Report of the Independent Expert on the proposed transfer of a portfolio of Pinnacle Insurance PLC's general insurance business to EIFlow Insurance Ltd

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Forvis Mazars LLP

Final

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1 Executive summary

1.1 Overview of the transfer

1.1.1 Pinnacle Insurance PLC ("Pinnacle"), a UK insurer, is proposing a Part VII transfer as its planned mechanism for restructuring its business to focus on its Pet insurance offering. Pinnacle is regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").

1.1.2 The medium to long term strategy of Pinnacle is to focus solely on Pet insurance. Therefore, the intention is to divest of all non-Pet business.

1.1.3 Pinnacle proposes to transfer its non-Pet general insurance business to EIFlow Insurance Ltd ("EIFlow"), a Gibraltar-based insurer regulated by the Gibraltar Financial Services Commission ("GFSC"). As a legacy insurance specialist, EIFlow focuses predominantly on the management of run-off portfolios.

1.1.4 Specifically, the portfolios to be transferred from Pinnacle to EIFlow are the Motor, Household and Warranty & GAP portfolios. The liabilities on these portfolios relate to underwriting years 2012 to 2022.

1.1.5 Pinnacle's estimate of the insurance liabilities in the portfolios to be transferred is £19.4m on a gross statutory basis. The value to Pinnacle on a net statutory basis is zero due to a 100% quota share reinsurance arrangement in place with Darnell DAC, a wholly owned subsidiary of the BNP Paribas Group, which is authorised by the Central Bank of Ireland. The part of the reinsurance policy between Pinnacle and Darnell DAC relating to the transferring portfolio will be commuted simultaneously with completion of the Part VII transfer.

1.2 Role of the Independent Expert

1.2.1 I, Tom Ashmore, have been jointly appointed by Pinnacle and EIFlow to act as the Independent Expert to provide the required scheme report for the proposed transfer of the majority of Pinnacle's non-Pet general insurance business portfolio to EIFlow. This report assesses whether any policyholders are materially adversely affected by the proposed Part VII transfer.

1.2.2 I will prepare a summary of this report to be included in the information sent to the policyholders of Pinnacle and EIFlow ("the Summary Report").

1.2.3 I will prepare a Supplementary Report containing an update on any relevant developments that may have occurred in the period between the date of this report and the Sanctions Hearing on 9 December 2024.

1.2.4 My approach to assessing the likely effects of the transfer on policyholders is to:

a) understand the nature, structure and purpose of the transfer;

b) identify the groups of policyholders affected by the transfer;

c) assess the financial positions of the companies involved in the transfer including consideration of key financial metrics that might affect policyholders;

d) assess other factors that might affect policyholders e.g. the implications of the transfer on policyholder security and levels of service;

e) assess the implications of the transfer on reinsurers; and

f) consider the communications strategy for the transfer.

1.2.5 This report is based on financial data and information as at 31 December 2023, the most recent date at which such information was available when this report was drafted. Where 31 December 2023 data was not available, I have used data at an earlier date, and this is clearly specified in the relevant sections.

1.2.6 This report has been prepared in accordance with relevant guidance including, but not limited to:

a) the PRA Statement of Policy on Part VII Transfers issued in January 2022;

b) the FCA's approach to the review of Part VII insurance business transfers (FG 22/1); and

c) Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance ("SUP 18") for scheme reports relating to the transfer of long-term insurance business.

1.3 Summary of conclusions

1.3.1 I have assessed the proposed transfer and the likely effect on the transferring policyholders, Pinnacle's remaining policyholders and EIFlow's existing policyholders ("the affected policyholders").

1.3.2 I have concluded that the financial security of the affected policyholders is not materially adversely affected by the proposed transfer. The position for each policyholder group is outlined below along with the relevant benefits and potentially adverse impacts of the transfer. Where adverse impacts may arise, I have considered how these affect the relevant groups of policyholders and concluded on why I do not believe the affected policyholders will be materially adversely affected.

Transferring portfolio

1.3.3 The benefits of the transfer to the transferring policyholders from Pinnacle to EIFlow ("the transferring policyholders / portfolio") are as follows:

a) The core part of Pinnacle's business and strategy moving forward will be Pet insurance, meaning the Pet book will be the primary focus in terms of resources and expertise. Therefore, there is a potential benefit in moving away from a company where the strategy is no longer focused on their underlying risks.

b) EIFlow's core business is managing run-off portfolios. It has experience in managing the significant risks underlying the transferring portfolio through its existing portfolios and it therefore has the specialist expertise to take on this business.

1.3.4 The potential adverse impacts of the transfer for the transferring policyholders are as follows:

a) The proposed transfer will result in the transferring portfolio moving to a smaller company with a lower net asset value relative to its net technical provisions.

b) The transferring portfolio currently benefits from a fully collateralised reinsurance arrangement with Darnell DAC, which will be commuted simultaneously with the completion of the transfer.

1.3.5 I do not believe the above points have a material impact on the transferring policyholders because:

a) The external reinsurance arrangements that the transferring portfolio currently benefits from (aside from the Darnell DAC reinsurance mentioned above) are transferring to EIFlow. These reinsurance arrangements reduce the uncertainty within the reserves, particularly for the Motor book which makes up 95% of the transferring liabilities.

b) The reserve volatility is mitigated further by an existing £5.1m margin for uncertainty and an additional £5.0m risk premium that will be transferred as part of the insurance liabilities and that will form part of the EIFlow best estimate. I have quantified the impact of extreme but plausible scenarios including reserve deterioration and reinsurer default and the results can be found in Section 7.2. I have concluded that, even in extreme scenarios, these additional reserves are sufficient to absorb the impacts and there remains sufficient capital within EIFlow with which to pay claims.

c) Using the Solvency II standard formula, the coverage ratio of EIFlow following the transfer (339%) is higher than that of Pinnacle pre transfer (278%); hence, the transferring policyholders are moving to a company with higher levels of capital protection, relative to the regulatory capital requirements. The sufficiency of EIFlow's capital position is demonstrated by stress and scenario tests (both as part of its ORSA which are shown in Appendix F and those I have performed as part of my analysis in Section 7.2), which show that it remains well capitalised in the event of extreme but plausible scenarios.

1.3.6 Therefore, I conclude that the financial security of the policyholders within the transferring portfolio will not be materially adversely affected by the transfer.

Remaining portfolio

1.3.7 The benefits of the transfer to the policyholders remaining with Pinnacle ("the remaining policyholders / portfolio") are as follows:

a) As mentioned in paragraph 1.3.3a), the core part of Pinnacle's business and strategy moving forward will be Pet insurance. Therefore, running off the non-Pet insurance portfolios will represent a cost to the business that is not proportionate to its size. Transferring these portfolios to EIFlow will reduce the costs of running off the business for Pinnacle.

b) The transfer will allow Pinnacle's management to focus on its key strategic goal of growing the Pet insurance portfolio.

1.3.8 There are no adverse impacts of the transfer for the remaining policyholders because:

a) The transferring portfolio is currently 100% reinsured, so the transfer has no impact on Pinnacle's net assets on a statutory basis and only a very minor impact on a Solvency II basis.

b) The additional premium payable to EIFlow is funded by Darnell DAC and Pinnacle Pet Group Ltd, therefore it does not impact the level of capital available within Pinnacle.

c) Pinnacle's solvency ratio increases by 1 percentage point as a direct result of the transfer, from 278% to 279%. The transfer is therefore not material to Pinnacle's capital position and does not have a material impact on Pinnacle's remaining policyholders.

d) There are no planned changes to the reserving or technical provisions methodology used by Pinnacle for its remaining portfolio as a result of the transfer.

e) Pinnacle's strategic plans in relation to its Pet portfolio are unaffected by the transfer. Pinnacle's key risks do not pertain to the transferring portfolio and the impact of the stress and scenario tests will therefore not be materially affected by the outcome of the transfer.

1.3.9 Therefore, I conclude that the financial security of the policyholders remaining in Pinnacle post transfer will not be materially adversely affected by the transfer.

Existing portfolio

1.3.10 The benefits of the transfer to the existing policyholders at ElFlow ("the existing policyholders / portfolio") are as follows:

a) In my view, based on my analysis in Section 7.2, the transfer premium is more than sufficient to meet the insurance obligations of the transferring portfolio such that there are additional reserves held within ElFlow that the existing policyholders benefit from.

1.3.11 The potential adverse impact of the transfer for the existing policyholders is:

a) ElFlow's solvency ratio reduces as a result of the transfer (from 394% to 339%).

1.3.12 I do not believe the above point has a material impact on the existing policyholders because:

a) While its' solvency ratio reduces as a result of the transfer, it remains highly capitalised and considerably in excess of both the Solvency II requirements and ElFlow's risk appetite. As part of my analysis, I have considered some extreme but plausible stresses in Section 7.2 which further demonstrate the capital strength of ElFlow following the transfer.

b) In my view, based on my analysis in Section 7.2, the transfer premium is more than sufficient to meet the insurance obligations of the transferring portfolio and the security of the reserves of the existing portfolio are therefore not materially adversely affected by the transfer.

c) There are no planned changes to the reserving or technical provisions methodology used by ElFlow for its existing portfolio as a result of the transfer.

1.3.13 Therefore, I conclude that the financial security of the existing policyholders in ElFlow will not be materially adversely affected by the transfer.

Other considerations

1.3.14 With respect to other (mainly non-financial) considerations, the transfer will have no material adverse impact on the affected policyholders for the following reasons:

a) There will be no change to the existing policy and claims administration arrangements as a result of the transfer. There will therefore be no material impact to policyholder levels of service as a result of the transfer.

b) All the transferring and remaining portfolios relate to direct policyholders; hence, there are no changes to their contractual rights as a result of the transfer. Some of the existing policyholders are reinsurance policyholders who rank below direct policyholders in the event of insolvency. However, given EIFlow's strong capital position, the risk of insolvency is low, and I do not therefore consider this to represent a material adverse impact to the security of the existing policyholders.

c) Given the similarities between the fundamental principles of the PRA, the FCA and the GFSC in relation to insurance regulations, I do not believe that moving to a GFSC regulated firm will materially adversely affect the transferring policyholders. The regulatory regime of the remaining and existing policyholders will remain unchanged.

d) There will be no material impact on the affected policyholders with respect to their access to a complaints or compensation service.

e) Post transfer, the assets backing the liabilities will continue to be invested in investment-grade portfolios, with appropriate matching by currency. I therefore do not believe there will be any material changes to the levels of security of benefits because of the different investment strategies of the companies following the transfer.

f) There will be no impact on tax, staffing or pension arrangements as a result of the transfer.

1.3.15 There are no material implications of the transfer on any of the reinsurers of Pinnacle or EIFlow.

1.3.16 I am satisfied that the policyholder communications with respect to the transfer are appropriate, proportionate and reasonable.

Overall conclusion

1.3.17 Overall, I conclude that none of the affected policyholders are materially adversely impacted by the transfer.

2 Overview

2.1 Background

2.1.1 Section 109 of the Financial Services and Markets Act 2000 (“FSMA”) requires that an application to High Court of Justice in England and Wales (“the Court”) for the transfer of an insurance business under Part VII of the FSMA must be accompanied by a scheme report produced by a suitably qualified independent expert (“the Independent Expert” or “IE”). The role of this individual is set out in the PRA Statement of Policy issued in January 2022 and section SUP 18 of the FCA’s Handbook.

2.1.2 The Independent Expert, who has been approved by the PRA in consultation with the FCA, is required to produce a report in the approved form[1], assessing whether any policyholders or reinsurers impacted by the transfer of insurance business are “materially adversely affected” by the Part VII transfer (see Section 2.6 for my definition of “materially adversely affected”).

2.1.3 Supporting documentation for the transfer, including this report, will be presented to the Court under section 109 and 111 of Part VII of the FSMA at the Directions Hearing on 22 July 2024.

2.1.4 I will prepare a summary of this report to be included in the information sent to the policyholders of Pinnacle and EIFlow (“the Summary Report”).

2.1.5 This report is based on financial data and information as at 31 December 2023, the most recent date at which such information was available when this report was prepared. Where data as at 31 December 2023 was not available, I have used data at an earlier date and this is clearly identified in the remainder of my report.

2.1.6 I will prepare a report containing an update on any relevant developments that may have occurred in the period between the date of this report and the Sanctions Hearing on 9 December 2024, where the formal decision will be made on whether the transfer can proceed. This additional report (“the Supplementary Report”) is produced to confirm or amend the conclusions stated in this report based on any new information or considerations that arise. New information may include: updated financial information, feedback from regulators, policyholders and reinsurers in relation to the transfer; changes to the communications strategy, commentary on any objections received from policyholders and any other relevant market or regulatory developments.

[1] Approved by the PRA having consulted with the FCA.

2.2 Key definitions

2.2.1 The following definitions and abbreviations will be used throughout the report:

the companies	Pinnacle Insurance PLC ("Pinnacle") and EIFlow Insurance Ltd ("EIFlow")
the affected policyholders	This includes all groups of policyholders: a) the transferring policyholders from Pinnacle to EIFlow ("the transferring policyholders / portfolio"); b) the policyholders remaining with Pinnacle ("the remaining policyholders / portfolio"); and c) the existing policyholders at EIFlow ("the existing policyholders / portfolio").
the transfer	The proposed transfer of insurance business from Pinnacle Insurance PLC to EIFlow Insurance Ltd under Part VII of the Financial Services and Markets Act 2000.
the scheme report	This report.
effective date	The date at which the proposed transfer takes place. This is expected to be 31 December 2024.
the transferring portfolio	This includes the liabilities relating to the following non-life insurance portfolios currently held within Pinnacle: a) Motor; b) Household; and c) Warranty & GAP. More information on these portfolios can be found in Section 4.2.
excluded policies	Any policies in the transferring portfolio which are not capable of being transferred for legal reasons.

the remaining portfolio	This includes the liabilities currently held within Pinnacle that are not included in the transferring portfolio.
the existing portfolio	This includes the liabilities currently held within EIFlow.
the transfer premium	The amount to be transferred from Pinnacle to EIFlow to cover the transferring portfolio, comprising cash and net receivables.
the Court	The High Court of Justice of England and Wales.
PRA	Prudential Regulation Authority: the mechanism by which The Bank of England prudentially regulates and supervises financial services firms.
FCA	Financial Conduct Authority: a regulatory body which upholds standards in the finance industry and regulates financial activities.
GFSC	Gibraltar Financial Services Commission, which regulates the financial services industry in Gibraltar.
the Independent Expert / IE	An individual suitably qualified to provide the conclusions and opinions stated in this report.
MGA	Managing General Agent: an agency whose primary function and focus is the provision of underwriting services and whose primary fiduciary duty is to the insurer.
case reserve / case estimate	An estimate of the outstanding claims liability in respect of a single claim.
IBNR	Incurred But Not Reported: claims reserves established for insurance claims or events that have happened but have not yet been reported. Within this report, IBNR includes IBNER (Incurred But Not Enough Reported): claims reserve reflecting expected changes (increases and decreases) in estimates for reported claims.
reserves	Unless the context specifically indicates otherwise, the term reserve is used in this report to denote the estimated

	liability for future claims (case reserves plus IBNR). Reserves are calculated on a best estimate basis and a margin for uncertainty / prudence may be added.
insurance liabilities	Estimate of the current liabilities relating to insurance contracts, including claims reserves (see "reserves" above), a provision for unearned premium ("UPR") and unallocated loss adjustment expenses ("ULAE"). Within this report, this refers to the liabilities on a statutory basis.
SCR	Solvency Capital Requirement: total amount of funds that insurance and reinsurance companies in the European Union ("EU") are required to hold.
MCR	Minimum Capital Requirement: the funding threshold below which a national regulatory agency would intervene.
own funds	The basic own funds consist of (i) the excess of assets over liabilities, and (ii) subordinated liabilities. Ancillary own funds consist of items other than basic own funds which can be called up to absorb losses. Eligible own funds refers only to those eligible to meet the SCR or MCR.
coverage ratio / solvency ratio	Proportion of own funds over the SCR.
Solvency II technical provisions	Best estimate of the current liabilities relating to insurance contracts plus a risk margin. The best estimate is made up of a claims provision and a premium provision. Within this report, this refers to the insurance liabilities on a Solvency II basis.
YE / year end	31 December of the year being referred to.

2.2.2 A full glossary of terms can be found in Appendix B.

2.3 The proposed transfer

2.3.1 Pinnacle, a UK insurer, is proposing a Part VII transfer ("the transfer") as its planned mechanism for restructuring its business to focus solely on its Pet insurance offering. Pinnacle is regulated by the PRA and FCA.

2.3.2 In October 2021, Pinnacle's then owner, BNP Paribas Cardif (as the ultimate shareholder of the Cardif Pinnacle Group) signed an agreement with JAB Holdings B.V. ("JAB") to form a joint venture to own Cardif Pinnacle's Pet insurance business. The agreement was primarily to create a new joint venture entity (Pinnacle Pet Holdings Ltd) with JAB as a 75.26% owner and BNP Paribas owning 24.74%. Pinnacle Pet Holdings Ltd has a 93.4% share of Pinnacle Pet Group Ltd, meaning that JAB effectively owns 70.0% of Pinnacle while BNP Paribas owns 23.4%, with the remaining 6.6% being held by minority shareholders.

2.3.3 As part of the agreement, BNP Paribas Cardif agreed to develop a plan to transfer the entirety of the non-Pet legacy business and associated risks out of the Company. Since December 2021, all Pinnacle's non-Pet business has been fully reinsured to Darnell DAC (a wholly owned subsidiary of the BNP Paribas Group authorised by the Central Bank of Ireland). The aim of the Darnell DAC treaty is to guarantee zero impact on Pinnacle's financial position from all non-Pet portfolios, by way of the structure of the treaty and the supporting collateral agreement.

2.3.4 The ongoing strategy of Pinnacle is to focus solely on Pet insurance. Therefore, the intention is to divest of all non-Pet business.

2.3.5 Pinnacle's net assets (excess of assets over liabilities) as at 31 December 2023 total £146.6m. The gross insurance liabilities on a statutory basis are £127.6m and the net insurance liabilities are £83.6m. On a Solvency II basis, the net assets as at 31 December 2023 total £139.7m and the net technical provisions are £23.6m. The coverage ratio is 278%.

2.3.6 The proposal is to transfer the non-Pet general insurance business to EIFlow. EIFlow is based in Gibraltar and regulated by the GFSC. As a legacy insurance specialist, EIFlow's focus is managing predominantly run-off business. Underwriting of new contracts of insurance is limited to the extension or renewal of legacy business which has been acquired through portfolio transfers.

2.3.7 EIFlow is a subsidiary of EIFlow Holdings Ltd which in turn is a subsidiary of Bacchus Holdings Ltd (the ultimate parent). EIFlow has completed numerous transactions in the non-life run-off acquisition market.

2.3.8 EIFlow's net assets as at 31 December 2023 total £22.0m. The gross insurance liabilities on a statutory basis are £17.6m and the net insurance liabilities are £15.9m. On a Solvency II basis, the net assets as at 31 December 2023 total £25.9m and the net technical provisions are £12.0m. The coverage ratio is 394%.

2.3.9 Specifically, the portfolios to be transferred from Pinnacle to EIFlow are the Motor, Household and Warranty & GAP ("the transferring portfolio"). The liabilities on the transferring portfolio relate to underwriting years 2012 to 2022.

2.3.10 The value of insurance liabilities in the transferring portfolio based on Pinnacle's pre transfer statutory balance sheet is £19.4m on a gross basis. The value to Pinnacle on a net basis is zero due to reinsurance in place with Darnell DAC. The reinsurance with Darnell DAC will be commuted (the part that relates to the transferring portfolio), but the external reinsurance arrangements will remain in place post transfer and the reinsurance asset that will transfer to EIFlow is £10.2m. The commutation of the reinsurance with Darnell DAC will mean that the value of the portfolio on a net basis will not be zero under the proposed transfer to EIFlow and the policyholders will not receive the same reinsurance cover post transfer. However, the external reinsurance will remain in place.

2.3.11 The total transfer premium to be paid from Pinnacle to EIFlow is estimated at £20.2m as at 31 December 2023, comprising £19.7m cash and £0.5m net receivables. The actual transfer premium to be paid on the effective date of the transfer will be adjusted for movements in claims, receivables and payables between 31 December 2023 and the effective date.

2.3.12 The cash will be transferred to EIFlow from Pinnacle Pet Group Ltd and Darnell DAC (due to the release of collateral post commutation). As at 31 December 2023, the estimated Darnell DAC portion of this cash is £8.8m while Pinnacle Pet Group Ltd makes up the remaining £10.9m. Other assets and liabilities to be transferred are small amounts of insurance receivables and payables relating to the transferring portfolio.

2.3.13 The value of the transferring assets will exceed the value of the transferring liabilities due to profit considerations and a £5.0m difference between EIFlow and Pinnacle's valuation of the insurance liabilities. The excess amount will be provided by Pinnacle Pet Group Ltd such that the net impact on Pinnacle's balance sheet (on a statutory basis) is zero. Hence, on EIFlow's balance sheet the value of insurance liabilities in the transferring portfolio is £24.4m on a gross basis.

2.3.14 More information on the companies, their structure, the transferring portfolio and other business that exists within each of the companies can be found in Section 4.1. The financial impact of the proposed transfer is outlined in Section 4.6.

2.4 Scope of the report

2.4.1 This report considers the consequence of the transfer for the policyholders of both companies, including:

a) transferring policyholders from Pinnacle to ElFlow;

b) policyholders remaining with Pinnacle; and

c) existing policyholders in ElFlow.

2.4.2 This report also considers the implications on reinsurers of the transfer.

My approach

2.4.3 To determine the impact of the transfer on the security of the affected policyholders, I have assessed the liabilities of the relevant insurance portfolios and the nature and amount of assets to be transferred, such that simplified balance sheets for each company are presented in this report to describe the impact of the transfer on key financial metrics.

2.4.4 In preparing this report, I have assessed the financial implications of the transfer on the affected policyholders' contractual rights, including reserving considerations and ability to satisfy capital requirements pre and post transfer. My assessment is based on reserve reviews and capital assessments provided to me by the companies. This includes a review of the financial strength under various stresses and scenarios to determine the robustness of the capital position post transfer compared to pre transfer.

2.4.5 I have assessed the impact of the transfer on several other factors, including: claims handling and policy administration, policyholder benefits and contractual rights, non-financial factors affecting security of benefits, investment strategy, policyholder levels of service, changes to risk appetite and risk profile, cost and tax implications, and staffing and pension arrangements.

2.4.6 I have discussed the impact on the affected policyholders if the transfer does not proceed. Note that this part of my analysis is qualitative in nature and does not consider the effectiveness of any possible alternative schemes or arrangements.

2.4.7 I have examined the proposed communications strategy as part of my assessment, which details how the transfer will be communicated to affected policyholders and other relevant parties.

Regulatory and professional guidance

2.4.8 This report has been prepared in accordance with relevant guidance including, but not limited to:

a) the PRA Statement of Policy on Part VII Transfers issued in January 2022;

b) the FCA's approach to the review of Part VII insurance business transfers (FG 22/1); and

c) Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance ("SUP 18") for scheme reports relating to the transfer of long-term insurance business.

2.4.9 In Appendix G, I have set out how this report complies with SUP 18 and the PRA Statement of Policy requirements.

2.4.10 The Applicants have confirmed to me that they have taken note of the relevant guidance listed above.

2.4.11 In my opinion, this report has been produced in line with the requirements of the Technical Actuarial Standards ("TASs") issued by the Financial Reporting Council ("FRC"). In particular, this report has been prepared in accordance with TAS 100: Principles of Technical Actuarial Work and TAS 200: Insurance.

2.4.12 This report has also been produced in line with the requirements of Actuarial Professional Standard ("APS") X2: Review of Actuarial Work; and APS X3: The Actuary as an Expert in Legal Proceedings produced by the Institute and Faculty of Actuaries. See Section 2.5 for more details on the peer review process.

Distribution & Use

2.4.13 This report has been written in accordance with English law and has been prepared solely for the use of the Companies and the Court, and solely for the purpose of assisting in determining whether the transfer should be permitted. Policyholders, reinsurers, and any others affected by the transfer may also place reliance on my report(s), as stated in SUP 18.2.34. It should not be used for any other purpose.

2.4.14 The report may not be relied upon by any other party for any purpose. Neither I nor Forvis Mazars, its partners and staff owe or accept any duty to any other party and shall not be liable for any loss, damage, or expense (including interest) of whatever nature which is caused by any other party's reliance on representations in this report.

2.4.15 This report should be considered in its entirety, as parts taken in isolation may be misleading.

2.4.16 A copy of the final version of this report will be sent to the PRA, FCA and GFSC and will accompany the application to the Court.

Reliances

2.4.17 In preparing this report, I have relied on the accuracy and completeness of the information provided to me by the companies. This includes internally and externally produced reports, spreadsheet models and responses to questions, both written and oral. A full list of the data received from the companies can be found in Appendix D. I have also relied on publicly available information where relevant.

2.4.18 I have considered the reasonableness of information provided, but I have not independently verified all sources or audited the data or information supplied. In doing so, I have relied on the management and staff of Pinnacle, EIFlow and their associated entities. Where an audit has been performed, I have relied on the external auditors of the companies.

2.4.19 The companies have obtained legal advice in relation to the transfer, and I have reviewed relevant legal documents, namely the business transfer agreement and draft witness statements. Having considered the FCA's guidance (which is provided in Appendix G) I do not consider it necessary to seek independent legal advice in forming my opinion on the transfer.

2.4.20 My report has been reviewed by both companies, including their legal advisors, to ensure accuracy. Any feedback has been taken into consideration and reflected in the final report.

2.4.21 I have also relied upon the draft witness statements made on behalf of Pinnacle and EIFlow that confirm all information provided to me by the companies is factually correct and not misleading, and there has been no material adverse change to the financial position of the companies since that information was provided to me.

2.4.22 Should any data or information I have been provided be inaccurate or unreliable, my conclusions may materially differ.

Limitations

2.4.23 The matters covered in this report are subject to a high degree of inherent uncertainty. Estimates of loss and allocated loss expense liabilities are subject to large potential errors of estimation, due to the fact that the ultimate value of claims incurred prior to the financial statement date, whether reported or not, is subject to the outcome of events that have not yet occurred. Any estimate of future liabilities is subject to the inherent limitation of the ability to predict the aggregate course of future events.

2.4.24 Common areas of uncertainty affecting general insurance companies include:

a) economic effects, including the level of future claims inflation;

b) external events such as regulatory or legislative changes and Court decisions and the impact these may have on insurance companies;

c) the inherent uncertainty in the process of statistical estimation, including the extent to which the past is an indication of the future (a key assumption underpinning actuarial techniques);

d) new claim types arising in future that are not present in historical data; and

e) environmental, societal, or technological changes.

2.4.25 Unless otherwise stated, I have not made explicit allowance for the above effects.

2.4.26 This report does not consider the likely effects on new policyholders of either company, i.e. new contracts that are entered into after the effective date.

2.4.27 This report assesses the position of the affected policyholders based on existing legal and regulatory frameworks. It does not consider how these frameworks may change in the future.

2.4.28 This review does not comprise an audit of the financial resources and liabilities of Pinnacle or ElFlow.

2.4.29 This report should not be regarded as a legal opinion on the effectiveness of the transfer.

2.4.30 In my opinion, I have employed techniques and assumptions that are appropriate. I consider the estimates I have made, and the consequential conclusions presented, to be reasonable given the information that I have reviewed.

2.5 Appointment of the Independent Expert

2.5.1 I have been appointed as the Independent Expert to provide the required report for the proposed transfer of the majority of Pinnacle's non-Pet general insurance business portfolio to ElFlow. For this proposed transfer I have been appointed jointly by Pinnacle and ElFlow. The cost associated with the production of my report will be split equally between Pinnacle and ElFlow.

2.5.2 The Engagement Letter between Mazars LLP (now known as Forvis Mazars LLP) and the companies has been seen by the PRA and FCA and was signed by Pinnacle and ElFlow on 12 January 2024. A relevant extract from the Engagement Letter showing the scope of service agreed can be found in Appendix A.

2.5.3 My appointment was approved by the PRA, in consultation with the FCA, on 17 January 2024.

2.5.4 I am a Partner in the Insurance Risk Consulting practice of Forvis Mazars in the UK. I am a Fellow of the Institute and Faculty of Actuaries ("IFoA") and have over 10 years' experience in the industry as an actuarial consultant. My professional experience includes reserving, capital, Actuarial Function Holder support, expert witness, internal and external audit, pricing, SAO peer review, Part VII peer review and claims consulting. My CV can be found in Appendix C.

2.5.5 In completing my work, I have been assisted by individuals within the Actuarial and Forensics & Valuations teams at Forvis Mazars. I have supervised and reviewed their work and I confirm that the opinions expressed in this report are my own.

Independence

2.5.6 Neither I nor Forvis Mazars have reviewed any insurance business transfers for the companies previously and do not intend to work on any other engagements for the companies concurrently.

2.5.7 I have not previously undertaken work for either of the companies. Whilst Forvis Mazars was previously the statutory auditor of Pinnacle, this relationship ceased in 2012. Since then, Forvis Mazars has not been engaged by Pinnacle. Forvis Mazars has not previously been engaged by ElFlow.

2.5.8 Details of any connections between Mazars (now known as Forvis Mazars) and the companies (including connections with any other companies within either the Pinnacle or ElFlow Groups) have been disclosed to the PRA and FCA prior to my appointment as Independent Expert. I do not believe any such connections impact my independence, create a conflict of interest or compromise my ability to independently report on the proposed transfer.

2.5.9 Neither I nor Forvis Mazars have any other connection with the companies. There are no potential or actual conflicts of interest as a result of personal relationships or other connections with the companies.

Peer review process

2.5.10 The work undertaken and documented in this report has been subject to an internal peer review by an appropriately qualified actuary who was not otherwise involved with my review of the proposed transfer.

2.5.11 The peer review was performed by Dorian Hicks, Partner in the Insurance Risk Consulting practice of Forvis Mazars in the UK.

2.6 Definition of "materially adverse"

2.6.1 The FRC states that "matters are material if they could, individually or collectively, influence the decisions to be taken by users of the related actuarial information. Assessing whether a matter is material is a matter for judgement which requires consideration of the users and the context in which the work is performed and reported"[2]. In the context of this report, I consider "materiality" by reference to a number of factors, considered in the round, as opposed to by reference to a specific quantitative threshold.

2.6.2 This report, and the analysis undertaken to produce the report, apply the concept of materiality and consider whether any group is "materially adversely affected". This phrase is considered in the context of considering policyholder protection in SUP 18.

2.6.3 For any group of policyholders, there may be positive and adverse changes. Adverse changes do not necessarily mean that the transfer is unreasonable, as other benefits will need to be considered, as well as the magnitude of any adverse effects.

2.6.4 The FCA does not define its interpretation of "materially adverse". As a result, throughout this report when assessing whether the proposed transfer will have a "materially adverse" effect, I have considered the aggregate effect of different impacts on each group of policyholders along with the rationale for my judgements and conclusions.

2.6.5 In complying with the relevant actuarial standards, I have made judgements with regard to the level of information that it is appropriate to include in this report. Applying the principles of materiality and proportionality and considering the objectives and nature of this report, I have not included all details of the methodologies and assumptions underlying the reserve and capital assessments that would be included in an actuarial report specifically focused on those topics. The reader should consider the impact of this limitation on their interpretation of the transfer that is the subject of this report.

2.6.6 I have noted some matters in this report that, although not material, may benefit the reader.

2.7 Structure of this report

2.7.1 Section 1 is a stand-alone summary providing an overview of what the transfer is designed to do and setting out my conclusions.

2.7.2 Section 2 (this section) provides an overview of the process that I have followed in relation to this Independent Expert report, including background information on the transfer, key

[2] Glossary of defined terms used in FRC technical actuarial standards: https://media.frc.org.uk/documents/Glossary_of_defined_terms_used_in_FRC_technical_actuarial_standards.pdf

definitions, the regulatory guidance this report is subject to, and details of any key reliances or limitations noted in my analysis.

2.7.3 Section 3 provides information on the regulatory background in the UK and Gibraltar covering capital and solvency requirements, conduct principles, considerations for corporate governance and oversight, and regulations ensuring policyholder protections including those from further independent bodies, namely, the Financial Services Compensation Scheme (“FSCS”) and Financial Ombudsman Service (“FOS”).

2.7.4 Section 4 provides an outline of the proposed transfer, describing the companies involved in the transfer, details of the proposed transfer including its purpose, summary balance sheets showing the financial impact of the transfer and a brief discussion of each company’s strategic plans.

2.7.5 Section 5 outlines the key reserving considerations including the approach I have taken in carrying out my analysis and reaching my conclusions, the appropriateness of provisions in the relevant insurance portfolios, key uncertainties, future reserving approach and governance, external factors and my conclusions on reserving considerations.

2.7.6 Section 6 outlines the key capital considerations including the approach I have taken in carrying out my analysis and reaching my conclusions, future capital projections, key uncertainties, the appropriateness of the calculations under various bases in the relevant insurance portfolios, material planned changes affecting capital strength, access to additional capital, the appropriateness of the SCR, future capital approach, governance and risk appetite and my conclusions on capital considerations.

2.7.7 Section 7 summarises the financial implications of the transfer for each group of affected policyholders. The financial implications include balance sheets, reserving and capital implications.

2.7.8 Section 8 summarises other considerations of the transfer for the affected policyholders. Considerations include: claims handling and policy administration; policyholder benefits and contractual rights; non-financial factors affecting security of benefits; policyholder levels of service; changes to risk appetite and risk profile; cost and tax implications; staffing and pension arrangements; and additional considerations if the transfer does not proceed.

2.7.9 Section 9 covers the implications of the transfer on the reinsurers of both the transferring and existing policyholders. It includes a consideration of current reinsurance arrangements and changes to these arrangements with respect to the proposed transfer.

2.7.10 Section 10 provides my assessment of the appropriateness of customer communications that will be issued to all groups of policyholders, including those who are not contactable. I have considered the appropriateness and completeness of publications and customer notices to be issued upon enactment of the transfer.

2.7.11 Given the format of this report, there may be some overlap between sections when the report is read as a whole. For example, Section 7 and Section 8 summarise my analysis from the previous sections and are written so that affected policyholders can understand by reading these sections what I consider to be the significant implications of the transfer for them.

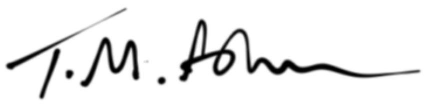
2.7.12 Further background information, including a glossary, can be found in the Appendices.

2.8 Expert's declaration

2.8.1 I confirm that I fully understand my overriding duty to the Court and that I must help the Court on matters within my expertise. My duty to the Court overrides any obligation to those from whom I have received instructions or by whom I am paid. I believe that I have complied and will continue to comply with this duty.

2.8.2 I confirm that I am aware of the requirements of Part 35 and Practice Direction 35 of the Civil Procedure Rules, and the Guidance for the Instruction of Experts in Civil Claims 2014.

2.8.3 I confirm 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 that I have expressed and conclusions that I have drawn represent my true and complete professional opinions on the matters to which they refer.



Tom Ashmore, FIA

Forvis Mazars LLP

3 Regulatory background

3.1 Introduction

3.1.1 In this section, I provide the background to the UK and Gibraltar regulatory regimes that govern Pinnacle and ElFlow respectively, providing the context against which I have assessed the impact of the transfer.

3.2 Overview of the UK regulatory regime

3.2.1 The UK financial services sector is governed jointly by the FCA and the PRA under a system of dual registration. The FCA is a statutory body established under the Financial Services Act 2012. The Bank of England, acting as the PRA, operates through its Prudential Regulation Committee.

3.2.2 The PRA's focus is on the financial safety and soundness of the firms it regulates, in order to minimise systemic impacts on the wider stability of the UK financial system. For insurance companies, the PRA is responsible for the Solvency II regulatory directive as well as contributing to ensuring policyholders are appropriately protected. Solvency II will be covered in more detail in Section 3.4.

3.2.3 The FCA is responsible for supervising businesses with the aim of monitoring the conduct of firms to protect the interests of consumers and prevent potential consumer harm.

3.2.4 A memorandum of understanding between the PRA and the FCA outlines a high-level framework for coordinating the activities of the two separate regulatory bodies. Part VII of the FSMA prescribes the operation of insurance business transfers for both the PRA and the FCA.

Conduct principles overview

3.2.5 The FCA is the governing body responsible for overseeing the conduct regulations of financial firms, including insurers, in the UK. Rules and regulatory guidance are set out in the FCA handbook which outlines its expectations through eleven principles that firms are required to follow. The principles include integrity, skill, care and diligence, risk management and market conduct.

3.2.6 The FCA introduced a new consumer principle known as Consumer Duty that requires firms to act to deliver good customer outcomes for retail customers. The outcomes include products and services, price and value, consumer understanding and consumer support. The final rules and guidance were published in the policy statement PS22/9 in July 2022. It applies to all firms regulated by the FCA.

Financial Services Compensation Scheme (FSCS)

3.2.7 Policyholder security is provided through the FSCS. The FSCS acts as a 'fund of last resort', set up to compensate customers in the event of insolvency of a financial services firm. It is a statutory scheme funded on levies on firms authorised by the PRA and the FCA.

3.2.8 Insurance protection includes individuals and small businesses in the instance where an insurer is unable to meet its obligations for direct policyholders (reinsured policyholders are not covered). The FSCS will pay 100% of any claim incurred for compulsory insurance and 90% of claims incurred for non-compulsory insurance.

3.2.9 The FSCS applies to holders of relevant policies issued by a UK authorised firm through an establishment in the UK, Gibraltar, the Channel Islands or the Isle of Man.

Financial Ombudsman Service (FOS)

3.2.10 The FOS is an independent body set up with the aim of resolving disputes between customers and financial services firms and may reward compensation in favour of policyholders.

3.2.11 For a complaint to be dealt with by the FOS, the insurance policy must have been administered from within the UK. The FOS may direct UK financial services companies to pay compensation for complaints about acts or omissions by firms. The maximum value of awards varies depending on when the complaint was raised and what period it relates to.

3.3 Overview of the Gibraltar regulatory regime

3.3.1 Insurance firms operating in Gibraltar are regulated by the GFSC. The Financial Services Act ("FSA") 2019 along with the accompanying sector-specific Legislative Reform Program ("LRP") provide the financial services legislation in Gibraltar.

3.3.2 The GFSC's regulatory objectives include the promotion of market confidence, the reduction of systemic risk, the promotion of public awareness, the protection of the good reputation of Gibraltar, the protection of consumers, and the reduction of financial crime.

3.3.3 Gibraltar's insurance market primarily writes business in other European countries, the largest being the UK. One of the GFSC's overarching objectives is to develop and build on existing trusted partnerships with both the UK authorities as well as other regulators, authorities and international standard setting bodies and make meaningful contributions to the work of these bodies.

3.3.4 According to the 'Approach to Insurance Regulation' publication[3], the GFSC is committed to delivering on the equivalence of outcomes with its UK counterparts in relation to quality assurance. While the process to deliver on the outcome may differ given the size and complexities of the Gibraltar insurance market, the outcome the GFSC expect to achieve is the same.

3.3.5 As the majority of business written by Gibraltar firms is in the UK, the GFSC has regular update calls and face-to-face meetings with the PRA and the FCA to ensure a holistic approach is taken in the supervision of firms that span the two jurisdictions.

3.4 Overview of the Solvency II framework

3.4.1 Companies regulated within the EU are required to assess solvency under the Solvency II directive which came into effect in 2016. The Solvency II regime was established by the European Commission with the intention of harmonising the prudential regulation for insurers across Europe and to set out an economic risk-based approach.

3.4.2 The Solvency II regime was applicable to UK insurers until the end of the transition period for the UK's exit from the EU. Since the UK's exit from the EU, the UK has been free to determine its own solvency regime for insurance companies. The PRA took over responsibility from EIOPA (the European Insurance and Occupational Pensions Authority, an EU financial regulatory agency) for implementing Solvency II in the UK from 1 January 2021. I set out the upcoming reforms known as Solvency UK later in this section.

3.4.3 Solvency II is based on three pillars:

a) Pillar 1 outlines the quantitative requirements of firms, setting out the framework for the valuations of assets and liabilities and includes the determination of the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR").

b) Pillar 2 outlines the standard for corporate governance and the risk and capital management controls firms are required to meet. Firms are required to produce an annual Own Risk and Solvency Report ("ORSA") to identify, assess, manage and mitigate risks.

c) Pillar 3 outlines the public disclosure requirements of what firms need to provide to the regulators and the public.

3.4.4 Insurers must submit Quantitative Reporting Templates ("QRTs") which include the regulatory capital requirements and financial results on a Solvency II basis.

[3] Source: www.fsc.gi/publications/2019/05/Approach%20to%20Insurance%20Regulation.pdf

Regulatory capital requirements

3.4.5 Under Solvency II, there are two sets of capital requirements to allow for different levels of regulatory intervention. The SCR is the amount of capital required in excess of liabilities to ensure solvency over a one-year time frame with 99.5% probability. The MCR is a (usually) lower threshold which defines the point of severe supervisory intervention.

3.4.6 In calculating the SCR, the most common approach used by firms is the standard formula, as prescribed by EIOPA. Alternatives include an internal model or partial internal model. Both the companies involved in this transfer use the standard formula to calculate the SCR.

3.4.7 Subject to approval by the supervisory authorities, insurers may, within the design of the standard formula, replace a subset of its parameters with parameters specific to the undertaking concerned. Such parameters are calibrated using the internal data of the insurer or data which is directly relevant. These are known as USPs (undertaking-specific parameters). Neither Pinnacle nor ElFlow currently use USPs to calculate the SCR.

3.4.8 The SCR is the key indicator of solvency I have used. The risks covered by the SCR include insurance risk (reserves and premiums), market risk and operational risk. I provide more detail on the risks covered by the SCR in Section 6.

Solvency II technical provisions

3.4.9 The technical provisions ("TPs") reported on a Solvency II balance sheet differ to the insurance liabilities in the statutory financial statements. I will comment on statutory accounting bases in Section 3.5.

3.4.10 The Solvency II TPs are required to be a "best estimate" of current liabilities relating to insurance contracts, consisting of the claims provision and premium provision, plus a risk margin.

3.4.11 The claims provision is the discounted best estimate of all future cashflows (claims payment, expense and future premiums due) relating to claim events prior to the valuation date. The following key adjustments are made to the best estimate claims reserves on a statutory basis to determine the total Solvency II claims provision:

a) removal of any prudence margin;

b) allowance for events not in data ("ENIDs");

c) expenses expected to be incurred in serving existing earned business;

d) future premium inflows on earned exposures;

e) allowance for reinsurance counterparty default; and

f) discounting.

3.4.12 The premium provision is the discounted best estimate of all future cashflows (claims payment, expenses and future premiums due) relating to future exposure arising from policies that the company is obligated to at the valuation date, including those policies to which the company is bound which have not incepted by the valuation date.

3.4.13 The risk margin is intended to be the amount that another insurer taking on the liabilities at the valuation date would require over and above the best estimate. The risk margin is calculated by determining the cost of providing the amount of eligible own funds equal to the SCR necessary to support the non-hedgeable insurance obligations until the exposure is fully run off.

3.4.14 The calculation of Solvency II TPs typically starts with the technical provisions on a statutory basis and adjustments are made for the above items. Some elements such as the discount rate and the cost of capital are prescribed by EIOPA (now the PRA in the UK).

Corporate governance

3.4.15 Requirements on the system of governance of insurers under Solvency II include the following key functions:

a) The Actuarial Function is responsible for the calculation of the technical provisions and overseeing the firm's underwriting policy and reinsurance arrangements.

b) The Compliance Function is required to advise the insurer and oversee that Solvency II requirements are met.

c) The Internal Audit Function is required to evaluate the appropriateness and effectiveness of internal controls and processes and procedures. The Internal Audit Function is required to be objective and independent from the company's operational functions.

d) The Risk Management Function is required to ensure that all material risks are identified, measured and reported.

3.4.16 The Board of a firm is responsible for determining the acceptable level of risk it should be exposed to. The Board will usually take into consideration the probability it is willing to accept of not being able to meet policyholder liabilities as they fall due or not meeting regulatory expectations.

3.4.17 The Board sets the capital management policy describing the level of capital to be held in excess of what is strictly required under Solvency II. This is known as the target coverage ratio.

Solvency UK

3.4.18 As mentioned in paragraph 3.4.2, the PRA has taken over from EIOPA for implementing Solvency II in the UK. The PRA has published several consultation papers since 2017, requesting responses to proposed amendments to Solvency II reporting and requirements.

3.4.19 In June 2023, the PRA published a consultation paper CP12/23 'Review of Solvency II: Adapting to the UK insurance market' setting out their proposals to deliver significant reforms. The reforms are designed to support a more competitive and dynamic market in the UK, while maintaining high standards of policyholder protection.

3.4.20 A number of minor amendments have been implemented by HM Treasury ("HMT"), coming into force as of 31 December 2023. The only change considered in this report is a change in the cost of capital rate used to calculate the risk margin from 6% to 4%. I do not consider any of the other amendments to be materially relevant to my report.

3.4.21 The policy statement PS2/24 issued by the PRA in February 2024 includes the near-final policy in relation to the reforms which will eventually be known as 'Solvency UK'. The implementation date is set for 31 December 2024 and therefore does not apply at the time of writing my report, aside from the minor amendment to the risk margin mentioned above.

3.4.22 For general insurance companies, the reforms are not expected to result in material changes to capital requirements or the level of protection for policyholders.

3.4.23 Gibraltar is an overseas territory of the UK. Following Brexit, Gibraltar is part of the EU's Schengen zone. Hence, Gibraltar insurance companies will continue to follow Solvency II.

3.4.24 In December 2023, an amendment to the Solvency II directive was published for firms licensed in Gibraltar. This included a change in the cost of capital used to calculate the risk margin from 6% to 4%, in line with the change made by the PRA.

3.4.25 As at 31 December 2023, the key difference between the Solvency II requirements applied by Pinnacle and EIFlow is in discounting the TPs: Pinnacle use discount curves prescribed by the PRA[4] whereas EIFlow use discount curves prescribed by EIOPA[5]. I have compared the discount curves (risk free rates) prescribed by the PRA and EIOPA as at 31 December 2023 and have found that the rates are within 0.01% of one another at each future period. Therefore, I do not consider this to be a material difference.

3.4.26 I consider the Solvency II balance sheets for Pinnacle and EIFlow to be comparable.

3.5 Accounting standards

3.5.1 Accounting standards in the UK are set by the FRC. The principal accounting standard used in the UK is FRS 102 'The Financial Reporting Standard, applicable in the UK and Republic of Ireland'. This is commonly referred to as UK GAAP (UK Generally Accepted Accounting Standards). Pinnacle's financial statements as at 31 December 2023 are prepared on this basis.

3.5.2 In Gibraltar, accounts are typically prepared in accordance with the International Accounting Standards ("IAS") or in in accordance with the Gibraltar Companies Act 2014. EIFlow's financial statements as at 31 December 2023 have been prepared in accordance with the Gibraltar Financial Reporting Standards 102 ("GFRS 102") and GRFS 103 which are part of the Gibraltar Companies Act 2014.

3.5.3 On both a UK GAAP and GFRS basis, the financial statements must give a true and fair view of the company's assets, liabilities, financial position and profit or loss.

3.5.4 In my report, I will refer to financial statements on either of these bases as being on a "statutory basis", as opposed to a Solvency II basis.

[4] Source of discount curves published by the PRA: www.bankofengland.co.uk/prudential-regulation/key-initiatives/solvency-ii/technical-information

[5] Source of discount curves published by EIOPA: www.eiopa.europa.eu/tools-and-data/risk-free-interest-rate-term-structures_en

4 Outline of proposed transfer

4.1 Companies involved in the transfer

4.1.1 This section outlines the background of Pinnacle and ElFlow, providing the history of the companies, existing and future business underwritten, risk appetite and risk management, a brief overview of financial strength and subsequent business plans. I comment in more detail on the financial strength and capital position of the companies in Section 5, Section 6 and Section 7 of this report.

4.2 Pinnacle Insurance PLC

Corporate background

4.2.1 Pinnacle was incorporated in 1971 and is domiciled in the UK. The company is approved by the PRA and jointly regulated by the PRA and FCA.

4.2.2 Pinnacle is a provider of personal lines insurance and has underwritten Pet, Motor, Household, Creditor, Warranty & GAP and a small amount of long-term insurance business. All policyholders are based in the UK.

4.2.3 In 2021, Pinnacle's then owner, BNP Paribas Cardif, announced the intention to form a joint venture with JAB Holdings B.V., into which the company would be placed. Until June 2022 the company remained part of the global banking group BNP Paribas S.A. Upon establishment of the joint venture, Pinnacle became a wholly owned subsidiary of Pinnacle Pet Group Ltd, which in turn is a subsidiary of Pinnacle Pet Holdings Ltd. The current corporate structure is shown in Figure 1.

4.2.4 Pinnacle Pet Group Ltd wholly owns several other insurance companies across the UK and Europe, primarily writing Pet insurance. Agila, Veterfina, Pet Protect, Vio Vet, HD Assurances, Captain Vet and Animal Friends ("AFI") were all acquired by the Pinnacle Pet Group Ltd throughout 2022 and 2023, demonstrating the Group's ambition to expand its offering in the UK's Pet healthcare and insurance services markets.

4.2.5 Since December 2021, all Pinnacle's non-Pet insurance business has been fully reinsured to Darnell DAC, a wholly owned subsidiary of the BNP Paribas Group which is authorised by the Central Bank of Ireland. Darnell DAC is not shown in Figure 1 because it is not part of Pinnacle Pet Holdings Ltd.

4.2.6 The Darnell DAC treaty is structured in such a way as to guarantee zero impact on Pinnacle's financial position from all non-Pet portfolios. The treaty provides for all costs of managing the non-Pet business to be invoiced to Darnell DAC and reimbursed through the reinsurance commission mechanism.

4.2.7 The reinsurance arrangement with Darnell DAC does not give rise to any credit risk for Pinnacle because there is a collateral agreement in place whereby Darnell hold an amount in a custodian account equivalent to the Solvency II best estimate plus risk margin.

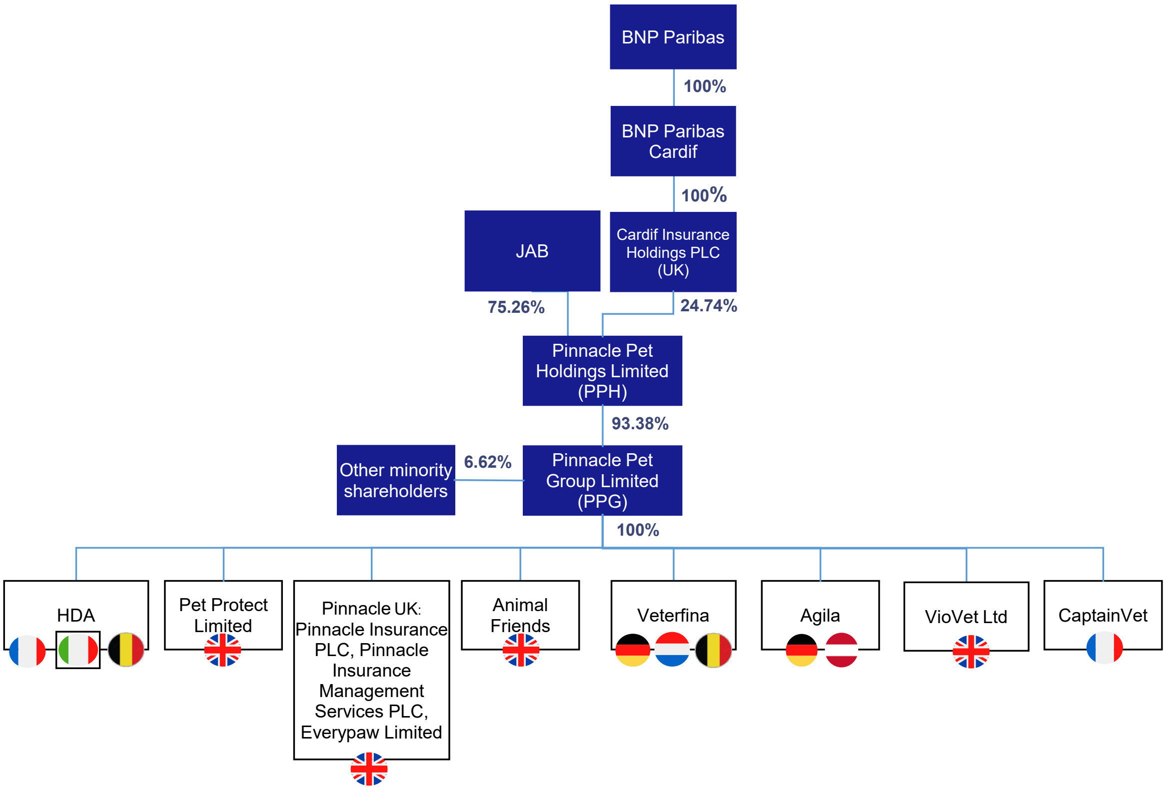


Figure 1: Pinnacle Group structure chart

Lines of business written

4.2.8 Pinnacle's insurance liabilities as per the 31 December 2023 management accounts are £127.6m on a gross basis and £83.6m on a net basis.

4.2.9 The gross liabilities comprise claims reserves of £53.9m (including a margin for uncertainty of £7.9m), UPR of £72.9m and a reserve for ULAE of £0.8m. There is a reinsurance claims reserve of £38.5m (£10.6m of which relates to the Darnell DAC treaty) and reinsurance UPR of £5.5m.

Pet insurance

4.2.10 Pinnacle's primary focus is the Pet insurance line of business. Pet insurance is the only line of business on which new policyholders are still being accepted. In 2023 the gross written premium was £143.7m and Pet insurance makes up 35% (£18.6m) of Pinnacle's gross claims reserves at 31 December 2023 (including a margin for uncertainty of £2.4m).

4.2.11 Pinnacle offers a range of Pet insurance products: lifetime, per condition and time limited options. Policies are sold direct to consumers under Pinnacle's own brands, Everypaw and Helpucover, and through aggregators. The business also operates through partnerships with consumer brands and a number of smaller niche intermediaries.

4.2.12 Policy administration and claims handling is performed by Pinnacle Insurance Management Services PLC ("PIMS") which is a management company within the Pinnacle Group.

Motor

4.2.13 Pinnacle's Motor insurance business was written through two Managing General Agents ("MGAs"), XS Direct and Somerset Bridge, between 2012 and 2015. The business was written on a co-insurance basis where Pinnacle had a 60% share of the XS Direct book and 35% share of the Southern Rock book (written under Somerset Bridge MGA). For the last few months of the Southern Rock arrangement, the co-insurance share reduced from 35% to 0.1%.

4.2.14 XS Direct stopped accepting new or renewal business in early 2022 and are in the process of being liquidated. Claims bordereaux are no longer available and reports are received on an ad-hoc basis. The impact of this on the reserve estimates is discussed in Section 5.2.

4.2.15 The Motor insurance book makes up 28% (£15.1m) of Pinnacle's gross claims reserves at 31 December 2023 (including a margin for uncertainty of £4.9m).

4.2.16 There are excess of loss reinsurance arrangements in place covering any individual claim amount in excess of £500k (index-linked) on XS Direct and £1m (index-linked) on Southern Rock, with no upper limit. These retentions are quoted before the Pinnacle share is applied. After application of the Pinnacle share, the cover is for claims in excess of £300k (index-linked) on XS Direct and £350k (index-linked) on Southern Rock. More details on the reinsurance treaties can be found in Appendix E.

4.2.17 The reserves are primarily in relation to long tailed personal injury claims known as Periodical Payment Orders ("PPOs"). These claims are discussed in more detail in Section 5.

4.2.18 The net liabilities after the excess of loss reinsurance arrangement are 100% reinsured to Darnell DAC, meaning the net liability to Pinnacle is zero.

4.2.19 Policy administration and claims handling for the Motor portfolio is the responsibility of the MGAs through which the business was written. This is either XS Direct or Somerset Bridge for the Southern Rock portfolio. However, as noted above, XS Direct has gone into administration. There is no ongoing policy administration as the business was written up to 2015. The responsibility for handling claims is currently held by two law firms, DWF Law LLP and Horwich Farrelly Limited. Case reserves are agreed jointly between Pinnacle, the co-insurer and the MGA.

Household

4.2.20 The Household insurance book was written through an MGA, Towergate, between 2012 and 2016. The business is comprised of three consortiums:

a) Household consortium written in 2012 of which Pinnacle has a 25% share (co-insurers are AXA with 50% and Allianz with 25%).

b) Household consortium continued over underwriting years 2013 to 2015 of which Pinnacle has a 49% share (Allianz has the remaining 51%).

c) Let Properties consortium continued over underwriting years 2013 to 2016 of which Pinnacle has a 35% share (co-insurers are RSA with 45% and Allianz with 20%).

4.2.21 Household business is generally short tailed and therefore the remaining reserves are low, making up 1% (£0.4m) of Pinnacle's gross best estimate at 31 December 2023 (including a margin for uncertainty of £0.1m). As at November 2023, 12 claims remained open, mainly concerning subsidence. These remaining claims are handled by the Davies Group.

4.2.22 There is a profit commission arrangement in place such that Pinnacle paid Towergate 80% of the profit made on the book up to the end of May 2023. Subsequently, there was some adverse development between the May and November 2023 bordereaux and as a result 80% of the deterioration (totalling £27k) has been claimed back from Towergate in respect of the profit commission paid historically. No asset was recognised in Pinnacle's December 2023 financial statements in relation to the clawback of this profit commission despite the gross IBNR being booked. The clawback amount was received from Towergate in March 2024.

4.2.23 There are excess of loss reinsurance arrangements in place for Household Liability. The retentions and structure of the reinsurance treaty varies by underwriting year. However, these arrangements have never been triggered.

a) For 2012, the gross excess of loss cover (before applying the Pinnacle share) is £7.5m xs £2.5m, translating to £1.875m xs £0.625m as Pinnacle's share.

b) For 2013 and 2014, the excess of loss cover is quoted directly as the Pinnacle share, i.e. £4.25m xs £0.75m.

c) For 2015, the gross excess of loss cover (before applying the Pinnacle share) is £8.5m xs £1.5m, translating to £4.165m xs £0.735m for Household and £2.975m xs £0.525m for Let Properties as Pinnacle's share.

4.2.24 More details on the reinsurance treaties can be found in Appendix E.

4.2.25 There is a catastrophe excess of loss reinsurance policy in place on the Household book for losses in excess of £5m in 2012 and 2013, £5.75m in 2014 and £6m in 2015. However, this has never been triggered. Due to the level of gross claims and given the nature of catastrophe claims reporting, it is highly unlikely that any catastrophe reinsurance recoveries will arise in future. This catastrophe reinsurance will be part of the transfer, but no future recoveries are expected.

4.2.26 The net liabilities are 100% reinsured to Darnell DAC, meaning the net liability to Pinnacle is zero.

4.2.27 Policy administration and claims handling for the Household business is provided by Towergate, Allianz and Direct Group for each of the three consortiums respectively. Case reserves are agreed jointly between Pinnacle, the co-insurer and Towergate (the MGA).

Warranty and GAP

4.2.28 Motor Warranty insurance business was written through Arval which is part of the BNP Paribas Group. Motor GAP insurance business was written through partnerships with Vauxhall and Close Brothers. The partnership with Vauxhall ceased at the end of 2021 and the partnerships with Close Brothers and Arval ceased in August 2022. A small number of Warranty and GAP policies were also sold directly.

4.2.29 The policies have a term of up to 5 years and therefore some policies are still on risk. As at March 2024 there are approximately 28,000 open policies and they are currently expiring at a rate of approximately 1,300 per month. The business will fully run-off in terms of exposure by November 2026 and there will be less than 200 policies on risk by November 2025.

4.2.30 The Warranty and GAP business makes up 1% (£0.3m) of Pinnacle's gross claims reserves at 31 December 2023 (including a margin for uncertainty of £0.1m).

4.2.31 There is quota share reinsurance in place on the Vauxhall GAP book and the Arval Warranty book, both covering 50% of the gross claims.

4.2.32 The net liabilities after the quota share reinsurance arrangement are 100% reinsured to Darnell DAC, meaning the net liability to Pinnacle is zero.

4.2.33 Policy administration and claims handling is performed by PIMS. There is a team of four claims handlers who focus on Warranty & GAP claims and the headcount of the team is in line with the number required for the size of the book.

Creditor

4.2.34 Pinnacle wrote Creditor insurance business, which was distributed via finance houses, banks and building societies, and financial / mortgage intermediaries. It was primarily Mortgage Payment Protection Insurance ("MPPI") and was sold through creditor partner schemes.

4.2.35 In late 2015, the decision was made that the market would not see further growth and the partner schemes were closed to new business. Since 2016, Pinnacle has been actively terminating sub-scale and/or unprofitable businesses within the book. Policies that have not been terminated are monthly renewable and premiums are collected monthly.

4.2.36 These policies are in the process of being transferred to ElFlow via tacit renewal. This means the policies will renew with ElFlow. This process is expected to start in May 2024 and be completed by October 2024. More information on this transfer can be found in Section 4.7. The Creditor business is not part of the transferring portfolio but is included in the business forecast that I have considered. An update on the progress of the renewal process will be provided in my Supplementary Report.

4.2.37 The Creditor business makes up 4% (£2.0m) of Pinnacle's gross claims reserves at 31 December 2023 (including a margin for uncertainty of £0.3m).

4.2.38 The net liabilities are 100% reinsured to Darnell DAC, meaning the net liability to Pinnacle is zero.

4.2.39 Policy administration is primarily performed by PIMS. There is one partner scheme (of six in total) where the policy administration and premium collection is performed by the partner. Claims management is handled in-house by Pinnacle for all the Creditor business.

4.2.40 Once the policies renew with ElFlow, claims management will be handled by Wessex Group via an outsourcing agreement with ElFlow. A profit share arrangement has been agreed such that profits generated in 2023, 2024 and 2025 are shared between Pinnacle and ElFlow in the proportion 30%:70%.

Long-term business

4.2.41 Pinnacle's Long-term insurance business includes two types of annuities: an Impaired Life Annuity and a Death in Service Product. The business is in run-off with approximately 150 policies remaining open.

4.2.42 The Long-term business makes up 32% (£17.4m) of Pinnacle's gross claims reserves at 31 December 2023.

4.2.43 The Impaired Life Annuity is 95% reinsured with General Cologne Re. The RAM Death in Service Product is 100% reinsured with Munich Re.

4.2.44 The net liabilities after the above reinsurance arrangements are 100% reinsured to Darnell DAC, meaning the net liability to Pinnacle is zero.

4.2.45 Policy administration and claims handling is performed by PIMS.

Guarantees

4.2.46 There are no guarantees in the underlying insurance contracts written by Pinnacle.

Risk appetite and risk management

4.2.47 Pinnacle's risk management system is described in its annual Own Risk and Solvency Assessment ("ORSA") report. It comprises governance, functions, policies, procedures and processes, which are assessed at least annually and amended where necessary.

4.2.48 The 31 December 2023 ORSA report was not available at the time of submitting this report. However, based on the 31 December 2022 ORSA and 1 January 2024 Risk Appetite Framework, I understand that Pinnacle's risk management framework has identified the following key risks to its business strategy:

a) meeting timelines for key deliverables with Tesco, its newest strategic partner, while continuing to achieve strategic growth targets in a highly competitive market;

b) ensuring quality and accuracy of the data underlying the information fundamental to strategic decisions and compliance with regulations including general data protection and privacy;

c) managing technical obsolescence, legacy and a comprehensive security programme;

d) utilising price optimisation to align to inflationary pressures;

e) containing claims costs in the face of inflation and increasing veterinary costs;

f) delivering scalability, through process digitalisation and efficient self-service;

g) attracting people in an evolving recruitment market, in which demand for specific skills currently exceeds supply. In addition, developing and retaining people when employees' expectations have changed as a result of the cost-of-living crisis; and

h) conducting business with the highest standards of integrity, transparency, and fairness.

4.2.49 Key financial risks are identified in Pinnacle's risk register as: operational risk; insurance risk (underwriting and reserve risk); market risk, credit risk and liquidity risk. These risks are monitored by the Executive Management Group (operational risk), Actuarial Function (insurance risk) and the Finance Function (market, credit and liquidity risk).

4.2.50 The overall strategic risk appetite is measured as the deviation of profit before tax at the 90th percentile and the coverage ratio, which measures key financial risks. Pinnacle defines its coverage ratio as within risk appetite if it is above 140%, within risk appetite but requiring monitoring and mitigation if it is between 120% and 140% and exceeding risk appetite if it falls below 120%, at which point action plans would be developed to return to within risk appetite.

4.2.51 While the 31 December 2023 ORSA report was unavailable at the time of submitting this report, I have discussed the key risks and risk appetite to be included in it with Pinnacle's Risk Management Function. Based on these discussions, the main changes to the key risks and risk appetite between 2022 and 2023 relate to:

a) an increased focus on the risks of failing to meet the milestones required to achieve strategic growth, in particular in relation to the Tesco partnership and Animal Friends Investments Limited ("AFI") migration; and

b) an increased focus on conduct risk.

4.2.52 If the ORSA report is made available to me in the interim, I will include it as part of my analysis for my Supplementary Report.

Financial strength and capital position

4.2.53 Pinnacle has a coverage ratio of 278% as at 31 December 2023. While this is well in excess of its risk appetite of 120%, it has processes in place to address any difficulties in meeting its targets in the future, including:

a) the injection of equity or subordinated debt capital from its shareholders;

b) the issuance of qualifying subordinated debt to a third party;

c) increasing the use of reinsurance on its Pet portfolio; and

d) “paring back” the business plan.

4.2.54 Pinnacle’s Board and shareholders would choose the preferred option to meet any coverage ratio shortfall depending on the circumstances.

4.2.55 Pinnacle is not a rated entity. However, the main parties to the joint venture comprising its ultimate ownership are both rated entities: BNP Paribas is rated Aa3 and Jab Holdings B.V. is rated Baa1 (Moody’s). In addition, as per Pinnacle’s 31 December 2023 financial statements, 95% of its financial assets are rated A- or above and the remaining 5% are rated BBB+ (Standard & Poor’s – Moody’s equivalents are A3 and Baa1 respectively).

Subsequent plans

4.2.56 Based on a February 2024 Board presentation, Pinnacle plans to increase the gross written premium by 139% between 31 December 2024 and 31 December 2026. It is focused on doing so through its own brand and existing and new strategic partnerships across its Pet portfolio. The company has strategic partnerships with Sainsbury’s, Argos, the Post Office and PDSA, the UK’s leading vet charity. Implicit within the strategy is to migrate Pet Protect Limited and AFI into Pinnacle, to continue the contract with Sainsbury’s Bank and to develop additional strategic partnerships (e.g. Tesco Bank). The Tesco Bank strategic partnership is forecast to account for 63% of the projected growth (88% of the increase in gross written premiums) between 31 December 2024 and 31 December 2026, comprising 37% of total gross written premium by 31 December 2026.

4.2.57 Pinnacle has performed multiple projections of its solvency capital requirements to determine the impact of these growth strategies. The solvency ratio as at 31 December 2023 was 278%. Incorporating strategic business plans such as the Tesco partnership results in a decrease in the solvency ratio from 278% to a projected 135% as at 31 December 2026. The projected SCR has been subjected to various stress and scenario tests in accordance with Pinnacle’s key risks. All projections and scenarios indicate solvency coverage ratios that are in line with Pinnacle’s stated risk appetite.

4.3 ElFlow Insurance Ltd

Corporate background

4.3.1 ElFlow is a private limited liability company incorporated in November 2011 and domiciled in Gibraltar. ElFlow is regulated by the GFSC. It is a wholly owned subsidiary of Bacchus Holdings and operates in the non-life run-off acquisition market.

4.3.2 ElFlow's focus is predominately run-off business with underwriting of new contracts of insurance limited to the extension or renewal of legacy business which has been acquired by portfolio transfer. New portfolios are added periodically based on the merits of the transaction considering the capital required, risk profile of the liabilities and a reassessment of ElFlow's risk appetite and risk tolerance levels.

4.3.3 ElFlow is managed by Quest Consulting (London) Ltd ("Quest"), a service company within the Bacchus Group. Quest was founded in 2005 with operations based in London, New York, Zurich, Malta and Japan.

4.3.4 The current corporate structure is shown in Figure 2.

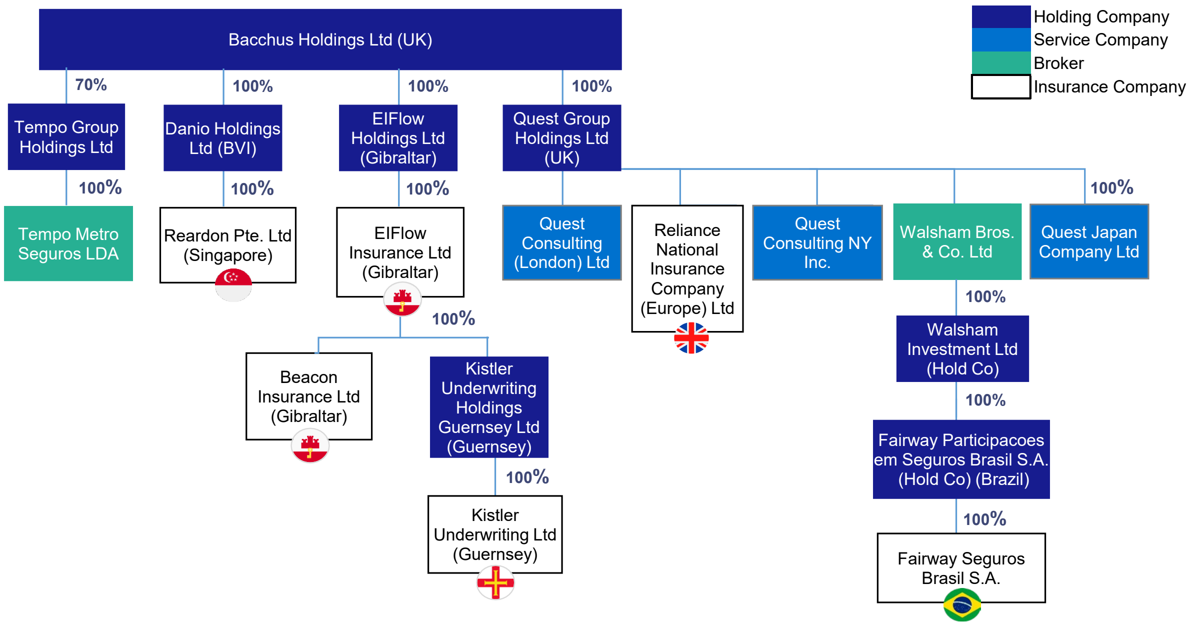


Figure 2: ElFlow Group structure chart

Insurance portfolios

4.3.5 In line with its strategic focus, ElFlow has completed a number of legacy portfolio transfers in its history. The majority of the portfolios are in run-off, with only very small amounts of premium written by EIFlow in relation to extensions to legal expenses after the event ("ATE") insurance policies.

4.3.6 Once Pinnacle's Creditor portfolio transfers to EIFlow, this will generate additional written premium. The gross written premium of the Creditor portfolio in 2023 was £4.8m and as the portfolio runs off and not all policies renew with EIFlow, this amount will decrease over time.

4.3.7 EIFlow's insurance liabilities as per the 31 December 2023 management accounts are $22.4m (£17.6m) on a gross basis and $20.2m (£15.9m) on a net basis. For ease of comparison and consistency with other sections of this report, I have converted USD to GBP at a rate[6] of £1 = US$1.27 for the remainder of the report.

4.3.8 The gross liabilities comprise claims reserves of £15.6m, UPR of £1.2m and a reserve for ULAE of £0.8m. There is a reinsurance claims reserve of £1.7m.

4.3.9 The reserves arise from several different portfolios acquired by EIFlow. The business is international in nature.

4.3.10 EIFlow was initially set up to accept the liabilities from Icarom PLC (under administration) in 2012. Icarom PLC was dissolved following the transfer. The liabilities are a mix of non-marine, marine and aviation business and are worldwide in nature, primarily North American. The Icarom liabilities make up 33% of the gross claims reserves as at 31 December 2023 (£5.1m).

4.3.11 PMI Mortgage Insurance Company ("PMI") transferred a portfolio of UK mortgage indemnity policies to EIFlow in 2014. PMI was dissolved following the transfer. The majority of premium relates to business written between 1993 and 1997. However, the last policy was written in 2007 and the typical policy term is likely to be 20 to 25 years. Business written between 1993 and 1997 accounts for 88% of written premium and I understand that there are currently no case estimates relating to the claims reserves for the historic policies transferred into EIFlow during 2014. There have been no claims on this portfolio since the transfer and no reserves are held in relation to the PMI portfolio as at 31 December 2023.

4.3.12 The portfolio transferred from Groupama in 2016 is direct Marine insurance relating to accident years 2005 to 2012. No IBNR is held on this portfolio but there remains a small amount of outstanding claims. The Groupama liabilities make up 3% of the gross claims reserves as at 31 December 2023 (£0.5m).

4.3.13 EIFlow acquired two ATE portfolios from LAMP Insurance Ltd ("LAMP") (in liquidation) in 2020 and 2021:

[6] Closing USD to GBP rate 31 December 2024 – www.exchangerates.org.uk/GBP-USD-31_12_2023-exchange-rate-history.html

a) The 2020 portfolio mainly includes claims relating to clinical negligence cases with professional law firms.

b) The 2021 portfolio mainly relates to poor performing cavity wall insulation and mortgage miscalculation. Claims are often rejected as the policy conditions are not met. The total LAMP liabilities make up 7% of the gross claims reserves as at 31 December 2023 (£1.2m).

c) There remains £1.2m of unearned premium in relation to the LAMP portfolio. In addition, there is £1.6m of premium yet to be received, against which EIFlow are holding a bad debt reserve of £0.9m as the premium is considered likely to be refunded.

4.3.14 The portfolio transferred from Preserve Insurance Company Ltd ("Preserve") in 2021 relates to UK Motor. Preserve has been dissolved following the transfer. The business was underwritten in 2016 and prior. There are a small number of outstanding claims plus a single PPO claim which is in payment (£20k per year, index-linked). The Preserve liabilities make up 13% of the gross claims reserves as at 31 December 2023 (£2.0m):

a) There is excess of loss reinsurance in place on the Preserve portfolio which covers claims above £0.5m (index-linked). This reinsurance limits the net liability on the PPO claim.

b) The reinsurance asset held against the Preserve portfolio is £1.7m as at 31 December 2023. The cover is provided by a number of reinsurers all rated A or above. The net claims liabilities in relation to the Preserve portfolio therefore amount to £0.3m.

4.3.15 There is no reinsurance in place on any portfolios other than Preserve, either because it has been commuted or because it is not considered recoverable due to the period in which the business was underwritten. Hence, no other reinsurance assets are held.

4.3.16 In 2022, EIFlow entered into an agreement to provide Adverse Development Cover ("ADC") reinsurance to Fairway Seguros SA. The net premium received for the ADC was £2.4m which EIFlow recorded as UPR, intending to release this as profit over the lifetime of the cover in the absence of any losses. However, the cover was commuted in 2023 at a profit and therefore has no impact on the 31 December 2023 reserves.

4.3.17 The transfer of international reinsurance business from Cardinal Re DAC ("Cardinal Re") to EIFlow was acquired via a Scheme of Arrangement with an effective date of 14 December 2023. Prior to this, the Cardinal Re business was fully reinsured by EIFlow since Q1 2023. The claims handling for the Cardinal Re portfolio has been undertaken by Quest since 2015. The Cardinal Re liabilities make up 44% of the gross claims reserves as at 31 December 2023 (£6.8m).

Claims handling and policy administration

4.3.18 EIFlow implements appropriate claims procedures for each portfolio that it takes on. Claims handling for the majority of portfolios is outsourced through Quest to a claims team with expertise across multiple lines of business, including UK Motor which is the most significant component of reserves. The exception to this is the Preserve portfolio for which claims handling has remained with the original claims managers.

4.3.19 Claims handling costs directly associated with each claim are included in the reserves for that claim. EIFlow also holds a £0.8m ULAE reserve as at 31 December 2023.

4.3.20 The Board of EIFlow is directly responsible for supervising and monitoring the performance of its outsourced functions, including claims handling, so the arrangements are reviewed periodically to ensure that the benefits of outsourcing significantly outweigh any disadvantages.

Risk appetite and risk management

4.3.21 EIFlow's risk management system is described in its ORSA report. An ORSA review is undertaken periodically as follows:

a) once every 3 years if the portfolio of business does not change;

b) in the event of a substantial change to EIFlow's business profile through the addition of new portfolios; or

c) where there is a significant change to the regulatory environment.

4.3.22 Based on the 30 June 2023 ORSA report and given the nature of its legacy run-off portfolios, EIFlow's risk management framework has identified its key financial risk as insurance risk with respect to reserving and claims management.

4.3.23 EIFlow has limited appetite for material underwriting risk and it does not enter into any new contracts of insurance that involve exposure to new live risks and limited exposure to new losses, with the exception of continuation of underwriting of transferred risks.

4.3.24 While currently low risk, the impact of insurance risk with respect to reinsurance will increase post transfer given the reliance on reinsurance in relation to large PPO Motor claims.

4.3.25 Operational risk, market risk (investment risk) and liquidity risk are considered to have a limited impact on EIFlow:

a) Operational risk is limited because primary functions including claims management, investment management and regulatory reporting are outsourced.

b) Market risk and liquidity risk are low because the vast majority of EIFlow's assets are held in the form of bank deposits or investment grade fixed income investments, namely government and corporate bonds.

4.3.26 EIFlow's risk appetite states that the coverage ratio should not fall by more than 20% in a quarter or in a year, with the exception of movements due to the addition of a new legacy portfolio.

4.3.27 EIFlow's risk appetite is also reflected in its dividend policy, whereby no dividends will be considered unless there is an ample buffer above a 150% coverage ratio over a three-year time horizon.

Financial position and solvency targets

4.3.28 EIFlow has a coverage ratio of 394% as at 31 December 2023.

4.3.29 The company has no capital management plans to increase or reduce its capital, save that the Board may consider distribution of assets surplus to its regulatory capital needs or its economic capital needs based on the current business plans. Similarly, there are no contingency capital structures in place which is consistent with the operation of a company with no live risks and therefore limited exposures to new large claims or catastrophes which could impact the capital position.

4.3.30 The transferring assets are greater than the transferring liabilities, giving rise to an increase in the own funds immediately post transfer. The SCR also increases due to additional insurance risk, spread risk and counterparty default risk, resulting in a solvency ratio of 339% post transfer. The current and projected solvency ratios are discussed in Section 6.3.

4.3.31 EIFlow is not a rated entity and neither is its ultimate parent company. However, as per EIFlow's Investment Policy 2023, the majority of its cash and investments are placed with financial institutions with a long-term credit rating of BBB or above. Since 2019, EIFlow has invested some surplus capital (£5.9m as at 31 December 2023, or 17% of total cash and investments) into a Mangrove Partners fund. Mangrove Partners is a New York based investment manager. EIFlow's Board has oversight of this investment and participates in active discussions with the fund managers. This fund attracts an equity risk charge under the standard formula SCR.

Subsequent plans

4.3.32 EIFlow's business strategy follows a simple business model with a limited range of risk given its primary function as a specialist run-off insurer.

4.3.33 The impact of EIFlow's business strategy, including the effect of this transfer, results in a decrease in the solvency ratio from 394% as at 31 December 2023 (pre transfer) to a projected 369% as at 31 December 2026. The projected SCR has been subjected to various stress and scenario tests in accordance with EIFlow's key risks. All projections and scenarios indicate coverage ratios that are in line with EIFlow's stated risk appetite.

4.3.34 As mentioned in Section 4.2, Pinnacle's Creditor policies are to be renewed into EIFlow during 2024. The policies will be renewed into EIFlow in tranches between May and October 2024. This is discussed in more detail in Section 4.7.

4.3.35 Having completed its sixth business transfer in 2023, and insurance company purchases in 2019, 2020 and 2022, EIFlow has successfully implemented multiple legacy acquisitions. Post acquisition, reserves for each portfolio are held at a suitable amount based on the outstanding claims and claims experience (including solvency considerations) and are monitored to determine when any potential profit from the acquisitions can be released. EIFlow's Board has reflected this in the dividend policy, where the solvency ratio is maintained above 150%. Distribution of this surplus will be made to shareholders where there is no pending requirement for additional capital to support known new transactions. There are no dividends planned at the current time with an active pipeline of new business.

4.3.36 In 2024, EIFlow plans to assume a portfolio of UK Employers' Liability insurance from Reliance National Insurance Company (Europe) Limited ("Reliance"), a Quest Group company, for a transfer premium of £1.0m. This portfolio was written between 1999 and 2006. It is therefore in run-off with limited activity. However, the Deed Poll mechanism planned to implement this transfer is contingent on a separate scheme of arrangement within Reliance that is still under discussion and with which EIFlow is not involved. Given this uncertainty, EIFlow has not included the Reliance portfolio in its projections as at 31 December 2023. The net insurance liabilities of the Reliance portfolio are estimated to be c. £10k so it is not material in comparison to EIFlow's overall portfolio.

4.3.37 The Board has noted that transfers from the EU in the uncertain post Brexit environment are difficult at present, as EU regulators are acting with caution whilst the withdrawal plans continue to be implemented. Whilst a scheme of arrangement is available as a mechanism to achieve the same goal, and successfully implemented in the case of Cardinal Re, EIFlow has placed a greater focus on Gibraltar and UK carriers and this change of business targeting is likely to be continued in the future.

4.4 Description of the proposed transfer

4.4.1 The transferring portfolio is the majority of Pinnacle's non-Pet general insurance business. This comprises of three portfolios:

a) Motor;

b) Household; and

c) Warranty and GAP.

4.4.2 Any policies which are not capable of being transferred for legal reasons will be treated as excluded policies and will remain with Pinnacle. Pinnacle's management has advised that they do not expect there to be any such policies in this transfer. If any should arise, I will consider these at the time of my Supplementary Report.

4.4.3 Pinnacle has confirmed that, to the best of its knowledge, there are no ongoing or potential litigation or complaint cases against it relating to the transferring policies[7].

4.4.4 Pinnacle has confirmed that none of the transferring policyholders are subject to Russian sanctions.

4.4.5 The external reinsurance arrangements associated with the transferring portfolio will also be transferred in line with the requirements of the Court Order underpinning the transfer. For the avoidance of doubt, this does not include the reinsurance contract with Darnell DAC which will be commuted, as explained below.

4.4.6 The assets to be transferred comprise:

a) Reinsurance assets relating to recoveries from external reinsurance that will transfer:

(i) excess of loss reinsurance on the Motor portfolio; and

(ii) quota share reinsurance on the Vauxhall GAP book and the Arval Warranty book; and

b) Cash in GBP, the same currency as the underlying liabilities.

[7] For the avoidance of doubt, I have not sought to verify this.

4.4.7 There are other reinsurance arrangements in place that are part of the transfer but there are no outstanding recoveries on these, so they do not have any financial impact with respect to the transfer. These are listed below and discussed in more detail in Section 4.2:

a) excess of loss reinsurance on the Household Liability portfolios; and

b) catastrophe excess of loss reinsurance on the Household portfolio.

4.4.8 Darnell DAC currently 100% reinsure the transferring portfolio. This reinsurance applies after the external reinsurance covers noted above. The reinsurance policy between Pinnacle and Darnell DAC will be partially commuted (the part corresponding to the transferring portfolio) simultaneously with completion of the Part VII transfer, releasing an amount currently held under a collateral agreement. The structure of this agreement is described in Section 4.2. As described in Section 2.3, this commutation will mean that the net reserves under the proposed transfer will no longer be zero.

4.4.9 The value of the transferring assets will exceed the value of the transferring liabilities due to profit considerations and differences between EIFlow and Pinnacle's valuation of the liabilities. The excess amount will be provided by Pinnacle Pet Group Ltd such that the net impact on Pinnacle's balance sheet (on a statutory basis) is zero.

4.4.10 The differences between EIFlow and Pinnacle's valuation of the liabilities is discussed in more detail in Section 5.

4.4.11 The financial impact of the transfer on Pinnacle and EIFlow's balance sheets can be found in Section 4.6.

4.4.12 The Darnell DAC treaty provides for all costs of managing the non-Pet business to be invoiced to Darnell DAC and reimbursed through the reinsurance commission mechanism. These costs include an allocation to Darnell DAC of staff and non-staff costs. Post transfer, the Darnell DAC allocation will only apply for the remaining non-Pet business. Any differences between the estimated costs included in the allocation model and the actual costs associated with managing the transferring portfolio will revert to Pinnacle. As at 31 December 2023, this difference is estimated to result in increased costs to Pinnacle of c. £0.5m and is included in the post transfer balance sheet and capital projections provided to us by Pinnacle.

4.4.13 I understand that the profit commission arrangement on the Household portfolio will transfer to EIFlow post transfer. Should there be any future adverse development on the Household book, 80% of the deterioration would be offset by a reduction in profit commission. There are no significant concerns around collection of future amounts under this arrangement given the latest payment has been received and the short-tail nature of the claims.

4.4.14 Policy administration and claims handling for the transferring portfolio will be unchanged immediately after the transfer. For Motor and Household portfolios, claims handling will remain with the MGAs indefinitely. For the Warranty & GAP portfolio, claims handling will remain with Pinnacle for a period of at least one year following the transfer.

4.4.15 I understand that a formal Third-Party Administrator ("TPA") agreement will be entered into between Pinnacle and EIFlow prior to the effective date of the transfer, outlining the claims handling arrangements for the Warranty & GAP portfolio. The TPA agreement will be in place for a period of at least one year following the transfer, after which the agreement will either be extended or Quest will handle the claims going forward on behalf of EIFlow.

4.4.16 There is an obligation under Section 83A of the FSA 2019 for firms to obtain the GFSC's consent to any material change that they propose to make to their business plan, financial resources or corporate governance arrangements, which may affect their continuing satisfaction of the threshold conditions. I understand that EIFlow have been in communication with the GFSC about the proposed transfer (a change in business plan) since November 2022 and have obtained approval and the necessary licenses to accept the transferring portfolio.

4.5 Purpose of the proposed transfer

4.5.1 The purpose of the proposed transfer is to move the non-Pet business and associated risks out of Pinnacle, allowing Pinnacle to focus solely on Pet insurance. Pinnacle's Pet insurance offering is growing substantially, in particular through a number of acquisitions within the Pet insurance market.

4.5.2 Pinnacle's non-Pet business is mostly in run-off so the proportion of Pinnacle's reserves that does not relate to Pet insurance will reduce over time. However, as the core part of Pinnacle's business and strategy moving forward, Pet insurance will be the primary focus in terms of resources and expertise. Therefore, running off the non-Pet insurance portfolios will represent a cost to the business that is not proportionate to its size.

4.5.3 With Pinnacle undergoing changes to its structure, it is reasonable to conclude that there is a potential benefit to the transferring policyholders in moving away from a company where the strategy is no longer focused on their underlying risks.

4.5.4 EIFlow's core business is managing run-off portfolios and it therefore has the specialist expertise to take on this business.

4.5.5 The key challenges presented by the transfer, such as long-term liabilities in the transferring business and any complexities or uncertainties related to the underlying risks and counterparties, are discussed in detail in Sections 5 through Section 10 of this report.

4.6 Financial impact of the proposed transfer

4.6.1 Table 1 and Table 2 show simplified pre and post transfer balance sheets on a statutory basis for Pinnacle and EIFlow based on 31 December 2023 figures. Note that EIFlow's balance sheet has been converted from USD to GBP at a rate of £1 = US$1.27.

4.6.2 The actual balance sheets immediately pre and post transfer will be different from those below as at the proposed effective date. I will prepare a Supplementary Report ahead of the Sanctions Hearing on 9 December 2024, which will include updated balance sheets, if available.

Statutory Balance Sheet Figures in £m	Pinnacle pre transfer	Commutation of Darnell DAC	Funds from PPG	Transferring portfolio	Pinnacle post transfer	*Impact of transfer*
Investments	**133.8**	8.8	11.0	(19.7)	**133.8**	-
Cash & cash equivalents	**22.2**	-	-	-	**22.2**	-
Reinsurance asset	**44.0**	(9.3)	-	(10.2)	**24.6**	*(19.4)*
Insurance and other receivables	**87.6**	(0.4)	-	(0.9)	**86.3**	*(1.2)*
Deferred tax asset	**1.2**	-	-	-	**1.2**	-
Deferred acquisition costs	**10.0**	-	-	-	**10.0**	-
Total assets	**298.8**	**(0.9)**	**11.0**	**(30.8)**	**278.2**	***(20.7)***
Insurance liabilities	**127.6**	-	-	(19.4)	**108.2**	*(19.4)*
Insurance and other payables	**24.6**	(0.9)	-	(0.4)	**23.4**	*(1.2)*
Total liabilities	**152.2**	**(0.9)**	**-**	**(19.8)**	**131.6**	***(20.7)***
Total equity (net assets)	**146.6**	**-**	**11.0**	**(11.0)**	**146.6**	***-***
Net insurance liabilities	**83.6**				**83.6**	
Net assets / insurance liabilities	*175%*				*175%*	
Total equity and liabilities	**298.8**	**(0.9)**	**11.0**	**(30.8)**	**278.2**	***(20.7)***

Table 1: Pinnacle statutory balance sheet pre and post transfer

4.6.3 The gross insurance liabilities to be transferred are estimated at £19.4m by Pinnacle and the reinsurance asset is estimated at £10.2m.

4.6.4 The total transfer premium to be paid from Pinnacle to EIFlow is estimated at £20.2m as at 31 December 2023, comprising £19.7m cash and £0.5m net receivables (this is £0.9m receivables less £0.4m payables shown on Table 1). The actual transfer premium to be paid on the effective date of the transfer will be adjusted for movements in claims, receivables and payables between 31 December 2023 and the effective date.

4.6.5 The cash will be transferred to EIFlow from Pinnacle Pet Group Ltd and Darnell DAC (due to the release of collateral post commutation). As at 31 December 2023, the estimated Darnell DAC portion of this cash is £8.8m while Pinnacle Pet Group Ltd makes up the remaining £11.0m of funds.

4.6.6 Hence, the net impact of the transfer on Pinnacle's statutory accounts balance sheet is zero.

4.6.7 The impact on EIFlow's statutory balance sheet is an increase in the net assets of £5.9m, as shown in Table 2.

Statutory Balance Sheet Figures in £m	EIFlow pre transfer	Transferring portfolio as valued by Pinnacle	Adjustments to be made by EIFlow	EIFlow post transfer	*Impact of transfer*
Investments	**29.6**	19.7	-	**49.4**	*19.7*
Cash & cash equivalents	**5.2**	-	-	**5.2**	-
Reinsurance asset	**1.7**	10.2	-	**11.9**	*10.2*
Insurance and other receivables	**9.6**	0.9	-	**10.5**	*0.9*
Deferred tax asset	**-**	-	-	**-**	-
Deferred acquisition costs	**-**	-	-	**-**	-
Other assets	**0.2**	-	-	**0.2**	-
Total assets	**46.3**	**30.8**	**-**	**77.1**	***30.8***
Insurance liabilities	**17.6**	19.4	5.0	**42.0**	*24.4*
Insurance and other payables	**6.7**	0.4	-	**7.0**	*0.4*
Total liabilities	**24.3**	**19.8**	**5.0**	**49.1**	***24.8***
Total equity (net assets)	**22.0**	**11.0**	**(5.0)**	**28.0**	***6.0***
Net insurance liabilities	**15.9**			**30.2**	
Net assets / insurance liabilities	*139%*			*93%*	
Total equity and liabilities	**46.3**	**30.8**	**-**	**77.1**	***30.8***

Table 2: EIFlow statutory balance sheet pre and post transfer

4.6.8 In EIFlow's post transfer balance sheet, the gross insurance liabilities are valued at £24.4m, £5.0m more than the Pinnacle valuation, due to EIFlow's view of the Motor liabilities being higher than Pinnacle's view. This £5.0m adjustment made by EIFlow will be held in its' best estimate reserves immediately post transfer. EIFlow's valuation was performed at a high-level on an aggregate basis and has not been allocated to individual claims. As a result, no allowance has been made for reinsurance recoveries on the additional gross reserves (i.e. it is assumed that any increases occur below reinsurance retentions) and so the additional reserves are equal on a gross and net basis. EIFlow's view of the reinsurance asset is therefore equal to Pinnacle's estimate. This is a prudent approach with respect to the transferring portfolio and EIFlow's existing portfolio, as it increases the net reserves to be transferred. As will be discussed in more detail in Section 5.2, this prudent approach does not adversely affect Pinnacle's remaining policyholders as the transferring portfolio is fully reinsured and the transfer premium is funded by Darnell DAC and Pinnacle Pet Group Ltd.

4.6.9 In EIFlow's post transfer balance sheet, the transfer premium which will be paid in cash is shown as investments because it is assumed that the amount will be invested in fixed income bonds with EIFlow's investment manager.

4.6.10 The reason for the £10.1m difference between the impact of the transfer on Pinnacle and the impact of the transfer on EIFlow is that Pinnacle will receive net funds of £10.1m from Pinnacle Pet Group Ltd and the commutation of the Darnell DAC reinsurance (see the second and third columns in Table 1).

4.7 Other relevant transfers or schemes

4.7.1 Pinnacle has not completed any other transfers or schemes recently and none are ongoing alongside this transfer.

4.7.2 As mentioned in paragraph 4.2.36, the Creditor policies are to be renewed into EIFlow during 2024. The policies renew monthly and approximately 15,000 policies remain in Pinnacle's portfolio as of March 2024. The gross written premium of the Creditor policies was £4.8m in 2023. The policies will be renewed into EIFlow in tranches between May and October 2024.

4.7.3 Should policyholders choose not to renew into EIFlow, their cover with Pinnacle will be cancelled effective from the renewal date. Hence, after the process is complete, Pinnacle will have no future Creditor exposure for those policies which do not renew.

4.7.4 EIFlow will be liable for claims arising post renewal. However, Pinnacle will remain liable for claims arising prior to the renewal. A profit share arrangement has been agreed such that profits generated in 2023, 2024 and 2025 are shared between Pinnacle and EIFlow in the proportion 30%:70%.

4.7.5 An update on the progress of the renewal process of the Creditor portfolio will be provided in my Supplementary Report.

4.7.6 Pinnacle hope to transfer the Long-term business under a future Part VII transfer but this is reliant on finding a suitable transferee. It is not possible to transfer this business to EIFlow because it does not have the necessary license to run off life insurance business. Given no suitable partner has been found at the time of writing, it is considered very unlikely that this transfer will happen during 2024.

4.7.7 Transferring the non-Pet business out of Pinnacle was part of the agreement when the joint venture between BNP Paribas and JAB was set up in 2021. Therefore, if a future transfer of the Long-term business were to take place, any excess assets required would be provided by the parent company in the same way as it is for this transfer and the impact on Pinnacle's net assets would be zero.

4.7.8 The most recent transfer undertaken by EIFlow was the acquisition of the Cardinal Re portfolio, which was achieved through a Scheme of Arrangement with an effective date of 14 December 2023. This was discussed in paragraph 4.3.17.

4.7.9 Beacon Insurance Ltd, a wholly owned subsidiary of EIFlow, recently completed a Part VII transfer of an Aioi Nissay Dowa Insurance portfolio which was made up of Aviation business from underwriting years 2002 to 2013. The effective date of this transfer was 15 August 2023.

4.7.10 EIFlow's core business is managing run-off portfolios and it is therefore considered likely that further transfers into the company will take place in future. No material transfers are ongoing concurrently with this transfer. The Reliance Deed Poll transfer discussed in paragraph 4.3.36 is ongoing but is not material in comparison to EIFlow's overall portfolio.

4.8 Alternative options considered

4.8.1 Divesting the non-Pet insurance business from the Pinnacle group of entities is a key part of the strategy of the joint venture between BNP Paribas and JAB and they are committed to transferring the Motor, Household and Warranty & GAP liabilities out of Pinnacle. No alternative options are currently being considered aside from this Part VII transfer. However, should the proposed transfer not take place, I understand that Darnell DAC would continue to reinsure the liabilities and the current arrangement would remain unchanged.

4.8.2 Should the proposed transfer of insurance business from Pinnacle to EIFlow not take place, EIFlow's business strategy and operations would remain unchanged.

4.9 Reporting currency

4.9.1 The policyholders in the transferring portfolio are all UK-based; hence all policies and transactions are accounted for in GBP. The reporting currency of EIFlow is USD since this is the dominant currency of policyholders and cedants. I note that there is no plan to change the reporting currency as a result of the transfer.

4.9.2 Where necessary for ease of comparison throughout my report, EIFlow's financial results are converted into GBP using the exchange rate used by EIFlow at 31 December 2023, i.e. £1 = US$1.27.

5 Reserving considerations

5.1 Overview of approach

5.1.1 Definitions of key terms used in this section can be found in Section 2.2 and Appendix B. A complete list of the data underlying the analysis described in this section can be found in Appendix D.

5.1.2 As part of my assessment of the financial impact of the transfer on the affected policyholders, I have reviewed the statutory balance sheets and Solvency II balance sheets of both Pinnacle and ElFlow on both the pre and post transfer basis. The pre transfer basis is the current financial position before any transfer takes place, and the post transfer basis is the position should the proposed transfer proceed. This assessment on a statutory basis is outlined in Section 4.6 and the Solvency II basis will be outlined in Section 6.

5.1.3 The valuation of claims reserves is a fundamental part of any insurer's balance sheet, given the inherent uncertainty in estimating future liabilities. This is because the claims will be subject to the outcome of events yet to occur, such as judicial decisions, legislative actions, claim consciousness amongst potential claimants, claims management, claim settlement practices, changes in inflation and economic decisions. As a result, it should be recognised that future claim emergence will likely deviate, perhaps materially, from any estimate of claims reserves.

5.1.4 As part of my review of the balance sheets, I have reviewed the reserving approach for both Pinnacle and ElFlow to assess whether their reserve estimates are reasonable given their respective risk profiles and inherent underlying uncertainty. I have assessed the balance sheets both on a statutory and Solvency II basis in my review, as well as the key differences between the two bases.

5.1.5 In particular, I have performed an analysis to determine the appropriateness of the claims reserves for the transferring portfolio, the remaining portfolio and the existing portfolio as at 31 December 2023. This analysis involved:

a) a review of the available reserve reports as at 31 December 2023 provided by Pinnacle and ElFlow's actuaries;

b) discussions with Pinnacle and ElFlow's actuaries to understand the process and the methods and key assumptions used by Pinnacle and ElFlow to set the reserves; and

c) a review of the methodology and reasonableness of the translation of the statutory reserve estimates to a Solvency II basis.

5.1.6 Unless otherwise stated, my analysis focuses on reviewing the methodologies and assumptions used by Pinnacle and EIFlow's actuaries and does not involve an independent projection of the reserves.

5.1.7 Unless specifically stated otherwise, I have reviewed the balance sheets as at 31 December 2023.

5.1.8 As part of my analysis, I have also reviewed the other elements comprising the total insurance liabilities for both Pinnacle and EIFlow, namely UPR and ULAE. Because the transferring portfolio is in run-off, these items are relatively small compared to the claims reserves. I have therefore focused mainly on the claims reserves in the sections below and provided a high level commentary with respect to UPR and ULAE where applicable.

5.1.9 I discuss the portfolios in the following order:

a) the transferring portfolio;

b) the remaining portfolio in Pinnacle; and

c) the existing portfolio in EIFlow.

5.2 The transferring portfolio

5.2.1 In this section, I will discuss:

a) Pinnacle's approach to reserving for the transferring portfolio;

b) differences between Pinnacle and EIFlow's valuation of reserves for the transferring portfolio; and

c) my consideration of the appropriate reserves for the transferring portfolio and the conclusions I have drawn.

Data provided

5.2.2 I have been provided with a report documenting an actuarial reserve review as at 31 December 2023 undertaken by Pinnacle's actuaries.

5.2.3 In addition, I have received the following:

a) Motor claims triangles showing historic claims development;

b) PPO valuation model as at Q2 2023 and Q4 2023;

c) reserve summaries as at 30 September 2023 and 31 December 2023;

d) extracts of policy and claim data;

e) QRTs as at 31 December 2023; and

f) Pinnacle Actuarial Function report 2023.

5.2.4 I am satisfied that the data listed above is relevant to my analysis and provides sufficient evidence on which to base my conclusions.

5.2.5 I have also discussed Pinnacle's approach to setting the reserves and technical provisions in relation to the transferring portfolio with Pinnacle's actuaries.

5.2.6 I am satisfied that the actuaries at Pinnacle have the necessary experience and expertise to undertake a review of this nature.

My approach

5.2.7 My analysis focuses on reviewing the methodologies and assumptions used by Pinnacle's actuaries. For key uncertainties, I have performed a more in-depth analysis as follows:

a) For Motor PPO claims, I have used Forvis Mazars' PPO models and internal benchmarks to assess the reasonableness of Pinnacle's assumptions.

b) For Motor claims (PPO and non-PPO), there is a difference between Pinnacle and EIFlow's claims reserve valuations. I have discussed the valuation methodologies with both companies to determine the key underlying factors giving rise to this difference.

Pinnacle's estimate of the reserves for the transferring portfolio

5.2.8 Pinnacle's approach is to book statutory reserves comprising the sum of the following two components:

a) a best estimate derived by Pinnacle's actuaries; and

b) a margin to allow for uncertainty within the actuarial estimate ("margin for uncertainty").

5.2.9 A summary of the gross and net reserves as at 31 December 2023 for the transferring portfolio on a statutory basis is shown in Table 3. The reserves include a margin for uncertainty equal to 48% of gross claims reserves.

Statutory Reserves (£m)		
	Gross	Net
Claims Reserves		
Motor	10.2	-
Household	0.3	-
Warranty & GAP	0.2	-
Margin	**5.1**	**-**
ULAE	**0.3**	**-**
UPR	**3.4**	**-**
Total	**19.4**	**-**

Table 3: Gross and net reserves for transferring portfolio

5.2.10 The methodology and key assumptions used by Pinnacle to estimate the reserves and margin for uncertainty for the transferring portfolio are set out below.

Methodology and assumptions for estimating reserves on a statutory basis

5.2.11 As shown in Table 3, the transferring portfolio includes exposure to different lines of business.

5.2.12 The claims reserves have been estimated using the following cohorts of data:

a) Motor;

b) Household; and

c) Warranty & GAP

5.2.13 The margin for uncertainty is set to target reserves to be sufficient to cover liabilities nine years out of ten, in accordance with Pinnacle's accounting policy. The margin for uncertainty is calculated separately for each line of business and is shown in Table 3 at an aggregate level.

5.2.14 The methodologies and key assumptions used for each line of business are described in the following sections.

5.2.15 In determining the level of reserves booked to the statutory accounts across all lines of business (encompassing the transferring and remaining portfolios), I understand from Pinnacle that the review of the reserves includes the following:

a) three level (doer, first level, second level) review within the actuarial department with checks and challenges recorded;

b) a broader review meeting held with the members of the Finance department and executive management where reserves are covered in the context of the overall technical result;

c) gross and net of reinsurance provisions for all product lines are included within the scope of the annual external audit; and

d) reserves are reviewed and approved by the Board.

Motor

5.2.16 The Motor book represents the largest portion of the transferring portfolio on both a gross and net basis.

5.2.17 Pinnacle's Motor book consists of two consortiums (XS Direct and Southern Rock). The business was written on a co-insurance basis where Pinnacle had a 60% share of the XS Direct book and a 35% share of the Southern Rock book (written under Somerset Bridge MGA). For the last few months of the Southern Rock arrangement, the co-insurance share reduced from 35% to 0.1%.

5.2.18 XS Direct stopped accepting new or renewal business in early 2022 and are in the process of being liquidated. Claims bordereaux are no longer available and reports are received on an ad-hoc basis. The last bordereaux received from XS Direct was in August 2022 and case reserves are generally booked at the amount provided at that time unless Pinnacle have received more up to date information then the case reserves are adjusted accordingly. The reserves have been zeroised on claims known to be closed; two legal firms handle the remaining open claims and Pinnacle are notified by these firms when claims are closed.

5.2.19 The remaining reserves on the Motor book almost exclusively relate to bodily injury claims, which can be split into PPO and non-PPO claims. PPOs are an alternative form of claimant compensation to a single lump sum payment. A PPO consists of a smaller lump sum followed by a series of indexed, regular payments for the rest of the claimant's life. This places the risk of medical inflation and longevity on the insurer.

5.2.20 As discussed in Section 5.1, future claim emergence will likely deviate, perhaps materially, from any estimate of claims reserves. This uncertainty is exacerbated when estimating claims reserves for long-tailed liabilities such as Motor bodily injury claims (both PPOs and non-PPOs). Therefore, it is possible that the future claim emergence will deviate materially from the reserve estimates of either Pinnacle or ElFlow.

5.2.21 As a result, I consider there to be a range of reasonable reserve estimates for this element of the transferring portfolio. As noted in Section 4.6, Pinnacle and EIFlow's reserve estimates for the Motor portfolio differ by £5.0m. I have examined both analyses as well as performing some of my own independent verifications and I will provide further commentary on the differences below.

5.2.22 Two of the outstanding claims in the transferring portfolio relate to confirmed PPOs and a further three claims have been identified as having potential to become PPO claims ("potential PPOs"). Pinnacle's IBNR includes an allowance in excess of reported case estimates for potential PPOs.

5.2.23 For context, the five PPOs (including the three identified as potential PPOs) have been reserved for by Pinnacle using a model which takes in to account the expected payment amounts of each claim and the age and life expectancy of each claimant, which is based on legal advice. The average age of the five claimants is 17 years old. As explained in paragraph 5.2.17, the Motor business is written on a co-insurance basis and hence Pinnacle has a share of 35% of four of the PPOs under Southern Rock and 60% on the remaining one PPO under XS Direct.

5.2.24 There are excess of loss reinsurance arrangements in place on the Motor book. Details of these arrangements are discussed in Section 4.2 and Appendix E. Two of the PPOs already exceed the excess of loss reinsurance retention, which is £300k (index-linked) on XS Direct and £350k (index-linked) on Southern Rock after accounting for Pinnacle's share of the co-insurance. There is an indexation clause on the Motor excess of loss reinsurance whereby Pinnacle's retention increases in line with a specified inflation index. The indexation clause does not affect the unlimited nature of the reinsurance contracts. Such clauses are standard in Motor reinsurance treaties and the format of the indexation clause is in line with the market.

5.2.25 In aggregate, Pinnacle's share of the five PPO claims totals £6.3m on a gross basis and £1.9m on a net basis (excluding Darnell DAC recoveries). Individually, Pinnacle's share of the claim on a net basis is over £0.5m on two of the claims while for the remaining three claims Pinnacle's share is under £0.2m.

5.2.26 I have reviewed the methodology and assumptions used to derive Pinnacle's PPO estimates. Benchmarking the underlying inflation and discounting assumptions against the market, Pinnacle's PPO assumptions result in a higher net discount rate than the -0.5% to 0% range typically seen in the market. This results in a lower PPO reserve than if the rates used were more in line with the market. I note that the underlying inflation assumptions behind the net discount rate will vary by insurer due to different attitudes to risk.

5.2.27 As part of its analysis, Pinnacle has performed a stress test using a net discount rate that is more in line with the benchmarks I have seen from market data. This is documented in the Pinnacle actuarial reserve report as at 31 December 2023 and results in a £1.5m increase in the gross reserves and a £0.5m increase in the net reserves (excluding Darnell DAC recoveries). I have been provided with Pinnacle's PPO model as at Q4 2023 and have used this model to verify the outcome of this stress test.

5.2.28 This sensitivity test illustrates the inherent uncertainty in valuing PPOs, driven by the need to estimate future inflation and investment yields over an extended time horizon. Pinnacle mitigates this uncertainty by holding a specific margin for uncertainty with respect to PPO claims. The margin is calculated using a scenario-based approach for the potential PPO allowance. As at 31 December 2023, the PPO margin for uncertainty was £3.8m, driven by a scenario with lower discount rates, higher inflation, higher PPO propensity on the potential PPO claims and a lower mortality multiplier.

5.2.29 The non-PPO reserves are calculated by taking the latest incurred claims position and applying a tail factor to calculate the ultimate claims liability. A tail factor is used to project the remaining development on reserves where there are still open claims.

5.2.30 In 2019, Pinnacle developed a model to estimate the tail factors to be applied to the Motor portfolio, deriving a curve that was applied to the data to obtain ultimate claim estimates. Initially, the tail factor model was reviewed annually and factors were adjusted based on comparisons between incurred and case estimate movements. In recent years, given the difficulty in obtaining updated data from XS Direct and the shrinking claim volumes, Pinnacle's approach has been to maintain the tail factors from the previous analysis.

5.2.31 The PPO margin for uncertainty is added to the percentage-based margin for uncertainty for non-PPO claims (described in paragraph 5.2.13) of £1.1m, giving rise to a total margin for uncertainty for the Motor portfolio of £4.9m.

5.2.32 During conversations with EIFlow, I was informed that the transferring portfolio was less mature than other books EIFlow manage. EIFlow therefore requested a risk premium to cover the potential additional volatility in the transferring portfolio as a result of the above factors, giving rise to the £5.0m difference in the gross insurance liabilities shown in Tables 1 and 2.

5.2.33 This £5.0m difference arises from a combination of factors: inflation assumptions for PPOs, the potential for claims to reopen leading to reserve deterioration on the non-PPO claims, and a deterioration in overall Motor ultimate claims since 2020. EIFlow's valuation was performed at a high-level on an aggregate basis and has not been allocated to individual claims. As a result, no allowance has been made for reinsurance recoveries on the additional £5.0m reserves and therefore EIFlow's view of the reinsurance asset is equal to Pinnacle's estimate.

This is a prudent approach with respect to the transferring portfolio and EIFlow's existing portfolio, as it increases the net reserves to be transferred. This prudent approach does not adversely affect Pinnacle’s remaining policyholders as the transferring portfolio is fully reinsured and the transfer premium is funded by Darnell DAC and Pinnacle Pet Group Ltd. I will provide my opinion on this additional £5.0m premium later in Section 7.2.

5.2.34 Net of external reinsurance, the Motor portfolio has been 100% reinsured with Darnell DAC since December 2021; therefore, net reserves booked by Pinnacle are zero. The reinsurance with Darnell DAC that relates to the transferring portfolio will be commuted simultaneously with completion of the transfer. The external reinsurance of the Motor portfolio will transfer to EIFlow on completion of the transfer.

5.2.35 I am not aware of any prior issues relating to recoverability of reinsurance on the transferring portfolio[8].

Household

5.2.36 The business comprises of three consortiums – two Household consortiums and a Let Properties book.

5.2.37 There are approximately 12 open claims with claims reserves of £0.3m as at 31 December 2023 (excluding the margin for uncertainty). Given the nature of the underlying risks, the potential for new claims on this portfolio is very limited. Most of the open claims concern subsidence, which is damage caused to a property by movement of the underlying land. Subsidence claims can take significantly longer to materialise and to settle than other perils covered by Household insurance.

5.2.38 For the Household portfolio, case estimates are provided by the third-party administrators. Two elements of IBNR are then added:

a) an allowance for adverse development based on observed incurred movements over recent months; and

b) a specific allowance for individual claims with the potential to be settled via a court case (there are two of these at 31 December 2023).

[8] There was an initial delay in submitting claims to the reinsurers following the XS Direct liquidation. This has now been resolved and the current claims handler (Horwich Farrelly) has recently submitted the relevant claims (three in total) to the reinsurance brokers to complete the indexation calculations, after which the claims will be submitted to the reinsurers. Two of the three claims have already been submitted to the reinsurers and 93% of the balances due on those claims have been recovered. Recoveries are expected to be fully paid and no provision for potential non-recoveries has been made in the 31 December 2023 data. Therefore, I do not believe this affects my conclusions.

5.2.39 There are excess of loss reinsurance arrangements in place on the Household Liability book. However, there are no outstanding or historic recoveries in relation to these treaties due to claims remaining below the excess of loss attachment. Details of these arrangements are discussed in Section 4.2 and Appendix E. The external reinsurance of the Household portfolio will transfer to ElFlow on completion of the transfer.

5.2.40 There is catastrophe excess of loss reinsurance on the Household book. However, there have been no catastrophe recoveries historically and the likelihood of any future catastrophe events on these underwriting years is highly unlikely. This catastrophe reinsurance will be part of the transfer, but no future recoveries are expected.

5.2.41 Net of external reinsurance, the Household portfolio has been 100% reinsured with Darnell DAC since December 2021; therefore, net reserves booked are zero. The reinsurance with Darnell DAC that relates to the transferring portfolio will be commuted simultaneously with completion of the transfer.

5.2.42 There have been no prior issues relating to recoverability of reinsurance on the transferring portfolio.

Warranty & GAP

5.2.43 This is a mixed book covering Extended Warranty & GAP insurance sold directly and through partners. The book mainly consists of three-year policies but there are also some five-year policies. The last policy expires in November 2026 but there will only be around 100 policies open by the end of 2025.

5.2.44 The gross reserves primarily consist of UPR of £3.4m as at 31 December 2023. The proportion of premium attributable to subsequent periods, calculated on a time apportionment basis (also known as a 'straight line' or 'pro rata' basis), is deferred as a provision for unearned premium. I have not reviewed this pattern; however, this approach is in line with standard accounting practice.

5.2.45 Claims reserves (excluding the margin for uncertainty) amount to £0.2m as at 31 December 2023 and continue to decrease in line with the portfolio run-off.

5.2.46 Pinnacle uses an incurred Bornhuetter-Ferguson method to estimate the reserves for the Warranty & GAP claims.

5.2.47 The Warranty & GAP portfolio has been 100% reinsured with Darnell DAC since December 2021; therefore, net reserves booked are zero. The reinsurance with Darnell DAC that relates to the transferring portfolio will be commuted simultaneously with completion of the transfer.

ULAE

5.2.48 Pinnacle's ULAE provision as at 31 December 2023 with respect to the transferring portfolio is £0.3m.

5.2.49 Pinnacle calculates the ULAE provision as a percentage of the claim reserve. The percentage assumed comes from the results of the cost allocation model analysis carried out by the Finance function, which allocates the cost of each department by function (claims, acquisition and administration). This approach towards calculating a ULAE provision is in line with market practice.

5.2.50 I note that in the context of the total insurance liabilities to be transferred, the ULAE provision is not material and that even though the claims handling will remain unchanged following the transfer, the ULAE provision for the reserves of the transferring portfolio is included in the insurance liabilities to be transferred.

Methodology and assumptions for estimating technical provisions on a Solvency II basis

5.2.51 The technical provisions reported on a Solvency II balance sheet differ to the insurance liabilities in the statutory financial statements. More details on Solvency II and the calculation of technical provisions can be found in Section 3.4.

5.2.52 Pinnacle's methodology for determining the Solvency II technical provisions starts with the statutory reserves and makes Solvency II specific adjustments.

5.2.53 Table 4 shows a breakdown of the Solvency II technical provisions by line of business as at 31 December 2023.

Solvency II TPs	Excluding risk margin			Risk Margin	Total TPs	
Figures in £m	Gross	RI	Net		Gross	Net
Pet	24.6	3.2	21.4			
Creditor	3.0	3.0	-			
Warranty	1.7	1.7	-			
Motor	6.5	6.5	-			
Motor PPO	6.7	6.7	-			
Household	0.3	0.3	-			
Life	16.8	16.8	-			
Total	**59.5**	**38.2**	**21.4**	**2.3**	**61.8**	**23.6**
Transferring	**15.2**	**15.2**	**0.0**	**0.3**	**15.5**	**0.3**
Transferring as a % of Total	**26%**	**40%**	**0%**	**14%**	**25%**	**1%**

Table 4: Pinnacle Solvency II technical provisions

5.2.54 The total Solvency II technical provisions for the transferring portfolio is £15.5m on a gross basis including the risk margin, which is 25% of Pinnacle's gross technical provisions. As the transferring portfolio is currently fully reinsured, the value of the transferring portfolio on a net basis is equal to the risk margin.

5.2.55 The calculation of the risk margin follows Solvency II guidelines, as set out in Section 3.4. Pinnacle uses the standard formula to calculate the SCR used in the risk margin calculation and applies the cost of capital rate (set by the PRA at 4% per annum) to calculate the risk margin as set out under recent updated legislation.

5.2.56 Pinnacle's total risk margin is £2.3m and the value of the risk margin for the transferring portfolio is estimated to be £0.3m. The risk margin is calculated at an aggregate level and allocated to each Solvency II line of business based on that line of business' contribution to the SCR. I have reviewed this allocation and find the valuation of the risk margin for the transferring portfolio to be reasonable.

5.2.57 The waterfall chart below shows the adjustments made to the transferring portfolio's gross insurance liabilities on a statutory basis to determine the technical provisions on a Solvency II basis. This is shown on a gross basis as the technical provisions for the transferring portfolio on a net basis are equal to the risk margin, as mentioned above.

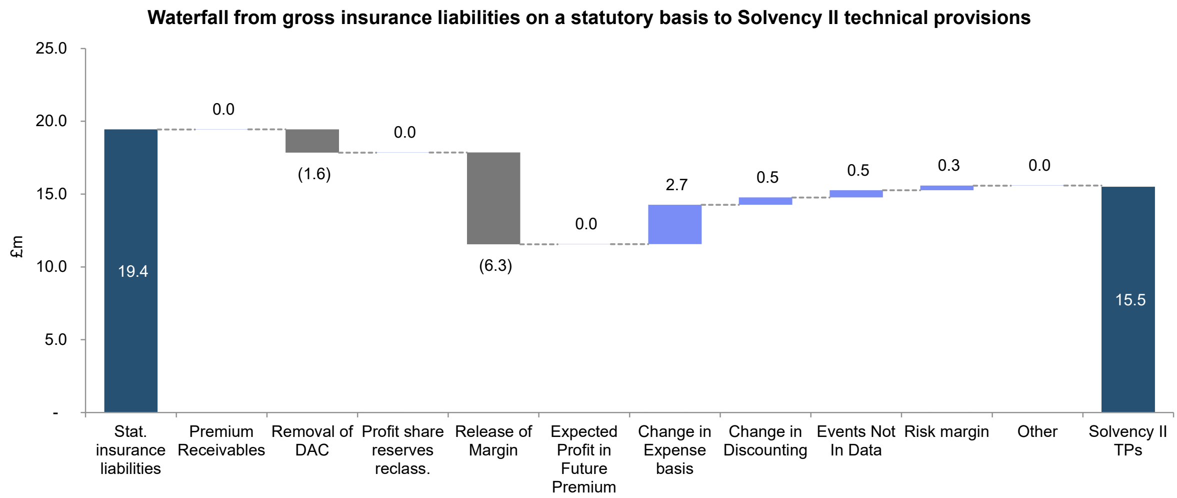


Figure 3: Waterfall from statutory to Solvency II TPs for transferring portfolio

5.2.58 This waterfall chart shows that the largest adjusting item between the statutory and Solvency II bases is the removal of the margin for uncertainty within Pinnacle's reserves. As the Solvency II technical provisions are required to be on a best estimate basis, any margins should be removed from the statutory insurance liabilities. The figure shown here is made up of the £5.1m margin on claims reserves, as shown in Table 3, and an additional £1.2m margin in relation to the premium reserves.

5.2.59 Other adjustments include:

a) removal of profit in unearned premium – in the statutory liabilities a provision is held for unearned premium whereas under Solvency II technical provisions the premium provision is held on a best estimate cashflow basis, hence the expected profit on unearned premium is removed;

b) change in expense basis – includes cashflows from expenses to be incurred in servicing all recognised insurance and reinsurance obligations within contract boundaries. This includes overheads / administration costs, policy administration and claims management;

c) impact of discounting – the impact of discounting depends on the timing of cashflows (length of tail of business written) and the discount curve which is prescribed by the PRA; and

d) allowance for ENIDs – based on quantification of selected scenarios which are not reflected in the historical data. The ENID is 3% of undiscounted Solvency II technical provisions (excluding the risk margin) which I consider to be in line with what I typically see in the market.

My opinion on the reserves and technical provisions of the transferring portfolio

5.2.60 The Motor portfolio comprises 95% of the best estimate claims reserves for the transferring portfolio and 96% of the margin for uncertainty, so it is the most significant element of the transfer. While there are differences in the best estimate valuation of this portfolio between Pinnacle and EIFlow, the amount to be transferred in respect of this portfolio includes a margin for uncertainty (calculated by Pinnacle using a scenario-based approach) of 48% of the best estimate (£4.9m) as well as an additional £5.0m risk premium (calculated by EIFlow).

5.2.61 Furthermore, there are excess of loss reinsurance arrangements in place on the Motor portfolio that provide additional protection against adverse claims development. The external reinsurance will transfer to EIFlow on completion of the transfer.

5.2.62 To put the £5.0m risk premium in to context, I have quantified the impact of a range of reserve deterioration scenarios. I have considered the gross and net impacts excluding the Darnell DAC reinsurance which will be commuted simultaneously with completion of the transfer and therefore transferring policyholders will no longer benefit from this cover. This assessment can be found in Section 7.2.

5.2.63 While there are significant uncertainties in estimating claims reserves for long-tailed liabilities such as Motor bodily injury claims, the existing reinsurance protections combined with the addition of the margin for uncertainty and the risk premium lead me to conclude that the reserves for the Motor portfolio are reasonable and incorporate some prudence to allow for the inherent volatility in this portfolio.

5.2.64 The methodologies and assumptions used by Pinnacle for the Household and Warranty & GAP portfolios are reasonable.

5.2.65 The methodologies used by Pinnacle to calculate UPR and ULAE are in line with market standards.

5.2.66 Based on the information provided by Pinnacle and my own experience and knowledge of the market, I therefore conclude that the insurance liabilities transferring from Pinnacle to ElFlow are reasonable.

5.2.67 In addition, the elements that I would have expected to see in the Solvency II technical provisions calculation have been included, and the adjustments appear to be of an appropriate magnitude. I therefore consider the approaches used by Pinnacle to estimate the Solvency II technical provisions of the transferring portfolio to be reasonable.

5.3 The remaining portfolio

5.3.1 This section focuses on the remaining portfolio: i.e. the policies remaining in Pinnacle after the transfer.

Data provided

5.3.2 I have been provided with a report on Pinnacle's claims reserves covering its non-life portfolio as at 31 December 2023 (including Pet business, Creditor business and the transferring portfolio).

5.3.3 In addition, I received Pinnacle's Long Term Fund Valuation report as at 31 December 2023, covering the Long-term business currently insured by Pinnacle.

5.3.4 The QRTs and Actuarial Function report noted in Section 5.2 also cover the remaining portfolio.

5.3.5 While I have not received detailed claims data (e.g. claims triangles showing the development of paid and incurred claims over time) for the Pet, Creditor and Long-term portfolios, the methodologies and assumptions underlying the valuation of reserves for these portfolios are outlined in the aforementioned reports.

5.3.6 I am therefore satisfied that the data listed above is relevant for my analysis and provides sufficient evidence on which to base my conclusions.

5.3.7 I have also discussed Pinnacle's approach to setting the reserves and technical provisions for the remaining portfolio with Pinnacle's actuaries.

5.3.8 I am satisfied that the actuaries of Pinnacle have the necessary experience and expertise to undertake a review of this nature and for me to rely on this review.

Pinnacle's estimate of the reserves for the remaining portfolio

5.3.9 Pinnacle's approach in relation to statutory reserves is set out in Section 5.2: i.e. statutory reserves comprise an actuarial best estimate plus a margin for uncertainty.

5.3.10 Table 5 shows the actuarial best estimate reserves and the booked statutory reserves as at 31 December 2023, both gross and net of reinsurance:

Statutory Reserves (£m)		
	Gross	**Net**
Claims Reserves		
Pet	16.2	13.4
Life	16.3	-
Creditor	1.7	-
Margin	**2.7**	**2.4**
ULAE	**0.5**	**0.3**
UPR	**70.8**	**67.5**
Total	**108.2**	**83.6**

Table 5: Gross and net reserves for remaining portfolio

5.3.11 As at 31 December 2023, the gross reserves of the remaining portfolio were £108.2m, which represents 85% of Pinnacle's gross reserves, and is included in Table 5.

Methodology and assumptions for estimating reserves on a statutory basis

5.3.12 Pinnacle's Pet business is growing with increasing volumes driven by the launch of new partnerships, for example the recent strategic partnership with Tesco.

5.3.13 The business is relatively short-tailed and Pinnacle use an incurred Bornhuetter-Ferguson projection method.

5.3.14 There is an allowance in the reserves for seasonality in claim settlement. This seasonality refers to claims processing delays in December followed by a catch-up in January.

5.3.15 The margin for uncertainty has reduced at 31 December 2023 due to a reduction in the non-Pet Protect margin from 25% to 15% of net best estimate reserves. The Pet Protect margin has remained at 35%.

5.3.16 In addition to its remaining Pet business, Pinnacle has Creditor business which does not form part of this Part VII transfer, but which will be renewed into ElFlow between May and October 2024. More information on this can be found in Section 4.2.

5.3.17 Pinnacle has some Long-term non-Pet business which includes two types of annuities. There is an impaired life annuity and a RAM Death in Service Product. The impaired life annuity is 95% reinsured with General Cologne Re. The RAM Death in Service Product is 100% reinsured with Munich Re. This business is in run-off with the net position reinsured 100% to Darnell DAC.

5.3.18 Pinnacle's internal reserve review process to determine the final booked reserves is noted in Section 5.2 and applies across all its portfolios i.e. both the transferring and remaining portfolios.

5.3.19 As noted in Section 5.2, Pinnacle calculates the ULAE provision as a percentage of the claim reserve based on a cost allocation model analysis.

Methodology and assumptions for estimating reserves on a Solvency II basis

5.3.20 Pinnacle's approach to calculating Solvency II technical provisions is outlined in Section 5.2. The approach to calculating technical provisions (including the risk margin) is the same for the remaining portfolio as for the transferring portfolio.

5.3.21 The waterfall chart below shows the adjustments made to the remaining portfolio's gross insurance liabilities on a statutory basis to determine the technical provisions on a Solvency II basis. This is shown on a gross basis to be consistent with that shown for the transferring portfolio in Figure 3.

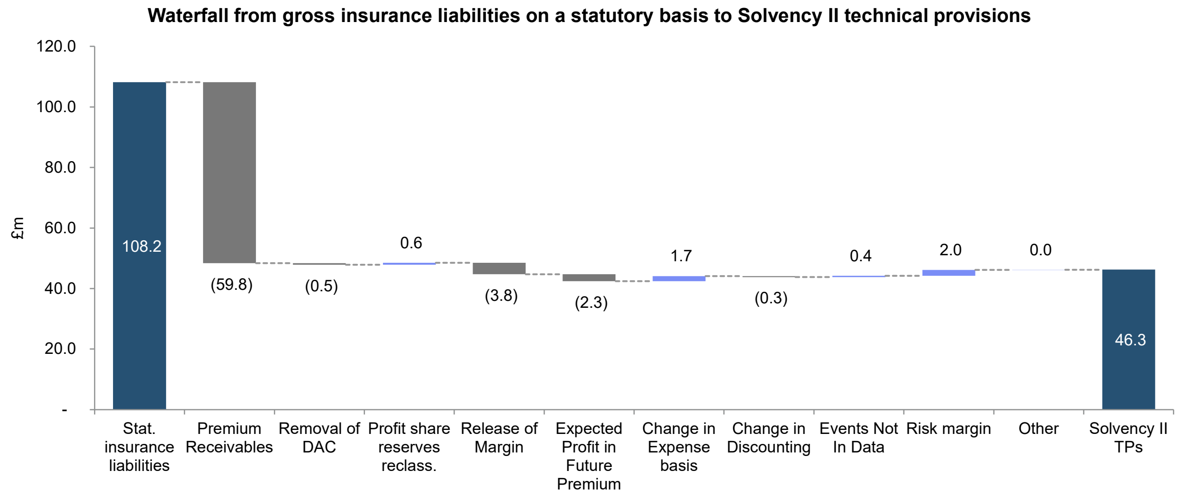


Figure 4: Waterfall from statutory to Solvency II TPs for remaining portfolio

5.3.22 This waterfall chart shows that the largest adjusting item between the statutory and Solvency II bases is the £59.8m reduction for premium receivables which arise from annual Pet policies that are payable monthly.

5.3.23 Other adjustments include those mentioned in paragraph 5.2.59 for the transferring portfolio.

My opinion on the reserves and technical provisions of the remaining portfolio

5.3.24 Pinnacle uses standard actuarial techniques to perform reserve valuations on its Pet, Creditor and Long-term portfolios. In addition, it holds a margin for uncertainty to allow for potential adverse deviation in these claim portfolios.

5.3.25 Based on the information provided by Pinnacle and my own experience and knowledge of the market, I conclude that Pinnacle's reserve estimates for the remaining portfolio are reasonable.

5.3.26 In addition, the elements that I would have expected to see in the Solvency II technical provisions calculation have been included, and the adjustments appear to be of an appropriate magnitude. I therefore consider the approaches used by Pinnacle to estimate the Solvency II technical provisions of the remaining portfolio to be reasonable.

5.4 The existing portfolio

5.4.1 This section focuses on the existing portfolio: i.e. the policies that are already underwritten by EIFlow before the transfer.

Data provided

5.4.2 I have been provided with a memo from EIFlow which outlines the methodology for calculating and booking the reserves on a statutory basis as at 31 December 2023. Willis Towers Watson ("WTW") have been commissioned by EIFlow to perform independent reserve projections as at 31 December 2023; however, the current review is ongoing and I have not been provided with the results of this review or discussed the review with the WTW actuaries at the time of submitting this report.

5.4.3 The memo and ongoing WTW analysis consider reserves on a statutory basis rather than a Solvency II basis. The process of translating the statutory reserves to Solvency II technical provisions is carried out by Quest.

5.4.4 In addition, I have been provided with the following:

a) a report, prepared by WTW, on the transfer of the Cardinal Re portfolio to EIFlow, dated July 2023;

b) management accounts as at 31 December 2022 and 31 December 2023;

c) EIFlow's Actuarial Function report as at 31 December 2022; and

d) QRTs as at 31 December 2023.

5.4.5 I am satisfied that the data listed above is relevant for my analysis and provides sufficient evidence on which to base my conclusions.

5.4.6 As noted above, the most recent independent actuarial review is currently being carried out by WTW based on data as at 31 December 2023 and the results were unavailable at the time of writing this report. I have therefore relied on the reserves and technical provisions data provided by EIFlow that correspond to the QRT submissions as at 31 December 2023. I have also held discussions with Quest to understand the reserving methodology in the absence of updated WTW estimates.

5.4.7 I have not been provided with the Actuarial Function report for 31 December 2023 as it was unavailable at the time of submitting my report. However, I have held discussions with the team at Quest responsible for calculating the technical provisions and these discussions have given me the necessary clarifications in order to make the conclusions outlined in this section. Therefore, I do not consider the absence of this report to have had an impact on my analysis.

5.4.8 If the WTW reserve review and Actuarial Function reports are made available to me in the interim, I will include them as part of my analysis for my Supplementary Report.

5.4.9 I am satisfied that EIFlow's Actuarial Function has the necessary experience and expertise to undertake a review of this nature and for me to rely on this review. In line with GFSC requirements, EIFlow's Actuarial Function Holder has oversight of all work performed by external actuaries such as WTW.

EIFlow's estimate of the reserves for the existing portfolio

5.4.10 EIFlow has an agreement with the GFSC to commission an independent actuarial review at least every three years primarily due to the age and stable nature of its run-off legacy business. This is a proportionate approach to fulfilling the regulatory requirements. This is considered sufficient by the Board for the needs of EIFlow.

5.4.11 As described in EIFlow's Actuarial Function report, IBNR is not released between the external independent actuarial reviews, excluding the LAMP portfolio. For this portfolio, the ultimate expected claim value is held until the settlement of the legal proceeding underlying the cover provided.

5.4.12 Case reserves are generally held until claims are paid. However, there have been cases recently where redundant case reserves have been released due to not being updated for several years.

5.4.13 The management of EIFlow regularly monitors experience and detailed quarterly reports are produced to support this review. If claims experience deviates significantly from expected, management would consider strengthening reserves where necessary.

5.4.14 A summary of EIFlow's gross and net reserves as at 31 December 2023 on a statutory basis is shown in Table 6. Note that the UPR relates to the LAMP portfolio only, as discussed in paragraph 4.3.13. EIFlow's statutory reserves have been converted from USD to GBP at a rate of £1 = US$1.27.

Statutory Reserves (£m)	Gross	Ceded	Net
Claims Reserves	**15.6**	**1.7**	**13.9**
Icarom	5.1	-	5.1
PMI	-	-	-
Groupama	0.5	-	0.5
LAMP	1.2	-	1.2
Preserve	2.0	1.7	0.3
Cardinal Re	6.8	-	6.8
UPR	**1.2**	**-**	**1.2**
ULAE	**0.8**	**-**	**0.8**
Total	**17.6**	**1.7**	**15.9**

Table 6: Gross and net reserves for existing portfolio

Methodology and assumptions for estimating reserves on a statutory basis

5.4.15 In line with its strategic focus, EIFlow has completed several legacy portfolio transfers in its history. The majority of the portfolios are in run-off, with only very small amounts of premium written by EIFlow in relation to extensions to legal expenses after the event ("ATE") insurance policies.

5.4.16 The table above shows that EIFlow has several run-off portfolios. The primary lines of business are:

a) transferred liabilities of Icarom, a mix of Non-Marine, Marine and Aviation business which was written by the former London branch of The Insurance Corporation of Ireland plc;

b) UK mortgage insurance policies written by PMI Mortgage Insurance Company Limited;

c) Marine business written by the UK Branch of Groupama;

d) UK Motor exposures (including a single PPO in payment) written by Preserve Insurance Company Limited;

e) a book of After the Event ("ATE") business written by LAMP Insurance Limited; and

f) Cardinal Re[9] – Irish reinsurance business from Mitsui Sumitomo Re consisting largely of Fire, Engineering, Bond and Hull classes.

5.4.17 The overall approach used for the claims reserving is to separately project gross claims by reserving class and claim type as appropriate. Reserving for Cardinal Re is split between the three main historical sourcing branches (now all closed): Dublin, Singapore and Labuan.

[9] There is no connection between Cardinal Re and the Church of England. The book is not believed to have any exposure to abuse claims as it does not include long tail liability exposures.

5.4.18 EIFlow has exposure to latent claims within the Icarom portfolio, which was underwritten prior to 1985. These are claims related to asbestos, pollution and health hazard (“APH”) and are generally long-tailed. EIFlow’s IBNR for these claims is currently set in line with the results of the last WTW review as at 31 December 2020. WTW use a range of methodologies to derive best estimates for these claims including a survival ratio method; an unpaid to case method; a loss-based market share method; and expert judgement based on WTW’s market experience. An updated analysis as at 31 December 2023 is ongoing but I understand from EIFlow that the initial results provided by WTW for the Icarom book have not shown a material movement since the prior review in 2020 (£0.2m increase in IBNR).

5.4.19 In general, the selected ultimate losses for non-latent claims are based on the results of two standard actuarial projection methods: the Paid Chain Ladder development method and the Incurred Chain Ladder development method. The actuarial best estimates are supplemented with management input where necessary. Experience in the period in question is also reviewed to determine the appropriateness of the IBNR and whether any adjustment to the reserves is required.

5.4.20 For the ATE business, the use of benchmarks is necessary due to absence of historical claims data.

5.4.21 EIFlow has a single PPO claim within the Preserve portfolio. This claim is protected from adverse development by excess of loss reinsurance, but the excess point of the reinsurance is index-linked, so there is a minor amount of inflation-related uncertainty in the net exposure.

5.4.22 The UPR held represents the portion of written premium in relation to the LAMP portfolio that is not yet earned. The UPR is based on the cash amount still to be received.

5.4.23 For statutory reporting, EIFlow takes the view that operating expenses will be offset by investment income, hence it does not calculate a provision for ULAE as a percentage of outstanding claims reserves. However, as the portfolios run-off, there may come a time when it has paid most of the claims and reduced the investments so much that future investment income does not cover ongoing expenses. EIFlow therefore maintains a provision for ULAE of £0.8m ($1.0m).

5.4.24 Other than portfolio transfer premiums, premiums in the form of reinstatement premiums and adjustment premiums are not material as is evident from the accounts. No material options or guarantees are included in the technical provisions.

Methodology and assumptions for estimating reserves on a Solvency II basis

5.4.25 The technical provisions reported on a Solvency II balance sheet differ to the insurance liabilities in the statutory financial statements. More details on Solvency II and the calculation of technical provisions can be found in Section 3.4.

5.4.26 Similarly to Pinnacle, the EIFlow methodology for determining the Solvency II technical provisions starts with the statutory reserves and makes Solvency II specific adjustments as discussed earlier for Pinnacle.

5.4.27 EIFlow uses the standard formula to calculate the SCR used in the risk margin calculation and applies the cost of capital rate to calculate the risk margin as set out under recent updated legislation. For 31 December 2023, EIFlow should be using a cost of capital rate of 4% as per the change noted in paragraph 3.4.24. However, I note that the previous cost of capital rate of 6% has been used. This approach is prudent given that a higher cost of capital increases the risk margin. Based on EIFlow's total risk margin of £0.5m as at 31 December 2023, I would expect the impact of reducing the cost of capital rate from 6% to 4% to reduce the Solvency II technical provisions by c. £0.2m. I do not consider this to be material to my conclusions.

5.4.28 The waterfall chart below shows the adjustments made to the existing portfolio's net insurance liabilities on a statutory basis to determine the technical provisions on a Solvency II basis.

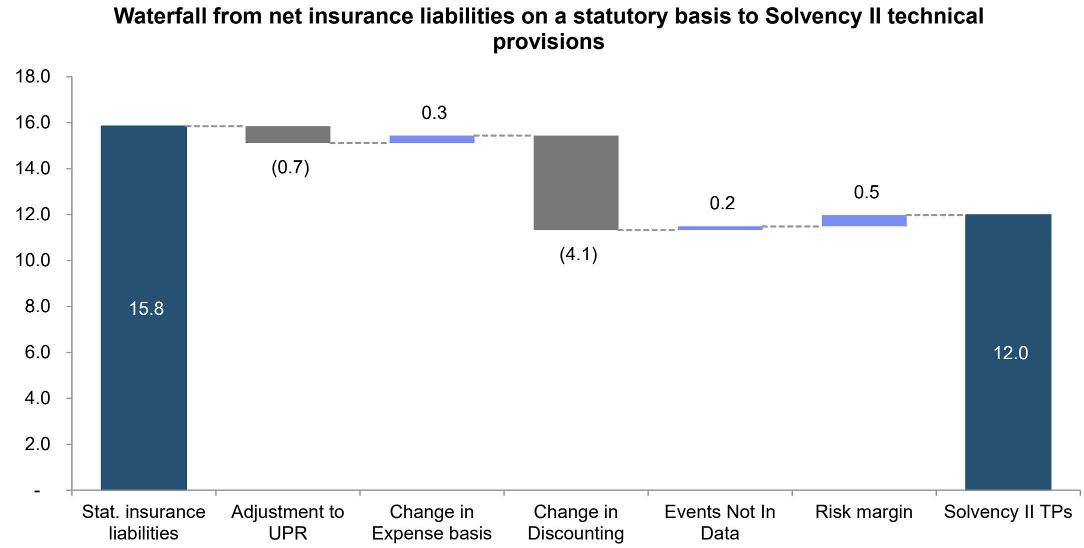


Figure 5: Waterfall from statutory to Solvency II TPs for existing portfolio

5.4.29 This waterfall chart shows that the largest adjusting item between the statutory and Solvency II bases is the impact of discounting. The impact of discounting depends on the timing of cashflows (length of tail of business written) and the discount rate curve, which is prescribed by EIOPA.

5.4.30 For EIFlow, the statutory insurance liabilities contain an element of discounting as the PPO on the Preserve portfolio is discounted. The discounting applied by EIFlow under Solvency II effectively discounts the PPO again as the discounting of the statutory reserve was not unwound. However, the discounting credit within the statutory liabilities is not material on a net basis due to the reinsurance in place on this portfolio. As mentioned in paragraph 4.3.14(b), the total net liabilities in relation to the Preserve portfolio amount to £0.3m. I therefore do not consider this to have a material impact on the Solvency II technical provisions for the existing portfolio.

5.4.31 The significant impact of discounting shown in Figure 5 arises primarily from the Icarom (£2.5m discounting impact) and Cardinal Re (£1.3m discounting impact) portfolios where the liabilities are assumed to be run off over 31 and 13 years respectively. The risk free rate prescribed by EIOPA is used to discount the liabilities.

My opinion on the reserves and technical provisions of the existing portfolio

5.4.32 In general, EIFlow adopts a prudent reserving approach between independent actuarial reviews, only releasing IBNR when revised actuarial estimates are provided.

5.4.33 EIFlow's portfolio is mainly run-off business, so reserve movements tend to be small unless a new portfolio is acquired.

5.4.34 EIFlow has exposure to APH claims through the Icarom portfolio and market benchmarks are used to support the selection of an appropriate reserve for these long-tailed claims.

5.4.35 EIFlow has a single PPO claim but it is protected from material adverse development on this claim due to the reinsurance arrangements in place.

5.4.36 While I have not yet received the latest independent actuarial review, I have had discussions with EIFlow and Quest to enable me to understand the key methodologies and assumptions underlying the reserves. Based on the information provided by EIFlow and my own experience and knowledge of the market, I conclude that EIFlow's reserve estimates for the existing portfolio are reasonable.

5.4.37 I have identified some areas where my view of the technical provisions assumptions differs from EIFlow's view. These are:

a) EIFlow is using a cost of capital rate of 6% rather than the updated rate of 4% noted in paragraph 3.4.24. This approach is prudent given that a higher cost of capital increases the risk margin. If EIFlow were to update the cost of capital rate, this would reduce the Solvency II technical provisions by c. £0.2m. I do not consider this to be material to my conclusions.

b) EIFlow do not unwind the discounting applied to the Preserve PPO before applying discounting to calculate the technical provisions for this portfolio, meaning this portfolio is effectively being discounted twice, reducing the value of the technical provisions. However, the net liabilities on the Preserve portfolio are only £0.3m on a net basis due to the reinsurance arrangements in place. I therefore do not consider this to be material to my conclusions. I note that in calculating the projected technical provisions for the transferring portfolio, EIFlow has updated its methodology to unwind the discount rate applied to PPOs in the statutory reserve calculation before discounting under Solvency II.

5.4.38 In addition, the elements that I would have expected to see in the Solvency II technical provisions calculation have been included, and the adjustments appear to be of an appropriate magnitude, noting that the differences that I have identified are not material. I therefore consider the approaches used by EIFlow to estimate the Solvency II technical provisions of the existing portfolio to be reasonable.

5.5 Future reserving approach and governance

If the proposed transfer proceeds

5.5.1 Should the proposed transfer go ahead as planned, the transferring portfolio discussed in Section 5.2 will become part of EIFlow. The financial impact of this can be seen in the tables in Section 4.6, where the aggregate gross and reinsurance statutory reserves pre and post transfer are summarised.

5.5.2 The statutory insurance liabilities by line of business corresponding to the aggregate EIFlow post transfer position are shown in Table 7. The transferring portfolio is the shaded portion of the table. The figures are also broken down to pre and post transfer elements, reconciling with the figures in Table 1.

5.5.3 I note that the margin for uncertainty and ULAE previously held within Pinnacle and shown in Table 3 at an aggregate level now forms part of the best estimate reserve shown by line of business. The £5.0m additional risk premium requested by EIFlow as part of the transfer is also included within the Motor line.

Statutory Reserves (£m)	Gross	Ceded	Net
Claims Reserves			
Icarom	5.1	-	5.1
PMI	-	-	-
Groupama	0.5	-	0.5
LAMP	1.2	-	1.2
Preserve	2.0	1.7	0.3
Cardinal Re	6.8	-	6.8
Motor	20.3	8.4	11.9
Household	0.4	-	0.4
Warranty & GAP	0.4	0.1	0.3
UPR			
LAMP	1.2	-	1.2
Warranty & GAP	3.4	1.7	1.7
ULAE	0.8	-	0.8
Total	**42.0**	**11.9**	**30.2**
Pre Transfer	*17.6*	*1.7*	*15.9*
Transfer	*24.4*	*10.2*	*14.3*
Post Transfer	**42.0**	**11.9**	**30.2**

Table 7: EIFlow post transfer reserves by line of business

5.5.4 EIFlow's standard reserving methodology is outlined in Section 5.4.

5.5.5 Once the transferring portfolio is incorporated into EIFlow, the IBNR reserves will be assessed in a similar manner to those of the existing portfolio. Different actuaries can use different methodologies so this could affect the calculation of reserves when they move to EIFlow. From discussions with EIFlow's actuaries, I understand that as at 31 December 2024, the transferring liabilities are to be booked as EIFlow's best estimate, with no explicit margin for uncertainty.

5.5.6 EIFlow's core business is managing run-off portfolios. It has experience in managing the significant risks underlying the transferring portfolio through its existing portfolios and it therefore has the specialist expertise to determine the appropriate reserves for this business.

5.5.7 Pinnacle and EIFlow both adhere to similar Solvency regulations (governed by the PRA and EIOPA, respectively) and use the standard formula to calculate their capital requirements and as a result, their technical provisions and risk margin. There may be differences in the valuation of certain elements of the technical provisions, such as ENIDs and expenses which are assumption-based.

5.5.8 There are minor differences to the regulations arising from the impact of Gibraltar continuing to follow EIOPA guidelines while the PRA has proposed amendments to the regulations post Brexit (see Section 3.4). The main difference is as follows:

a) In discounting the TPs, Pinnacle use discount curves prescribed by the PRA whereas EIFlow use discount curves prescribed by EIOPA. As explained in paragraph 3.4.25, I do not consider this to be a material difference.

5.5.9 Similarly, both Pinnacle and EIFlow adhere to the requirements of the Actuarial Function under Solvency II, so that the underlying principles in terms of oversight of the technical provisions, underwriting and reinsurance will remain unchanged post transfer.

5.5.10 The waterfall chart below shows the adjustments made to the gross statutory insurance liabilities, valued by Pinnacle as at 31 December 2023, to those valued by EIFlow on a statutory and Solvency II basis. The main differences in the valuations between Pinnacle and EIFlow are:

a) Inclusion of additional £5.0m reserves due to EIFlow's view of the Motor liabilities being higher than Pinnacle's view given recent volatility in claims settlement, interest rates and inflation.

b) EIFlow do not recognise any of the liabilities as a specific margin for uncertainty and therefore no reserves are stripped out under Solvency II.

c) The impact of discounting is higher for EIFlow than for Pinnacle as EIFlow's initial estimate of statutory liabilities is higher due to the inclusion of the margin for uncertainty and transfer premium. EIFlow have assumed these additional reserve amounts will be paid evenly over a period of 10 years and have discounted on this basis.

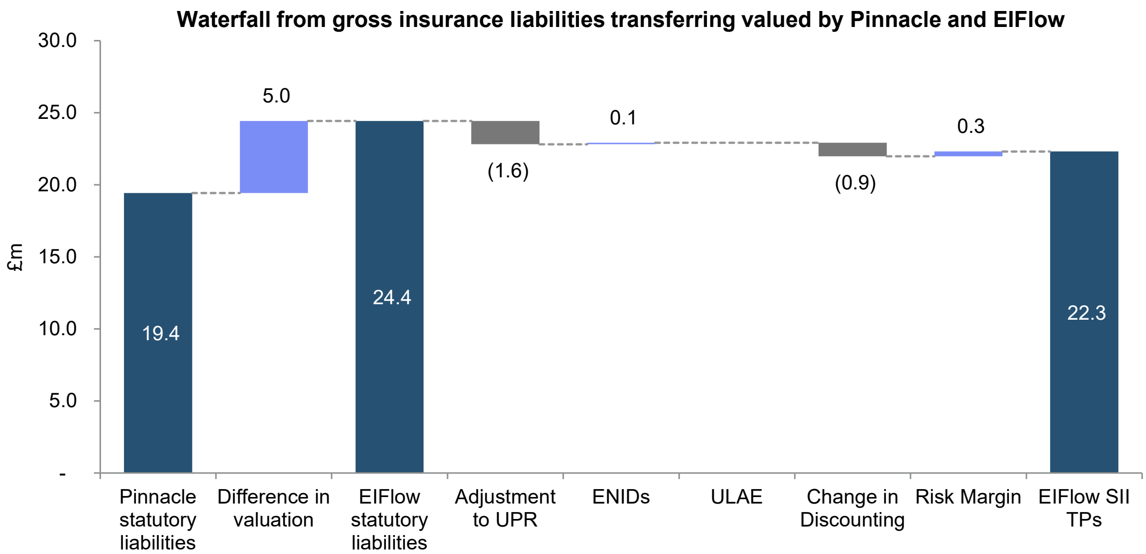


Figure 6: Waterfall from gross statutory liabilities for remaining portfolio valued by Pinnacle to statutory and Solvency II TPs valued by EIFlow

5.5.11 The waterfall chart below shows the adjustments made to the net statutory insurance liabilities, valued by Pinnacle as at 31 December 2023, to those valued by EIFlow on a statutory and Solvency II basis. Other than the factors mentioned above for the gross technical provisions, the main difference in the valuations between Pinnacle and EIFlow is that Pinnacle benefits from the reinsurance programme with Darnell DAC such that the net liabilities are zero. However, this cover is being commuted and does not transfer to EIFlow.

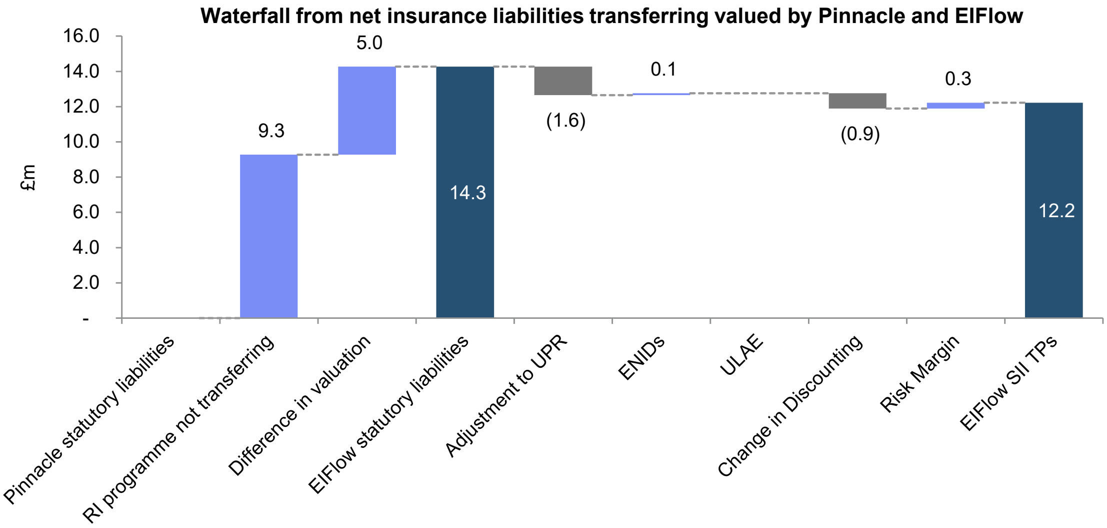


Figure 7: Waterfall from net statutory liabilities for remaining portfolio valued by Pinnacle to statutory and Solvency II TPs valued by EIFlow

My opinion on the reserving approach post transfer

5.5.12 Post transfer, the statutory reserves of the transferring portfolio on a gross basis increase by the addition of the £5.0m risk premium requested by EIFlow. The reserves previously held in Pinnacle as a margin for uncertainty and as ULAE will form part of the best estimate.

5.5.13 The best estimate at future year ends will be evaluated using standard actuarial methodologies. While different actuaries may use different methodologies and assumptions to derive their best estimate, EIFlow's Actuarial Function has experience in managing run-off portfolios and obtains an independent review of the reserves by an external provider. WTW (the current external provider) are a large and reputable actuarial consulting firm with the necessary expertise in reserving. Based on this, I am satisfied that EIFlow has the relevant expertise to ensure that the reserves for the transferring portfolio remain reasonable based on the underlying risks inherent in the portfolio.

5.5.14 On a net basis, the transferring portfolio will no longer benefit from the collateralised reinsurance provided by Darnell DAC. However, given the financial strength of EIFlow post transfer, the commutation of this reinsurance does not materially adversely affect the security of the benefits of the transferring portfolio. The transferring portfolio will continue to benefit from its existing external reinsurance.

5.5.15 On a Solvency II basis, while there are some differences in the underlying assumptions and methodologies used by EIFlow and Pinnacle as described in paragraph 5.2.10, I consider these to be appropriate given EIFlow's valuation of the liabilities and the approach is in line with the Solvency II requirements.

5.5.16 There will be no changes to the reserving or technical provisions approaches for the remaining policyholders of Pinnacle or the existing policyholders of EIFlow as a result of the transfer.

5.5.17 I therefore conclude that any changes to the approach to reserving and technical provisions adopted post transfer does not materially adversely affect the security of the benefits of any of the affected policyholders.

If the proposed transfer does not proceed

5.5.18 If the proposed transfer does not take place, the future reserving approach will remain unchanged. In particular:

a) Transferring the non-Pet business out of Pinnacle was part of the agreement when the joint venture between BNP Paribas and JAB was set up in 2021. Pinnacle's strategy has therefore been focused primarily on Pet insurance for some time and its reserving and technical provisions methodologies have been established in such a way to reflect this. Therefore, if the proposed transfer does not take place, the reserving and technical provisions methodologies for Pinnacle will remain unchanged.

b) Pinnacle's external reinsurance arrangements for the Pet and Long-term business remain the same regardless of whether or not the transfer takes place.

c) Should the proposed transfer not take place, I understand that Darnell DAC would continue to reinsure Pinnacle's non-Pet liabilities and the current arrangement would remain unchanged.

d) Should the proposed transfer not take place, EIFlow's reserving and technical provisions methodology would remain unchanged.

5.5.19 I therefore conclude that if the proposed transfer does not take place, there will be no immediate change to the reserving and technical provisions of either Pinnacle or EIFlow.

5.6 External considerations

5.6.1 Estimates of loss and allocated loss expense liabilities are subject to potential errors of estimation because the ultimate value of claims incurred is subject to the outcome of events that have not yet occurred. These events may be due to internal or external factors. External factors that may affect the ultimate value of the liabilities of the transferring policyholders are discussed in this section.

Inflation

5.6.2 Inflation has fallen in May 2024 to be in line with the Bank of England's ("BoE") long-term target of 2% p.a. However, it has remained higher than the target for the last 3 years. Inflation uncertainty remains around the forecast as the month-on-month inflation is volatile.

5.6.3 In an economic environment with high inflation, there is an increased risk of understatement of the reserves through use of the Chain-Ladder and Bornhuetter-Ferguson projection methods.

5.6.4 Given that the transferring portfolio is in run-off and therefore significantly developed, the risk arising from inflation uncertainty on shorter-tailed claims is relatively low.

5.6.5 On longer-tailed claims such as the Motor PPO claims, the impact of inflation is mitigated by the reinsurance arrangements in place with external reinsurers. These reinsurance arrangements are unlimited, meaning Pinnacle is protected from adverse development on longer-tailed large claims above its retention. The retention is index-linked, so there is a minor amount of inflation-related uncertainty in the net exposure. These reinsurance arrangements will remain unchanged post transfer.

5.6.6 Both Pinnacle and EIFlow have risk management frameworks in place to monitor inflation, as discussed in their respective ORSA reports.

PPOs / Ogden Discount Rate

5.6.7 The Ogden Discount Rate ("ODR") is set by the British Government and prescribes the discount rate to be applied in the calculation of bodily injury claims.

5.6.8 It was last reviewed in 2019 for England and Wales, being increased from –0.75% to –0.25%.

5.6.9 The government revisit the Ogden rate every five years, at most; this means the next rate must be revised in 2024 and come in to force by January 2025 at the latest.

5.6.10 The upcoming change in ODR creates uncertainty and difficulties in seeing true development patterns where clams were valued at different rates.

5.6.11 The uncertainty arising from potential future changes to the ODR is mitigated by the excess of loss reinsurance arrangements in place on the Motor book or business. These reinsurance arrangements will remain unchanged post transfer.

5.6.12 EIFlow has an existing PPO claim from the Preserve portfolio so they are aware of the potential volatility of these claims. EIFlow monitors the development of factors that could impact the valuation of its PPO claim, but it does not perform its own independent PPO projections, instead relying on the discounted best estimate reserve provided by WTW.

5.6.13 The excess of loss reinsurance in place on the Preserve portfolio covers claims above £0.5m (index-linked) and limits the net liability on the PPO claim. Any change to the PPO valuation assumptions would therefore not be material to the net asset position of EIFlow.

Consumer Duty and fair value

5.6.14 A recent FCA review[10] highlighted concerns that some motor insurers' valuations of written-off or stolen vehicles (total loss claims) may have been undervalued and, in some cases, only increased when a customer complains.

5.6.15 The FCA also recently announced that the majority of GAP insurance providers have suspended the sale of these policies following the FCA's concerns around fair value, in particular due to low claims ratios and high commission rates[11].

5.6.16 I have discussed these issues with Pinnacle in relation to their Motor and GAP insurance products, in particular around the distribution and claims handling processes. I have also reviewed the FCA's value measures data on Pinnacle's GAP insurance product and the information available on the FOS website around historical complaints against Pinnacle that have been upheld.

5.6.17 Based on my review and given the age of the portfolios, as discussed in Section 4.2, I do not believe there is a material impact of either of the FCA's concerns on the transferring portfolio.

5.7 Conclusion on reserving considerations

5.7.1 In summary, based on the data provided to me, I conclude that the reserve estimates in relation to the affected policyholders are reasonable for both Pinnacle and EIFlow given their

[10] Source: www.fca.org.uk/news/press-releases/fca-finds-concerns-over-insurers-valuation-written-or-stolen-vehicles
[11] Source: www.fca.org.uk/news/press-releases/gap-insurers-agree-suspend-sales-following-fca-concerns-over-fair-value

respective risk profiles and inherent underlying uncertainty. The main factors supporting my conclusion are as follows:

a) The key source of uncertainty for the transferring portfolio is the assumptions used to evaluate the long-tailed PPO and potential PPO claims within the Motor portfolio. This uncertainty gives rise to a range of reasonable best estimates for this portfolio, as highlighted by the stress and scenario tests performed by Pinnacle and documented within its actuarial reserve report. This volatility is mitigated by an existing margin for uncertainty and an additional £5.0m risk premium that will be transferred as part of the insurance liabilities and that will be form part of the EIFlow best estimate for this portfolio. This risk premium is considered further in Section 7.2.

b) The transferring portfolio currently benefits from a fully collateralised reinsurance arrangement with Darnell DAC, which will be commuted simultaneously with completion of the transfer. However, given the financial strength of EIFlow post transfer, the commutation of this reinsurance does not materially adversely affect the security of the benefits of the transferring portfolio. The transferring portfolio will continue to benefit from the existing external reinsurance arrangements in place. I will demonstrate this further using extreme but plausible stress tests in Section 7.2.

c) Key external considerations such as changes in inflation and Ogden discount rates are considered as part of the reserve reviews and mitigated by the use of reinsurance arrangements.

d) The reserving approach for the remaining and existing portfolios will be unchanged post transfer.

e) While different actuaries may use different methodologies and assumptions to derive their best estimate, EIFlow's Actuarial Function has experience in managing run-off portfolios and obtains an independent review of the reserves by an external provider. WTW (the current external provider) are a large and reputable actuarial consulting firm with the necessary expertise in reserving. Based on this, I am satisfied that EIFlow has the relevant expertise to ensure that the reserves for the transferring portfolio remain reasonable based on the underlying risks inherent in the portfolio.

5.7.2 In addition, the elements that I would have expected to see in the Solvency II technical provisions calculations have been included, and the adjustments appear to be of an appropriate magnitude. I therefore consider the approaches used by Pinnacle and EIFlow to estimate the Solvency II technical provisions to be reasonable.

6 Capital considerations

6.1 Overview of approach

6.1.1 Definitions of key terms used in this section can be found in Section 2.2 and Appendix B. A complete list of the data underlying the analysis described in this section can be found in Appendix D.

6.1.2 As part of my assessment of the financial security of the affected policyholders, I have compared the level of capital held by Pinnacle and EIFlow to the level of capital necessary to cover their underlying risks. Under Solvency II, the key metric to assess the capital held compared to the required capital is the solvency ratio: the ratio of own funds to the SCR.

6.1.3 The security of a policyholder's contractual rights is deemed to be affected by an insurance business transfer if the security post transfer is not materially the same as the security pre transfer and the change is as a direct consequence of the transfer itself. The security of a policyholder is adversely affected if it is materially reduced.

6.1.4 I have therefore assessed the SCR and eligible own funds positions of both Pinnacle and EIFlow based on information received to determine the strength of the capital positions for the affected policyholders both before and after the transfer. This includes the application of stress and scenario tests in line with each company's risk appetite. I have also considered the appropriateness of using the Solvency II standard formula for both companies.

6.1.5 In general, I have reviewed the SCR and supporting calculations of Pinnacle and EIFlow at a high level, supplemented by some detailed checks on certain elements of the calculations. I have not sought to perform a detailed check on every element of the calculation, and I have focused my analysis on those elements that could materially change as a result of the transfer.

6.1.6 I have also considered any changes to access to additional capital as a result of the transfer, planned capital structures and governance post transfer, and changes to the risk appetite post transfer.

6.1.7 Finally, I comment on the impact on the affected policyholders if the transfer does not proceed as planned.

6.2 Pinnacle capital requirements

Data provided

6.2.1 I have been provided with the following documents as at 31 December 2023 by the actuaries at Pinnacle.

a) Pinnacle Solvency and Financial Condition Report 2023;

b) key inputs to the SCR model used as at 31 December 2023;

c) QRTs as at 31 December 2023;

d) ORSA report as at 31 December 2023; and

e) Pinnacle Actuarial Function report 2023.

6.2.2 I am satisfied that the data listed above is relevant for my analysis and provides sufficient evidence on which to base my conclusions.

Current capital position

6.2.3 The simplified Solvency II balance sheet for Pinnacle at 31 December 2023 is shown in Table 8.

Solvency II Balance Sheet Figures in £m	Pinnacle pre transfer
Investments	149.2
Cash & cash equivalents	7.2
Reinsurance technical provisions	38.2
Insurance and other receivables	27.2
Deferred tax asset	1.2
Other assets	-
Total assets	**223.0**
Gross technical provisions	61.8
Insurance and other payables	20.3
Other liabilities	1.3
Total liabilities	**83.3**
Total equity (net assets)	**139.7**
Net technical provisions	**23.6**
Net assets / technical provisions	*591%*
Total equity and liabilities	**223.0**

Capital requirement Figures in £m	Pinnacle pre transfer
Market Risk	2.3
Counterparty Risk	8.4
Non-Life Risk	40.7
Health Risk	-
Life Risk	-
Operational Risk	4.2
Diversification	*(5.2)*
SCR	**50.3**
Coverage ratio	**278%**

Table 8: Pinnacle pre transfer Solvency II balance sheet and coverage ratio

6.2.4 As at 31 December 2023, Pinnacle had net assets of £146.6m on a statutory basis (shown in Table 1) and Solvency II own funds of £139.7m. All of Pinnacle's own funds are Tier 1 with the exception of the net deferred tax asset (£1.2m) which is classified as Tier 3 capital. I have reviewed the tiering of own funds and consider it to be reasonable. In addition, I understand from Pinnacle that the tiering of own funds will not materially change as a result of the transfer.

6.2.5 I have assessed the approach used to calculate the Solvency II balance sheet for Pinnacle and I consider the approach and results to be reasonable.

6.2.6 Pinnacle's SCR as at 31 December 2023 is £50.3m, giving rise to a solvency ratio of 278%.

6.2.7 I therefore believe it is reasonable to conclude that Pinnacle is sufficiently capitalised as at 31 December 2023.

Approach to calculating SCR

6.2.8 Pinnacle uses the standard formula to calculate its SCR and MCR under Solvency II.

6.2.9 The following key risks, arising in the next 12 months, are modelled under the standard formula:

a) Reserve risk – the risk of the best estimate of claims deteriorating i.e. that the reserves are insufficient to cover the unpaid claims that have already occurred.

b) Premium risk – the risk that premiums received for the business written in the following 12 months will not be sufficient to cover future claims and related costs from that business.

c) Catastrophe risk – the risk of claims arising due to natural catastrophes such as floods, windstorms and earthquakes and man-made catastrophes such as fire or aggregation of liability claims.

d) Market risk – the risk of adverse changes in net asset value as a result of movements in market risk variables such as interest rates, exchange rates, equity market values etc. It also includes the exposure to investment credit risk (the risk of default or adverse movements in credit ratings of the assets).

e) Counterparty default risk – the risk of losses due to default or downgrade of reinsurers or due to non-payment of receivables from third parties.

f) Operational risk – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

6.2.10 Within Pinnacle's SCR calculation, there is no allowance for counterparty default risk of reinsurers related to the reinsurance arrangements on the non-Pet portfolio on the basis that:

a) there is a collateral security agreement in place with Darnell DAC; and

b) credit risks from the external non-Pet reinsurance arrangements or non-Pet costs not covered by the Darnell treaty will be reimbursed to Pinnacle by BNP Paribas Cardif as per the "Profit & Loss adjustment protection mechanism" executed in December 2021 ("P&L mechanism"). Given the credit ratings of the external reinsurers, the risk of any such default is low.

6.2.11 Given the security provided by the collateral arrangement in place between Pinnacle and Darnell DAC, I have not carried out a detailed examination of Darnell DAC's SCR calculation. However, for completeness, I note that Darnell DAC is sufficiently capitalised on a Solvency II standard formula basis, with a solvency ratio of 200%.

6.2.12 I have assessed the approach used by Pinnacle's actuaries to undertake the standard formula calculations and consider the approach to be reasonable and proportionate to the scale and complexity of its operations.

6.2.13 Pinnacle's SCR calculation is audited as part of the external audit of the Solvency and Financial Condition Report. I have also assessed the calculations myself by independently reprojecting the SCR at a high level using our internal standard formula model. Any deviations between our reprojection and Pinnacle's SCR have been sufficiently explained and understood. The difference between the SCR figure calculated by Pinnacle and my reprojection is £0.3m (0.6%) which I consider to be immaterial. I am satisfied that Pinnacle's SCR has been calculated in line with the regulatory requirements.

6.2.14 I understand from Pinnacle that its approach to undertaking the standard formula calculations will be unaffected by the transfer and I consider this to be reasonable.

Post-transfer coverage ratio

6.2.15 The simplified Solvency II balance sheets for Pinnacle at 31 December 2023, both before and after the transfer, is shown in Table 9, shown on the basis that the transfer had become effective at 31 December 2023.

Solvency II Balance Sheet Figures in £m	Pinnacle pre transfer	Pinnacle post transfer	Impact of transfer
Investments	149.2	149.2	-
Cash & cash equivalents	7.2	7.2	-
Reinsurance technical provisions	38.2	22.9	(15.2)
Insurance and other receivables	27.2	26.0	(1.2)
Deferred tax asset	1.2	1.2	-
Other assets	-	-	-
Total assets	**223.0**	**206.6**	**(16.4)**
Gross technical provisions	61.8	46.3	(15.5)
Insurance and other payables	20.3	19.0	(1.2)
Other liabilities	1.3	1.3	-
Total liabilities	**83.3**	**66.6**	**(16.7)**
Total equity (net assets)	**139.7**	**140.0**	**0.3**
Net technical provisions	**23.6**	**23.3**	
Net assets / technical provisions	*591%*	*600%*	
Total equity and liabilities	**223.0**	**206.6**	**(16.4)**
Market Risk	2.3	2.3	0.0
Counterparty Risk	8.4	8.2	(0.2)
Non-Life Risk	40.7	40.7	-
Health Risk	-	-	-
Life Risk	-	-	-
Operational Risk	4.2	4.2	-
Diversification	*(5.2)*	*(5.2)*	*0.1*
SCR	**50.3**	**50.2**	**(0.1)**
Coverage ratio	**278%**	**279%**	**1%**

Table 9: Pinnacle post transfer Solvency II balance sheet and coverage ratio

6.2.16 The net assets on a Solvency II basis are estimated to increase by £0.3m and the SCR is estimated to reduce by £0.1m. The impact can be broken down as follows:

a) As discussed in Section 5.2, the value of the Solvency II technical provisions for the transferring portfolio is £0.3m on a net basis. This is equal to the value of the risk margin as the insurance liabilities are fully reinsured.

b) The cash to be transferred will come from Pinnacle Pet Group Ltd and Darnell DAC (due to the release of collateral post commutation), rather than from within Pinnacle itself; therefore, the net assets are not impacted by this.

c) The SCR reduces due to Pinnacle's reduced exposure to default of receivables post transfer. In estimating the impact, Pinnacle have assumed a reduction in the type 2 counterparty default that relates to 'insurance and other receivables' in the transferring portfolio, multiplied by the 15% risk charge. Before diversification the impact of this is

£0.2m and after diversification between risks, the impact is £0.1m. I note that there is no reduction in the type 1 counterparty default risk relating to reinsurers for the reason given in paragraph 6.2.11.

d) Pinnacle have assumed no reduction in operational risk given this risk is calculated based on the gross earned premiums which primarily relate to the remaining portfolio. There is likely to be a small reduction in operational risk as a result of transfer, therefore this is a slightly prudent view of the SCR.

e) Pinnacle does not benefit from diversification by line of business from the transferring portfolio because it is fully reinsured, so the transfer has no impact on diversification within the reserve risk calculation.

6.2.17 This results in a 1 percentage point increase in Pinnacle's coverage ratio from 278% to 279% as a direct result of the transfer.

6.2.18 I therefore believe it is reasonable to conclude that Pinnacle's capital position is not materially impacted by the transfer. The solvency position for the remaining policyholders improves slightly as a result of the transfer.

6.2.19 The SCR coverage ratios of Pinnacle at 31 December 2023 and projected forward to 31 December 2026 are shown in Table 10. These figures include the following recent changes:

a) A new 50% quota share agreement[12] on the Pet portfolio. This agreement applies to medical expense risk (c. 99% of the Pet insurance premiums) and is effective from 1 January 2024.

b) The new Tesco Bank strategic partnership, agreed in March 2024. New business from this partnership will commence on 1 January 2025.

6.2.20 I note that as part of its strategic plan, Pinnacle will take over the underwriting of c. one million AFI contracts. However, this is dependent on successfully applying to use USPs in the Solvency II valuation for these contracts, a process that is ongoing. The AFI migration is therefore not included in the projections below.

[12] This 50% quota share reinsurance agreement is provided by Swiss Re (15%), Hannover Re (10%) and Canada Life Re (25%), all of which are highly rated reinsurers; Swiss Re and Hannover Re are both rated AA- and Canada Life Re is rated AA.

Projected SCR	Actual	Forecast including Part VII		
£m	2023	2024	2025	2026
Own funds (including capital injection)	139.7	117.0	150.9	178.2
Capital injection required for target solvency	*0.0*	*0.0*	*33.0*	*11.6*
SCR	50.3	69.0	104.1	122.9
Solvency ratio	**278%**	**170%**	**145%**	**145%**

Table 10: Pinnacle projected coverage ratio

6.2.21 As can be seen in Table 10, Pinnacle's solvency ratio is projected to decrease over the coming years, requiring capital injections in 2025 and 2026 to maintain target solvency. It should be noted that the forecasted solvency positions shown above are not guaranteed. However, a reduction in solvency ratio from the year end 2023 position is highly likely due to the strategic business plans in relation to Pinnacle's Pet business rather than reflecting the impact of the transfer.

6.2.22 I have included this solvency projection in my report to demonstrate that while the impact of the transfer alone does not have a material impact on Pinnacle's capital position (a percentage point increase in the coverage ratio), if the transferring policyholders were to remain in Pinnacle, the coverage ratio would reduce in future years due to Pinnacle's strategic plans which includes the changes noted above which have already been made at the date of writing my report. This reduction in solvency ratio for the remaining policyholders is not as a result of the transfer and therefore does not impact my conclusion on the impact of the transfer for the remaining policyholders. However, this demonstrates that for the transferring policyholders the impact of the transfer has a favourable impact in terms of coverage ratio when compared with remaining within Pinnacle.

Key uncertainties

6.2.23 Material uncertainties underlying the valuation of Pinnacle's liabilities are discussed in Sections 5.2 and 5.3.

6.2.24 Broader external factors giving rise to the uncertainty inherent in the non-life insurance industry as a whole are outlined in Sections 2.4 and 5.6.

6.2.25 Pinnacle regularly reviews what it considers to be key areas of uncertainty in the determination of solvency capital requirements as part of its ORSA process, the results of which are outlined in its ORSA reports. As per the 2023 ORSA, the stress and scenario tests consider the impact of the following:

a) loss of largest distribution partner leading to loss of new business;

b) impact of a regulatory conduct breach – a breach of Consumer Duty leading to costs being incurred to remediate the issues and a regulatory fine of £5m, further leading to a reduction in business volumes of 20% and increased cancellations of 5% due to reputational damage;

c) deterioration in the loss ratio due to inflationary or other pressures – 9% increase for 12 months from mid-2024 and 2% increase for 12 months from mid-2025 due to an increase in veterinary costs;

d) a national Pet epidemic;

e) economic downturn leading to the valuation of investment assets experiencing an immediate 1-in-50-year shock;

f) cyber-attack;

g) climate-related stress;

h) failure of the migration of the back-book of the new Pet insurance partner, such that all migration costs are incurred but with none of the benefit of the new partnership; and

i) reverse stress tests determining possible situations where the solvency ratio could fall below 100%.

6.2.26 Based on an assessment of the most recent ORSA report, which was finalised in May 2024, Pinnacle's stress and scenario tests are reasonable given its underlying risks.

6.2.27 The results of the most significant of these stress and scenario tests from Pinnacle's 2023 ORSA report are outlined in Appendix F. However, it should be noted that none of the key risks impacting Pinnacle pertain to the transferring portfolio and hence these stress and scenario tests are not directly related to the transferring liabilities.

SCR under stressed scenarios

6.2.28 Given that the transfer has limited impact on Pinnacle's SCR and Pinnacle's key risks do not pertain to the transferring portfolio, the impact of the stress and scenario tests would not be materially affected by the outcome of the transfer. Therefore, I have not independently performed any stress and scenario tests on Pinnacle's post-transfer balance sheet.

Material planned changes affecting strength of capital

6.2.29 The most material planned changes for Pinnacle are the addition of a 50% quota share reinsurance arrangement on the Pet insurance business, the impact of the Tesco partnership and the migration of AFI into Pinnacle. The projections outlined above and in Appendix F consider the impact of the first two of these changes on Pinnacle's solvency ratio, while the migration will be considered in future projections once there is more certainty around when it is likely to happen. This is dependent on the success of Pinnacle's application to use USPs in relation to the AFI contracts under Solvency II.

6.2.30 I am not aware of any other material planned changes that are not discussed in the previous sections of this report.

Access to additional capital

6.2.31 The projections outlined above and in Appendix F incorporate capital injections to support the additional business written via the Tesco partnership. Any such capital injections are subject to Board approval.

Appropriateness of SCR

6.2.32 In accordance with the principle of proportionality and in line with insurers of a similar size for which the costs of an internal model are disproportionate, Pinnacle adopts the Solvency II standard formula (see Section 3.4.6) in order to calculate its solvency capital ratio.

6.2.33 To support this calculation, Pinnacle also calculates its own view of risk capital for its most material risks using a stress and scenario approach. The results of these calculations are set out in the company's annual ORSA report and clearly demonstrate the prudence of the standard formula model calculations for Pinnacle.

6.2.34 Pinnacle has not identified any additional risks that are not considered in the standard formula based on its underlying risk profile as at 31 December 2023.

6.2.35 I therefore consider the use of the standard formula to be proportionate and appropriate for Pinnacle.

6.2.36 With the migration of the AFI portfolio into Pinnacle, Pinnacle plans to apply for approval to use USPs in its SCR calculations. More detail on USPs can be found in Section 3.4. The projections shown above and in Appendix F do not include the AFI migration and do not therefore consider the use of USPs.

Capital policies and governance

6.2.37 Pinnacle's capital assessments are governed by its internal risk management framework and the Solvency II regulations as outlined in Section 3.4.

6.2.38 Pinnacle's risk management framework assesses, monitors and reports Pinnacle's risks by way of a number of functions, policies, procedures and processes as outlined in its ORSA. The risk management framework is reviewed at least annually by management, the Board and the Risk & Audit Committee ("RAC") to ensure it remains aligned with Pinnacle's planned growth and developing risks and amended where necessary.

6.2.39 In line with the Solvency II requirements, Pinnacle produces an ORSA at least annually and more regularly if there are significant changes in the risk profile of the business. The Board has oversight of the ORSA process and is responsible for approving the ORSA reports. Once approved by the Board, the ORSA is submitted to the PRA. The Board also approves:

a) the business plan reflected in the ORSA projections;

b) the stress and scenario tests performed to quantify key uncertainties; and

c) the risk appetite statements.

d) The RAC also provides input and challenges to the ORSA process including reviewing, amending and recommending:

e) the risk appetite statements; and

f) the key material risks.

6.2.40 Lane Clark & Peacock ("LCP") independently reviewed the ORSA as at 31 December 2022.

Risk appetite

6.2.41 Pinnacle's risk appetite is outlined in Section 4.2. In terms of solvency ratios, Pinnacle defines its coverage ratio as within risk appetite if it is above 140%, within risk appetite but requiring monitoring and mitigation if it is between 120% and 140% and exceeding risk appetite if it falls below 120%, at which point action plans would be developed to return to within risk appetite.

6.3 EIFlow capital requirements

Data provided

6.3.1 I have been provided with the following documents as at 31 December 2023 by the actuaries at EIFlow:

a) EIFlow Solvency and Financial Condition Report 2023;

b) EIFlow Q4 2023 reporting pack;

c) key inputs to the SCR models at 31 December 2023;

d) QRTs as at 31 December 2023; and

e) ORSA report as at 30 June 2023 and updated SCR forecast based on 31 December 2023 actual data.

6.3.2 I am satisfied that the data listed above is relevant for my analysis and provides sufficient evidence on which to base my conclusions.

6.3.3 I have not been provided with the Actuarial Function report as at 31 December 2023 as this document was not available at the time of submitting my report. However, I have held discussions with the team at Quest responsible for performing the SCR calculation and forecast of ElFlow's capital position and these discussions have given me the necessary clarifications in order to make the conclusions outlined in this section. Therefore, I do not consider the absence of the aforementioned report to have had an impact on my analysis.

6.3.4 If these reports are made available to me in the interim, I will include these reports as part of my analysis for my Supplementary Report.

Current capital position

6.3.5 The simplified Solvency II balance sheet for ElFlow at 31 December 2023 is shown in Table 11. Note that ElFlow's balance sheet has been converted from USD to GBP at a rate of £1 = US$1.27.

Solvency II Balance Sheet Figures in £m	ElFlow pre transfer
Investments	29.7
Cash & cash equivalents	4.6
Reinsurance technical provisions	0.9
Insurance and other receivables	10.3
Deferred tax asset	-
Other assets	-
Total assets	**45.5**
Gross technical provisions	12.9
Insurance and other payables	2.1
Other liabilities	4.5
Total liabilities	**19.6**
Total equity (net assets)	**25.9**
Net technical provisions	**12.0**
Net assets / technical provisions	*216%*
Total equity and liabilities	**45.5**

Capital requirement Figures in £m	ElFlow pre transfer
Market Risk	4.6
Counterparty Risk	0.4
Non-Life Risk	2.8
Health Risk	-
Life Risk	-
Operational Risk	0.4
Diversification	*(1.6)*
SCR	**6.6**
Coverage ratio	**394%**

Table 11: ElFlow pre transfer Solvency II balance sheet and coverage ratio

6.3.6 As at 31 December 2023, EIFlow's pre transfer net assets are £22.0m on a statutory basis (shown in Table 2) and Solvency II own funds are £25.9m. 100% of EIFlow's own funds are Tier 1, the highest tier of own funds. I have reviewed the tiering of own funds and consider it to be reasonable. In addition, I understand from EIFlow that the tiering of own funds will not materially change as a result of the transfer.

6.3.7 I have assessed the approach used to calculate the Solvency II balance sheet for EIFlow and I consider the approach and results to be reasonable.

6.3.8 Pre transfer, EIFlow's SCR as at 31 December 2023 is £6.6m, giving rise to a solvency ratio of 394%.

6.3.9 I therefore believe it is reasonable to conclude that EIFlow is sufficiently capitalised as at 31 December 2023.

Approach to calculating SCR

6.3.10 EIFlow uses the standard formula to calculate its SCR and MCR under Solvency II, in line with Pinnacle's approach. Details of this approach are included in Section 6.2.9.

6.3.11 I have assessed the approach used to undertake the standard formula calculations for EIFlow and consider the approach to be reasonable and proportionate to the scale and complexity of its operations.

6.3.12 I have also assessed the calculations by independently reprojecting the SCR using the standard formula. Any deviations between our reprojection and EIFlow's SCR have been sufficiently explained and understood. The difference between the SCR figure calculated by EIFlow and my reprojection is £0.03m which is clearly immaterial. I am satisfied that EIFlow's SCR has been calculated in line with the regulatory requirements.

6.3.13 I understand from EIFlow that its approach to undertaking the standard formula calculations will be unaffected by the transfer and I consider this to be reasonable.

Post-transfer coverage ratio

6.3.14 The simplified Solvency II balance sheet for EIFlow at 31 December 2023, both before and after the transfer, is shown in Table 12, shown on the basis that the transfer had become effective at 31 December 2023.

Solvency II Balance Sheet Figures in £m	EIFlow pre transfer	EIFlow post transfer	Impact of transfer
Investments	29.7	49.0	19.3
Cash & cash equivalents	4.6	4.6	-
Reinsurance technical provisions	0.9	9.3	8.4
Insurance and other receivables	10.3	10.9	0.6
Deferred tax asset	-	-	-
Other assets	-	-	-
Total assets	**45.5**	**73.8**	**28.3**
Gross technical provisions	12.9	33.5	20.6
Insurance and other payables	2.1	1.8	(0.3)
Other liabilities	4.5	4.5	-
Total liabilities	**19.6**	**39.9**	**20.3**
Total equity (net assets)	**25.9**	**33.9**	**8.0**
Net technical provisions	**12.0**	**24.2**	
Net assets / technical provisions	*216%*	*140%*	
Total equity and liabilities	**45.5**	**73.8**	**28.3**
Market Risk	4.6	5.3	0.7
Counterparty Risk	0.4	1.7	1.3
Non-Life Risk	2.8	5.1	2.3
Health Risk	-	-	-
Life Risk	-	-	-
Operational Risk	0.4	0.8	0.5
Diversification	*(1.6)*	*(3.0)*	*(1.3)*
SCR	**6.6**	**10.0**	**3.4**
Coverage ratio	**394%**	**339%**	**-55%**

Table 12: EIFlow post transfer Solvency II balance sheet and coverage ratio

6.3.15 The net assets on a Solvency II basis are estimated to increase by £8.0m and the SCR is estimated to increase by £3.4m. The impact can be broken down as follows:

a) The gross and reinsurers' share of the Solvency II technical provisions increase by £20.6m and £8.4m respectively. EIFlow's valuation of the technical provisions for the transferring portfolio was discussed in Section 5.5.

b) Assets increase by the cash transferred as part of the transfer. The cash received will be invested in fixed income bonds with EIFlow's investment manager.

c) The SCR increases post transfer due to EIFlow's increased premium and reserve volume, alongside increases in spread risk (due to the increased bond portfolio) and counterparty default risk[13] (due to the increase in reinsurance recoveries). There is also a small increase in the operational risk charge.

6.3.16 This results in a 55 percentage point reduction in EIFlow's coverage ratio from 394% to 339% as a direct result of the transfer.

6.3.17 While EIFlow's solvency ratio reduces as a result of the transfer, it remains well in excess of both regulatory and internal risk appetite thresholds and EIFlow therefore continues to be highly capitalised post transfer.

6.3.18 I therefore believe it is reasonable to conclude that the level of protection for the existing policyholders is not materially adversely affected as a result of the transfer.

6.3.19 The coverage ratio of EIFlow following the transfer is higher than that of Pinnacle[14], hence the transferring policyholders are moving to a company with higher levels of capital protection. As part of my analysis in Section 7.2, I have considered some extreme but plausible stresses in which demonstrate the capital strength of EIFlow following the transfer.

6.3.20 Based on this analysis, I believe it is reasonable to conclude that the level of protection for the transferring policyholders is not materially adversely affected as a result of the transfer.

Key uncertainties

6.3.21 Material uncertainties underlying the valuation of EIFlow's liabilities are discussed in Section 5.4.

6.3.22 Broader external factors giving rise to the uncertainty inherent in the non-life insurance industry as a whole are outlined in Sections 2.4 and 5.6.

6.3.23 EIFlow regularly reviews what it considers to be key areas of uncertainty in the determination of solvency capital requirements as part of its ORSA process, the results of which are outlined in its ORSA reports. As per the 2023 ORSA, the stress and scenario tests consider the impact of the following:

a) long tail technical provisions increasing by 50%, short tail technical provisions increasing by 25%, non-life ATE technical provisions increasing by 50% and net reserves on the

[13] In the post transfer SCR calculation, I have treated a significant premium receivable balance as cash. The receivable in question relates to the Cardinal Re transfer and as at 31 December 2023 it was still due, receiving a counterparty risk charge in the SCR. I am aware that the amount in question has been paid since the year end and now sits within a highly rated bank. In a post transfer scenario this amount would not be outstanding, therefore I consider it more appropriate (i.e. more representative of the post transfer scenario) to treat this amount as cash in the SCR calculation.

[14] It should be noted here that there are minor differences in the Solvency II regulations applied by Pinnacle and EIFlow arising from the impact of Gibraltar continuing to follow EIOPA guidelines while the PRA has proposed amendments to the regulations post Brexit. These differences were discussed in Section 3.4 and are not considered to have a material impact on the technical provisions or the resulting coverage ratios.

Pinnacle transferring portfolio increasing by 25%. Cardinal Re reserves remain unchanged in this scenario due to its history of reserve releases;

b) fall in the total value of the Mangrove Partners fund investment;

c) increase in interest rates;

d) all counterparties experience a credit rating downgrade – the impact of both a one-step and two-step downgrade is tested;

e) potential failure of a key outsourced function with a cost impact of six months of the value of the largest contract;

f) post Brexit cost increases;

g) weakening of general economic conditions causing a two-step downgrading of the credit rating of EIFlow's counterparties at the same time as EIFlow is advised of a large claim; and

h) reverse stress tests determining possible situations where the solvency ratio could fall below 100%.

6.3.24 Based on an assessment of the most recent ORSA report, which was finalised in December 2023, EIFlow's stress and scenario tests are reasonable given its underlying risks.

6.3.25 The results of the most significant of these stress and scenario tests from EIFlow's 2023 ORSA report are outlined in Appendix F.

SCR under stressed scenarios

6.3.26 I have independently performed my own stress tests based on the post transfer capital position as if the transfer took place as at 31 December 2023. These tests consider extreme but plausible scenarios to assess the impact on EIFlow's reserves and capital position in a post transfer scenario. This assessment can be found in Section 7.2.

Material planned changes affecting strength of capital

6.3.27 As mentioned in Section 4.2, Pinnacle's Creditor policies are to be renewed into EIFlow in tranches between May and October 2024. This is discussed in more detail in Section 4.7. The projections in Appendix F include the impact of the Creditor business.

6.3.28 I am not aware of any other material planned changes that are not discussed in the previous sections of this report.

Access to additional capital

6.3.29 EIFlow has no contingency capital structures in place, which is consistent with the operation of a company with no live risks. It has limited exposure to new large claims or catastrophes and its coverage ratios are considered sufficient to withstand any shocks to the existing claims portfolio, as demonstrated in its stress and scenario tests outlined above.

Appropriateness of SCR

6.3.30 In accordance with the principle of proportionality and in line with insurers of a similar size for which the costs of an internal model are disproportionate, EIFlow adopts the Solvency II standard formula (see Section 3.4.6) in order to calculate its solvency capital ratio.

6.3.31 Given the business is predominately legacy portfolios, movements are very modest from period to period excluding the impact of any business transfers and there is no exposure to new catastrophe risk.

6.3.32 I therefore consider the use of the standard formula to be proportionate and appropriate for EIFlow.

Capital policies and governance

6.3.33 EIFlow's capital assessments are governed by its internal risk management framework and the Solvency II regulations as outlined in Section 3.4.

6.3.34 EIFlow's risk management framework assesses, monitors and reports EIFlow's risks by way of several functions, policies, procedures and processes as outlined in its ORSA report.

6.3.35 In line with the Solvency II requirements, EIFlow produces an ORSA report at least annually and more regularly if there are significant claim reserves developments or a significant impact on invested assets. The Board has oversight of the ORSA process and is responsible for approving the ORSA reports. Once approved by the Board, the ORSA report is submitted to the GFSC. The Board also approves:

a) the stress and scenario tests performed to quantify key uncertainties; and

b) the risk appetite statements and risk tolerances.

Risk appetite

6.3.36 EIFlow's risk appetite is outlined in Section 4.3. In terms of solvency ratios, EIFlow's risk appetite states that the coverage ratio should not fall by more than 20% in a quarter or in a year, with the exception of movements due to the addition of a new legacy portfolio. EIFlow's risk appetite is also reflected in its dividend policy, whereby no dividends will be considered unless there is an ample buffer above a 150% coverage ratio over a three-year time horizon.

6.4 Access to additional capital post transfer

6.4.1 Pinnacle's business plan includes consideration of capital injections to support its strategic business objectives, as outlined in Section 6.2. Any potential capital injections relate to Pinnacle's Pet business rather than the non-Pet business included in the transferring portfolio. The remaining portfolio's access to additional capital will therefore be unaffected by the transfer.

6.4.2 EIFlow's approach to contingency capital, as outlined in paragraph 6.3.29 will remain the same post transfer, i.e. there will be no contingency capital structures in place. Given that the transferring portfolio is in run-off with no exposure to future catastrophe claims and EIFlow's strong current and projected future capital position, this approach is reasonable and will not materially adversely impact the transferring portfolio.

6.5 Planned capital structures and governance

6.5.1 The governance and oversight underlying Pinnacle and EIFlow's capital calculations are outlined in Sections 6.2 and 6.3 respectively.

6.5.2 Both companies adopt similar processes in terms of internal risk management frameworks, Board oversight and compliance with Solvency II.

6.5.3 There will be no change to the capital structures and governance of either company as a result of the transfer; therefore, these processes will remain unchanged pre and post transfer for both companies so there will be no impact on the existing or remaining portfolios.

6.5.4 Given the similarities in these processes between the two companies, there will be no material changes in capital structures and governance for the transferring portfolio.

6.6 Changes to risk appetite post transfer

6.6.1 There are no proposed changes to either company's risk appetite as a result of the transfer. The impact on the transferring policyholders of moving from Pinnacle to EIFlow's risk management system is discussed in Section 8.5.

6.7 If the proposed transfer does not proceed

6.7.1 The impact of the transferring portfolio on Pinnacle's current and projected SCR is limited given the existing reinsurance and Group arrangements. If the transfer does not proceed, Pinnacle's current and projected SCR will therefore not change materially.

6.7.2 EIFlow is currently highly capitalised, with a solvency ratio of 394% as at 31 December 2023 pre transfer. All else remining equal, i.e. without considering any additional future acquisitions, EIFlow's solvency ratio is projected to increase over time as claims settle and profits are released. EIFlow would therefore continue to be highly capitalised if the transfer does not proceed.

6.8 Conclusions on capital considerations

6.8.1 Based on the Solvency II standard formula model, both Pinnacle and EIFlow are sufficiently capitalised pre and post transfer. I consider the use of the standard formula to be proportionate and appropriate for both Pinnacle and EIFlow.

6.8.2 Pinnacle's solvency ratio increases by 1 percentage point as a direct result of the transfer, from 278% to 279%. The transfer is therefore not material to Pinnacle's capital position and does not have a material impact on Pinnacle's remaining policyholders.

6.8.3 The transferring portfolio represents a significant change to EIFlow's total assets and liabilities. EIFlow's solvency ratio reduces from 394% to 339% as a direct result of the transfer, driven by increases in insurance risk, spread risk and counterparty default risk. While EIFlow's solvency ratio reduces as a result of the transfer, it remains high and considerably in excess of both the Solvency II requirements and EIFlow's risk appetite. In addition, the solvency ratio is expected to increase over a 3-year time horizon.

6.8.4 EIFlow has no contingency capital structures in place, which is consistent with the operation of a company with no live risks. It has limited exposure to new large claims or catastrophes and its coverage ratios are considered sufficient to withstand any shocks to the existing claims portfolio. The sufficiency of its capital position is demonstrated by its stress and scenario tests, which show that it remains well capitalised in the event of an extreme economic scenario. The level of reserve deterioration required to result in a solvency ratio of 100% or below is considered very unlikely.

6.8.5 I therefore believe it is reasonable to conclude that the level of protection for the existing policyholders is not materially adversely affected as a result of the transfer.

6.8.6 The coverage ratio of EIFlow following the transfer is higher than that of Pinnacle, hence the transferring policyholders are moving to a company with higher levels of capital protection.

6.8.7 I therefore believe it is reasonable to conclude that the level of protection for the transferring policyholders is not adversely affected as a result of the transfer.

7 Financial implications for affected policyholders

7.1 Overview

7.1.1 In Sections 4, 5 and 6, I have assessed the financial implications of the proposed transfer for the affected policyholders. This section summarises the conclusions derived from the analysis performed in the previous two sections by each policyholder group. I also perform additional analysis in the form of extreme but plausible scenario tests on the post transfer financial position.

7.2 Financial impact for transferring portfolio

7.2.1 The proposed transfer will result in the transferring portfolio moving to a smaller company with a focus on run-off portfolios.

7.2.2 As per the structure chart in Figure 1, the transferring policyholders are currently part of a joint venture between BNP Paribas Cardif, which is a large international banking establishment, and JAB Holdings B.V., which is a large investment conglomerate. As shown in Figure 2, EIFlow is part of the Bacchus Group, which is considerably smaller and has a less diverse portfolio of business, focusing on insurance activities. There may be a perceived reduction in financial security for the transferring policyholders relating to the ability of a smaller group to meet policyholder obligations.

7.2.3 The ratio of net asset value to net technical provisions in EIFlow following the transfer is 140% relative to a ratio of 591% in Pinnacle prior to the transfer. There are a few key reasons for this differential. Firstly, Pinnacle benefits from a 100% reinsurance arrangement with Darnell DAC on the transferring portfolio, reducing its net technical provisions relative to EIFlow's post transfer position. There is also an additional £5.0m risk premium transferred to EIFlow (equal on a gross and net basis) which increases its net technical provisions compared to Pinnacle. EIFlow have included this in the technical provisions as extra protection for policyholders. However, if this additional premium had been recognised as cash, which may be a more reasonable comparison to Pinnacle, the net asset value to net technical provision ratio would be 203%.

7.2.4 I note this is still a significant reduction relative to Pinnacle. However, in my opinion the transfer does not result in a material adverse financial impact for the following reasons:

a) As discussed above, the level of reserves being transferred includes additional margins to mitigate the risk of reserve deterioration in the underlying portfolio, particularly with respect to the Motor portfolio. Later in this section I have included the results from extreme but plausible scenario tests which demonstrate that these margins are sufficient to cover the increase in reserves.

b) While EIFlow has no contingency capital structures in place, this is consistent with the operation of a company with no live risks. It has limited exposure to new large claims or catastrophes and its coverage ratios are considered sufficient to withstand any shocks to the existing claims portfolio. The sufficiency of its capital position is also demonstrated by the stress tests below, which show that it remains well capitalised in the event of an extreme scenario. The level of reserve deterioration required to result in a solvency ratio of 100% or below is considered very unlikely.

c) In addition, while Pinnacle is part of a large group that has previously supported its strategic plans by way of capital injections, any such future capital injections are subject to Board approval and therefore access to additional capital is not guaranteed.

d) The coverage ratio of EIFlow following the transfer (339%) is higher than that of Pinnacle (278%). The coverage ratio is lower for Pinnacle because its' SCR is significantly higher than EIFlow's. This is particularly driven by the non-life underwriting risk module which is higher because it is writing large amounts of new business, unlike EIFlow who is managing business in run off. Hence, the transferring policyholders are moving to a company with higher levels of capital protection, relative to the regulatory capital requirements.

Extreme but plausible scenarios

7.2.5 The key source of uncertainty for the transferring portfolio on a gross basis is the assumptions used to evaluate the long-tailed PPO and potential PPO claims within the Motor portfolio. This uncertainty gives rise to a range of reasonable best estimates for this portfolio. The volatility in the reserves is mitigated by:

a) an existing margin for uncertainty of £5.1m; and

b) an additional £5.0m risk premium that will be transferred as part of the insurance liabilities and that will form part of the EIFlow best estimate for this portfolio.

7.2.6 The £10.1m noted above is being transferred above the gross best estimate reserves for the transferring portfolio of £14.3m (claims reserves, ULAE and UPR) which is a margin of 70% above Pinnacle's best estimate view on a gross basis.

7.2.7 On a net basis, the uncertainty is mitigated by external reinsurance in place, particularly on the Motor portfolio, which is placed with highly rated reinsurers. The external reinsurance will transfer to EIFlow post transfer. Therefore, the key sources of uncertainty for the transferring portfolio on a net basis are reserve movements that are below the reinsurance retention, or that the reinsurers default.

7.2.8 On a net basis (excluding the Darnell DAC reinsurance which will not be transferred) the same margin and risk premium is held above reserves of £5.1m which is a margin of 200% above Pinnacle's best estimate view on a net basis.

7.2.9 In my view, this level of margin is sufficient to mitigate the volatility to an acceptable level such that the policyholders are not materially adversely impacted post transfer to EIFlow. To support this conclusion, I have considered a number of extreme but plausible scenarios. The results of these are summarised in Table 13 and I have expanded on each of them below. The final column shows the remaining margin in each of these scenarios, where the margin includes both the £5.1m margin for uncertainty and £5.0m additional risk premium. For context, the net asset value of EIFlow post transfer is £27.9m.

Impact of scenarios on reserves Figures in £m		Gross impact	Net impact pre transfer	Net impact post transfer	Difference in net impact	Remaining margin in EIFlow
1	Motor PPO claims deterioration by 100%	3.5	-	0.3	0.3	9.8
2	Scenario 1 + potentials all settle as PPOs + life expectancy increased	6.9	-	0.8	0.8	9.3
3	Motor non-PPO claims deterioration by 100%	1.5	-	0.4	0.4	9.7
4	Downgrade all counterparties by 2 levels*	-	-	-	-	10.1
5	Reinsurer default on 50% of recoveries	2.8	-	2.8	2.8	7.3
6	Scenario 2 + Scenario 3 + Scenario 5	11.2	-	7.6	7.6	2.5

**Scenario 4 included despite no impact on reserves. Later in this section I show the impact of this scenario on the coverage ratio.*

Table 13: Impact of scenarios pre and post transfer

Motor PPO claims deterioration

7.2.10 If all five known or potential PPO claims doubled in size on a gross basis, for example due to a deterioration in all claimants' medical conditions, this would result in an increase in the gross reserve of £3.5m. In a pre transfer scenario, this would result in nil increase on a net basis due to the Darnell DAC reinsurance in place within Pinnacle. In a post transfer scenario, this would result in an increase in the net reserve of £0.3m. The difference between the net impact of this scenario pre and post transfer is therefore £0.3m.

7.2.11 This figure is not material on a net basis because of both the co-insurance arrangement (such that Pinnacle's share of each claim is either 35% or 60%, as discussed in paragraph 5.2.17) and the excess of loss arrangements in place on the Motor book. The indexation clause on the excess of loss reinsurance has been taken into account when deriving the net impact of the aforementioned scenario. The reinsurance is unlimited in relation to liability claims, which are the primary uncertainty given the age of the business, therefore I am not concerned about the reinsurance being exhausted.

7.2.12 I do not consider it a likely scenario that all five claimants would experience a severe deterioration in their condition. However, this demonstrates how the external reinsurance limits the deterioration that EIFlow would experience on a net basis in such a scenario.

7.2.13 I have considered a more severe scenario where all five known or potential PPO claims doubled in size and all five claimants lived to be 90 years old. In addition, I have assumed that the three potential PPOs all settle as PPOs, increasing the probability of becoming a PPO to 100% (Pinnacle's best estimate assumes the probability of becoming a PPO is 5%, 25% and 75% respectively for each of the potential PPOs).

7.2.14 This would result in an increase in the gross reserve of £6.9m. In a pre transfer scenario, this would result in nil increase on a net basis due to the Darnell DAC reinsurance in place within Pinnacle. In a post transfer scenario, this would result in an increase in the net reserve of £0.8m. The difference between the net impact of this scenario pre and post transfer is therefore £0.8m.

7.2.15 Similarly to above, this figure is not material on a net basis because of both the co-insurance arrangement and the excess of loss arrangements in place on the Motor book. Given the best estimate probabilities for becoming PPO claims, I do not consider it a likely scenario that all three potential PPOs would settle as PPOs and that all five claimants would experience a severe deterioration in their condition while also living to 90 years old. However, this demonstrates how the external reinsurance limits the deterioration that EIFlow would experience on a net basis in such a scenario. A net increase of this size would be comfortably absorbed by the additional £5.0m risk premium.

Motor non-PPO claims deterioration

7.2.16 Of the non-PPO Motor claims that remain open, there are two that are already above the excess of loss retention and therefore cannot deteriorate materially on a net basis (as the reinsurance limits are indexed there is some potential to deteriorate on a net basis depending on when these claims settle. However, I do not consider this to give rise to material risk given the size of these claims which are reserved at less than £1m each). Excluding these two large claims, Pinnacle's share of the outstanding amount on all other open claims is around £0.4m in aggregate.

7.2.17 In the unlikely scenario that all of the non-PPO claims doubled in size, the impact on the gross reserves would be in the region of £1.5m. To be clear, in this scenario I have assumed the case reserves double in size but that no additional IBNR is required. In a pre transfer scenario, this would result in nil increase on a net basis due to the Darnell DAC reinsurance in place within Pinnacle. In a post transfer scenario, this would result in an increase in the net reserve of c. £0.4m. This assumes that the two large claims do not deteriorate further on a net basis, and that all the other claims do not exceed the reinsurance retention, which I find to be a reasonable assumption based on the incurred values of these claims. The difference between the net impact of this scenario pre and post transfer is therefore £0.4m. This figure is not material on a net basis due to the protection of the external reinsurance post transfer.

7.2.18 I have focussed the above scenarios on the reported claims due to the fact that I do not expect any new claims to be reported given the age of the Motor business, which was written between 2012 and 2015. However, in the unlikely event that new claims are reported, EIFlow would still benefit from the protection of the external reinsurance on a net basis. For context, the additional premium of £5.0m could absorb more than 10 new claims at full retention. Therefore, there is not a material risk that EIFlow will not have sufficient funds to absorb any new claims that are reported post transfer.

Counterparty downgrade

7.2.19 Aside from a gross reserve deterioration, another key risk is the potential default of banks and reinsurers responsible for cash and/or reinsurance recoverables owed to EIFlow. Given the high credit rating of rated banks and reinsurers (noting not all counterparties are rated), I consider this risk to be low. However, I have considered the potential impact below.

7.2.20 Should the reinsurers' credit ratings be downgraded, this would result in a higher counterparty default charge in the SCR. To quantify the impact on the coverage ratio, I have performed a stress test in which the counterparties are all downgraded by two levels (for example from AA to BBB). This has been applied to all counterparties, not just reinsurers. The impact on EIFlow's post transfer SCR is shown in Table 14.

Counterparty Downgrade £m	Business Plan December 2023	Stress Test December 2023	Difference December 2023
SCR	10.0	12.9	2.9
Increase in reserve amount	21.2	21.2	-
Solvency Ratio	**339%**	**262%**	**-76%**

Table 14: Impact of counterparty downgrade on EIFlow post transfer SCR

7.2.21 The result is a reduction in the coverage ratio by 76 percentage points to 262%. EIFlow would continue to be highly capitalised in this scenario.

7.2.22 I have not performed any investment-related stress as the majority of EIFlow's assets are held in cash, which is included in the counterparty scenario test above.

Reinsurer default

7.2.23 There is also risk that the reinsurers default and not pay out the reinsurance recoveries (albeit a low risk given the credit ratings, as mentioned above). The total reinsurance asset in the transferring portfolio is £10.2m. If 50% of the reinsurers defaulted and no amounts were recovered, this would result in an increase in the net reserves payable by EIFlow of £5.1m. If this had occurred pre transfer, the impact on a net basis would be nil. While the Darnell DAC reinsurance in place with Pinnacle does not cover reinsurer default on the external reinsurance, the P&L mechanism in place means that Pinnacle would be reimbursed by BNP Paribas Cardif such that the net impact is nil. The difference between the net impact of this scenario pre and post transfer is therefore £5.1m. This would wipe out the full additional premium. However, EIFlow also have the £5.1m margin for uncertainty. In the context of EIFlow's net asset value post transfer (£27.9m), they would still have sufficient assets to absorb an increase of this size.

Combination of claim deterioration and reinsurer default

7.2.24 I have considered a more extreme scenario which combines a number of the scenarios above:

a) the three potential PPOs all settle as PPOs, all five PPO claims then doubled in size and all five claimants lived to be 90 years old;

b) all case reserves for the non-PPO claims doubled in size; and

c) 50% of the reinsurers defaulted and no amounts were recovered. This also applies to the additional recoveries due as a result of the gross increases in (a) and (b).

7.2.25 On a gross basis this would be an increase to the reserves of £13.5m. In a pre transfer scenario, this would result in nil increase on a net basis due to the Darnell DAC reinsurance in place within Pinnacle and the P&L mechanism with BNP Paribas Cardif. In a post transfer scenario, this would result in an increase in the net reserve of £9.9m.

7.2.26 The difference between the net impact pre and post transfer is therefore £9.9m. This is a more material impact than when considering the above scenarios individually. It almost wipes out the full £5.0m additional premium and the £5.1m margin for uncertainty. However, in the context of EIFlow's net asset value post transfer (£27.9m), they would still have sufficient assets to absorb such an increase.

7.2.27 I have also calculated the impact of this extreme scenario on EIFlow's SCR position, with the result shown in Table 15. The SCR increases due to the increase in net reserves but there is a reduction in the amounts due from reinsurance counterparties leading to a reduction in the counterparty default risk.

RI default and claim deterioration £m	Business Plan December 2023	Stress Test December 2023	Difference December 2023
SCR	10.0	16.1	6.1
Increase in reserve amount	21.2	30.3	9.0
Solvency Ratio	**339%**	**196%**	**-142%**

Table 15: Impact of claim deterioration and reinsurer default on EIFlow post transfer SCR

7.2.28 The result is a reduction in the coverage ratio by 142 percentage points to 196%. While this would have a material impact, EIFlow would still continue to be highly capitalised in this scenario.

Summary

7.2.29 While the impact of an extreme but plausible scenario would be more adverse post transfer than pre transfer scenario as the Darnell DAC reinsurance is no longer protecting the policyholders, the above assessment gives me comfort that EIFlow has sufficient assets to absorb the impact. The additional risk premium of £5.0m on top of the existing margin for uncertainty of £5.1m means EIFlow's net asset value and capital position remains strong post transfer, and the transfer of the external reinsurance arrangements means that even in extreme scenarios there remains sufficient capital with which to pay claims.

7.2.30 Based on the above, I consider that the financial security of the transferring portfolio is not materially adversely impacted by the transfer.

7.3 Financial impact for remaining portfolio

7.3.1 The transferring portfolio is 100% reinsured so the transfer has no impact on Pinnacle's net assets on a statutory basis and only a very minor impact on a Solvency II basis. The transfer does not therefore correspond to a material reduction in Pinnacle's size on a net basis.

7.3.2 There are no planned changes to the reserving or technical provisions methodology used by Pinnacle for its remaining portfolio.

7.3.3 Pinnacle's solvency ratio increases by one percentage point as a direct result of the transfer, from 278% to 279%. The transfer is therefore not material to Pinnacle's capital position and does not have a material impact on Pinnacle's remaining policyholders. Pinnacle's solvency ratio reduces over a three-year planning horizon, but this is as a result of strategic plans related to its Pet insurance portfolio. These plans are unaffected by the transfer.

7.3.4 Pinnacle's key risks do not pertain to the transferring portfolio and the impact of the stress and scenario tests will therefore not be materially affected by the outcome of the transfer.

7.3.5 Based on the above, I consider that the financial security of the remaining portfolio is not materially adversely impacted by the transfer.

7.4 Financial impact for existing portfolio

7.4.1 The proposed transfer is significant in terms of EIFlow's balance sheet, increasing net assets on a statutory basis by 26.8%. However, the transferring portfolio is in run-off, so its management will align with the existing portfolio.

7.4.2 There are no planned changes to the reserving or technical provisions methodology used by EIFlow for its existing portfolio.

7.4.3 As noted in Section 7.2, the transferring portfolio represents a significant change to EIFlow's total assets and liabilities. EIFlow's solvency ratio reduces from 394% to 339% as a direct result of the transfer. While EIFlow's solvency ratio reduces as a result of the transfer, it remains high and considerably in excess of both the Solvency II requirements and EIFlow's risk appetite.

7.4.4 As demonstrated by the stress testing in Section 7.2, the transfer premium ensures that EIFlow's capital position remains strong post transfer, and the transfer of the external reinsurance arrangements means that even in extreme scenarios there remains sufficient capital with which to pay claims. There is margin remaining in all the scenarios shown in Table 13, which benefits the existing policyholders as well as the transferring policyholders.

7.4.5 The sufficiency of EIFlow's capital position is further demonstrated by its stress and scenario tests, included within Appendix F, which show that it remains well capitalised in the event of an extreme economic scenario. The level of reserve deterioration required to result in a solvency ratio of 100% or below is considered very unlikely.

7.4.6 Based on the above, I consider that the financial security of the existing portfolio is not materially adversely impacted by the transfer.

8 Other considerations for affected policyholders

8.1 Claims handling and policy administration

8.1.1 For the Motor and Household portfolios, policy administration and claims handling will remain with the MGA's indefinitely and there will be no change to these processes following the transfer. As the claims handling process will remain the same, there will be no changes to the case reserving philosophy. The complaints handling process will also remain unchanged.

8.1.2 For the Warranty & GAP portfolio, policy administration and claims handling will remain with Pinnacle for a period of one year following the transfer, with the option to extend further if necessary. It is expected that by 2025 there will be very few open claims remaining on the Motor Warranty & GAP portfolio.

8.1.3 I understand a formal Third-Party Administrator ("TPA") agreement will be entered into between Pinnacle and EIFlow prior to the effective date of the transfer, outlining the claims handling arrangements for the Warranty & GAP portfolio. This agreement is being drafted at the time of writing this report and will be available later in 2024. I will provide further commentary on this in my Supplementary Report.

8.1.4 The TPA agreement will be in place for a period of at least one year following the transfer, after which the agreement will either be extended or Quest will handle the claims going forward on behalf of EIFlow. In the event that the TPA agreement is not extended, EIFlow would manage the transition of claims handling from Pinnacle to Quest. This would involve a review of relevant procedures and policies to ensure there was no adverse change to policyholder experience as a result of their claim being handled by Quest rather than Pinnacle. Quest is an experienced claims handler and is responsible for the claims handling for the majority of portfolios acquired by EIFlow, as mentioned in Section 4.3. Therefore, in my view, Quest has the experience to manage this transition effectively should it be required.

8.1.5 I do not expect there to be many claims still to be settled after 2025 given there are expected to be only 84 GAP policies in force by the end of 2025. There is a possibility that the TPA agreement will be extended meaning there would be no change to the claims handling processes for these policyholders. However, if the claims handling does transfer to Quest after one year, I do not consider there to be a material adverse impact on policyholders based on the information outlined above.

8.1.6 There will be no change to the policy administration and claims handling processes for the remaining policyholders. There will be no change to the company structure and PIMS will continue to administer the policies and claims for the remaining portfolio.

8.1.7 There will be no change to the policy administration and claims handling processes for the existing policyholders. This will continue to be outsourced through Quest to a claims team with expertise across multiple lines of business, including UK Motor.

8.1.8 I conclude that there is no material adverse impact on claims handling or policy administration for the affected policyholders as a result of the transfer.

8.2 Policyholder benefits and contractual rights

8.2.1 Under UK and Gibraltar law, I understand that direct policyholders receive priority in the event that a firm is subject to insolvency.

8.2.2 As discussed in Section 6, the risk of insolvency is low due to the high coverage ratios of the companies.

8.2.3 All the transferring and remaining portfolio relates to direct policyholders; hence, there is no change to their contractual rights as a result of the transfer.

8.2.4 EIFlow has some reinsurance policyholders, who currently rank below the existing direct policyholders in the event of insolvency. Following the transfer, the existing reinsurance policyholders of EIFlow would rank below both the existing direct policyholders of EIFlow and the direct policyholders in the transferring portfolio. This means that in theory, there is a higher chance of the existing reinsurance policyholders' claims not being paid by EIFlow in the event of insolvency. Given EIFlow's current capital position and projected solvency ratios, I do not consider this to represent a material adverse impact in the security of the existing policyholders.

8.3 Security of benefits

8.3.1 Security of benefits to the policyholder is the assurance that the benefit falling due in the event of a claim will be handled and paid to a satisfactory standard. Security to the policyholder can be driven by financial and non-financial factors. The main financial factors include reserving considerations, reinsurance arrangements, solvency of the company and access to capital. These areas are discussed in more detail in Section 5 and Section 6 and summarised in Section 7. Non-financial factors include policyholder protection and regulation, while other financial factors include the investment strategy.

FSCS and FOS considerations

8.3.2 I understand that the transfer will have no material impact on the protections afforded to transferring policyholders in the event of insolvency, which includes access to the FSCS.

8.3.3 I understand that eligibility for the FSCS is based on where the insurance policy was issued[15] and all policies in the transferring portfolio were issued by a UK-regulated insurer. Hence, it is my understanding that the transferring policyholders will remain eligible following the transfer.

8.3.4 As mentioned in paragraph 3.2.8, the FSCS will pay 100% of any claim incurred for compulsory insurance (e.g. third-party Motor) and 90% of claims incurred for non-compulsory insurance (e.g. Household, Warranty, GAP). This is unchanged following the transfer.

8.3.5 The transferring policyholders are currently eligible to make a complaint to the FOS as Pinnacle is a UK-based entity. The FOS generally looks at complaints relating to businesses that provide financial services in or from the UK.

8.3.6 Gibraltar does not have an Ombudsman. The GFSC have a process available to make a complaint against a regulated firm; this primarily relates to conduct standards and the GFSC can take regulatory action against a firm if deemed appropriate.

8.3.7 It is possible for EEA or Gibraltar based firms to subscribe to the UK's FOS via a voluntary jurisdiction process. EIFlow submitted a formal application to join the FOS in March 2024 and the application was approved in May 2024[16]. As a result, EIFlow will be required to comply with the FCA's rules on complaints handling and will be required to follow the FOS's decision on the resolution of any complaints. This means there is a guarantee that any complaints will be considered by the FOS.

8.3.8 There will be no change to the protections in place for the remaining policyholders or the existing policyholders.

Change in regulatory environment

8.3.9 Pinnacle is regulated by the PRA and the FCA while EIFlow is regulated by the GFSC. Therefore, as a result of the transfer there will be a change in the underlying regulation surrounding the transferring portfolio.

[15] Source: Bank of England website: 'Financial Services Compensation Scheme'
[16] Membership effective from 17 May 2024.

8.3.10 The UK and Gibraltar regulatory regimes are described in Sections 3.2 and 3.3 respectively. From my experience, I do not believe the difference in regulatory standards between the UK and Gibraltar to be sufficiently different to materially adversely affect the policyholders. Key differences between the regimes are discussed below.

8.3.11 The FCA's conduct principles such as Consumer Duty do not apply to firms in Gibraltar. However, the policies in the transferring portfolio have been issued by a UK-based firm and claims will continue to be handled by UK-based firms, as discussed in Section 8.1.

8.3.12 EIFlow has confirmed to me that there is no plan to renew any of the transferring business.

8.3.13 As discussed in Section 3.4, both the UK and Europe are undergoing reforms in solvency requirements. The reforms to Solvency II and Solvency UK are not aligned exactly. However, there are similarities between the two sets of proposals. I do not consider the reforms to materially change the capital requirements or level of protection for the policyholders involved in this transfer.

8.3.14 In summary, given the similarities between the fundamental principles of the PRA, the FCA and the GFSC in relation to insurance regulations, I do not believe that moving to a GFSC-regulated firm will materially adversely affect the transferring policyholders.

8.3.15 There are no changes to the regulatory regimes for the remaining policyholders or the existing policyholders.

Investment strategy

8.3.16 As per Pinnacle's 31 December 2023 financial statements, 95% of its financial assets are rated A- or above and the remaining 5% are rated BBB+.

8.3.17 As per EIFlow's Investment Policy 2023, EIFlow predominantly invests in investment grade bonds with creditworthy counterparties (no less than BBB- credit rating or equivalent investment grade and no more than 25% of the portfolio invested in BBB or BBB- rated assets) to mitigate the risk of default. It also minimises credit risk through diversification, limiting exposure to any one investment rated A- or better to 5% of assets and those rated BBB+ or lower to 3% of assets. Cash is held at banks with a credit rating no less than A-.

8.3.18 Since 2019, EIFlow has invested some surplus capital (£5.9m as at 31 December 2023, or 17% of total cash and investments) into a Mangrove Partners fund. Mangrove Partners is a New York based investment manager. EIFlow's Board has oversight of this investment and participates in active discussions with the fund managers. This fund attracts an equity risk charge under the standard formula SCR.

8.3.19 The majority of EIFlow's assets are held in USD, with a small amount held in GBP to match existing potential GBP exposure from the LAMP and Preserve portfolios. Post transfer, EIFlow plans to hold approximately £10m of the transferring assets in GBP-denominated investments to match the underlying liabilities, with the remainder invested in USD-denominated investments as surplus assets. The investment strategy described above will also apply to the GBP portfolio. I have been informed that there are no plans to change the investment strategy following the transfer.

8.3.20 The credit risk within EIFlow's asset portfolio is accounted for within the market risk SCR. As shown in Section 6.3, EIFlow is currently highly capitalised. The projected coverage ratios in Appendix F show that EIFlow's coverage ratio will remain high following the transfer: it is projected to be 305% as at 31 December 2024 and to increase to 369% by 31 December 2026.

8.3.21 I therefore do not believe there will be any material changes to the levels of security of benefits because of the different investment strategies of the companies following the transfer.

8.4 Policyholder levels of service

8.4.1 EIFlow is not regulated by the FCA. However, it implements appropriate claims procedures for each portfolio that it takes on, with the majority of claims handling outsourced through Quest to a team of dedicated claims handlers. The claims handlers have expertise in all the lines of business included within transferring portfolios, including UK Motor which is the most significant component of reserves.

8.4.2 Although, the claims handling is remaining with the same MGA in the transfer, the ultimate responsibility for paying claims post transfer will be with EIFlow. If an unusual event were to arise or claims handling were to be transferred to EIFlow for any reason in the future, EIFlow's outsourced claims handlers and access to the wider Quest Group would provide the necessary oversight for the transferring portfolio given their extensive experience in the market.

8.4.3 There will be no change to claims handling and administration of claims for Pinnacle's remaining policyholders or EIFlow's existing policyholders as a result of the transfer.

8.4.4 Given that the claims handling arrangements will remain fundamentally the same post transfer, I do not believe there will be any material changes to the levels of service provided to the affected policyholders post transfer.

8.5 Changes to risk appetite and risk profile

8.5.1 Pinnacle's medium to long term strategy is to achieve strategic growth in the Pet insurance market, focusing entirely on this sector and divesting of all non-Pet business. Pinnacle has also identified scalability as a key risk, a factor that is significantly easier to achieve when focusing on a single line of business. Divesting of the non-Pet business is therefore part of Pinnacle's strategic plan and in line with its stated risk appetite.

8.5.2 Furthermore, following the strategic plan defined by the Board, Pinnacle is authorised to underwrite only Pet insurance products. The development of any other line of business would require the prior formal approval of the Board.

8.5.3 Given that the non-Pet business is currently 100% reinsured to Darnell DAC, the outcome of the proposed transfer will not affect Pinnacle's business growth plans and therefore the transfer does not have any impact on Pinnacle's remaining policyholders.

8.5.4 EIFlow's business strategy follows a simple business model with a limited range of risk given its primary function as a specialist run-off insurer. EIFlow has limited appetite for material underwriting risk and it does not enter into any new contracts of insurance that involve exposure to new live risks and limited exposure to new losses, with the exception of continuation of underwriting of transferred risks.

8.5.5 While the volume of assets and liabilities to be transferred is material in relation to EIFlow's current financial position, the portfolio is in run-off and the underlying risks refer to lines of business where EIFlow has access to the required level of expertise to appropriately manage this book. EIFlow's risk management framework will remain unchanged post transfer.

8.5.6 I therefore conclude that EIFlow's existing policyholders and the transferring policyholders are not materially adversely affected by changes to risk appetite and risk profile as a result of the transfer.

8.5.7 Given the risk profile of the transferring portfolio, the transfer is in line with the risk appetite and risk profile of both companies.

8.6 Cost and tax implications

8.6.1 I understand that most costs associated with the transfer will be incurred whether or not the transfer proceeds, as the majority of these costs relate to activities occurring prior to the Sanctions Hearing (for example, with respect to legal fees and policyholder communications). I can confirm that I have identified no additional costs arising from the transfer and any arising costs will be met jointly by Pinnacle and EIFlow.

8.6.2 I have been informed that there are expected to be no tax implications to policyholders as a result of the transfer.

8.7 Staffing and pension arrangements

8.7.1 Pinnacle has no employees and no pension scheme. All staff management services are provided by PIMS.

8.7.2 In relation to the transferring portfolio, there are currently four staff members employed by PIMS to administer the Warranty & GAP policies and claims. There is a defined contribution pension scheme in place for these employees. Some of these individuals will continue to be employed by PIMS due to the TPA agreement in place.

8.7.3 Should these individuals no longer be required in future, they will either be reallocated to other roles within PIMS or made redundant. This would be at the expense of Pinnacle's parent company as the individuals are not employed directly by Pinnacle.

8.7.4 EIFlow has no employees and no pension scheme. All staff in the EIFlow Group are employed by Quest Consulting (London) Limited or Quest Consulting New York Inc.

8.7.5 I therefore conclude that there is no impact on staffing or pension arrangements for the companies as a result of the transfer.

8.8 If transfer does not proceed

8.8.1 I have assessed the likely impacts on the affected policyholders were the transfer not to become effective.

8.8.2 If the transfer does not go ahead, it is likely that the current arrangement will continue at least in the short term, with the non-Pet business 100% reinsured to Darnell DAC, as described in Section 4.2.5. Claims handling and levels of service would therefore remain unchanged and in those respects, the affected policyholders should not be materially adversely impacted.

8.8.3 However, Pinnacle's medium to long term strategy is to achieve strategic growth in the Pet insurance market, focusing entirely on this sector and divesting of all non-Pet business. Were the transfer not to go ahead, the planned growth targets will continue to focus on the Pet insurance market rather than the non-Pet market. A potential consequence as the non-Pet business shrinks relative to the Pet business is a greater likelihood of less oversight and monitoring of the non-Pet business, meaning any issues may not be raised in a timely manner.

8.8.4 I therefore conclude that in the short term, given the existing reinsurance and claims handling arrangements, there is unlikely to be a material impact on the affected policyholders if the transfer does not go ahead. However, in the medium to long term, both the transferring policyholders and the remaining policyholders are likely to benefit from the transfer given that it supports Pinnacle’s medium to long term growth strategy.

8.8.5 There will be no material impact on ElFlow’s existing policyholders if the transfer does not go ahead.

9 Implications for reinsurers

9.1 Current reinsurance arrangements

Pinnacle

9.1.1 The reinsurance arrangements for each line of business are described in detail in Section 4.2.

9.1.2 Pinnacle has external reinsurance arrangements across its Household, Motor, and Warranty & GAP book. These arrangements include excess of loss cover, catastrophe cover and quota share cover. Given the nature of catastrophe events and the age of the run-off book, I have not deemed it necessary to perform a detailed assessment of the catastrophe cover on the Household book. I have, however, noted that there have been no claims on these policies. This catastrophe reinsurance will be part of the transfer, but no future recoveries are expected.

9.1.3 For the external excess of loss and quota share arrangements, I have reviewed Pinnacle's reinsurance structure alongside the relevant reinsurer's credit ratings in Appendix E. All reinsurers have a S&P credit rating of at least BBB+, generally considered by regulators and market participants to be "investment-grade".

9.1.4 The transferring portfolio currently has zero net liabilities since there is intercompany reinsurance in place via a 100% quota share arrangement with Darnell DAC. This treaty acts after the application of the external reinsurance treaties noted above and in Section 4.2. The reinsurance recoveries on the transferring portfolio are outlined in Section 5.2.

EIFlow

9.1.5 EIFlow's existing reinsurance arrangements are described in Section 4.3. In summary, the only reinsurance in place refers to an excess of loss arrangement on the Preserve portfolio which covers claims above £0.5m, designed to limit the net liability on the PPO claim.

9.2 Changes to the reinsurance arrangements

9.2.1 In accordance with the PRA Statement of Policy and SUP 18, I have assessed the likely effects of the transfer on the reinsurers whose reinsurance contracts cover those parts of the business to be transferred from Pinnacle to EIFlow.

Pinnacle

9.2.2 Pinnacle has communicated to me that all reinsurance arrangements will be transferring to EIFlow as part of the transfer with the only exception being the intercompany reinsurance to Darnell DAC.

9.2.3 The Darnell DAC treaty will be partially commuted simultaneously with the completion of the transfer. The net impact of the commutation to Pinnacle will be zero, given that Darnell DAC currently hold a collateral amount equal to the Solvency II best estimate plus risk margin, which will be used to partially fund the transfer. I have observed documentation confirming this collateral amount and based on the minutes of Pinnacle's Legacy Business Committee, I am satisfied that the arrangement operates as set out in the agreement.

9.2.4 Only the part of the Darnell DAC treaty that relates to the transferring portfolio is being commuted. The remaining Creditor and Long-term portfolios will continue to be 100% reinsured to Darnell DAC post transfer.

9.2.5 It is my understanding that under a UK Part VII transfer, the external reinsurance arrangements transfer by Court Order and provide protection to the transferring policyholders after the transfer. Pinnacle has informed me that there are two Swiss reinsurers which are non-EEA. These are Amlin AG which has a 6.21% share of the 2014 Southern Rock program, a 7.5% share of the 2015 Southern Rock program, a 7% share of the 2014 XSD program and a 5% share of the 2015 XSD program as well as Helvetia Swiss which has a 2.5% share of the 2015 Southern Rock program. Pinnacle have informed me that the recoverable amounts relating to these insurers are small with £0.6m recoverable from Amlin AG and £0.06m recoverable from Helvetia Swiss. Although these reinsurers operate in a jurisdiction that may not recognise the Court Order, the reinsurers have a low share in the respective reinsurance programmes and hence a small recoverable amount. I do not consider £0.61m to be material in the context of EIFlow's net assets post transfer of £27.9m. Therefore, I believe that were these non-EEA insurers not to recognise the Court Order, EIFlow would have sufficient capital to cover the recoverable amounts.

9.2.6 Pinnacle has a good ongoing relationship with its reinsurers and as can be observed in Appendix E, all reinsurers are highly rated. I have also observed that Pinnacle has a wide spread of reinsurance from different reinsurers and hence the impact of this small participation would be minimal if they chose to not recognise the Court Order. Overall, I conclude that the potential for any non-EEA reinsurer to not recognise the transfer is immaterial in the context of the transferring portfolio.

9.2.7 I have assessed whether the transfer is likely to lead to any changes in the rights of set-off for creditors or debtors of Pinnacle. "Set-off" is the right that allows parties to offset or cancel mutual debts with each other. Since the external reinsurance arrangements apply before the Darnell DAC treaty and they are not changing as a result of the transfer, the right of set-off remains unchanged. Hence, the right of set-off does not affect my conclusions on the impact of the transfer on the external reinsurers of the transferring portfolio.

ElFlow

9.2.8 The existing reinsurance contract on the Preserve portfolio will not change as a result of the transfer.

9.2.9 ElFlow is not considering any new reinsurance arrangements with regards to the transferring portfolio as a result of the transfer.

9.2.10 There is therefore no impact on ElFlow's existing reinsurers as a result of the transfer.

Communication with reinsurers

9.2.11 The approach to communicating with reinsurers is discussed in Section 10.3.

9.3 Conclusions on the implications of the transfer for reinsurers

9.3.1 I have assessed the impact of the transfer on any reinsurers that currently provide or will provide protection to the affected policyholders.

9.3.2 A material adverse impact on a reinsurer is one that could cause the reinsurer to take a different view on the future performance of the reinsurance policy that it has written.

9.3.3 I have found nothing that would lead me to believe that the reinsurers of the affected policyholders will be materially adversely affected by the proposed transfer.

10 Policyholder communications

10.1 The Independent Expert's considerations

10.1.1 Under the FSMA regulations, unless the Court orders otherwise, communications are required to be sent to all policyholders of the insurers involved in the transfer. Dispensations may be applied for and approved at the discretion of the Court considering the likely effects on policyholders from each group and the benefits of contacting policyholders compared with the practicality and costs.

10.2 Methods of notification

Publications

10.2.1 Notice of the transfer will be publicised in the London, Edinburgh and Belfast Gazettes.

10.2.2 Other than the Gazettes mentioned above, notice of the transfer will also be published in the print and online versions of The Daily Mail and The Times newspapers in the UK, and the international edition of the Financial Times.

10.2.3 The Cardif Pinnacle website[17] will also contain background information on the transfer, including copies of mailings sent to policyholders and information on how to raise questions or concerns.

10.2.4 A link to the relevant page on the Cardif Pinnacle website will also be posted on Pinnacle's LinkedIn page (no other forms of social media are currently used by Pinnacle).

Email and postal communications

10.2.5 Notice of the transfer will be issued through email and postal communications, including a summary of my report which will be provided to all affected policyholders. Details of the groups of policyholders that will be contacted, and dispensations applied for, can be found in Section 10.3.

10.2.6 Where Pinnacle regularly communicates with policyholders via email, it will use email for the policyholder notifications. In other cases, it will send notifications via post.

[17] Website: www.cardifpinnacle.com/Pinnacle-Part-VII. The brand most familiar to the Warranty & GAP policyholders is either "Warranty Direct" or "BNP Paribas Cardif", whereas the MGA policyholders will have dealt with the MGA directly rather than Pinnacle. The Pinnacle Pet Group ("PPG") brand would not be familiar to any of the transferring policyholders and therefore background information will not be posted on the PPG website.

10.2.7 Pinnacle has email addresses for approximately 75% of Warranty & GAP policyholders, and postal addresses for 100% of Warranty & GAP policyholders.

10.2.8 Pinnacle does not communicate with Motor and Household policyholders via email, therefore 100% of these policyholders will be contacted via post. Postal addresses for the relevant Motor and Household policyholders will be acquired through the MGAs where Pinnacle do not already have them already.

10.2.9 Email and postal communications will be performed using Outlook or PDF mail merge respectively.

10.2.10 All communications will be issued in English and there are no plans to produce translated versions as all policyholders are UK-based. No complaints have previously been received by Pinnacle with regards to the medium of language used for communication. Hence, I consider it appropriate to communicate with policyholders only in English.

10.2.11 Where EIFlow intends to notify policyholders or third parties, it will do so by email. EIFlow believes it has up to date email addresses for all the intended recipients.

Timeframe for communication

10.2.12 The PRA and the FCA were issued with copies of the communications to be sent to policyholders on 26 April 2024 to be approved. I have reviewed copies of these draft communications prior to their submission.

10.2.13 The target date for policyholder mailings to commence is the week commencing 5 August 2024. The information on Cardif Pinnacle's website will also be published during this week.

10.2.14 For Pinnacle, both email and postal communication will be spread out over a period of 3 weeks, to ensure Pinnacle can maintain service levels in terms of responding to any calls or queries which may be received.

10.2.15 Mailings for both transferring and existing policyholders will be complete by the end of August 2024. As a result, policyholders will have a minimum of 14 weeks to consider the transfer ahead of the Sanctions Hearing.

Uncontactable customers

10.2.16 For Pinnacle, returned post will be passed back to the Pinnacle office responsible for distributing the communications. Based on previous mailings, Pinnacle estimate between 5 and 10% of post to be returned. Those customers whose post is returned will be transferred onto the email list, if applicable. If no email address exists, Pinnacle do not intend to communicate the change via telephone due to the fact that policyholders will still be able to submit claims in the same manner.

10.2.17 For EIFlow, email responses will be monitored for any undeliverable or failed receipt from any of the intended recipients' email addresses. In the case of such responses, EIFlow will send a hard copy of the notification to the physical address of the intended recipient according to its records.

10.3 Policyholder communications strategy

Notifications to transferring policyholders

10.3.1 In determining whether to contact transferring policyholders, Pinnacle has considered when the policies expire, whether policyholders currently have an open claim and their ability to make a claim in the future. Shown in Table 16 is a summary of the open and recently closed claims and expiry periods for the transferring portfolio.

	Motor	Household	Warranty	GAP	Total
Number of policies with claims that closed after 1 January 2023 and before 31 March 2024	57*	2	178	314	**551**
Number of policies with open claims as at 31 March 2024	124	12	12	30	**178**
Number of policies that expired after 1 January 2024 and before 31 March 2024	0	0	53	3,183	**3,236**
Number of unexpired policies as at 31 March 2024	0	0	201	27,687	**27,888**

**This figure includes 36 recovery claims, i.e. where the claim has closed but Pinnacle are expecting to recover an amount from a third party. These claims will not deteriorate further and hence are classed as closed for the purpose of this table.*

Table 16: Summary of transferring portfolio

10.3.2 As discussed in Section 8.1, policy administration and claims handling for the Motor and Household portfolios will remain with the MGA's indefinitely and there will be no change to these processes following the transfer. For the Warranty & GAP portfolio, policy administration and claims handling will remain with Pinnacle for a period of one year following the transfer, with the option to extend further if necessary. It is expected that by 2025 there will be very few open claims remaining on the Warranty & GAP portfolio.

10.3.3 Policyholders will therefore continue to submit claims in the same manner as currently for a period of at least one year following the transfer.

Motor and Household policyholders

10.3.4 All Motor and Household policies expired no later than 2015.

10.3.5 As of March 2024, there are currently 124 open Motor claims and 12 open Household claims. Pinnacle believe that the possibility of a new claim is virtually zero due to the exposure period and expected reporting delay. However, in Pinnacle's view, there is a small chance that a closed claim will be reopened.

10.3.6 Therefore, Pinnacle intends to include all policyholders with an open claim and all policyholders with a claim that closed after 1 January 2023 in the postal communications.

Warranty & GAP policyholders

10.3.7 As at March 2024, there are approximately 28,000 unexpired policies and they are currently expiring at a rate of approximately 1,300 per month. By the end of 2025 there are expected to be only 84 GAP policies in force.

10.3.8 On average, claims are reported within two months after the expiry of the policy. However, claims are sometimes reported up to a year after the expiry of the policy. In Pinnacle's view, it is very unusual for a claim to be reported more than a year after the expiry of the policy or for a closed claim to be reopened.

10.3.9 Therefore, Pinnacle intends to include all unexpired policyholders, all policies with an open claim and all policies that expired after 1 January 2024 in the email / postal communications.

Notifications to existing policyholders

10.3.10 In determining whether to contact existing policyholders, EIFlow has considered the age and nature of the policies, whether policyholders currently have an open claim and the availability of contact information for the policyholders, particularly where the initial insurer was dissolved following the transfer of business to EIFlow.

10.3.11 Based on the above criteria, EIFlow intends to send notifications to the following policyholders and third parties:

a) 322 existing policyholders with open claims;

b) 57 law firms who took out ATE policies with LAMP where there is no current open claim but there is potential for future claims; and

c) 75 brokers (or broker successors) who have notified claims to EIFlow on behalf of policyholders.

Notifications to reinsurers and co-insurers of the transferring policyholders

10.3.12 Reinsurers and co-insurers will be formally informed in August 2024. However, I have been informed that discussions covering the process and any upcoming changes will be held with key stakeholders prior to this date, commencing in May 2024.

Exemptions for notifications to remaining and existing policyholders

10.3.13 Dispensations will be applied for, from the regulators, to allow the omission of communications to Pinnacle's remaining policyholders and the majority of EIFlow's existing policyholders. I have reviewed copies of these dispensation applications, which are part of the first witness statement, prior to their submission.

10.3.14 The policyholders remaining in Pinnacle will not be directly affected by the transfer. Their insurance arrangements will remain unchanged and, as covered in Sections 6.2 and 8.3, the solvency position and level of security will not be materially adversely affected by the transfer.

10.3.15 EIFlow's existing policyholders' insurance arrangements will also remain unchanged and the security and solvency position of EIFlow will not be materially adversely affected by the transfer, as covered in Sections 6.3 and 8.3.

10.4 Conclusions on policyholder communications

10.4.1 I have reviewed the approach to notifying policyholders of the transfer, including the written communications to be issued, the method of notification, justifications for omitting remaining and existing policyholders and the discussions to be held with reinsurers and co-insurers.

10.4.2 Taking into account the analysis I performed and conclusions reached in Sections 5 and 6, I am satisfied that the policyholder communications with respect to the transfer are appropriate, proportionate and reasonable.

Appendices

Appendix A Engagement Letter

Below is a relevant extract from our Engagement Letter dated 12 January 2024 which shows the scope of services agreed with Pinnacle and ElFlow.

Independent Expert re Part VII Transfer; Pinnacle Insurance Plc & ElFlow Limited

Thank you for engaging Mazars LLP to act as the Independent Expert as required under Part VII of the Financial Services and Markets Act 2000. We understand that Pinnacle Insurance Plc wishes to undertake a Part VII transfer of its portfolio of legacy general insurance business to ElFlow Insurance Limited and that you require an Independent Expert to opine on the transfer. The scope of our work would include the provision of an Independent Expert Report which would be used in Court Applications.

In order to set out the scope of our work and to enable us to provide you with the level of service you require it is important that we set out in this Engagement Letter the work we are to perform, our respective rights, obligations and responsibilities, the limitations and exclusions from liability, as well as the information and support we need from you in order to deliver the Services.

The attached General Terms and Conditions of Business (the latest version of which will always be available on our website) are incorporated into and form part of and should be read in conjunction with this Engagement Letter, unless otherwise amended in this letter. All appendices, schedules or annexes referred to and attached to this Engagement Letter shall also form part of this Engagement Letter.

1. Period of Engagement

1.1 This Engagement will commence with the provision of live services from January 2024.

2. Services

2.1 It is agreed with you that we should carry out the following Services on your behalf:

- The scope of our work would include the provision of an Independent Expert Report (the "Deliverables") which would consider the general terms of the transfer and the effects which it will have on the policyholders of the companies involved, including the impact on their security and levels of service.

- Listed below are the elements we will consider in detail:
    - Consideration of regulatory background of companies involved
    - Consideration of terms of the transfer
    - Outline possible impacts on various groups of policyholders
    - Assess the appropriateness of assets being transferred
    - Assess the appropriateness of liabilities being transferred
    - Assessment of reinsurance before and after transfer
    - Assessment of capital position before and after transfer
    - Effects of transfer on any mechanisms implemented to provide support to policyholders
    - Opinion on adequacy of communications made to policyholders
    - Assessment of changes up to effective date

- In preparing the Report, we would need to have regard to the duty that we would owe to assist the Court on those matters within the expertise of the Independent Expert. This duty overrides any obligations to the companies involved.

- As part of our work, we expect to participate in discussions with the Prudential Regulation Authority (PRA) regarding the transfer process and documentation we provide to the Court. Should the PRA or the Court request additional information or documentation, we agree to provide this in a timely manner.

2.2 Should we agree to vary the scope of the Services in this letter once it has been signed by you, we will issue a separate Engagement Letter or Addendum clarifying the nature and extent of any agreed variations. In the absence of such a letter or Addendum, the terms set out herein shall continue to apply to any agreed and written variation.

2.3 We reserve the right to discuss and agree with you changes to the scope of the Services should they become necessary following a change in legislation.

Appendix B Definitions

Standard Actuarial Methods

Development Factor Method (DFM)/Chain Ladder

In this method, the historical period-to-period development factors for each claims cohort are used to select appropriate period-to-period development factors for future projection. These are then used to project the incomplete submission periods to ultimate claim figures.

Under this method, any anomalous development factors are removed from the construction of the complete triangle development factors. Removal of these anomalous development factors is made by inspection of the relevant development patterns.

Expected Loss Ratio

Under this method, the ultimate claims for a given claims cohort can be determining by applying an expected loss ratio to the ultimate premiums. The expected loss ratio is the loss ratio that it is anticipated that will be realised when claims ultimately settle. This expected loss ratio is commonly determined at the time the business is written. It should be noted that the expected loss ratio method is based entirely on initial expectation and ignores claims experience. In practice, this is most commonly used in early development periods where there may be limited data which does not enable other standard actuarial methods to be used or reduces the appropriateness of these methods.

Frequency/Severity or Average Cost per Claim (ACPC)

This method considers separately the two key elements of total claim amounts, i.e. the number of claims and the average amounts of the claims.

This method requires development tables for both total claim amounts and claim numbers. A third development table of the average claim amounts is then formed by dividing the figures in the corresponding cells of the first two tables. The next stage is the projection of figures in the average claims and number of claims tables, using either grossing-up factors or development factors. Finally, the projected ultimate claims can be calculated by multiplying together for each accident/underwriting period the projected figures for the average claim amounts and claim numbers. A reserve can then be calculated by subtracting all payments to date in respect of claims.

There are different types of frequency/severity methods which focus on a review of the number of anticipated claims and the anticipated claims severity. These methods can be used for most risks but are often used to provide insight in the analysis of long-tailed risks.

Bornhuetter-Ferguson (BF)

The BF method is a traditional actuarial reserving method that requires an initial estimate of the ultimate liability for each claim submission period cohort; this is usually calculated using a weighted combination of the development patterns observed in historical claims and technical input from experts. This initial estimate is then adjusted by the experience observed to date. This method is particularly useful for more recent submission periods as there is less development and less data within these periods, making the chain ladder estimates less credible.

Glossary

Accident year – An accident year grouping of claims means that all the claims relating to loss events that occurred in a 12-month period (usually a calendar year) are grouped together, irrespective of when they are actually reported or paid and irrespective of the year in which the period of cover commenced.

Allocated loss adjustment expenses (ALAE) - A provision to cover the estimated expenses relating to the handling of outstanding claims (including IBNR claims) which are allocated directly to case estimates. It usually includes external expenses such as legal expenses and claims assessors' fees.

Best estimate (BE) – The best estimate is an estimate that represents the expected value over the range of reasonably possible outcomes. It is not pessimistic or optimistic.

Calendar year - Twelve-month period starting 1 January and ending with 31 December.

Case by case estimation - A method of determining the reserves for outstanding reported claims. Each outstanding claim is individually assessed to arrive at an estimate of the total payments to be made. The shorter term "case estimation" is often used and the estimates are referred to as case estimates.

Catastrophe risk – The risk that a single event, or series of events, of major magnitude, usually over a short period (often 72 hours), leads to a significant deviation in actual claims from the total expected claims.

Claim cohort - A group of claims with a common period of origin.

Claim cost inflation - The rate of increase in the cost of like-for-like claim payments.

Claims frequency – The number of claims in a period per unit of exposure.

Claims handling reserve (CHR) – A provision to cover the estimated expenses relating to the handling of outstanding claims (including IBNR claims). It usually includes expenses such as salaries of claims department staff and premises costs allocations. See ULAE definition.

Claim ratio (loss ratio) – The ratio of the cost of claims in a period to the corresponding premiums from that period either gross or net of reinsurance.

Concentration risk – The exposure to increased losses associated with inadequately diversified portfolios of assets and/or obligations.

Coverage ratio – Proportion of own funds over the SCR.

Currency risk – The risk of a change in value caused by the fact that actual foreign currency exchange rates differ from those expected.

Default risk – The risk of a change in value caused by the fact that actual default rates deviate from expected default rates with respect to non-payment of interest or principle.

Development factors - The factors emerging from a chain ladder calculation that are the ratios of claims in successive development periods. Sometimes known as link ratios.

Discounting – Calculating the present value of a future amount.

Diversification – Reduction in risks among assets and/or obligations of an institution by accumulating risks that are not fully correlated in an aggregated risk position, e.g. the aggregated amount of risks within a product portfolio or at a company level is smaller compared to the simple addition of the individual risks.

Earned premium – The total premiums attributable to the exposure to risk in an accounting period; they can be gross or net of adjustment for acquisition expenses and gross or net of reinsurance.

Equity risk – The risk of a change in value caused by deviations of the actual market values of equities and/or income from equities from their expected values.

Excess of Loss (XL or XOL) reinsurance – A form of reinsurance whereby the reinsurer indemnifies the cedant for the amount of a loss above a stated retention level, usually subject to an upper limit. The retention may index or not indexed.

Exposure – The units in which the insurer's exposure to loss are measured, which can vary by line of business. For the purpose of this Report, exposure data for Motor perils is defined as Vehicle Years and for the other perils as the Number of Policies.

Financial year - Accounting period that can start on any day of a calendar year but has 12 consecutive months (52 consecutive weeks) at the end of which account books are closed, profit or loss is computed, and financial reports are prepared for filing. It may or may not match a calendar year.

Inception date - This is the date from which the insurer assumes cover for a risk. This may or may not coincide with the premium collection date.

Incurred claims - The sum of the paid claims and outstanding notified claims (or case estimates or case reserves) at any point in time.

Incurred but not reported (IBNR) - Claims reserves established for insurance claims or events that have happened but have not yet been reported. Within this report, IBNR includes IBNER (Incurred But Not Enough Reported): claims reserve reflecting expected changes (increases and decreases) in estimates for reported claims.

Initial expected loss ratio (IELR) – The claim ratio expected on a book of business at inception.

Insurance liabilities – Estimate of the current liabilities relating to insurance contracts, including claims reserves (see 'reserves' above), a provision for unearned premium (UPR) and unallocated loss adjustment expenses (ULAE). Within this report, this refers to the liabilities on a statutory basis.

Interest rate risk – The risk of a change in value caused by a deviation of the actual interest rates from the expected interest rates.

Lapse risk – The risks of a change in value caused by deviations from then actual rate of policy lapses from their expected rates.

Long tail – Types of insurance in which a substantial number of claims take several years from the date of exposure and/or occurrence to be notified and/or settled.

Market risk – The risk of changes in values caused by market prices or volatilities of market prices differing from their expected values.

Market value – The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction; based on observable prices within an active, deep, and liquid market which is available to and generally used by the entity.

MGA – Managing General Agent: an agency whose primary function and focus is the provision of underwriting services and whose primary fiduciary duty is to the insurer.

MCR – Minimum Capital Requirement: the funding threshold below which a national regulatory agency would intervene.

Nil claim - A claim that results in no payment by the insurer.

Ogden discount rate – Discount rates derived from the “Actuarial Tables with explanatory notes for use in Personal Injury and Fatal Accident Cases” for the purposes of assessing, in particular for personal injury, the sum to be awarded as general damages for recurring loss.

Operational risk – Risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses.

Outstanding (or case reserves) - The amount of reserve held on the claims system, as either a standard reserve or claim-specific reserve. It does not include IBNR. Unless specifically stated otherwise the term outstanding is used in this Report to denote the amount of notified case reserves.

Own funds – The basic own funds consist of (i) the excess of assets over liabilities, and (ii) subordinated liabilities. Ancillary own funds consist of items other than basic own funds which can be called up to absorb losses. Eligible own funds refers only to those eligible to meet the SCR or MCR.

Percentile – This is the proportion of outcomes in a distribution of probable reserves/IBNR that a specific reserve/IBNR is greater than or equal to.

Periodical Payment Orders (PPOs) – Method of settlement where sums of money are paid to a claimant at set future intervals usually as compensation for a personal injury claim, and usually representing the cost of future care of the claimant. This was introduced under the Courts Act 2003.

Quota Share (QS) reinsurance - A form of proportional reinsurance where the proportions used in apportioning claims and premiums between the insurer and reinsurer are constant for all risks covered by the treaty.

Reinsurance – Type of risk mitigation on the basis of an insurance contract between one insurer or pure reinsurer (the reinsurer) and another insurer or pure insurer (the cedant), to indemnify against losses, partially or fully, on one or more contracts issued by the cedant in exchange for a consideration (the premium).

Recoveries - Amounts received by insurers to offset directly part of the cost of a claim. Recoveries may be made from several different sources, for example, reinsurers, other insurers, salvage and liable third parties. Unless otherwise stated recoveries in the context of this report generally refer to reinsurance recoveries.

Reinsurance bad debt (RIBD) – A bad debt provision which is calculated to reflect the possible insolvency of reinsurers.

Re-opened claim - A claim formerly deemed settled, but subsequently re-opened because further payments may be required.

Reported claims - Claims incurred that have been reported to the insurer. The term is often used in relation to those claims reported during the accounting period. It may refer to the number of claims themselves or the cost of claims that have been reported.

Reporting year - A reporting year grouping of claims will combine all the claims that are reported within a given calendar year, irrespective of the date on which the relevant policy commenced, irrespective of when the claims are actually paid and irrespective of the year in which the incident actually arose.

Reserve - Unless the context specifically indicates otherwise, the term reserve is used in this report to denote the liability for future claims (case reserves plus IBNR). Reserves are calculated on a best estimate basis and a margin for uncertainty / prudence may be added.

Retention - The amount (or proportion) of risk retained by the cedant under a reinsurance arrangement or the insured under an insurance arrangement.

Risk margin – Under Solvency II, the risk margin is calculated by determining the cost of providing the amount of eligible own funds equal to the SCR necessary to support the non-hedgeable insurance obligations until the exposure is fully run off.

SCR – Solvency Capital Requirement: total amount of funds that insurance and reinsurance companies in the European Union (EU) are required to hold.

Severity - Average loss per claim.

Short-tailed Business - Types of insurance business in which most claims are usually notified and/or settled in a short period from the date of exposure and/or occurrence.

Solvency II technical provisions – Best estimate of the current liabilities relating to insurance contracts plus a risk margin. The best estimate is made up of a claims provision and a premium provision. Within this report, this refers to the insurance liabilities on a Solvency II basis.

Standard formula – In the context of the Solvency II regime, a set of calculations prescribed by the regulator for generating the Solvency Capital Requirement.

Ultimate - The term ultimate is used in this Report to denote the sum of paid, known outstanding claims and IBNR claims on an underwriting year basis, with the corresponding accident year ultimate referred to as the earned ultimate.

Ultimate loss ratio (ULR) - The ratio of the ultimate cost of claims in a period to the corresponding ultimate premiums from that period either gross or net of reinsurance.

Unallocated loss adjustment expenses (ULAE) - A provision to cover the estimated expenses relating to the handling of outstanding claims (including IBNR claims) which are not allocated directly to case estimates. It usually includes expenses such as salaries of claims department staff and premises cost allocations.

Underwriting risk – The risk of a change in value due to a deviation of the actual claims payments from the expected amount of claims payments (including expenses).

Underwriting year - An underwriting year grouping of claims will combine all the claims relating to loss events that can be attributed to all policies that commenced cover within a given year, irrespective of when they are actually reported or paid and irrespective of the year in which the incident actually arose.

Unearned premiums - The portion of premium written in an accounting period that is deemed to relate to cover in one or more subsequent accounting periods.

Unearned premium reserve (UPR) - The amount set aside from premiums written before the accounting date to cover risks incurred after that date.

Written premiums - The amount of premium, either gross or net of reinsurance, for which cover commenced in an accounting period.

Yield curve – A yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.

Appendix C CV of Independent Expert

Tom Ashmore is an actuary with over 10 years' experience in the insurance industry as an actuarial consultant. He is a partner in Forvis Mazars' UK Actuarial Practice. His professional experience includes reserving, capital, AFH support expert witness, internal and external audit, pricing, SAO peer review and claims consulting.

Professional summary

Professional: Fellow of the Institute and Faculty of Actuaries

Education: Master of Mathematics (MMath) 1st Class Honours

Relevant experience

- Tom acted as Peer Reviewer for a Part VII transfer, which included two transfers in one for the AmTrust International Group.
- Tom is currently leading the actuarial team on two Independent Expert reports on product value.
- Tom has led the actuarial aspects of audits for a variety of insurance entities, managing the actuarial team's audit of Technical Reserves, Solvency II technical provisions and SFCRs. He has also supported overseas audit teams around the world in the audit of insurance companies in Gibraltar, France, Asia, Ireland, Bermuda, Malta, and the United States.
- Tom has recent experience of reserve reviews across a number of insurance lines in the UK and Europe, including Motor, Property, Warranty, Liability and other insurance lines.
- Tom has worked on a number of claims consulting projects, reviewing and developing a number of models.
- Tom supports a number of clients in the production of regulatory reports including AFH and ORSA reports.
- Tom has played key roles in developing Forvis Mazars' suite of models including the SCR, USP and PPO tools. He has also helped develop tools to analyse the impact of bespoke reinsurance arrangements on capital requirements.

Appendix D Data

The list below sets out the information I have relied upon in preparing this Report, listed by category and source (Pinnacle or EIFlow). In addition to the information below, I have also relied on both oral and written (via email) discussions with Pinnacle and EIFlow.

Transfer Terms and Communications

- Pinnacle Part VII Transfer Presentation to PRA 30 October 2023.ppt
- Project Bluebird - Information Memorandum.pdf
- Schedule 9 to BTA Q4 2023.pdf
- UKO3-_2006586588-v1 Bluebird - BTA - Executed (8 September 2023).pdf
- UKO3-#2007098677-v6 Project Bluebird - First Witness Statement [Pinnacle].docx
- Project Bluebird- Draft First witness statement for directions hearing [EIFlow].docx
- Project Bluebird - Part VII Communications Strategy 250424
- Website 250424
- Letter to Policyholders 250424
- Policyholder Guide 250424

Pinnacle

Background information:

- Background to Pinnacle Insurance Company.docx
- PPG structure chart - November 2023 v2.ppt
- Legacy Business Committee May 23 Minutes.pdf
- Legacy Business Committee Minutes March 23.pdf
- Legacy Business Committee November 23 Minutes.pdf
- Legacy Business Committee Sept 23 Minutes.pdf
- Q4 2023 Legacy Business Committee Update.pptx

Reserving:

- Motor Triangles:
    - SR triangles Sep 23 v1.xlsb
    - XS triangles Dec 22 v1.xlsb
    - XSD outstanding claims Dec 2023.xlsx
- Open Claims:
    - 202208 XSD_individual_claim_output v1.xlsx
    - 202309 SR_individual_claim_output.xlsx
    - 202312 SR_individual_claim_output RBNS.xlsx
    - Household Monitoring.xlsx

- PPOs:
    - Change analysis results Q223.xlsx
    - Manual PPO update Q223 step 2a margin scenario.xlsx
    - Manual PPO update Q223 step 2a.xlsx
    - PPO best estimate calc Q423
    - PPO margin calc Q423
    - PPO results summary YE23
- Warranty & GAP Triangles:
    - GAP policy and claims extract.xlsx
    - Warranty policy and claims extract.xlsx
- 2023Q4-Pinnacle Claim Reserve Report.docx
- 2023Q4-Pinnacle Long Term Fund Valuation Report.docx
- Bluebird - Proposed Due Diligence Data List Q323.xlsx
- Closing claim reserve and Motor summary Q423.xlsx
- OPS_1.5 Administration of claims.docx
- Underwriting and reserving policy v1.5 - 11.05.2023.docx

Accounts:

- Non-Pet BS 311223.xlsx
- PIC Financial Statements 2022.pdf
- PIC Stats Sent to RAC 15032024 clean.docx
- PIC_BS_Dec2023.xlsx

Solvency II:

- PIC_BS_Dec2023_SII_20240410.xlsx
- Actuarial Function Report_2024_S2_RE_RM.docx
- Technical Provision Data_PIC20240313.xlsx
- PIC_SCR_Summary 2023YE_20230313.xlsx
- No Links Backup of S2 Assist Template Annual 2023 v1 2024-03-15 1804.xlsx
- S2YE23_TP_Master.xlsx
- S2_2023YE_RiskMargin_20230318.xlsx
- SFCR 2023 Sent to RAC((MinorChange_OneWordDeleted_Reading)).docx
- Pinnacle_Solvency_Financial_Condition_Report_2022.pdf
- Capital Management Policy PIC May 2023.docx

Assets:

- 05 Asset Database - Dec 2022 v2.xlsx
- JAB_Responsible_Investment_Policy.pdf
- Pinnacle Insurance Investment Guidelines 27072022.docx

- Pinnacle Insurance- Investment Policy - July 22.docx
- Assets.xlsx

Reinsurance:

- 01.04.01 PWC Summary - Motor _ Household.xlsx
- 01.04.02 Motor placement 2013 vs 2014 vs 2015.xlsx
- C37903_2023 12 31_SolvencyIIAnnualRSR_Return_1 25 03 2024.docx
- EUO3-_2007572622-v1 Deed of Amendment and Restate to the Reinsurance Agreement – EXECUTED.pdf
- Reinsurance Treaty 23.12.21-fully signed.pdf
- BelRe_RMitig.xlsx

Business planning:

- 2024_ORSA_v16.xlsx
- Budget slide tables 2024.xlsx
- PIC & PIMS Budget 2024.pdf
- Slide for IE - ORSA24.xlsx
- Tesco contract 29 Feb - PIC board FINAL.ppt
- PPG Group Unscheduled ORSA_Final 05122023.ppt
- PIC 2023 ORSA Stress & Scenarios - Approved by RAC.pptx
- Risk Appetite Framework 2024_v5.docx

ElFlow

Background:

- Bacchus Group - Aug 2023 TBC.ppt
- ElFlow Insurance Limited - list of claim portfolios.docx
- ElFlow BM 06.10.2021 final.pdf
- ElFlow Board Pack 150322.pdf
- ElFlow Board Pack 290622.pdf
- EIL Board Pack - 20 September 2022.pdf
- EIL Board Pack 19.09.23.pdf
- EIL Board Pack 22.06.23.pdf
- EIL Board Pack 27.11.23.pdf
- EIL Q4 2022 Board Pack - 31 January 2023.pdf

Reserving:

- ElFlow - LAMP Transfer Live Policy and Premium Handbook.pdf
- ElFlow - Redundant Reserves - 4Q21.msg
- ElFlow ATE Claims - Process and Procedures.pdf

- Eiflow Reserving Memo.pdf
- EIFlow, claims processing procedures, revised Oct 2018.pdf
- File note - Reserve Redundancy - 11.11.21.docx
- Final_WTW Independent Actuary Report_20230725.pdf
- Schedule of Redundant Reserves - 11.11.21.xlsx

Accounts:

- 4Q23 EIFlow Exec Summaries v2.xlsx
- 4Q23 EIFLOW Management Accounts.xlsx
- EIFlow Budgets 2024-26 incl Bluebird Modelled RI.xlsx
- EIFlow Ins Co Management Report, 4Q2023.pdf
- EIFlow Insurance Limited - Financial Statements 31 December 2022.pdf

Solvency II:

- 4Q23 EIFlow QRT Workbook.xlsx
- Counterparty default risk.xlsx
- EIFlow Q4 2023 Reporting Pack Final.pdf
- EIFlow SII Model 4Q23 key inputs.xlsx
- EIFlow Budgets 2024-26 incl Bluebird.xlsx
- EIL Technical Provisions Dec 2023 with BB updated for RI.xlsx
- EIFlow AFR 2022.pdf
- EIFlow Holdings Group SFCR YE2023

Assets:

- EIFlow Investment Policy 2023.pdf
- Investment Policy 2022.docx
- Preserve 2020 Summary.xlsx
- Reinsurance Endorsements.xlsx
- Schedules 7 & 8 Q3 2023 Reporting.pdf
- Schedules 7 & 8 to BTA Q2 23.xlsx
- Universale Ultimate dividend calculation.xlsx

Reinsurance:

- PPO Reinsurance.xlsx

Business planning:

- EIFLOW ORSA 2023.xlsx

Appendix E Reinsurance Treaties for the Transferring Portfolio

The reinsurance schedule has been provided by Pinnacle and outlines the reinsurance policies held against the different books of business within the transferring portfolio. I note that Pinnacle monitors the credit quality of the reinsurance programme on a quarterly basis by the Underwriting and Credit Risk Committee.

The catastrophe excess of loss reinsurance is not included in the table below.

Reinsurer	S&P Rating	Lloyd's Synd.	Household: Public & Employer's Liability				Southern Rock: Motor			XS Direct: Motor		Arval: Warranty				Vauxhall: GAP	
			2012	2013	2014	2015	2013	2014	2015	2014	2015	2019	2020	2021	2022	2020	2021
ACE European	AA									X							
ACE Tempest Re	AA										X						
Allianz Global Re	AA								X								
Alterra - 1400	A+	Y					X										
Amlin AG	A						X	X	X	X	X						
Arch Re Europe	A+						X		X		X						
Argo - 1200	A+	Y					X	X									
Axis Re SE	A+						X		X	X	X						
Canopius - 4444	A+	Y		X	X												
Catlin - 2003	A+	Y		X	X	X											
Caisse Centrale de Reassurance	AA						X	X	X								
Chaucer - 1084	A+	Y	X	X	X	X											
Everest Re	A+							X	X	X	X						
Helvetia Swiss	A								X								
ICare Assurance	A+											X	X	X	X		
Liberty - 4472	A+	Y					X	X		X							
Markel - 3000	A+	Y					X										
Markel International	A							X		X							
New Re	AA-				X	X				X	X						
Novae - 2007	A+	Y						X	X	X	X						
Odyssey Re	A-						X	X	X								
Partner Re Europe	A+		X	X	X	X	X										
Stellantis Insurance (prev. PSA)	BBB+															X	X
Qatar Re	A						X	X	X	X	X						
R+V Versicherung	AA-						X	X	X								
SCOR Global P&C	A+						X	X	X	X	X						
Swiss Re Europe	AA-					X											
Tokio Millenium Re	AA-						X	X	X	X	X						

Appendix F Future Year SCR projections

In Sections 6.2 and 6.3 of my report I explained that Pinnacle and EIFlow performed a range of stress and scenario tests for the ORSAs. These tests consider the SCR over the future business planning period of 3 years. It can be difficult to interpret the results of projections over a number of future years as a number of assumptions are made. These assumptions are based on the company's business plan and include the impact of future decisions. For this reason, I have not included these future year projections within the main body of my report except where they are material to my conclusion. I have, however, included the results in this appendix as supporting information.

Pinnacle SCR projections

The SCR coverage ratio of Pinnacle as at 31 December 2023 and projected forward to 31 December 2026 was shown in Section 6.2 of my report in order to demonstrate that while the impact of the transfer alone does not have a material impact on Pinnacle's capital position (a percentage point increase in the coverage ratio), if the transferring policyholders were to remain in Pinnacle, the coverage ratio would reduce in future years due to Pinnacle's strategic plans which includes changes which have already been made at the date of writing my report.

Projected SCR	Actual	Forecast including Part VII		
£m	2023	2024	2025	2026
Own funds (including capital injection)	139.7	117.0	143.7	159.6
Capital injection required for target solvency	0.0	0.0	25.6	0.0
SCR	50.3	69.0	102.6	118.4
Solvency ratio	**278%**	**170%**	**140%**	**135%**

These figures include the following recent changes:

a) A new 50% quota share agreement on the Pet portfolio. This agreement applies to medical expense risk (c. 99% of the Pet insurance premiums) and is effective from 1 January 2024.

b) The new Tesco Bank strategic partnership, agreed in March 2024. New business from this partnership will commence on 1 January 2025.

I note that as part of its strategic plan, Pinnacle will take over the underwriting of c. one million AFI contracts. However, this is dependent on successfully applying to use USPs in the Solvency II valuation for these contracts, a process that is ongoing. The AFI migration is therefore not included in the projections above.

As can be seen in the table above, Pinnacle's solvency ratio is projected to decrease over the coming years, requiring capital injections in 2025 and 2026 to maintain target solvency. This reduction in solvency ratio is due to the strategic business plans in relation to Pinnacle's Pet business rather than reflecting the impact of the transfer.

Pinnacle has performed a number of stress and scenario tests in its ORSA to assess the sufficiency of its own funds. The stresses are assumed to take place during 2024 and therefore the impact is shown on the 31 December 2024 and 2026 positions.

In one scenario test, Pinnacle consider the impact of a regulatory conduct breach. The source is defined to be a breach of Consumer Duty leading to costs being incurred to remediate the issues and a regulatory fine of £5m, further leading to a reduction in business volumes of 20% and increased cancellations of 5% due to reputational damage.

As shown in the table below, the impact of this stress is a 2 percentage points increase in the solvency ratio as at 31 December 2024 and 1 percentage point decrease by 31 December 2026.

Regulatory test	**Business Plan**		**Stress Test**		**Impact**	
£m	**2024**	**2026**	**2024**	**2026**	**2024**	**2026**
SCR	69.0	118.4	65.2	110.5	(3.8)	(7.9)
Own funds	117.0	159.6	111.9	147.9	(5.1)	(11.7)
Solvency ratio	**170%**	**135%**	**172%**	**134%**	**2%**	**-1%**

The impact on coverage ratio is largely flat as the reduction in own funds (due to the costs incurred and reduced business volumes) is accompanied by a reduction in the SCR.

In another stress, Pinnacle consider the impact of a deterioration in the loss ratio due to inflationary or other pressures. The stress includes a 9% increase in the gross loss ratio for the 12 months from mid-2024 and 2% for the 12 months from mid-2025, driven by an increase in veterinary costs. It is also assumed that cancellation rates increase by 1% as a result of sustainable pricing being prioritised by Pinnacle in this scenario.

As shown in the table below, the impact of this stress is a 10 percentage points decrease in the solvency ratio as at 31 December 2024 and 2 percentage points decrease by 31 December 2026.

Reserve test	**Business Plan**		**Stress Test**		**Impact**	
£m	**2024**	**2026**	**2024**	**2026**	**2024**	**2026**
SCR	69.0	118.4	68.9	118.2	(0.1)	(0.2)
Own funds	117.0	159.6	110.3	157.1	(6.7)	(2.5)
Solvency ratio	**170%**	**135%**	**160%**	**133%**	**-10%**	**-2%**

In the figures shown above, an additional capital injection of £19.8m has been allowed for in 2025 to maintain the coverage ratio above 140% in 2025.

Other stress and scenario tests have been performed including a cyber-attack, a Pet epidemic and a recession. As explained in Section 6.2, Pinnacle's key risks do not pertain to the transferring portfolio and the impact of the stress and scenario tests would not be materially affected by the outcome of the transfer. Therefore, I have not included the results of any further stress or scenario tests for Pinnacle in my report.

EIFlow SCR projections

The SCR coverage ratio of EIFlow at 31 December 2023 and projected forward to 31 December 2026 are shown in the table below. The forecast is based on the EIFlow budget from the 2023 ORSA report adjusted for the actual results as at 31 December 2023 and includes the effect of the transfer based on balances calculated as at 31 December 2023. The projections assume the transfer is effective from 1 January 2025.

The projections include the impact of the Creditor business using the simplified assumption that claims will be paid as soon as they are reported i.e. own funds will reduce by the amount of claims paid but there will be no reserves held with respect to this line of business. Given the short-tail nature of this business, this assumption is not unreasonable.

Projected SCR	Actual	Forecast including Part VII		
£m	2023	2024	2025	2026
Own funds	26	35	39	41
SCR	7	11	11	11
Solvency ratio	**394%**	**305%**	**358%**	**369%**

As discussed in Section 6.3, EIFlow's solvency ratio will reduce from 394% to 339% as a result of the transfer on a standalone basis. EIFlow's solvency ratio is projected to be 305% as at 31 December 2024 and to increase to 369% by 31 December 2026. This increase in solvency ratio over time reflects the expected release of profits as EIFlow continues to run off its legacy portfolios.

As per the 2023 ORSA report, the assumptions made in this forecast are:

a) the level of technical provisions decreases over time as claims are settled through pro-active management;

b) surplus assets in excess of the technical provisions are invested as per EIFlow's investment strategy, including investments in the Mangrove Partners fund;

c) the strategy for the investment of other assets is maintained as conservative with the preservation of capital being considered primary importance, whilst generating modest investment income;

d) other loans and receivables are projected to be collected at full amount of their current net book value (after relevant provisions);

e) no dividends will be considered that do not comply with EIFlow's dividend policy, allowing for ample buffer above a 150% SCR ratio looking forward to a three-year horizon; and

f) no material changes to the terms of outsourcing contracts have been forecasted so the related costs have been kept constant.

While EIFlow's solvency ratio reduces as a result of the transfer, it will remain high and considerably in excess of the Solvency II requirements. In addition, the solvency ratio is projected to increase over a 3-year time horizon.

EIFlow has performed a number of stress and scenario tests in its ORSA to assess the sufficiency of its own funds. It should be noted that the results of the stress and scenario tests are based on data as at 30 June 2023 and therefore do not reflect the latest financial position at 31 December 2023[18]. EIFlow has not updated the stress and scenario tests for the financial position up to 31 December 2023. Despite this, I consider the stress and scenario tests from the 2023 ORSA report to be relevant. This is because:

c) actual experience in the period since the report was prepared has been better than anticipated and the 31 December 2023 solvency position is favourable relative to expectations;

d) while the impact of the change in technical provisions discounting reduces the projected solvency ratios, EIFlow remains highly capitalised after incorporating this change; and

e) there have been no changes to EIFlow's key risks and uncertainties since the ORSA report was prepared and I consider the stress tests performed to cover the most material risks to the company.

In one stress test, EIFlow considers the impact of an increase to technical provisions by 50% for long-tailed classes and 25% for short-tailed classes (excluding Cardinal Re), including a 25% increase in the technical provisions relating to the transferring portfolio.

As shown in the table below, the impact of this stress test is a 64 percentage points decrease in the solvency ratio as at 30 June 2023 and a 55 percentage points decrease by 31 December 2026.

[18] The actual coverage ratio as at 31 December 2023 is 394% which is 25 percentage points higher than the actual coverage ratio as at 30 June 2023 and 33 percentage points higher than the projected 31 December 2023 coverage ratio per the ORSA report. The business plan shown in the ORSA report projected a coverage ratio of 405% by 31 December 2026. Based on financial information up to 31 December 2023, this projection has been updated by EIFlow and the projected coverage ratio as at 31 December 2026 is now 369%, as shown in the table above. This difference is due to the offsetting impact of a number of factors, primarily: actual experience being better than expected; and changing the technical provisions calculation for the transferring portfolio to unwind the discount rate applied to PPOs in the statutory reserve calculation before discounting under Solvency II (discussed in paragraph 5.4.36).

Reserve test	Business Plan		Stress Test		Impact	
£m	June 2023	2026	June 2023	2026	June 2023	2026
SCR	10.6	15.1	11.4	16.1	0.9	0.9
Own funds	39.0	61.3	34.8	56.3	(4.1)	(5.0)
Solvency ratio	**369%**	**405%**	**305%**	**350%**	**-64%**	**-55%**

Based on my analysis in Section 5.2, I consider the sufficiency of the reserves held for Motor PPO claims to be a key material uncertainty for EIFlow in respect of the transferring portfolio. This stress test demonstrates that EIFlow can comfortably withstand significant deterioration in the transferring portfolio reserves alongside deteriorations in the existing portfolio. In this stress test, EIFlow's coverage ratio is 305% as at 30 June 2023 and 350% as at 31 December 2026, so it remains highly capitalised.

I note that this level of deterioration in the reserves is unlikely given the additional margin for uncertainty and risk premium over and above the best estimate reserves that form part of the transferring reserves.

In another stress test, EIFlow considers the impact of a two-step downgrade to the credit ratings of all counterparties. As shown in the table below, the impact of this stress test is a 29 percentage points decrease in the solvency ratio as at 30 June 2023 and a 10 percentage points decrease by 31 December 2026.

Counterparty test	Business Plan		Stress Test		Impact	
£m	June 2023	2026	June 2023	2026	June 2023	2026
SCR	10.6	15.1	11.5	15.5	0.9	0.4
Own funds	39.0	61.3	39.0	61.3	-	(0.0)
Solvency ratio	**369%**	**405%**	**340%**	**395%**	**-29%**	**-10%**

This stress is considered unlikely given the credit rating of EIFlow's counterparties and the relative remoteness of a situation in which all counterparties are downgraded concurrently. In this stress test, EIFlow's coverage ratio is 340% at 30 June 2023 and 395% at 31 December 2026.

EIFlow has also considered a more severe economic scenario, considering a weakening of general economic conditions resulting in a deterioration of credit ratings of counterparties at the same time as a sizeable loss with an impact on the technical provisions similar to that considered in the first stress test. This scenario is therefore a combination of the stress tests discussed above.

As shown in the table below, this scenario results in an 89 percentage points decrease in the solvency ratio as at 31 December 2023 and a 63 percentage points decrease by 31 December 2026.

Severe stress test	Business Plan		Stress Test		Impact	
£m	June 2023	2026	June 2023	2026	June 2023	2026
SCR	10.6	15.1	12.4	16.5	1.9	1.3
Own funds	39.0	61.3	34.8	56.3	(4.1)	(5.0)
Solvency ratio	**369%**	**405%**	**280%**	**342%**	**-89%**	**-63%**

This shows that even in an extreme scenario, EIFlow's solvency ratio remains high at 280% as at 30 June 2023 and 342% as at 31 December 2026.

Finally, EIFlow have performed a reverse stress test, increasing their technical provisions to determine the level of reserve deterioration that would cause the company to fail (in other words, for the coverage of own funds over the SCR to fall to zero). The test shows that there would need to be a 127% increase in the best estimate of the technical provisions for the company to fall below a 100% solvency ratio.

As can be seen in the tables above, EIFlow remains very well capitalised over the planning time horizon and after the application of a number of stress and scenario tests.

Appendix G Mapping to Requirements

The requirements in respect of my report are set out in the PRA Statement of Policy, SUP 18.2, and the FCA Guidance. I have set out these requirements below and referenced the areas of my report which provide evidence against each requirement.

The transfer does not involve any mutual companies or long-term insurance business. Therefore, PRA Statement of Policy 2.35, 2.36 and FCA SUP 18.2.38 and 18.2.39 do not apply. These requirements have been omitted from the table below for simplicity.

PRA Statement of Policy and SUP 18.2

Requirements set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
2.30 The scheme report should comply with the applicable rules on expert evidence and should as a minimum contain the following information:	**18.2.33G**	
(1) who appointed the independent expert and who is bearing the costs of that appointment;	18.2.33G (1)	Section 2.5
(2) confirmation that the independent expert has been approved or nominated by the PRA;	18.2.33G (2)	Section 2.5
(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	18.2.33G (3)	Appendix C
(4) whether the independent expert, or their employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence their independence, and details of any such interest;	18.2.33G (4)	Section 2.5
(5) the scope of the report;	18.2.33G (5)	Section 2.4
(6) the purpose of the scheme;	18.2.33G (6)	Section 4.5
(7) a summary of the terms of the scheme in so far as they are relevant to the report;	18.2.33G (7)	Section 4.4
(8) what documents, reports and other material information the independent expert has considered in preparing the report, whether they have identified any material issues with the information provided and whether any information that they requested has not been provided;	18.2.33G (8)	Appendix D

(8A) any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible;	No equivalent	Sections 4.1, 4.2 and 4.3
(9) the extent to which the independent expert has relied on: f) information provided by others; and g) the judgement of others;	18.2.33G (9)	Section 2.4
(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	18.2.33G (10)	Section 2.4, 2.5, Section 5 and Section 6
(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: h) transferring policyholders; i) policyholders of the transferor whose contracts will not be transferred; j) policyholders of the transferee; and k) any other relevant policyholder groupings within the above that the independent expert has identified.	18.2.33G (11)	Sections 7.2, 7.3and 7.4 respectively, alongside Section 8
(12) their opinion on the likely effects of the scheme on any reinsurer of a transferor, whose contracts of reinsurance are to be transferred by the scheme;	18.2.33G (11A)	Section 9
(13) 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;	18.2.33G (12)	All relevant matters have been taken into account
(14) for each opinion and conclusion that the independent expert expresses in the report, an outline of their reasons; and	18.2.33G (13)	Throughout report
(15) an outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders.	No equivalent	Section 4.7
2.31 The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However, reliance will also be placed on it by policyholders, reinsurers, and others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.	18.2.24G	List of who can place reliance on Report in Section 2.4
2.31A The independent expert is ultimately responsible and accountable for the opinions and conclusions expressed in the scheme report, including where reliance has been placed on others. Therefore, where the independent expert has placed	No equivalent	Section 2.4, 2.5, Section 5 and Section 6

reliance on others, they must be clear why they are content to do so.		
2.32 The summary of the terms of the scheme should include:	**18.2.35G**	
(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	18.2.35G (1)	Sections 4.4 and 9
(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	18.2.35G (2)	Sections 4.4 and 9
2.33 The independent expert's opinion of the likely effects of the scheme should be assessed at both firm and policyholder level and should:	**18.2.36G**	
(1) include a comparison of the likely effects if it is or is not implemented;	18.2.36G (1)	Throughout report
(2) state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with;	18.2.36G (2)	Section 4.8
(2A) analyse and conclude on how groups of policyholders are affected differently by the scheme, and whether such effects are material in the independent expert's opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion;	18.2.36G (3)	Sections 5, 6, 7 and 8
(3) (a) the independent expert's views on the likely effect of the scheme at firm and policyholder level on the ongoing security of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing;	18.2.36G (4a)	Sections 5, 6, 7 and 8 Stress and scenario testing considered within Sections 6.2 and 6.3
(3) (aa) the independent expert's view on the transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the event there is a material deterioration of their balance sheets;	N/A	Section 4.2 and 4.3 and 6
(3) (aaa) the independent expert's view on the likely effects of the scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to emerge after the first year or	N/A	Sections 5 and 6

that are not fully captured by the regulatory capital requirements;		
(3) (aaaa) the independent expert's view on whether the transferee'(s') existing (or proposed, where applicable) capital model would remain appropriate following the scheme;	N/A	Section 6
(3) (b) the independent expert's view on the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, claims handling, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to: (i) the security of the policyholders' contractual rights, (ii) levels of service provided to policyholders and (iii) for long-term insurance business, the reasonable expectation of policyholders;	18.2.36G (4b)	Sections 5, 6, 7 and 8 No long-term insurance business
(3) (c) the independent expert's view on the likely 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; and	18.2.36G (4c)	Section 8.6
(3) (d) the independent expert's view on the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the scheme or related transactions.	N/A	Section 8.5
2.37 Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the independent expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow them to understand in broad terms how the business will be run. The PRA expects the independent expert to comment on how any such plans (including other insurance business transfers involving the parties to the scheme) would impact the likely effects of the scheme at firm and policyholder level.	18.2.40G	Respective plans considered in Sections 4.2 and 4.3 and other relevant transfers considered in Section 4.7
2.38 A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions they consider ought to be made, unless: l) the information required is not available and will not become available in time for their report, for instance it might depend on future events; or m) they are unable to report on this aspect in the time available. Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of	18.2.41G	Not applicable

FSMA. The PRA considers any such reductions having regard to its statutory objectives. Section 113 of FSMA allows the court, on the application of the PRA, to appoint an independent actuary to report on any such post-transfer reduction in benefits.		

Paragraphs setting out examples, such as from 6.36 to 6.41, have been omitted from the list below given that they do not relate to specific requirements.

FCA Final Guidance

Details of the requirement	Reference in this Report
6.1 The PRA is responsible for approving the form of the IE's report but it must consult us before doing so. Our review will not just be limited to a high-level check of whether the report covers the appropriate topics (see SUP 18 for details). It also aims to ensure that there has been detailed analysis and challenge of the Applicants' position, so we can be satisfied that it is appropriate for the Court to rely on the conclusions.	
6.2 We will try to review the report as far as possible from the perspective of a Policyholder, including claimants on commercial policies. As such, we expect the report to be easily readable and understandable by all its users and for the IE to pay attention to the following:	
Technical terms and acronyms should be defined on first use.	Throughout my report, in Section 2.2 and Appendix B
There should be an executive summary that explains, at least in outline, the proposed transfer and the IE's conclusions.	Section 1
The business to be transferred should be described early in the report.	Section 2.3, then in detail in Section 4.4
The detail given should be proportionate to the issue being discussed and the materiality of the transfer when seen as a whole. While all material issue must be discussed, IEs should try to avoid presenting topics that are disproportionately long.	Throughout my report
IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand.	Throughout my report
6.3 We sometimes find that IE reports lack detailed and thorough analysis, critical review or reasoning to support a conclusion that there is likely to be no material adverse effect on Policyholder groups. In particular, we sometimes find that the IE reports lack sufficient consideration and comparison of:	
Reasonable benefit expectations, including impact of changes.	Sections 7 to 10
Type and level of service. This includes details of the analysis to support any conclusions including factors like claims and complaints handling (speed and quality), means of access to the service (including service provided by third parties) and any changes in functionality, speed and usability of service, past performance and customer feedback, reliability of service, number of requests for assistance or complaints, quality and speed of Policyholder support services, quality and frequency of communications.	

Management, administration and governance arrangements.	
Where the scheme includes Employers' Liability/Public Liability claimants and Run Off Claims, we expect the IE to include their view of the quality of the firms' Employers' Liability tracing arrangements.	Not applicable
Where there are significant changes during the process, for example due to pandemic or economic fluctuations, we expect the IE to have adequately reflected on these in the supplementary report or for firms to consider whether the proposal has materially altered and needs a fuller reconsideration or delay to the process	Not applicable
6.4 We also sometimes see an imbalance between factual description and supporting analysis. IE reports often include a very detailed description of the transaction and background but much less analysis of the effect on each Policyholder group's reasonable expectations. Our concern here is that the IE often uses the detailed description of the background to compensate for the lack of analysis and challenge of the Applicants.	Analysis in Section 5 and 6. Overview in Section 7 and 8.
The level of reliance on the Applicants' assessments and assertions	
6.6 IEs will sometimes rely on Applicants' assessments to reach their own conclusions. In these cases, we expect the IE to demonstrate that they have questioned the adequacy of the assessments. We may also expect the IE to have asked the Applicants to undertake additional work or provide more evidence to support their assertions to ensure that the IE can be satisfied on a specific point.	Section 5 and 6
6.7 We expect the IE to explain any challenges they made to the Applicants about such underlying information and the outcome in their report, rather than just stating the final position. We will question and challenge the IE where we feel they have relied on the Applicants' assertions without challenging them or asking for supporting detail or evidence.	
6.8 An example is where conclusions are supported solely or largely by statements like 'I have discussed with the firm's management, and they tell me that…' followed by 'I have no reason to doubt what they have told me…'. In these cases, we will challenge the IE on whether they have come to their own conclusions. In these circumstances:	
1. Where a feature of the proposed transfer forms a significant part of the IE's own assessment of the scheme's impact, we will ask the IE to review relevant underlying material. We do not expect them to just rely on the Applicants' analysis of the material and subsequent assertions.	Throughout my report
2. If there are concerns about matters that fall outside the IE's sphere of expertise, like legal issues, we expect the Applicants to give the IE any advice that they have received. If the issue is significant or remains uncertain, we expect the IE to make sure the Applicants obtained appropriate advice from a suitably qualified independent subject matter expert. We give further information below about the IE obtaining and relying on their own independent advice (6.33 onwards).	Not applicable
6.9 We also expect the IE to challenge calculations carried out by the Applicants if there is cause for doubt on review of the scheme and supporting documents. As a minimum, we will expect the IE to:	
1. Review the methodology used and any assumptions made, to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate.	Throughout my report. For example, see Sections 5.3 and 5.4.

2. Challenge the factual accuracy of matters that, on the face of the documents or considering the IE's knowledge and experience, appear inconsistent, confusing or incomplete	Section 5 and 6
6.10 We also expect the IE to challenge the Applicants where the documents provided contain an insufficient level of detail or analysis.	Throughout my report.
Balanced judgements and sufficient reasoning	
6.11 IEs will sometimes state that they are satisfied by referencing certain features of the scheme but will not adequately explain how those features have led to their satisfaction. In these circumstances we will expect to see both the evidence and the IE's reasoning that led to their conclusion.	Sections 7 to 10
6.12 We have also seen many examples of schemes where the Applicants have stated that there will be no material adverse impact to Policyholders. However, from the report it is unclear whether the IE is certain that there will most likely not be an adverse impact or whether it is their best judgement but lacks certainty. In these instances, we expect IEs to consider the following:	
1. Where the IE takes the view that there is probably no material adverse impact, we expect the IE to challenge the Applicants about further work they could undertake to enable the IE to be satisfied to a greater degree.	Not applicable
2. We accept that it is not the IE's role to suggest a different scheme or propose changes to a scheme (unless it is to propose mitigations against possible harm). However, we believe that they should be able to challenge the Applicants to be confident that their report's conclusions are robust. Applicants and IEs should know that they will need to consider how any proposed changes/mitigations will affect all Policyholder groups.	
6.13 When finalising their report, we expect the IE to have checked that the documents they are relying, and forming judgements, on are the most up-to-date available.	Checked, see Appendix D for full list of documentation
6.14 Market conditions may have changed significantly since the IE's analysis was carried out and they formed their judgement. In these cases, we will expect the Applicants to discuss any changes with the IE and for the IE to update their report as necessary. If the scheme document has been finalised, the IE should give more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgement is unchanged. See paragraphs 7.32-7.35 for further information on the Supplementary Report.	Section 2.1
Sufficient regard to relevant considerations affecting Policyholders	
6.15 We will expect to see IE consideration of all relevant issues for each individual group of Policyholders in all firms involved, as well as how an issue may affect each group. Our expectations of the IE when giving their opinion include the: • Current and proposed future position of each Policyholder group. • Potential effects of the transfer on each of the different Policyholder groups. • Potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated.	Section 7 and Section 8
6.16 To support this, we will expect the IE to consider whether the groups of affected Policyholders have been identified appropriately.	Section 2.4 and 4.4

6.17 We will also expect the IE to review and give their opinion on administrative changes affecting Policyholders and claimants. Here we expect the IE to include: • Consideration of the impact of an outsourcing agreement entered by the parties before the Part VII process began, where the administration duty 'moved' from the Transferor to the Transferee in preparation for the transfer. Here, we expect to see a comparison of the pre and post-outsourced administration arrangements so the IE and firms can clearly review and compare any changes to Policyholder positions and service expectations. • Policyholder service level - we expect the IE and the firms not only to have consideration of the impact on Policyholder service levels due to changes in services or service providers specifically contemplated by the proposed transfer, but also to consider the possible risks associated with the transfer that may impact service levels. For example, the risk that the transferee may change services or service providers to align with its broader offering, or risks associated with the migration of systems or services. We expect IEs to consider whether changes in service levels, provision and migrations could lead to consumer harms and what could be done to mitigate those risks. We expect IEs to consider whether there are differences in the identification of customers in vulnerable circumstances. In relation to migration of systems or services we expect to see a sufficiently detailed report of the possible impact. • Also, we will not expect the IE to simply state that, because the transfer will not create any change to the administrative arrangements, there will be no material impact. The IE should consider what might happen if the transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state. In such circumstances, the IE should consider the impact on Policyholders and claimants of the outsourcing agreement as part of the Part VII process.	Section 8, with a focus on Section 8.4 and 8.8 for the second and third points respectively.
6.18 Where the transferring business involves employers' liability policies the IE should consider the quality of the firms' tracing procedures.	Not applicable
6.19 IEs should also review and give their opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer: • Some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, the IE should consider if it is appropriate to compare the proposed scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract. • If the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, the IE should consider the scheme as if the reinsurance was not in place.	Section 4
6.20 The IE may identify particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected. Here we will want to see the IE take into account the Transferor's obligations under Principle 6 (Customers' interests) of our Principles for Businesses.	Not applicable
6.21 When a loss is expected for a subgroup of Policyholders, we will expect to see IE consideration and analysis of alternatives, even if the IE does not consider this loss to be material. In these cases, we may request that the IE and/or Applicants consider other ways of mitigating the adverse impacts on the affected Policyholders, should they happen, including providing compensation.	As above

6.22 We will expect to see this analysis even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may. For example, we will expect to see this analysis where: • Some Policyholders within a group/sub-group will suffer higher charges post-transfer because the Transferee has a different charging structure. • Some Policyholders within a group/sub-group had free access to helplines that will no longer be available or have a significantly altered service after the transfer.	Section 7 and Section 8
6.23 When an IE is assessing the potential material adverse impacts on various groups of Policyholders, we may feel they have reached their conclusion based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.	Not applicable
6.24 As a specific example, we might consider the right of Policyholders to make a claim on the FSCS following a cross-border general insurance transfer: • The IE may say they are satisfied that there is no material adverse impact on Policyholders because of the Transferee's capital position (meeting relevant requirements), and the short-term nature of the liabilities (for example, annually renewable). The IE may conclude from this that it is unlikely the Transferee will fail, and Policyholders need recourse to the FSCS as a result. While we accept that this is a potentially relevant consideration, we will not be satisfied with this view without further evidence. For example, some evidence and analysis of why (given the size and complexity of) a particular firm may make a default, before the time that Policyholders have to claim on policies, is extremely unlikely.	
Commercially sensitive or confidential information	
6.26 & 6.27 Often the IE will need to consider commercially sensitive or confidential information as part of their decision-making process. In these circumstances, we remind IEs of their duty as an independent expert to consider Policyholder interests, as this information will not be publicly available. In these situations, we expect to see the analysis and the information that is relied on and require it to be sent separately from the IE Report. It is also possible that the Court may want to see this information without it being publicly disclosed. The IE may wish to consider sending a separate document with further details, solely for the Court's use and not for public disclosure. Please note that this is at the Court's discretion.	Not applicable
The level of reliance on the work of other experts	
6.28 For large scale and complex insurance business transfers we accept that the IE may rely on the analytical work of other qualified professionals, often to prevent their own work becoming disproportionately time consuming. However, we will still expect the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work.	Section 5 and 6
6.29 We expect the IE to have obtained a copy of relevant significant legal advice given to the Applicants, subject to appropriate arrangements to safeguard any legal professional privilege. This should be in writing or transcribed, and approved by the advisor. It should also be in a final form for the IE to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.	Section 2.4
6.30 The IE may refer to factors that are outside their sphere of expertise and rely on advice received by the Applicants. They should consider whether or not to get their own independent advice on the relevant issue. This situation occurs	Not applicable

most often with legal advice, and we discuss our expectations in further detail below.	
6.31 We accept that it is not necessary for IEs to get separate independent legal advice in all cases. However, we do expect that the IE will have given due consideration to whether or not they need to get their own advice. For example, where there is some uncertainty about the risks or there may be different outcomes, but it is unclear which outcome may be better for Policyholders. In many cases, whether the IE decides to get independent legal advice will depend on the significance and materiality of the issue. See paragraph 6.33 below for a non-exhaustive list of factors which the IE should consider.	Not applicable – no complex legal issues
6.32 The IE's key consideration is whether it is reasonable for them to rely on the advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. We may challenge IEs who rely on the Applicants' legal advice and merely state they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers. Our decision to challenge will depend on how complex the legal issue is.	Not applicable – no complex legal issues
6.33 In deciding whether to get independent legal advice, we will expect the IE to consider, amongst other things, the following: • The significance of the issue and the degree of potential adverse effect on Policyholders if the position turns out to be different from what the legal advice considers likely. • How much the IE relies on the legal advice to reach their conclusions. Also, if they did not rely on the legal advice, will the report contain too little information to justify the view that there is no material adverse impact? • The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances. • Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks. • Whether the Applicants have obtained an adequate level of advice, depending on the issue's significance or uncertainty. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction. • Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty.	Not applicable
6.34 Alternatively, the IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point. For example, the IE's assessment should consider whether there are credible alternative arguments that could be made, whether identified in the Applicant's advice or otherwise. They should also consider where risks are identified but there are no suggestions about how they can be mitigated, or what the impact on Policyholders may be if the risks do occur. These considerations will allow the IE to consider the worst-case scenario of these effects.	Not applicable
6.35 Finally, the IE should consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders. This could require further legal advice to explain how Policyholders may be affected or additional proposals to mitigate the risks.	Not applicable
Ambiguous language or a lack of clarity	
6.42 At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. We will look for	Section 2.4

any overly general reliance, as it indicates a lack of critical assessment or challenge.	
6.44 In summary, where the report does not seem to reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly: • That the IE has considered and is satisfied about the likely level of impact on a specific point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty. It should also include any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert. • How the IE satisfied themselves about the uncertainty they have identified and how they have formed an opinion on any potential impact.	Not applicable. See Section 1.3 for Summary of Conclusions
Demonstrating challenge	
6.45 To ensure the IE report is complete, thorough and considered we expect to see challenge from all involved parties. This includes evidence that Applicants have made appropriate challenges, especially where they believe there are issues the IE has not fully addressed. It is in Applicants' interests to make sure that the Court, regulators and Policyholders can rely on the IE report, taking into account the IE's disclaimers. We consider that Applicants can make these challenges without compromising the IE's independence. We expect a confirmation that the near-final version of the IE's report had the relevant challenge at the time it was submitted.	Section 2.4
6.46 To ensure effective two-way challenge we will expect the IE to engage with FCA or PRA- approved senior management function holders at the Applicant firm. This can be senior actuaries, including possibly the Chief Actuary, the CFO or Senior Underwriters.	Sections 2.4, 5 and 6
6.47 The Applicants should also check the draft IE report before submission to the regulators and make sure it is accurate.	Section 2.4
Technical actuarial guidance	
6.48 We expect IEs who are both qualified and unqualified members of the Institute & Faculty of Actuaries to pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, especially those for compiling actuarial reports.	Considered throughout my report. Noted in Section 2.4.
6.49 The revised versions of the TAS which came into force with effect from 1 July 2017 (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance) specifically applies to technical actuarial work to support Part VII transfers.	
6.50 It is important to note paragraph 5 of TAS 100 states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information'. We also highlight paragraph 5.2 of TAS 100 which states that 'the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'.	
6.51 Qualified IEs and peer reviewers should also note the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries. IEs and peer reviewers should adhere to the required standards of their professional body at the time when they do the work.	

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