

Report

Global Insight

Report and Accounts 2002



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Christopher S Mills LL.B., Solicitor,
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Anthony Dreyer B.A. (Hons), F.C.C.A.,
Peter Bloxham F.C.I.I.,
Leslie W Priestley T.D., F.C.I.B., C.B.I.M.,
F.C.I.M.,
Gerald B Raingold F.C.A., M.Sc. F.Inst.D.,
Cardif S.A.,
Cardif Société-Vie,
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Secretary:

Kareen Cranston - LL.B., Hons

Executive Management:**Jeff Bee**

Pinnacle Pet Healthcare Managing Director

Kathy Byrne B.Sc (Hons) F.I.A.,

Managing Director - Investments

Anthony Claytor B.A. (Hons), A.C.I.B.,

Direct and Affinity Marketing Director

Mark Cleary B.A. (Hons),

FTS Managing Director

Martin Crannis B.A. (Hons), M.A., M.C.I.M.,

F.I.M., Business Development Director

Steve Devine

Corporate Communications Director

Edward Dixon Beng (Hons), F.C.C.A.,

Finance Director

Andrew Fleming

Operations Director

John Harrop

Warranty Director

Derek Haynes F.C.A., C.A.,

Deputy Group Finance Director

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Christopher Murphy ACII

Underwriting and Actuarial Director

Tony Piper B.Sc (Hons),

Innovation Director

Steve Shreeve

IT Director

Valerie Stockham

Director - Human Resources and Development

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Manny Millor - Chief Executive

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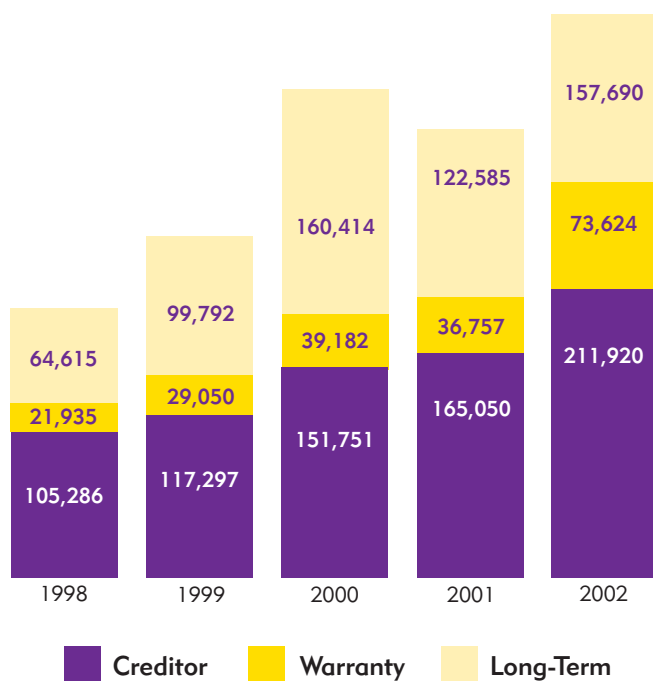
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Financial Highlights

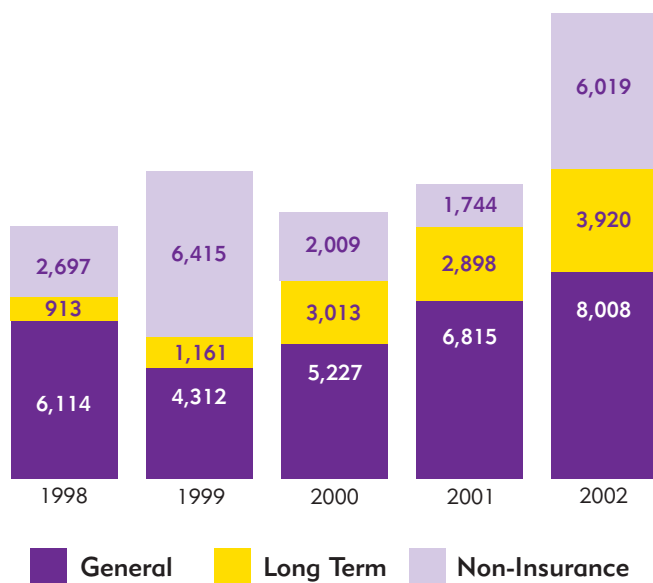
Gross Written Premium £000's



Despite the challenges facing Pinnacle Insurance Holdings plc during 2002, we achieved a very strong financial performance. Gross Premiums Written increased by 36%, with both general and long-term business reporting significant increases. This growth in premiums, combined with careful management of our operating expenses, and an upward revaluation of our properties, enabled us to increase profit on ordinary activities before taxation by 57%. Consequently, our financial position has continued to improve, with total assets increasing by 16%, and total shareholder's funds increasing by 23%.

Our track record of improving profitability and financial strength means that we are able to continue to invest in developing new products and in making our systems and procedures more efficient and effective. This will enable us to further improve service standards to our customers.

Profit Before Tax £000's



performance



Christopher Schwick
Deputy Chairman

“

2002 was an extremely satisfying year for Pinnacle. We harnessed our industry insight in order to deliver benefits to all stakeholders: our clients, our people and our community. Despite a significant degree of global uncertainty, including a raft of impending regulation here in the UK, we face the future with great confidence.

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benefits

Increased profits

Shareholder insight

Review of the year ended 31 December 2002

Following the minor slowdown experienced during the previous 12 months, 2002 saw a return to the excellent business performance and healthy profitability that has characterised Pinnacle since 1990.

The year began in hesitant fashion, reflecting the climate of 2001, but unfolded well. All areas of the business grew in terms of market penetration or income and the Directors are pleased to report that Pinnacle stakeholders continue to benefit from our unique insight into the insurance industry and the consumers it serves.

Gross premiums written for the year increased by 36% to £443m, with profits on ordinary activities before tax standing at £18m, up 57% on 2001.

Our Creditor and Warranty businesses were buoyed by high levels of consumer spending, as interest rates remained at their lowest levels for a generation and house prices experienced double digit inflation. Many purchases were financed through loans from our clients and backed by our products. Investments enjoyed an outstanding last quarter to account for 25% of our turnover. And products such as Helpupay, and Pet Healthcare won new customers and achieved greater market penetration.

Our performance notwithstanding, it is fair to say that for businesses in general 2002 was a challenging year. The impact of 9/11 continues to reverberate around the world. The war against terrorism is compounded by uncertainties elsewhere, most particularly in the Middle East, which could adversely affect confidence and economies globally. We face the future with confidence, but acknowledge that events beyond our control may impact our business during 2003.

Chief among those events is the impending regulation of general insurance by the Financial Services Authority (FSA) in line with the demands of the European Union's Insurance Mediation Directive. At Pinnacle, we have played our full part in responding to the plethora of consultation papers. This process will continue through 2003 and our clients can be assured that we will work tirelessly to ensure that their comments are noted and their interests protected wherever possible. You can find more on the Directive on pages 8 - 10.

Many insurance companies have experienced enormous and well-catalogued difficulties throughout 2002, largely driven by the collapse in the world's stock markets. At Pinnacle, we are fortunate in that we have little exposure to equities, with the majority of our holdings in cash and fixed interest stock.

“ During 2002, we drew on the strengths and expertise of both Cardif and BNP Paribas in order to drive the Pinnacle brand towards new levels of performance in our overseas markets. ”

Our financial strength was recognised by an improvement in our credit rating by the rating agencies, which encouraged a number of major banks and FTSE 100 companies to become significant Pinnacle clients.

Staff numbers were constant, reflecting improved efficiencies. We currently employ around 530 people and each and every one of them played their full part in our success. Indeed, without the efforts, skills and sheer commitment of our people, Pinnacle would not be the major and growing force it is today. 'Fun' is perhaps not something that many people would associate with the insurance industry, but we're proud that our distinctive attitude and approach is reflected in a unique working environment that is appreciated by all. Pinnacle is a fun place to work, which explains why so many people stay with us for long-term careers, and also why many of those who leave return.

Now firmly established in the leading 30 of the Insurance Times' listing, we enjoy a close relationship with our parent company Cardif, as well as with Cardif's holding company BNP Paribas. Cardif is the fourth largest life insurer in France, with over 2000 employees in 27 countries. BNP Paribas is Europe's third largest banking group and was ranked by Fortune magazine as the seventh most admired bank or financial institution in the world.

During 2002, we drew on the strengths and expertise of both Cardif and BNP Paribas in order to drive the Pinnacle brand towards new levels of performance in our overseas markets.

In Sweden, we wrote almost £9m of business and expect to see another significant increase in 2003. We moved offices during 2002, re-locating from Växjö to Gothenburg. The Swedish company's infrastructure is operated from the UK and uses the same trusted procedures to administer policies and process claims over the Internet. Headcount increased six-fold to 18 during the year in order to meet the opportunities posed by a range of new clients including Danska, Handelsbanken, Nordea, Sparbanken and GUS.

In South Africa, Pinnafrica is poised to break even after a major upfront investment and five years of hard work. The value of premiums written in 2002 increased to £2.8m and we anticipate a further increase by the end of 2004. As a completely new company in the region we are not burdened by history and, unlike some of our competitors, we can approach business with a clean slate. This has enabled us to build relationships with a diverse range of clients in the vibrant South African economy.



Across the Irish Sea, we introduced a new management team to our Dublin-based operation. Led by John White and based in the BNP Paribas building, the team secured major business through the large banks, including the capture of the Ulster Bank creditor book of business in the Republic. In the past, Ireland has been dominated by brokers, but that is changing and we are ideally placed to exploit the emerging opportunities.

We are now close to establishing an exciting joint venture in the USA with Cardif, in order to acquire an existing Creditor insurer which will give us a strong presence in the North American market.

In the motor sector, we have over 60% of the available market. Our clients enjoyed record levels of penetration in 2002 and we prospered alongside them. During the year, we renewed or won a series of important contracts with major companies such as General Motors.

In the housing market, there were record levels of mortgaging and re-mortgaging. Although activity in the housing sector is likely

to slow during 2003, as confidence wanes on the back of global uncertainties, we expect demand for our Creditor products to remain at a healthy level. While the number of transactions may dip, our experience is that in times of difficulty many consumers seek out more, rather than less, insurance.

We re-structured the Warranty team in 2002 and now have a dedicated sales and marketing resource backed by a new, experienced underwriting team. The results were immediately apparent as the Warranty business thrived, driven by record consumer spending on brown and white goods.

For the future, the challenge is to maintain these high levels of sales. The Office of Fair Trading has recently referred the sales of warranties on domestic electrical goods to the Competition Commission, which is concerned at sales techniques and lack of choice at the point of sale. Whatever the outcome, we are confident of our ability to continue to provide innovative and value for money products.

reach

strength



Norman Shuker
Chief Executive

“

Our close relationships with Cardif and BNP Paribas are the twin foundation stones for Pinnacle's growth in Sweden and South Africa – and also give us access to key contacts in Ireland and, for the future, in North America.

”

global presence

Pinnacle Investments wrote £108m of guaranteed bonds in 2002. This pleasing performance, the best ever from Investments, was driven by a continued focus on customer service by the sales team and by an improvement in our credit rating; while many of our competitors were downgraded as a result of their exposure to equities. Our biggest supporters during the year included several large private banks.

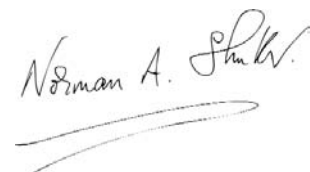
Financial Telemarketing Services (FTS) re-structured during the year and realigned behind its new Managing Director Mark Cleary. FTS provides high quality inbound and outbound telephony services and is now focused on supporting the Pinnacle client base rather than seeking outsourced income from elsewhere.

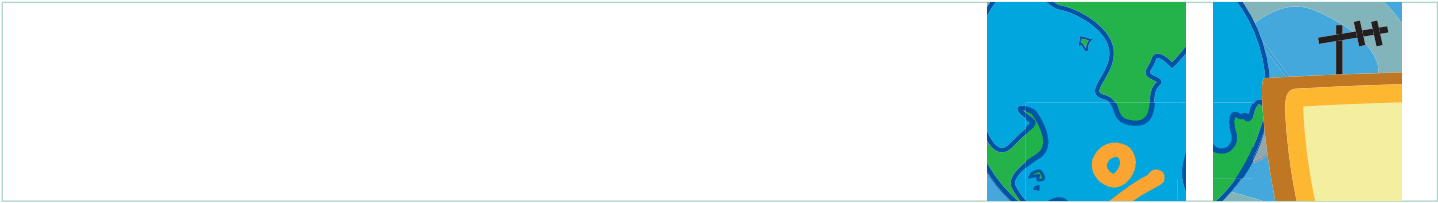
The Internet is a rapidly-growing sales channel for Pinnacle, enabling consumers to buy products such as Pet Healthcare online. The number of 'microsites' which we operate on behalf of clients grew considerably during the year; today, a wide range of affiliated companies sell everything from sports accident insurance to health cashback plans via their own branded websites which are linked seamlessly to Pinnacle servers.

We have continued to shape and evolve the company to meet the changing needs of all our stakeholders. To this end, an administrative restructuring has seen the creation of a centralised group responsible for all claims operations. This functional approach gives our clients and claimants a single point of contact and also brings faster decision-making and greater efficiency to ourselves.

At board level, we retain our proven and experienced management team, with Christopher Schwick becoming Deputy Chairman and moving towards a more strategic role. We have also formalised our Group Executive Management structure. In addition to Christopher Schwick, this comprises Norman Shuker (Chief Executive), Peter Bloxham (Underwriting and Business Risks Director) and Tony Dreyer (Finance Director), together with our Joint Managing Directors Chris Mills and Steve Williams.

For the future, our aim is continued growth, which we will achieve by taking advantage of emerging opportunities, including those that will be created by forthcoming legislation.





Client insight

Helping our clients succeed in the post-IMD climate

Change is an everyday and accepted aspect of all businesses, including ours. Yet it is fair to say that the changes signalled by the Insurance Mediation Directive (IMD) will be the most far-reaching that the insurance industry has witnessed for many years.

Adopted by the European Union in 2002, the IMD will regulate the sale of general insurance across member states. In the UK, the Government has appointed the Financial Services Authority (FSA) to investigate, consult and in due course implement the Directive.

In brief, the IMD requires that parties selling general insurance should operate within set financial parameters, and should demonstrate competence in the sale and administration of insurance - related products. As the majority of our Creditor insurance is sold by client intermediaries as a complementary product alongside their core offering, we can expect that the Directive will have significant implications for the source and practice of our business.

As an aside, it is frustrating to note that while the purchase of a car or a house is not subject to any regulation, the sale of the associated

Creditor insurance – a far less costly item to the consumer – is likely to generate scores of different and extremely extensive consultation papers from the FSA.

In the past, Pinnacle and all other responsible insurers, followed the code laid down by the Association of British Insurers. However we accept that these guidelines, together with those of the General Insurance Standards Council, are voluntary and self-regulated. The IMD has stipulated that there should be a statutory regulator in each member state.

Exerting our influence

During 2002, we placed great emphasis on helping our clients gain valuable insight into the implications of the IMD and also to influence its future implementation. In particular, we were keen to make sure our clients were aware of the potential impact on their businesses.

We used a number of channels to communicate these insights to our clients, including seminars at the House of Commons and presentations at our hospitality facilities at Nottingham Forest Football Club. In addition, we produced regular IMD Bulletins to inform, consult and respond to the concerns of clients.

“

This was a fine year for our core Creditor and Warranty businesses. And despite the threat of impending regulation via the Insurance Mediation Directive, I am confident that we have the experience, the skills and the people to make the most of the opportunities that change will create.

”



Steve Williams
Joint Managing Director

optimism

confidence

skills



These Bulletins were in many cases the first detailed, jargon-free communications that clients had received. It is fair to say that most of our competitors have since recognised the importance of the IMD and the low level of understanding regarding its impact, and have now followed our lead.

We also continued to commission regular updates and forecasts from senior economists at the National Institute of Economic and Social Research. Their findings are published quarterly and made freely available to clients and others in our industry.

Pinnacle management has always played an active role on industry bodies and we currently have involvement with the ABI Creditor Committee, the Finance and Leasing Association, Sustainable Home Ownership, Protect, the Association of UK Creditor Insurers and the Investment and Life Assurance Group. The aim, as always, is to ensure that the voices of our clients are heard and their concerns are addressed.

Of course, those companies amongst our clients who already have one or more business

activities regulated by the Financial Services Authority (FSA), are likely to take the IMD regulations in their stride. They will extend their compliance structures and processes to encompass general insurance. Clients with no experience of FSA authorisation may need our support and guidance to reconcile their marketing, sales and administrative processes with impending legislation.

Understanding the impact of the IMD

What are the probable impacts of IMD legislation? Costs may rise, as increased regulation is usually accompanied by more paperwork, and margins may dip. In industry terms, we could see a period of consolidation, with smaller firms joining forces with larger organisations better placed to ensure compliance.

By the final quarter of 2003 we will know how the land lies and will be in a position to launch a commercial response that will drive our future performance and also underpin the businesses of our clients. As always, the devil will be in the detail. One thing is certain: change always brings opportunities and we will seize ours with determination.

People insight

Helping our people realise their potential – and policyholders to enjoy a more fulfilling life

No matter how many new processes we introduce, or how creatively we harness the power of the Internet, ours is fundamentally a people business.

It is people who present the face of Pinnacle to clients. People who innovate our industry-leading products. And people who are the ultimate consumers of those products. So while we spend significant sums on technology and office premises, we also invest heavily in our human resources.

New Human Resources structure

2002 began with our Training and Development team merging with Human Resources to form a single, focused department. This new structure enabled us to build a total picture of our HR and development processes. Already, it has helped us work smarter, reduce areas of duplication and provide a better service to staff.

The new HR department works closely with the business units to help our people realise their true potential. During the year, many

employees gained NVQs in Customer Service and Insurance Training.

A steady stream of able managers is essential to the health of our business. A new mentoring scheme gives juniors the opportunity to gain detailed insight into the management decision-making process – and to learn practical business skills through one-to-one interaction with senior managers. We also launched In-Sight development centres in 2002, in order to build the skills base among our junior and middle managers. This initiative runs alongside our On-Track programme for senior managers, now in its fifth highly successful year.

The highlight of the year saw Financial Telemarketing Services (FTS) gain Investors in People (IIP) status in recognition of the commitment the business has shown to its employees. The Assessment Network's approval report found that 'FTS has a very strong people ethic demonstrated by the way the organisation has developed its team leaders and management into a very effective unit.'

For the future, we believe the work we are carrying out with the Business Development and Sales forces will give Pinnacle a competitive advantage in the marketplace. Monthly workshops are supported by one-off



support

dedication

“

People are the lifeblood of our business and thanks to the dedication of our employees we managed to reduce costs in a number of areas. We worked hard throughout the year to support our employees and also to reduce the stresses suffered by claimants due to illness or unemployment.

”

Christopher Mills
Joint Managing Director



people-focus

programmes aimed at giving staff a thorough understanding of client needs and how to meet them. As a direct result of this initiative, we have launched a fast-track programme for four managers who we believe have the potential to become future leaders of the business.

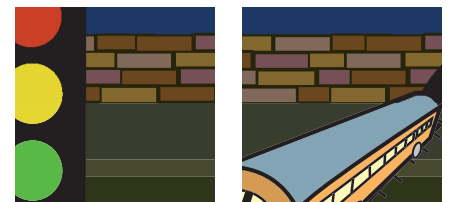
A dedicated workforce

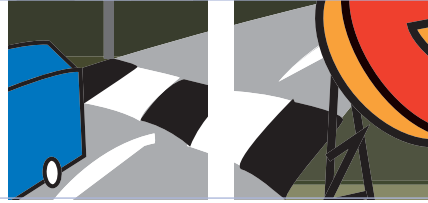
From just 11 people in 1989, Pinnacle now employs around 530. Without their efforts, skills and sheer hard work, we would not be the major and growing force we are today. Our employees are our competitive advantage, providing the intellect, dedication and drive to give us the edge in a fast-paced marketplace. They are encouraged to take decisions and to assume responsibility without fear of failure – confident that we will support them to the same extent as we support claimants.

Claimant support has continued to be the subject of new initiatives through 2002. We recognise that we can play a key role in helping to get people back to work and back to health. This is good for them, good for society and good for our business too. So in addition to the telephone support service delivered by the Claims Administration team, we have produced a detailed Pinnacle Jobseeker Support brochure

which outlines practical information on all aspects of finding a job, from preparing a CV to applying for State benefits and negotiating an acceptable employment package. The brochure is backed by our ground-breaking website at www.support.pinnacle.co.uk. Operating under the tagline 'Get back to your future', the site was developed by our in-house Innovations team and offers a range of valuable resources including the opportunity to track claims online.

In fact, form-filling and claim procedures are areas which involve major frustrations for policyholders, and we are committed to reducing the stress and inconvenience they cause. In order to keep the bureaucracy and paperwork to a minimum, we have introduced a Pre-validated Claim scheme for minor claims. This means that if a claimant has a condition which will render them unable to work for a considerable period of time, such as a broken leg, we will not require their GP to report on their condition on a monthly basis. Clearly, this saves time for the claimant – but it also reduces the processing costs for ourselves.





Community insight

Playing our part in our local neighbourhood – and also in the wider community

From our earliest days, we have always been keen to play our full part in the lives of our local community. And since 1989 we have funded and otherwise supported a huge range of initiatives, from sports sponsorship to road safety.

This year, we underpinned our commitment to Borehamwood when we purchased another prestigious office building in the town. Pinnacle Place, as it will be known, brings the number of our Borehamwood locations to three. Situated on Elstree Way, this multi-million pound building will give us the capacity we need to handle our anticipated growth. We are an integral part of life in Borehamwood and one of its largest employers. Our growth pattern is likely to see the total number of employees rise to over 800 in the coming years. At over 52,000 sq/ft, Pinnacle Place will become a showpiece administration resource, allowing us to re-focus the role of our nearby New Horizons premises.

Backing sports

There's a fine tradition at Pinnacle for supporting sports activities, both locally and beyond. Not only does our involvement with sport sit well alongside our sports accident product, it also promotes health, well-being and enjoyment: all of which are relevant to the corporate culture and approach that characterise life as a Pinnacle employee.

The climax of the 2002-2003 football season will see an end to our long and very successful relationship with former European Cup winners Nottingham Forest, after six eventful years. We entered the Forest record books recently as the club's longest serving sponsor and our association with them led to superb promotional opportunities, thanks to the global popularity of English football. The Pinnacle logo has been viewed on TV screens the world over, as well as on the replica shirts of thousands of Forest fans. We wish Forest every success for the future as now, rejuvenated by new management in the boardroom and by exciting young talent on the pitch, they strive to regain their place in the Premiership.

involvement

citizenship



corporate social responsibility

Tony Dreyer
Finance Director

“

We're not just an insurance company. We're a major employer and a central part of life in our Borehamwood community. Over the year we contributed both financially and actively to a wide range of community initiatives.

”

Closer to home, we were delighted to sponsor the Saracens Rugby Club 'Festival of Mini Rugby'. The tournament, which has become a regular fixture in the rugby calendar, attracts teams from as far away as Devon and Lancashire. This year, over 740 children took part, competing for trophies including the Pinnacle Insurance Under 8's Cup.

Our first Pinnacle Golf Day, held at Collingtree Park near Northampton, raised £3,000 for the Make-A-Wish Foundation, which aims to turn wishes into reality for children living with life-threatening diseases. The day was well supported by our clients, who competed on the greens during the day and in our charity auction during the evening.

A new departure for 2002 was our sponsorship of a horse race at Epsom. The Pinnacle Insurance Handicap ran as part of an evening meeting and the field of eight was led home by 5-2 favourite Suave Performer. The winner was ridden by Martin Dwyer and trained by Mr S Williams, who is unfortunately not the same person as our Joint Managing Director, Steve Williams.

Taking part

For the seventh successive year, we were proud to sponsor the Borehamwood Half Marathon and Fun Run. Pinnacle staff, including our Corporate Communications Director, Steve Devine, participated in the 2002 event and raised money for charities of their own choosing.

Away from the sports arena, we were official sponsors of the Prince Michael International Road Safety Awards Ceremony, held at the Savoy Hotel to honour the individuals and groups who worked to improve safety on roads in the UK and elsewhere. Specific mention was made of the Gloucester Safer City Project and the Student Traffic Scheme in Delhi, both of which made outstanding contributions to road safety.

We also sponsored the Mortgage Finance Gazette Community Service Awards which were hosted this year by Angela Rippon. Chosen from over 100 nominations, the winners were Darren Stevens of the Chelsea Building Society, and Peter Rowley of Darlington Building Society.

Future insight

Facing an uncertain future with considered confidence

Crystal ball gazing can be a thankless task, and 'uncertainty' is perhaps the word which best describes our view of the coming year in general economic terms. Oil prices are likely to be volatile, belts are tightening and interest rates may rise, which will assist our investments business but may also cause consumer spending and borrowing to turn down. This, in turn, will impact on the market for insurance-backed loans.

Consumer spending is likely to slow, but people are more likely to buy insurance if they feel less confident of their future. Increasingly, UK citizens are encouraged to fend for themselves and we have the product range to help them to do just that.

New regulation

For Pinnacle, much will depend on the IMD legislation and we await the thoughts of the FSA with great interest. Whatever new regulations come into force, we are confident that the strengths which have seen us thrive over the last decade will stand us in good stead for the challenges ahead.

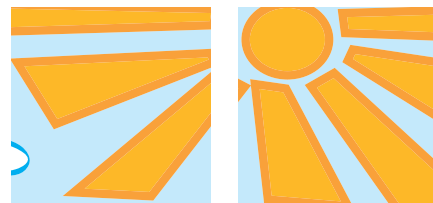
2003 will undoubtedly see a continued focus on the Internet. We are working with distributors of employee benefits via the web and anticipate significant growth in online affinity marketing. Based around the concept of microsites, affiliate sites are linked seamlessly to our own servers, enabling an

affinity partner's customer to buy insurance online. Developed by our internal Innovations team, microsites may be branded Pinnacle, In Association with Pinnacle, or carry the full branding of the affiliate partner, according to commercial need. By the early days of 2003, our range of 15 microsites was being accessed by hundreds of affiliates. The sites are experiencing an annualised total of well over a quarter of a million unique visits and are set to provide more than 100,000 quotations.

Direct sales of products that are not traditionally sold by intermediaries are expected to rise in 2003. A combination of Internet sales and a strategy of buying relevant policy portfolios from other insurers, saw direct sales of policies increase from approximately 3,000 to 80,000 in 2002. This coming year, we expect to experience a similar expansion.

Proactive and professional

At Pinnacle, we have an open, proactive 'can do' approach to our work and this will ensure that new product development continues apace through 2003.



outlook

optimism

Peter Bloxham
Underwriting and Business
Risks Director



“

In economic terms, the future remains uncertain. But one thing is clear: wherever our industry presents an opportunity, you will find Pinnacle.

”

seizing opportunities

“ Wherever there is opportunity, we have the people, the expertise and the commitment to create and deliver products that meet the needs of our clients and their customers. ”

