Summary of the Independent Expert's report on the proposed transfer of a portfolio of Pinnacle Insurance PLC's general insurance business to ElFlow Insurance Ltd

About the Independent Expert

I, Tom Ashmore, 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 and have over 10 years' experience in the industry as an actuarial consultant. I have been jointly appointed by Pinnacle and ElFlow to act as the Independent Expert to provide the required Independent Expert's report ("IE report") for the proposed transfer ("the transfer") of the majority of the non-Pet general insurance business portfolio of Pinnacle Insurance PLC ("Pinnacle") to ElFlow Insurance Ltd ("ElFlow"). My appointment was approved by the PRA, in consultation with the FCA, on 17 January 2024.

About this document

This document is a summary of my IE report that has been prepared in accordance with Section 109 of Part VII of the Financial Services and Markets Act 2000 ("FSMA"), assessing whether any policyholders are materially adversely affected by the proposed transfer, in particular with respect to the security of their policyholder benefits and the levels of service that they could expect to receive after the transfer.

This summary sets out the key findings and conclusions from my IE report. This summary is subject to the same limitations on its use as those set out in my IE report. My IE report contains the reasoning behind my conclusions, some of the detail of which has been omitted from this summary. My IE report also includes further information regarding Pinnacle, ElFlow and the regulatory environments in which they operate, which has not been included within this summary. I have used a number of terms and abbreviations within this summary that are defined in my IE report.

While I am satisfied that this summary provides an appropriate synopsis of my IE report, this summary must be considered in conjunction with my IE report and reliance must not be placed solely on this summary. In the event of any real or perceived conflict between this summary and my IE report, my IE report shall prevail. Copies of my IE report will be available to view or download from the week commencing 5 August 2024 at www.cardifpinnacle.com/Pinnacle-Part-VII or can be requested by emailing PinnaclePart7@bnpparibascardif.co.uk, by calling the dedicated helpline on +44 (0)800 731 7001 or by writing to Pinnacle Insurance Plc, Pinnacle House, A1 Barnet Way, Borehamwood, Hertfordshire, WD6 2XX, United Kingdom.

Purpose of the transfer

Pinnacle is proposing a Part VII transfer as its planned mechanism for restructuring its business to focus on its Pet insurance offering and assist in achieving its strategic objective of divesting of all non-Pet business. Specifically, Pinnacle proposes to transfer its Motor, Household and Warranty & GAP portfolios ("the transferring portfolio") to EIFlow. The liabilities on these portfolios relate to underwriting years 2012 to 2022. As a legacy insurance specialist, EIFlow's focus is managing predominantly run-off business[1] and the proposed transfer is therefore in line with its strategic business plan and objectives.

Scope of the transfer

The policyholders affected by the transfer ("the affected policyholders") include those within the transferring portfolio as well as policyholders remaining with Pinnacle ("the remaining portfolio") and existing policyholders in EIFlow ("the existing portfolio"). Within the transferring portfolio, I am not aware of any policies which are not capable of being transferred for legal reasons.

I have assessed the security and levels of service of each of these portfolios separately and have then considered the changes that the transfer is likely to cause in security and levels of service. I also consider the implications of the transfer on the reinsurers[2] of each of these portfolios.

New contracts within either Pinnacle or EIFlow that are entered into after the effective date of the transfer are not in scope.

Overview of my analysis

I have assessed the financial implications of the transfer on the affected policyholders' contractual rights, including reserving considerations[3] and ability to satisfy capital requirements[4] pre and post transfer. I am satisfied that the level of information received from Pinnacle and EIFlow provided sufficient evidence on which to base my conclusions. I have also relied on 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.

[1] Run-off means that an insurance company has ceased selling new insurance policies.

[2] Reinsurance is a type of insurance that is purchased by insurance companies to reduce / share risk.

[3] Reserves are the amount put aside by an insurance company to pay future claims. Reserving is the process of estimating what this future amount will be.

[4] Capital for an insurance company is the assets (for example cash or equity) held to cover a variety of risks to which the company is exposed. The regulator requires insurance companies to hold a certain amount of capital to remain solvent. Solvency refers to the insurance company's ability to meet its long-term obligations.

I have assessed the impact of the transfer on several other factors, including: claims handling and policy administration, policyholder benefits and contractual rights, investment strategy and policyholder levels of service.

Impact on the financial security of the transferring portfolio

The benefits of the transfer to the transferring policyholders 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.

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.

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 my full report. 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 and those I have performed as part of my analysis, found in my full report), which show that it remains well capitalised in the event of extreme but plausible scenarios.

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

Impact on the financial security of the remaining portfolio

The benefits of the transfer to the remaining policyholders are as follows:

(a) 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.

There are no adverse impacts 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.

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

Impact on the financial security of the existing portfolio

The benefits of the transfer to the existing policyholders are as follows:

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

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

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

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 EIFlow's risk appetite. As part of my analysis, I have considered some extreme but plausible stresses in my full report which further demonstrate the capital strength of EIFlow following the transfer.

(b) In my view, based on my analysis in my full report, the transfer premium is 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 EIFlow for its existing portfolio as a result of the transfer.

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

Other considerations

With respect to other 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, meaning that policyholder levels of service will be unaffected by 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[5] 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.

In addition, I have considered the impact of the transfer on: investment strategy, tax, staffing and pension arrangements. I do not identify any changes in any of these areas as a result of the transfer that would cause any material adverse impact to any of the affected policyholders.

Impact on reinsurers

All reinsurance arrangements in relation to the transferring portfolio will be transferring to ElFlow with the only exception being the intercompany reinsurance to Darnell DAC. The Darnell DAC treaty will be partially commuted simultaneously with the completion of the transfer.

There is no impact on the reinsurers of Pinnacle's remaining portfolio or ElFlow's existing portfolio as a result of the transfer.

I therefore conclude that the reinsurers of the affected policyholders will not be materially adversely affected by the transfer.

Overall conclusion

I have considered the proposed transfer and the likely effect on the transferring portfolio, the remaining portfolio and the existing portfolio. I do not expect any of these three groups of policyholders or any of the reinsurers to be materially adversely affected by the transfer.

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

Supplementary Report

My analysis has been based primarily 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. I will prepare a

[5] The GFSC is the insurance regulator in Gibraltar, where ElFlow is based.

Supplementary Report containing an update on any relevant developments that may have occurred in the period between the date of my IE report and the Sanctions Hearing on 9 December 2024.

T.M. Ashmore

Tom Ashmore, FIA

Forvis Mazars LLP