higher mean returns following equity re-risking carried out during 2024. Less than 30% of the change in expected profit over the year was due to this increase in equity returns. In addition, IIUK's SF SCR includes a charge against its investment in insurance subsidiaries in Ireland and Europe, which increased over the period. Such risks are more accurately captured in the internal model.

Conclusion

As at 31 December 2024, the internal model SCR, when measured against both net written premiums and the SF SCR, is lower for IIUK than UKI. However, I do not believe that the size of these differences indicate a material difference in the relative strength of the UKI and IIUK internal models. Therefore, I am satisfied that all three sets of policyholders considered are not materially adversely affected by the Proposed Transfer.

Both UKI and IIUK use internal models to calculate their solvency capital requirements. These models have regulatory approval and an annual validation exercise is undertaken. I have concluded that the respective internal models provide an appropriate basis for calculating the SCR for UKI and IIUK.

6.8. Projected SCR coverage ratios for UKI and IIUK

Projected SCR coverage ratios immediately pre- and post-transfer

The Effective Date of the Proposed Transfer is expected to be 1 April 2026.

The table below sets out the projected SCR and coverage ratios, as prepared by UKI and IIUK, immediately before and after the Proposed Transfer ie at Day 0 (31 March 2026) and Day1 (1 April 2026).

IIUK's and UKI's projected SCR and coverage ratios are based on data as 31 December 2024.

Projections before and after the Proposed Transfer	Own Funds	SCR	Own Funds less SCR	SCR coverage ratio	Movement in coverage ratio
Day 0 – before Transfer					
UKI £m	1,998	1,087	911	184%	
IIUK £m	2,055	1,133	922	181%	
Day 1 – after Transfer					
UKI £m	1,998	1,087	911	184%	0%
IIUK £m	2,055	1,133	922	181%	0%

Source: UKI and IIUK

In summary:

- **Non-transferring Policyholders:** the SCR coverage ratio for Non-transferring Policyholders is projected to remain unchanged at 184% with UKI projected to remain well capitalised immediately after the Proposed Transfer.

Given that:

- Most of the Transferring Business, ie the front book, is already 100% reinsured by IIUK; and
- The back book will, following the transfer, be 100% reinsured by UKI,

the Day 0 and Day 1 SCRs would be expected to be broadly the same.

The only changes to the SCRs expected immediately following the transfer are:

- an immaterial reduction in UKI's counterparty default risk in response to the transfer and the cessation of the QS Agreement; and
- an immaterial increase in IIUK's counterparty default risk, reflecting the new 100% quota share reinsurance from UKI in respect of the back book.

- **Transferring Policyholders:** the SCR coverage ratio for Transferring Policyholders is projected to decrease from 184% to 181% as a result of the Proposed Transfer. I do not consider the decrease to be materially different to the pre-transfer SCR coverage ratio for these policyholders, and am therefore satisfied that the Transferring Policyholders will not be materially adversely affected due to the Proposed Transfer.

The Transferring Policyholders will be exposed to the risks within IIUK and will no longer have any exposure to risks within UKI. Both UKI and IIUK write books of general insurance, although UKI writes more personal lines business whereas IIUK is withdrawing from this business.

I do not expect the Proposed Transfer to lead to a materially adverse change in risk exposures and the capital protection available for the Transferring Policyholders.

- **Existing Policyholders:** the SCR coverage ratio for Existing Policyholders is projected to remain unchanged at 181% after the Proposed Transfer.

Both UKI and IIUK remain well capitalised immediately following the Proposed Transfer and are expected to remain well capitalised in the years following the transfer, based on the projections provided by both UKI and IIUK.

Projected SCR coverage ratios after the Proposed Transfer

UKI and IIUK have provided me with their SCR coverage ratio projections through to 31 December 2028 and 31 December 2027 respectively following the Proposed Transfer. Both entities are expected to be at well capitalised over these periods.

In practice, the actual coverage ratios may be higher or lower than projected depending on the claims and other experience of each insurer. Both UKI and IIUK will routinely monitor their capital and projected capital position in line with their respective capital management policies and risk appetites (considered in section 6.6 above). This could also lead to the coverage ratios being higher or lower than projected but they are expected to remain above their risk appetite levels.

Conclusion

Overall, considering all of the above factors, I have concluded that there is no materially adverse impact from the Proposed Transfer for any group of policyholders in terms of capital security.

6.9. The planned capital structures for UKI and IIUK

Based on data as at 31 December 2024, all of UKI's total eligible Own Funds (£1.9bn) were classified as unrestricted Tier 1 ie the highest quality. For IIUK, 74% of total eligible Own Funds (£2.2bn) were classified as unrestricted Tier 1, 17% as Tier 2 and 8% as Tier 3.

The tables below provide a breakdown of how the eligible Own Funds, between different tiers, are projected to change between 31 December 2024 and immediately pre- and post-transfer.

UKI: Projected breakdown of eligible Own Funds, between different tiers

Capital tier	As at 31 December 2024	Pre-transfer	Post-transfer
Unrestricted Tier 1	100%	100%	100%
Restricted Tier 1	0%	0%	0%
Tier 2	0%	0%	0%
Tier 3	0%	0%	0%
Total	100%	100%	100%

IIUK: Projected breakdown of eligible Own Funds, between different tiers

Capital tier	As at 31 December 2024	Pre-transfer	Post-transfer
Unrestricted Tier 1	74%	80%	80%
Restricted Tier 1	0%	0%	0%
Tier 2	17%	12%	12%
Tier 3	8%	8%	8%
Total	100%	100%	100%

Based on this analysis, for both UKI and IIUK the proportion of eligible Own Funds held across different tiers is not expected to change materially between 31 December 2024 and pre- and post-transfer, although IIUK's Tier 1 proportion is projected to increase.

I do not expect the changes in capital structure as a result of the Proposed Transfer to lead to any material adverse changes in the strength of capital protection for any group of policyholders. The Transferring Policyholders will become part of an insurer with a relatively lower proportion of Tier 1 assets, but I do not consider these policyholders to be materially adversely affected given that a significant proportion of the eligible Own Funds relates to the highest quality assets.

In the potentially extreme scenario where no Tier 3 funds become available, pre-and post-transfer SCR coverage ratios for IIUK would decrease from 181% to 166% ie IIUK would still be a well-capitalised insurer. In the more extreme scenario where no Tier 2 and Tier 3 funds are available, the coverage ratio would drop further to 144%. Even in this scenario, IIUK would have sufficient capital. On this basis, I do not believe that the Transferring Policyholders will be materially adversely affected following the Proposed Transfer.

In all scenarios IIUK remains above the minimum capital thresholds, and Tier 1 levels remain sufficient to meet regulatory standards.

6.10. SCR scenario analysis

I have considered the impact of a range of adverse scenarios for UKI and IIUK, based on projections prepared by each entity at my request. I have considered each scenario assuming the Proposed Transfer does or does not go ahead to assess the impact of the Proposed Transfer.

The purpose of the analysis is to assess whether UKI and IIUK can withstand plausible adverse experience for their business and whether, under these circumstances, each insurer still provides appropriate security to all groups of policyholders. The scenarios do not attempt to represent the full range of possible adverse events to which the insurer may be exposed. Rather, they aim to focus on key risk areas relevant to UKI and IIUK.

A 'reverse stress test' has also been considered by each firm. This is an extreme scenario which, by design, considers potential events that could lead to the unviability or insolvency of an insurer.

All of the scenarios were specified and reviewed for reasonableness by me, but the calculations have been performed by UKI and IIUK respectively.

The assessments for each scenario, assuming the Proposed Transfer does or does not go ahead, is set out below.

UKI scenarios

UKI	SCR coverage ratio			
	Pre-transfer	Impact	Post-transfer	Impact
Base result	184%		184%	
A) 30% deterioration of reserves	114%	(70%)	114%	(70%)
B) 15% deterioration in asset values	130%	(54%)	130%	(54%)
C) 30% reduction in reinsurance recoveries	140%	(44%)	141%	(43%)
D) Reverse stress test (combination of above)	15%	(169%)	17%	(167%)

IIUK scenarios

IIUK	SCR coverage ratio			
	Pre-transfer	Impact	Post-transfer	Impact
Base result	181%		181%	
A) 30% deterioration of reserves	89%	(92%)	89%	(92%)
B) 15% deterioration in asset values	147%	(34%)	147%	(34%)
C) 50% reduction in reinsurance recoveries	113%	(68%)	113%	(68%)
D) Reverse stress test (30% deterioration in reserves and asset values and a 50% reduction in reinsurance recoveries)	2%	(179%)	2%	(179%)

The scenarios do not allow for any management actions that could mitigate the reduction in SCR coverage ratios. They also do not allow for the potential mitigating effect of any deferred tax assets.

Whether the Proposed Transfer takes place or not does not lead to any difference in the projected SCR coverage ratios given the Proposed Transfer achieves the same effect as the QS Agreement between UKI and IIUK.

Scenario A – 30% deterioration of reserves

This scenario considers a reserve deterioration of 30% for both UKI and IIUK. The impact of the scenario on IIUK's SCR coverage ratio is greater than UKI, leading to a drop in the SCR coverage ratio to below 100%. However, IIUK would still have sufficient eligible Own Funds to meet its liabilities in this stressed scenario. In this scenario, UKI is still projected to have an SCR coverage ratio in excess of 100%, albeit below its stated risk appetite level.

Scenario B – 15% deterioration in asset values

This scenario considers a 15% deterioration in the value of UKI and IIUK's assets. Both UKI and IIUK would continue to have sufficient capital in this stressed scenario with UKI in line with its risk appetite levels and IIUK below its target of 160%. Both entities would have sufficient eligible Own Funds to meet their liabilities in this stressed scenario.

Scenario C – Large decrease in reinsurance recoveries

This scenario considers a reduction in reinsurance recoveries of 30% and 50% for UKI and IIUK respectively. Both UKI and IIUK have sufficient capital in these scenarios and sufficient eligible Own Funds to meet their liabilities. A more adverse scenario has been considered for IIUK given it is the insurer to which the business is being transferred.

Scenario D – Reverse stress test

For UKI, a reverse stress test that combines the individual stresses above has been considered. This scenario leads to a reduction in the pre-transfer SCR coverage ratio from 184% to 15% and the post-transfer SCR coverage ratio from 184% to 17%.

Even in this extreme scenario, UKI is still expected to be able to pay its claims. I consider likelihood of such a scenario to be extremely remote.

For IIUK, a reverse stress test that includes a 30% deterioration in reserves and asset values and a 50% reduction in reinsurance recoveries was considered. This scenario led to a reduction in the SCR coverage ratio to 2% ie 179% reduction in the base SCR coverage ratio, driven by a reduction in the level of eligible Own Funds from £2,005m to £37m whilst the SCR increases from £1,133m to £1,554m.

Even in this extreme scenario, IIUK is still expected to be able to pay its claims. I consider the likelihood of this scenario occurring to be extremely remote.

My conclusions from this scenario analysis are as follows:

Non-transferring Policyholders

- For the Non-transferring Policyholders, I compared the impact of the scenarios on UKI with and without the Proposed Transfer proceeding.
- Whether the Proposed Transfer takes place or not, the impact of each stressed scenario on UKI is broadly the same.
- 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 considered how being exposed to an IIUK stressed scenario would compare to being exposed to the UKI stressed scenarios if they remained with UKI.
- Whilst a 30% reserve deterioration leads to IIUK no longer having a sufficient level of capital, compared to the equivalent scenario for UKI where UKI still does, I do not believe this has a materially adverse impact on the Transferring Policyholders. In this scenario, IIUK's eligible Own Funds would still be sufficient to meet its liabilities and the scenario does not take into account any mitigating management actions.
- The Transferring Policyholders are exposed to the insolvency risk of both IIUK and UKI in respect of the front book pre-transfer, but only IIUK post-transfer. They are exposed to the insolvency risk of UKI in respect of the back book pre-transfer, but both UKI and IIUK post-transfer.
- IIUK's SCR coverage ratios for the scenarios are broadly similar to those of UKI, thereby indicating similar financial strength between both entities.
- Given this, and under these scenarios, I am satisfied that the Transferring Policyholders are not materially adversely affected as a result of the Proposed Transfer.

Existing Policyholders

- For Existing Policyholders, I compared the impact of the scenarios on IIUK with and without the Proposed Transfer proceeding.
- Whether the Proposed Transfer takes place or not, the impact of each stressed scenario on IIUK is the same.
- Therefore, under these scenarios, I am satisfied that Existing Policyholders are not materially adversely affected as a result of the Proposed Transfer.

6.11. Overall conclusion: Capital considerations

I have set out below my overall conclusions related to capital. These capital considerations should not be considered in isolation. For example, the overall level of protection for policyholders also depends on a range of other considerations. My overall conclusions on the Proposed Transfer are set out in section 10.

Based on the work and rationale described above I have concluded that:

- The capital strength for both UKI and IIUK, as measured by SCR coverage ratios, are not materially different both pre- and post-transfer.
- I have also considered a number of stress scenarios for both UKI and IIUK both pre- and post-transfer. The impact of the Proposed Transfer for most of these scenarios is broadly similar for all groups of policyholders.
- I do not expect there to be any materially adverse changes in the strength of capital protection for any group of policyholders as a result of the Proposed Transfer.

7. Policyholder security

7.1. My considerations relating to 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 Policyholders, Transferring Policyholders and Existing Policyholders.
- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

To make these assessments, I have considered the following areas:

- The Solvency UK balance sheets of UKI and IIUK (section 7.2)
- The solvency positions of UKI and IIUK (section 7.3)
- Reinsurance arrangements (section 7.4)
- Access to the Financial Services Compensation Scheme (section 7.5)
- Access to the Financial Ombudsman Service (section 7.6)
- Insurance regulation (section 7.7)

Further details on each of these considerations are set out below, and my overall conclusion related to policyholder security is set out in section 7.8.

7.2. Impact on the balance sheets of UKI and IIUK

I have based my analysis on the projected balance sheets provided by UKI and IIUK as at Day 0, ie the day before the Effective Date of the Proposed Transfer, and Day 1, ie the day after the Effective Date.

Solvency UK balance sheets of UKI and IIUK: £m

Converted £m	As at 31 December 2024		Projected Day 0		Projected Day 1		Projected movement due to Proposed Transfer	
	UKI	IIUK	UKI	IIUK	UKI	IIUK	UKI	IIUK
Property	53	77	52	81	52	81	0	0
Investments	5,143	6,402	5,411	6,382	5,245	6,382	(166)	0
Loans and Mortgages	330	278	385	248	385	248	0	0
Reinsurance recoverables	859	921	885	890	797	930	(88)	40
Cash	85	87	89	87	89	87	0	0
Other assets	561	639	565	479	565	671	0	192
Total assets	7,031	8,404	7,387	8,167	7,132	8,399	(255)	232
Technical provisions	4,690	5,063	4,988	5,055	4,733	5,289	(255)	234
Other Liabilities	400	1,298	401	1,165	401	1,165	0	0
Total liabilities	5,090	6,361	5,389	6,220	5,389	6,454	(255)	234
Excess of assets over liabilities	1,941	2,043	1,998	1,946	1,998	1,944	0	(2)
Tier 1	1,941	1,612	1,998	1,635	1,998	1,635	0	0
Tier 2	0	369	0	250	0	250	0	0
Tier 3	0	182	0	170	0	170	0	0
Total eligible Own Funds to meet the SCR	1,941	2,163	1,988	2,055	1,988	2,055	0	0
Total capital (SCR)	1,130	1,215	1,087	1,133	1,087	1,133	0	0
SCR coverage ratio	172%	178%	184%	181%	184%	181%	0%	0%

Source: UKI and IIUK

The table above shows the simplified Solvency UK balance sheets for UKI and IIUK pre- and post- the Proposed Transfer. The changes in SCRs for the two firms are not material.

Key movements – UKI

The key movements in the balance sheet for UKI are as follows:

- Investments – following the ending the QS Agreement between UKI and IIUK, there is a decrease in the funds withheld leading to a reduction in investments of £166m.
- Reinsurance recoverables – the decrease of £88m follows the removal of the reinsurance technical provisions in respect of the front book.
- Technical provisions – the decrease of £255m reflects the gross technical provisions in respect of the front book that drop to zero following the transfer and the liability for the funds withheld.

Overall UKI's excess assets over liabilities and SCR is unchanged following the transfer given that the Proposed Transfer replicates the current economic position (ignoring counterparty default risk) in respect of both the front book and the back book, and that the changes in counterparty default risk are not material.

Key movements – IIUK

The key movements in the balance sheet for IIUK are as follows:

- Reinsurance recoverables – the Day 1 reinsurance technical provisions increased by £40m, reflecting the mid-point of the range of the estimated reserves of the back book of £35m to £45m that will transfer across from UKI to IIUK before then being fully reinsured by UKI. The range reflects the current level of uncertainty in this estimate.
- Other assets – the increase of £192m is driven by the addition of the funds withheld transferring across from UKI to IIUK.
- Technical provisions - the increase of £234m reflects the gross technical provisions in respect of the back book that transfer to IIUK, and by the funds withheld no longer being allowed for as future premium within the technical provisions.

Overall IIUK's excess assets over liabilities reduces by c. £2m and IIUK's SCR is materially unchanged following the transfer.

7.3. Impact on the solvency positions of UKI and IIUK

The projected solvency positions of UKI and IIUK pre- and post-transfer are summarised in the following table.

Projected solvency positions of UKI and IIUK immediately pre- and post-transfer

	UKI £m	IIUK £m
Pre-transfer (Day 0)		
Total Own Funds eligible to meet SCR	1,998	2,055
SCR	1,087	1,133
SCR coverage ratio	184%	181%
Post-transfer (Day 1)		
Total Own Funds eligible to meet SCR	1,998	2,055
SCR	1,087	1,133
SCR coverage ratio	184%	181%

UKI and IIUK are both well capitalised immediately before and after the Proposed Transfer (as described in section 6.8).

UKI and IIUK have also provided SCR coverage projections beyond the one-year view until 31 December 2028 and 31 December 2027 respectively.

7.4. Reinsurance arrangements

The QS Agreement between UKI and IIUK, whereby the front book is 100% reinsured by IIUK, will expire as part of the Proposed Transfer. The front book and back book will transfer from UKI to IIUK and a new QS arrangement will be put in place whereby the back book of business is 100% reinsured by UKI at the point of transfer.

UKI maintains a number of reinsurance arrangements to which the transferring policies attach which, pursuant to the Proposed Transfer, will be transferred to IIUK in whole or in part with effect from the Effective Date. The Proposed Transfer will not affect the underlying terms and conditions of such reinsurance arrangements.

7.5. Access to the Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) in the UK provides consumer protection. This statutory 'fund of last resort' compensates customers in the event of the insolvency of a financial services firm.

If an insurer fails and is unable to pay claims, the FSCS will provide protection to eligible policyholders. The FSCS will pay 100% of any claim incurred for compulsory insurance (eg motor third party liability insurance) and 90% of claims incurred for non-compulsory insurance (eg home insurance), without any limit on the amount payable.

The protection for non-compulsory insurance only applies to individuals and small businesses (being businesses with an annual turnover of less than £1m).

No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance. There is also no protection for reinsurance contracts.

UKI and IIUK are both UK regulated entities, and as such I do not expect the rights of policyholders in respect of access to the FSCS to change as a result of the Proposed Transfer.

7.6. Access to the Financial Ombudsman Service

The Financial Ombudsman Service (FOS) provides private individuals, micro enterprises and small businesses with a free, independent service for resolving disputes with financial companies. For the purposes of the FOS, a micro enterprise is defined as having an annual turnover or balance sheet of less than £2m and fewer than 10 employees, and small businesses are defined to be businesses with less than £6.5m turnover and either fewer than 50 employees or a balance sheet total of less than £5m.

It is not necessary for the private individual, micro enterprise or small business to live or be based in the UK for a complaint regarding an insurance policy to be dealt with by the FOS. However, it is necessary for the insurance policy concerned to be, or have been, administered from within the UK and/or issued from within the UK.

UKI and IIUK are both UK companies, so the Transferring Business will continue to be based in the UK. As such, any Transferring Policyholders that are currently eligible for access to the FOS will continue to benefit from this access following the Proposed Transfer.

I do not expect the rights of policyholders in respect of access to the FOS to change as a result of the Proposed Transfer. Any policyholders of UKI or of IIUK who are currently eligible to refer complaints to the FOS will continue to be eligible following the Proposed Transfer.

7.7. Insurance regulation

Prudential regulation

Prudential regulation requires financial firms to manage risks and hold adequate capital to ensure regulated firms are being run in a safe and sound way.

The UK is currently regulated under Solvency UK. Solvency UK covers the prudential regulation of insurers, including risk management and capital requirements.

Both UKI and IIUK are authorised and regulated by the PRA on prudential matters. Based on this consideration, I do not expect Transferring Policyholders to be adversely affected by the Proposed Transfer due to prudential regulation.

Conduct regulation

Conduct regulation of financial firms includes consumer protection, market conduct rules and ethical codes of conduct. Conduct is regulated by the insurance regulator in the country in which a risk is located and/or the location from which the business is carried out.

In the UK, the Financial Conduct Authority (FCA) is responsible for conduct regulation. The FCA seeks to ensure that consumers are treated fairly in their dealings with insurers. Its rules and guidance include conduct related requirements covering the way in which an insurance firm organises, manages and oversees and governs its business, including codes of conduct, fit and proper requirements and training and competence standards. In

addition, conduct regulation covers the full product life cycle, from product design and development, sales and communications with customers, cancellations and claims handling, and complaints handling and compensation.

Both UKI and IIUK are regulated by the FCA on conduct matters and I would not expect the conduct regulation to change for policyholders. Based on this consideration, I do not expect Transferring Policyholders to be adversely affected by the Proposed Transfer due to conduct regulation.

Conclusion on regulation

As UKI and IIUK are subject to the same UK based regulatory regime, I have concluded that policyholders will not be adversely affected by the Proposed Transfer from a regulatory standpoint.

7.8. Overall conclusion: Policyholder security

Policyholders will continue to be protected by the same statutory and regulatory mechanisms post-transfer.

Based on the work and rationale described above, I have concluded that policyholders will not be materially adversely affected by the Proposed Transfer in regard to policyholder security.

8. Policyholder communications

8.1. My considerations relating to policyholder communications

I have assessed the appropriateness of UKI and IIUK's proposed communication strategy to inform policyholders of the Proposed Transfer.

The key focus of my assessment was 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.

8.2. Overview of communications strategy

UKI and IIUK have developed separate communication strategies to notify their relevant affected parties of the Proposed Transfer and allow time for them to raise any objections. UKI's and IIUK's distinct strategies reflect their respective roles and policyholder populations. I have summarised the main points of the communications strategy below, including the waivers that both UKI and IIUK will be seeking:

- **Non-transferring Policyholders:** UKI is seeking a waiver from notifying Non-transferring Policyholders whose policies will continue to remain with UKI under the Proposed Transfer.
- **Transferring Policyholders:** UKI will notify all Transferring Policyholders using contact details provided by brokers. As the Transferring Business is broker-led, UKI does not hold sufficient up to date information to contact these policyholders directly. Therefore, UKI has engaged with 1,300 directly authorised brokers and offered two options to support the communication process.
 - **Option 1:** Brokers will provide UKI with up-to-date contact details for each policyholder. UKI will then write to each policyholder notifying them of the Proposed Transfer. This will include providing a notification pack to each policyholder through a third-party print provider. These packs will be emailed to each policyholder from 20 October 2025.
 - **Option 2:** Brokers will communicate directly with their affected policyholders about the Proposed Transfer. UKI will prepare the notification letters and supporting documents and send them to the brokers who will then email these to the policyholders on UKI's behalf from 20 October 2025.

UKI will maintain records of which option each broker selects, to satisfy traceability and audit expectations. At this stage the majority of those that responded have asked UKI to contact policyholders ie Option 1.

UKI has also engaged with 13 broker agencies from the Isle of Man and Channel Islands, representing 1,874 Transferring Policyholders, to assist in reaching these policyholders through the same communication options described above.

UKI is seeking a waiver in respect of two groups of its policyholders. These are detailed in section 8.3.

- **Existing Policyholders:** IIUK is seeking a waiver from the requirement to send written notification packs to its Existing Policyholders.
- **Brokers, reinsurers, co-insurers:** UKI will write directly to all directly authorised brokers, reinsurers and co-insurers whose contracts are to be transferred, with the full notification pack.
- **Other third parties:** UKI will notify claimant solicitors with open claims and relevant industry bodies (including the Employers' Liability Tracing Office, the Motor Insurers Database, the Claims and Underwriting Exchange, the Motor Insurance Anti-Fraud & Theft Register) of the Proposed Transfer. This will include providing the full notification pack, including the legal notice and, in due course, my Summary Report of this IE report.

I am satisfied that the communications strategy will ensure the above parties will be informed of the Proposed Transfer appropriately.

8.3. Requested waivers and rationale

UKI intend to request that the court grant a dispensation from the need to directly notify the following UKI policyholders:

- Policyholders for whom up-to-date contact details cannot be obtained from brokers.
- Non-transferring Policyholders whose policies remain with UKI.

As noted above, IIUK intend to request a dispensation not to notify Existing Policyholders.

UKI and IIUK have provided a rationale to support their requests for dispensation which included consideration of the judgement of Norris J in the Directions Hearing in *Re Aviva International Insurance Limited* [2011] EWCH 1901 (Ch.) (the Aviva Judgement). The Aviva Judgement summarised the following factors as a rationale for granting a dispensation:

- the **impossibility** of contacting policyholders;
- the **practicality** of contacting policyholders;
- the **utility** of contacting policyholders;
- the **availability of other information channels** through which notice of the application can be made available;
- the **proportionality** of strict compliance and the impact of collateral commercial concerns; and
- the likely **impact** of the Proposed Transfer on policyholders.

I have reviewed this rationale, discussed and challenged it and sought additional information in support of the requested waivers where required. I am satisfied that the requested waivers are proportionate and reasonable, and I provide more detail on this below.

Non-transferring Policyholders

UKI does not propose to individually notify policyholders whose policies will not transfer to IIUK, and is seeking a dispensation in this regard for the following reasons:

- The Proposed Transfer will have no legal or financial effect on these policyholders. In addition, no material operational changes are expected. Existing servicing arrangements of the policies, and the rights of the policyholders, will remain unchanged following the transfer.
- Notifying these policyholders could lead to unnecessary confusion and misguided concerns about the impact of the Proposed Transfer on them.
- The cost and effort of sending individual notifications to all policyholders is disproportionate to the benefit received from direct notification, particularly given Non-transferring Policyholders will be unaffected by the Proposed Transfer.
- The Non-transferring Policyholders will have access to the information from a broad advertising campaign, including published notifications in the UK and information available on the UKI website, with links placed on the DLG website to widen coverage. Therefore, they will be made aware of the Proposed Transfer without direct notification. The Non-transferring Policyholders will be sent copies of any of the documents held on the UKI website upon request, free of charge.

UKI has applied all six points of rationale from the Aviva Judgement to support their request for dispensation.

I have reviewed the information regarding the waivers sought and am satisfied that these are reasonable arguments in support for a waiver to not notify Non-transferring Policyholders.

Transferring Policyholders

UKI estimates that c. 390k broker-led commercial insurance policies will be transferred to IIUK under the Proposed Transfer. The vast majority of in-scope policies will have expired by the Effective Date of the Proposed Transfer. As the Transferring Business was predominantly sold through brokers, UKI does not currently hold sufficient up to date direct contact details for these policyholders.

As part of its communication strategy for notifying Transferring Policyholders, UKI has engaged with 1,300 directly authorised brokers to seek their help in reaching the impacted policyholders. UKI has offered brokers two options, as outlined in section 8.2.

The effectiveness of this communication strategy depends on broker co-operation and the timely receipt of accurate policyholder information from brokers. To address instances where this is not possible, UKI is seeking a waiver from sending individual notice packs to Transferring Policyholders for whom up-to-date contact details have not been obtained from the brokers, despite UKI's formal requests for this information. UKI has requested the brokers to return the completed schedule of policyholder contact information by the end of August 2025. Further reminders were sent after this point resulting in the deadline being extended to 12 September 2025 in order to obtain wider coverage

Initial conversations signposting the Part VII process with the key strategic accounts took place in June 2025. Brokers were first contacted via email from a centralised platform on 22 July 2025 and three additional emails have been sent since. The platform collects management information, so UKI clearly understand which brokers have responded and selected which route to complete the policyholder contact process. Additionally, UKI have a team of 8-10 operational support staff who have been sending emails and calling brokers through the months of August and September 2025 to assist with engagement, answer queries and help complete the policyholder contact process.

There are policyholders associated with 32 broker agencies covering 12,561 records, where the brokers are either no longer trading or not listed on the FCA register. As a result, UKI has not been able to trace whether such brokers' business has been placed into administration or if they have been acquired by a different firm. As set out above, given the Transferring Business was predominantly sold through brokers, UKI does not currently hold sufficient up to date direct contact details for the policyholders including those associated with these broker agencies. UKI shall seek a waiver for sending individual notification packs to this group of policyholders.

UKI believes that the use of wider advertising, as set out in section 8.4, and through the UKI website, with links placed on the DLG website to widen coverage, will ensure appropriate reach and transparency for these groups of Transferring Policyholders.

At the time of writing this report, this process remains ongoing. At this stage the majority of brokers that have responded have asked UKI to contact policyholders ie Option 1.

All Transferring Policyholders will be sent copies of any of the documents held on the UKI website, upon request, free of charge.

UKI has applied the [impossibility](#), [practicality](#) and [availability of other information channels](#) arguments from the Aviva Judgement to support their request for dispensation.

I have reviewed the information regarding the waivers sought and am satisfied that these are reasonable arguments in support of the waivers sought for Transferring Policyholders.

Existing Policyholders

IIUK is seeking a waiver from sending notices to Existing Policyholders, and its rationale is as follows:

- IIUK believes that there is limited benefit to the Existing Policyholders of individual notifications, as these policyholders are not expected to be materially adversely affected by the Proposed Transfer. There is no change to the identity of the insurer underwriting their policies, the terms and conditions of their policies will not change as a result of the Proposed Transfer and the main economic effect of the Proposed Transfer has already occurred through the QS Agreement. In addition, IIUK does not expect any changes in respect of the servicing of their policies or the level of service they will receive following the Proposed Transfer.
- The scale of the Proposed Transfer is relatively small compared to the existing business of IIUK eg the number of live policies transferring or the number of claims relative to what IIUK ordinarily handles. Taking this and other factors into consideration, IIUK does not believe that the Proposed Transfer is a matter that Existing Policyholders should be individually notified about.
- The overwhelming majority of IIUK's business is distributed through intermediaries such as delegated authorities, managing agents and brokers. IIUK believes that notifying Existing Policyholders directly may lead to confusion since communication is mostly handled through intermediaries, with minimal direct interaction between IIUK and policyholders.
- The Transferring Business mainly consists of expired commercial lines policies. IIUK's Existing Policyholders, for example its personal lines policies, are serviced under affinity or alternative brands and therefore reflect a different mix compared to the Transferring Business. IIUK believes that notifying these policyholders would provide little benefit because they are unlikely to identify with, or be materially affected by, the Proposed Transfer.
- Given the distribution channels of the business, IIUK does not have contact details for over 50% of Existing Policyholders. Collecting this data would require broker and intermediary support which would delay the planned timescales of the Proposed Transfer and taking all factors into account, IIUK believe would be disproportionate to the benefit to Existing Policyholders of individual notification.

- The cost and effort of notifying Existing Policyholders, which is estimated at in excess of c. £5m, is considered disproportionate given the limited impact of the Proposed Transfer on these policyholders.
- Existing Policyholders will be informed through public notices, website updates, helplines providing reasonable opportunity to learn about the Proposed Transfer. I note in this regard the additional advertising that UKI propose to take beyond the minimum requirements as part of their communication strategy.
- IIUK has applied all six points of rationale from the Aviva Judgement to support their request for dispensation and provided detailed evidence in support under the draft IIUK witness statement that I have been provided with.

I have reviewed the information regarding the waivers sought and am satisfied that these are reasonable arguments in support for a waiver to not communicate with Existing Policyholders.

Conclusion on waivers

Overall, I am satisfied with UKI's and IIUK's rationale for the waivers sought, as information regarding the Proposed Transfer is available from other sources and my conclusions in this report are that none of the Non-Transferring Policyholders, Transferring Policyholders or Existing Policyholders will be materially adversely affected by the Proposed Transfer.

8.4. Planned notices

UKI will comply with the regulations and place a notice of the Proposed Transfer in:

- the London, Edinburgh, Belfast and Jersey Gazettes;
- UKI's website;
- the following national newspapers in the UK to increase the breadth of UK advertising:
 - The Times;
 - The Sun;
 - The Metro;
 - The Daily Mail;
 - Insurance Post;
 - Farmers Guardian;
 - Construction News;
- Jersey Evening Post.

I understand that these newspapers have been chosen as a result of their wide and diverse readership base. UKI has also given consideration to those papers with the highest national circulation, specifically to ensure that they reach as many customers as possible.

IIUK will place a notice of the Proposed Transfer on its website.

I am satisfied with the proposal for planned notices.

8.5. Translation of key documents

All publication notices and major documents (including this report) will be provided in English and there are no plans to translate any documents into other languages.

If requested, UKI and/or IIUK will arrange for translations or accessible formats to support non-native English speakers and vulnerable customers, including options such as large print or Easy Read. I would rely on UK and/or IIUK to ensure the accuracy and appropriateness of any such materials.

8.6. Clarity of communication

I have reviewed a draft of the proposed letters and FAQ document, to be provided to policyholders, brokers, reinsurers, co-insurers and other interested parties by UKI, explaining the background to the Proposed Transfer and the transfer process. I have additionally reviewed the notices to be published.

I understand that the notification pack to be provided to policyholders, brokers, reinsurers and co-insurers by UKI will include:

- A covering letter explaining the Proposed Transfer;
- A question and answer document;
- A summary of the Part VII Scheme;
- A summary of my Scheme Report; and
- A copy of the legal notice of the Proposed Transfer and details of the Court hearings.

Based on my review, and discussions with UKI and IIUK, I am satisfied the communication to policyholders regarding the Proposed Transfer is clear, fair and not misleading.

8.7. Overall conclusion: Policyholder communications

Based on my review of the communication strategy, I have concluded the planned communications strategy will ensure adequate coverage of affected parties.

I note the dependence on the co-operation with brokers with respect to communication regarding the Transferring Policyholders, and that this reflects the nature of the Transferring Business. I will consider this issue in my Supplementary Report.

UKI and IIUK are applying for a number of waivers from communicating to all groups of policyholders, each of which is supported by an appropriate and pragmatic rationale.

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

9. Customer service and other considerations

9.1. Customer service

I have reviewed the customer service arrangements of UKI and IIUK and concluded that there will be no material changes to policyholder administration and claims handling, ie the policyholder experience, in respect of:

- Non-transferring Policyholders;
- Transferring Policyholders; and
- Existing Policyholders.

Policy administration

UKI and IIUK have both confirmed to me that it is envisaged that there will be no changes in current customer service arrangements as a result of the Proposed Transfer. Transferring Policyholders will be subject to IIUK's standard complaints procedure and controls which operate in line with the FCA's Dispute Resolution (DISP) rules. Therefore, I do not expect that policyholders will receive a materially different level of customer service following the Proposed Transfer.

IIUK's approach to policy administration focusses on the timely provision of policy wording and key documentation to all policyholders and regular customer outcome and performance monitoring to ensure that service standards meet customer expectations.

The number of policies that will be transferring across from UKI to IIUK is a relatively small proportion of the total number of live existing IIUK policies. In addition, the vast majority of the transferring policies will have expired by the time of the transfer, albeit claims could still arise from them.

In my view, I expect IIUK to be able to absorb the volume and complexity of the transferring claims so that Transferring Policyholders and Existing Policyholders are not materially adversely affected in this respect by the Proposed Transfer.

Given this, I believe that IIUK's existing systems, along with the resources available and oversight controls in place, will be able to service the Transferring Policyholders with no material impact on Non-transferring Policyholders and Existing Policyholders. In addition, with IIUK's ongoing focus on maintaining and improving the standards around policy administration, I expect that Transferring Policyholders will not experience any material adverse change in the way their policies will be administered compared to their experience with UKI.

Claims handling

Around 200 claims employees transferred from UKI to IIUK in May 2024 (as part of a wider transfer of employees involved in the Brokered Commercial Insurance Business to IIUK) and are currently seconded back to UKI, continuing to service the Transferring Business using UKI's claims handling systems. On the Effective Date of the Proposed Transfer, these secondments will end and the claims employees will transition to using IIUK's claims handling system. This will ensure continuity with no disruption to claims handling.

IIUK has a well-established and mature claims handling function and has confirmed that it does not envisage any material changes to the claims experience or service levels for either Transferring Policyholders or Existing Policyholders.

From UKI, no material changes in the approach to claims handling are planned for the Non-transferring Policyholders. So far as is possible and practicable, any changes to the IIUK service provision for Transferring Policyholders will endeavour to be on a similar/comparable standard as enjoyed prior to the Proposed Transfer (where this is commercially practicable). Both UKI and IIUK will endeavour to minimise the impact of the Proposed Transfer to a customer's claims service experience.

Existing customer contact channel options (telephony, digital, email, post) will be maintained where appropriate for both Transferring and Non-transferring Policyholders. No material change is planned, and redirections will be provided for any exceptions.

Complaints

UKI and IIUK aim to handle all customer complaints fairly and in compliance with regulatory requirements. Both firms have a Conduct Committee which is responsible for regular review and monitoring how outcomes are delivered for their customers.

Consumer Duty

I reviewed DLG's annual board report on Consumer Duty from July 2024. DLG recognised that they were not fully meeting the standards expected by the FCA but were committed to do so. The board report contains a series of actions plans to address the gaps identified in meeting the Consumer Duty standards.

DLG are currently preparing the Annual Consumer Duty Board Report for the period August 2024 to July 2025. The report is expected to document the significant progress that has been made through the Customer Outcomes Improvement Programme (COIP) in strengthening the Group approach to meeting the requirements set out in Consumer Duty.

The COIP was the primary vehicle for delivering the improvement activity which was set out in the July 2024 Annual Consumer Duty Board Report. The majority of (5 of the 7) projects have transitioned to business as usual. There are two projects which have been extended to the end of 2025 to support further embedding, and development, of the approved Group approach.

I reviewed IIUK's board report on customer outcomes monitoring from July 2024. Whilst IIUK acknowledged they had gaps in data, they have a roadmap to close the gaps and overall consider they fulfil the Consumer Duty requirements. They also recognised the need to carefully manage the integration of the Transferring Business.

Based on my review of DLG's and IIUK's board reports on Consumer Duty, I am satisfied that no group of policyholders will be materially adversely affected in this respect.

9.2. Tax implications

In relation to the Proposed Transfer, the three types of tax that potentially impact the premium policyholders are charged are:

- Corporation tax: this is levied on profits and policyholders are not directly affected by the obligation for UKI or IIUK to pay corporation tax.
- Value added tax (VAT): policyholders do not pay VAT on insurance premiums.
- Insurance premium tax (IPT): the applicable IPT rate for each policyholder is determined by the location of the risk insured which will not change. Therefore, the amount of IPT charged will not be affected by the Proposed Transfer.

Therefore, there are no direct tax implications of the Proposed Transfer on Non-transferring, Transferring or Existing Policyholders.

UKI and IIUK have both informed me that they do not anticipate any material tax implications as a result of the Proposed Transfer. Although I am not an expert in matters of taxation, I consider it to be a reasonable assumption that there will not be any material tax implications for any group of policyholders as a result of the Proposed Transfer.

9.3. Pension arrangements

The Non-transferring Policyholders and Existing Policyholders are not impacted by the Proposed Transfer in terms of pensions arrangements for employees and former employees of UKI or IIUK, as those arrangements will remain with UKI and IIUK respectively.

IIUK's defined benefit pensions plans are expected to be fully funded by the end of 2025. Given this, I do not consider the Transferring Policyholders to be materially adversely affected by the Proposed Transfer.

Overall, I do not consider that any group of policyholders will be materially adversely affected in relation to the pension arrangements of employees and former employees of UKI or IIUK as a result of the Proposed Transfer.

9.4. Investment management implications

UKI investment management

The investment strategy aims to ensure sufficient liquidity and to deliver suitable risk-adjusted returns commensurate with the risk appetite.

The Investment Management team at DLG aims to ensure that the Group only invests in assets where the risks taken are aligned with Group's investment risk policy.

DLG uses its Internal Model to assess the risks of its current asset mix, understand how changes may affect the SCR and asset risk, and to help analyse liquidity needs. This analysis supports strategic investment decisions.

The strategic asset allocation was recently reviewed given the changing macro-economic environment. Following the review, a phased approach was adopted to reinvest back into investment grade securities and reduce their cash holdings. As at 31 December 2024, on a statutory accounting basis, more than 90% of UKI's investments were in respect of bonds, with relatively low holdings in property (7%) and none in equities.

There are no planned changes to UKI's investment strategy or risk appetite as a result of the Proposed Transfer. Therefore, I do not anticipate any materially adverse impact for any group of policyholders in terms of investment management as a consequence of the Proposed Transfer.

IIUK investment management

The IIUK Board is responsible for regularly reviewing and approving the Group-level (RSAIG) investment strategy to ensure it remains within the defined risk appetite.

IIUK adopts a high quality and low risk investment strategy maintaining a core portfolio of high-quality debt & fixed income securities, with a measured exposure to private credit, public equities and property. As at 31 December 2024, on a statutory accounting basis, nearly 75% of IIUK's investments were in respect of bonds, with the remainder split between holdings in other entities (c. 15%), equities (8%) and property (5%).

IIUK works with externally appointed fund managers who monitor and report compliance with the firm's investment guidelines.

There are no planned changes to IIUK's investment strategy or risk appetite as a result of the Proposed Transfer. Therefore, I do not anticipate any materially adverse impact for any group of policyholders in terms of investment management as a consequence of the Proposed Transfer.

9.5. Implications for ongoing expense levels

All costs and expenses incurred relating to the Proposed Transfer will be borne by UKI and IIUK and will not be borne by policyholders. One-off costs associated with the Proposed Transfer are expected to be modest relative to the size of the Transferring Business and existing portfolios of UKI and IIUK.

Therefore, there are no impacts for any group of policyholders as a result of any changes to ongoing expense levels.

9.6. Impact on liquidity position

The liquidity position of a company represents its ability to meet all claim payments and other obligations as and when they fall due.

UKI maintains a large proportion of its assets in highly liquid asset classes, including cash, government bonds and corporate bonds. As such, UKI does not expect any material cashflow risk. As UKI writes new business, liquidity is also available from premium income.

IIUK monitors liquidity risk as part of its ORSA process to ensure that sufficient funds are available to settle claims and expenses as they fall due. IIUK invests mainly in government bonds and corporate bonds which are normally readily convertible into cash.

Following the Proposed Transfer, IIUK's financial assets will increase by approximately £40m as a result of the projected reinsurance recoveries from UKI in respect of the back book. Overall, assets will continue to be held in highly liquid asset classes, so IIUK does not expect any material cashflow risk.

Therefore, I do not anticipate any materially adverse impacts on the liquidity position for any group of policyholders as a consequence of the Proposed Transfer.

9.7. Impact of the Aviva acquisition and other transfers

I note that, following the Aviva acquisition of DLG, Aviva have stated they intend to effect a Part VII transfer from DLG to Aviva Insurance Limited as part of a 3-year integration process. Until then, business is expected to renew into Aviva Insurance Limited where possible.

Given that this will involve a separate Part VII process, I have not considered the potential impact of this future transfer here. However, I will continue to engage with DLG to understand the potential implications of the acquisition on the Proposed Transfer and will consider it further in my Supplementary Report.

I am not aware of any other future transfers into or out of IIUK that will affect any of the Transferring Policyholders or Existing Policyholders.

9.8. Set-off

I have considered whether the Proposed Transfer is likely to lead to any changes in the rights of set-off for creditors or debtors of UKI or IIUK. 'Set-off' is a right that allows parties to cancel or offset mutual debts with each other by subtracting one from the other and paying only the balance.

UKI and IIUK have confirmed that there are no changes in set-off rights as a result of the Proposed Transfer. I have also not identified any material set-off rights as part of my review.

Therefore, considerations around set-off do not impact my conclusions.

9.9. Overall conclusion: Customer service and other considerations

Based on the work and rationale described above, I have concluded that no material impact on service standards (or any other considerations within this section of the report) is expected following the Proposed Transfer.

10. Conclusions and Statement of Truth

10.1. Conclusion

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

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: General Actuarial Standards 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 will not 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 Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Existing Policyholders following the Proposed Transfer.
- Reinsurers of UKI who provide cover for the Transferring Business will not be materially adversely affected by the Proposed Transfer.

10.2. Issues to highlight

I consider it necessary that I review the most recent information, up to the date of the Sanctions Hearing for the Proposed Transfer, when this becomes available later in the year, before confirming my opinion and conclusions.

Specific issues that I have highlighted in this report which require further review include:

- Any impact on DLG of the acquisition by Aviva relating to the Proposed Transfer;
- Any updates to the financial information provided in this report eg updated reserve estimates and financial projections including SCR coverage ratios and balance sheets;
- Any update on the approach to monitoring sanctions for DLG and RSA;
- The implementation of the communication plan for Transferring Policyholders;
- Any policyholder objections received; and
- Any developments regarding the structure of the Proposed Transfer.

I will consider these points further as part of my Supplementary Report.

10.3. IE duty and declaration

My duty to the High Court and the Royal Court of Jersey 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 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.



*Stewart Mitchell FIA
Partner*

+44 (0)20 7432 0698
stewart.mitchell@lcp.uk.com



Professional standards

Our work in preparing this document and the associated documents described above complies with Technical Actuarial Standard 100: General Actuarial Standards, together with Technical Actuarial Standard 200: Insurance.

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<https://www.lcp.com/en/important-information-about-us-and-the-use-of-our-work> contains important information about LCP and LCP Delta (including LCP's regulatory status and complaints procedure), and about this communication (including limitations as to its use).

Appendix 1 – Glossary

Term	Definition
Annual aggregate deductible (AAD)	Under a reinsurance contract, a total annual amount of losses that must be retained by the cedant (ie the insurer) before the reinsurance begins to cover the losses.
Best estimate	An estimate prepared with no margin for either prudence or optimism.
Bornhuetter-Ferguson (BF) method	A blend of development factor modelling and the Expected Loss Ratio Method (defined later in this glossary). The weighting given to each is dependent on how developed the claims are for a policy year.
Brokered Commercial Insurance Business	The Insurance Business comprises commercial lines insurance and coinsurance business written by UKI and distributed through brokers. It includes products sold under the NIG and FarmWeb brands, as well as certain broker brands, along with associated assets such as brands, intellectual property, contracts, staff and data.
Counterparty default risk	The risk of defaults or downgrades by counterparties that either owe an insurer money or hold money on its behalf. For example, this covers the risk of the failure of a reinsurer or a broker.
Development Factor Modelling (DFM)	An actuarial method for estimating future claims development using assumptions based on past patterns of claims development. 'Development' could mean the reporting of claims, payment of claims or the progression of case reserves.
Effective Date	The effective date of the Proposed Transfer, expected to be 1 April 2026.
Events not in data (ENIDs)	An estimate of possible future events or developments that are not reflected in the insurer's historical data. Insurers need to make allowance for ENIDs in their Solvency UK technical provisions.
Existing Policyholders	Policyholders of IIUK at the time of the Proposed Transfer, who will remain with IIUK after the Proposed Transfer.
Expected Loss Ratio method	An actuarial method for estimating future claims development based on combining an exposure measure and an assumed rate per unit of exposure (the 'initial expected loss ratio').
Financial Conduct Authority (FCA)	The UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Financial Ombudsman Service (FOS)	Set up by the UK Parliament, the FOS is a free service that settles complaints between consumers and business that provide financial services. Parliament set up the FOS and has legal powers in the UK to address unresolved complaints between a business and a customer relating to financial services.
Financial Reporting Council (FRC)	The body responsible for setting actuarial standards in the UK. The FRC also regulates auditors and accountants and sets the UK's Corporate Governance and Stewardship Codes.
Financial Services and Markets Act 2000 (FSMA)	The legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
Financial Services Compensation Scheme (FSCS)	The FSCS is the compensation fund of last resort for customers of UK authorised financial services firms. This covers insurance for individuals and some insurance for small businesses.
High Court	The High Court of Justice of England and Wales.
International Financial Reporting Standards (IFRS)	These are the accounting standards used to set the provisions underlying the consolidated published financial accounts of DLG Group, covering UKI, and IIUK. IFRS provisions are relevant for policyholders as they are used as a reference point when setting provisions to cover future claims and other costs.

Term	Definition
Incurred but not enough reported (IBNER)	See definition of IBNR.
Incurred but not reported (IBNR)	The provision for claims that may be reported in the future but relate to events that have already occurred. This also includes provision for possible future development of existing open claims, ie those that have been reported but not fully settled. The provision possible development of open claims is called IBNER (Incurred But Not Enough Reported). Depending on the type of insurance being considered and the claims handling approach, both the IBNR and IBNER can be either positive or negative.
Independent Expert	A suitably qualified person appointed by the Court to produce an independent report on an insurance business transfer scheme, in accordance with the FSMA. The Independent Expert's primary duty lies with the Court, and the opinion of the expert is independent of those of the sponsoring companies involved in the Transfer and the PRA.
Market risk	The risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this covers the risk of falls in the value of assets that are being held to make future claims payments.
MCR coverage ratio	The MCR coverage ratio is the ratio of Own Funds to Required Capital (MCR). This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer.
Minimum Capital Requirement (MCR)	A formulaic calculation of the capital requirement as part of the Solvency UK/II regulations for insurers. Breaching the MCR defines the point of intensive regulatory intervention. The calibration of the MCR is to be the capital required to give an 85% confidence level of sufficient capital to last one year. The MCR is a simpler calculation than the SCR and is typically a less onerous requirement.
Non-transferring Policyholders	UKI policyholders who will have no part of their policy transferred and will remain with UKI after the Proposed Transfer.
Operational risk	The risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would cover the risk of fraud or IT failure.
Own Funds	The capital in excess of provisions available to meet the SCR capital requirements under Solvency UK/II.
PRA's Statement of Policy	The Statement of Policy issued by the PRA entitled 'Statement of Policy – The PRA's approach to insurance business transfers – April 2015'
Proposed Transfer	The proposed insurance business transfer from UKI to IIUK under Section 105 of the FSMA.
Prudential Regulation Authority (PRA)	The part of the Bank of England that carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Quota share reinsurance	A reinsurance contract in which the insurer and reinsurer share both claims and premiums in the same proportion. The reinsurer usually pays a commission to the insurer to allow for their costs of selling and administering the policy.
Reinsurance	An arrangement with another insurer to share or pass on risks.
Reinsurance bad debt	Reinsurance bad debt is a provision for amounts that are owed by reinsurers but which may not be paid, eg due to the insolvency of the reinsurer.
Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (ie the SCR).

Term	Definition
Scheme Document	A document submitted to the High Court setting out details of the Scheme or Proposed Transfer.
Scheme Report	This report prepared by me, as the Independent Expert, for submission to the High Court.
SCR coverage ratio	The ratio of an insurer's available capital to its Required Capital (SCR). This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer (all else being equal).
Solvency Capital Requirement (SCR)	The amount of capital an insurer is required to hold under Solvency UK/II regulations. This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie, a 1 in 200 event). If an insurer's capital (ie the excess of its assets over its liabilities) falls below the SCR, it will trigger regulatory intervention, with the intention of remedying that position.
Solvency and Financial Condition Report (SFCR)	Solvency UK/II requires each insurer to publish an SFCR annually that contains certain qualitative and quantitative information.
Solvency UK	The system for establishing (among other things) minimum capital requirements for UK insurers, originally under the Solvency II Directive 2009/138/EC.
Standard formula	A prescribed approach under Solvency UK/II for the calculation of capital based on an insurer's financial information (eg premiums and claims provisions).
TAS 100	The FRC issued Technical Actuarial Standard 100: General Actuarial Standards (TAS 100) which applies to all technical actuarial work completed on or after 1 July 2023.
TAS 200	The FRC issued Technical Actuarial Standard 200: Insurance (TAS 200) which applies to all technical actuarial work completed on or after 1 January 2025.
Technical provisions	Under Solvency UK, the technical provisions cover the ultimate costs of settling all claims arising from events occurring up to the balance sheet date plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
Tier 1 capital	Under Solvency UK, capital is categorised into 3 tiers based on the permanence and loss absorbency of the form of capital. Tier 1 capital is the highest quality.
Transferee	The insurer to which the business is being transferred, Intact Insurance UK Limited (IIUK).
Transferor	The insurer from which the business is being transferred, U K Insurance Ltd (UKI).
Transferring Policyholders	UKI policyholders whose policies will transfer to IIUK as a result of the Proposed Transfer.
Underwriting risk	The risk that the value of insurance claims proves to be higher than expected.
Unearned Premium Reserve (UPR)	A provision for the unexpired portion of insurance policies. This appears as a liability on the insurer's balance sheet, since the premium would be paid back upon cancellation of the policy.

Appendix 2 – Extract from Terms of Reference

Summary of agreed scope of work

I, Stewart Mitchell will act as IE to support your planned Part VII transfer from U K Insurance Ltd to Royal Sun Alliance Insurance Limited.

Your primary requirement is for the IE to act in line with Section 109 of the Financial Services Markets Act 2000.

The key deliverables from the work will be:

- The main and supplementary IE reports;
- Input as required to address any issues arising;
- Presenting my findings as IE to the Court and responding to any queries and additional court requests; and
- A summary report to support policyholder communications.

The Reports and any other analysis, advice and opinions in respect of the Transfer will be in accordance with the relevant requirements set out in Part VII of the Financial Services and Markets Act 2000 (and associated supplemental guidance)

Appendix 3 – CV of Stewart Mitchell FIA

Fellow of the Institute and Faculty of Actuaries, with almost 35 years' experience in insurance, both in industry and as a consultant for over 25 years.

Part VII and Section 13 transfers

- Independent Expert for six Part VII transfers and the Independent Actuary for three Section 13 transfers in recent years.
- Peer reviewer on a number of other Part VII transfers and performed analysis to support Independent Expert's conclusions.

Regulatory experience

- Led the work on a number of Section 166 reviews for the PRA.
- Performed a number of wide-ranging regulatory projects relating to policies and documentation.

Reserving

- One of the most experienced signing actuaries in the Lloyd's market, signing up to nine opinions in a single year end.
- Provides independent reserving review for a number of insurance companies, as well as public sector bodies with insurance liabilities.
- Experience covers all major classes of business with significant expertise in reserving EL/PL business including asbestos and other industrial disease claims.
- Signed Lloyd's, Bermuda, Liechtenstein and HMRC tax opinions.
- Experience of many more company and Lloyd's syndicate reserve reviews through providing actuarial audit support.

Risk and capital

- Led capital modelling projects and reviews of Solvency II technical provisions.
- Worked on a number of due diligence projects reviewing the level of held reserves and capital both pre- and post-merger

Appendix 4 – Summary of data provided

The following is a list of the key data items I have requested and received in assessing the Proposed Transfer. All data I have requested has been provided to me. Each of UKI and IIUK 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 UKI for the Proposed Transfer, including:
 - Scheme Document (draft dated 23 May 2024)
 - First Witness Statement for UKI (dated 7 October 2025) and IIUK (dated 25 September 2025)
- Draft proposed communication plan and communications prepared by UKI
 - Proposed communication plan (dated 25 September 2025)
 - Template letters to the Transferring Policyholders and other stakeholders
 - Summary of the Scheme Document of the Proposed Transfer
 - FAQ document
 - Form of legal notice
- Documents relating to provisions and reserving processes, including:
 - Actuarial reserving reports for UKI and IIUK (as at 31 December 2024)
 - Actuarial reserving committee reports for UKI and IIUK (as at 31 December 2024)
 - Actuarial Function Reports for UKI and IIUK (dated 25 July 2024 and 27 February 2025 respectively)
 - Reserving Policy for UKI and IIUK
 - Reserving Committee Terms of Reference for UKI and IIUK (dated November 2023 and March 2025 respectively)
 - External actuarial reserving reports for UKI and IIUK (as at 25 April 2025 and October 2024 respectively)
- Documents relating to capital and related processes, including:
 - Solvency and Financial Condition Report (SFCR) for DLG and RSA year ending 31 December 2024
 - Own Risk and Solvency Assessment (ORSA) report for UKI and IIUK
 - UKI and IIUK Capital Management Policy 2024
 - UKI and IIUK SCR calculations
 - Various capital stress scenarios for UKI and IIUK
 - Projections of future balance sheets and capital requirements up to 31 December 2027 for UKI and IIUK

Appendix 5 – Mapping to requirements

The table below shows the relevant section references in the Scheme Report where I have addressed each point in the guidance from Chapter 18 of the Supervision Manual of the FCA Handbook and the PRA's 'Statement of Policy – The PRA's approach to insurance business transfers – April 2015' with regards to the Scheme Report.

The guidance references for 'PRA x.x' are taken from the PRA Statement of Policy and 'FCA x.x' are taken from Chapter 18 of the Supervision Manual. [References to be updated for near-final report.]

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (1) FCA 18.2.33 (1)	Who appointed the independent expert and who is bearing the costs of that appointment	2.2 (page 15)
PRA 2.30 (2) FCA 18.2.33 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator (the PRA)	2.2 (page 15)
PRA 2.30 (3) FCA 18.2.33 (3)	A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role	2.2 (page 15) Appendix 3
PRA 2.30 (4) FCA 18.2.33 (4)	Whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest	2.2 (page 15)
PRA 2.30 (5) FCA 18.2.33 (5)	The scope of the report	2.3 (page 16)
PRA 2.30 (6) FCA 18.2.33 (6)	The purpose of the scheme	3.3 (page 22)
PRA 2.30 (7) FCA 18.2.33 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	3 (page 19)
PRA 2.30 (8) FCA 18.2.33 (8)	What documents, reports and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided	Appendix 4
PRA 2.30 (9) FCA 18.2.33 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others	2.5 (page 17)
PRA 2.30 (10) FCA 18.2.33 (10)	The people the independent expert has relied on and why, in their opinion, such reliance is reasonable.	2.5 (page 17)
PRA 2.30 (11) FCA 18.2.33 (11)	Their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) Transferring Policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee	1.3 (page 10) 10 (page 62)
PRA 2.30 (12) FCA 18.2.33 (11A)	Their opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme.	1.3 (page 10) 10 (page 62)

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (13) FCA 18.2.33 (12)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme.	10 (page 62)
PRA 2.30 (14) FCA 18.2.33 (13)	For each opinion that the independent expert expresses in the report, an outline of their reasons	Reserving: 5.10 (page 35) Capital: 6.11 (page 47) Policyholder security: 7.8 (page 52) Policyholder communications: 8.7 (page 57) Customer service and other considerations: 9.9 (page 61)
PRA 2.32 (1) FCA 18.2.35 (1)	A description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme	3.2 (page 19)
PRA 2.32 (2) FCA 18.2.35 (2)	A description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	3.2 (page 19)
PRA 2.33 (1) FCA 18.2.36 (1)	Include a comparison of the likely effects if it is or is not implemented	3.5 (page 22)
PRA 2.33 (2) FCA 18.2.36 (2)	State whether they considered alternative arrangements and, if so, what	3.4 (page 22)
PRA 2.33 (3) FCA 18.2.36 (3)	Where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences they consider may be material to the policyholders	1.3 (page 10)
PRA 2.33 (4) FCA 18.2.36 (4)	Include their views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; (b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and (c) the cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations	(a) 1.3 (page 10) (b) and (c) 9 (page 58)

The Proposed Transfer does not involve a mutual company. As such, PRA 2.35 and FCA 18.2.38 do not apply.

The Proposed Transfer does not involve any long-term insurance business. As such, PRA 2.36 (FCA 18.2.39) does not apply.