Summary of the Independent Expert's Report on the Proposed Transfer of a Portfolio of Policies from Aviva Insurance Limited to Aviva Insurance Ireland Designated Activity Company

Prepared by: Simon Sheaf FIA, FSAI
Head of General Insurance Actuarial & Risk
Grant Thornton UK LLP

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About the Independent Expert

My name is Simon Sheaf and I am Head of General Insurance Actuarial and Risk within Grant Thornton UK LLP. I am a Fellow of the Institute and Faculty of Actuaries and a Fellow of the Society of Actuaries in Ireland. I have more than 25 years of experience working within the general insurance industry. I have previously been a member of both the Council and the Management Board of the Institute and Faculty of Actuaries.

About this document

This document is a summary of my report ("my Report") that has been prepared following my nomination by Aviva Insurance Limited ("AIL") and Aviva Insurance Ireland Designated Activity Company ("AIIDAC") to be the Independent Expert reporting on the proposed insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 to transfer a portfolio of policies from AIL to AIIDAC ("the Scheme"). My appointment has been approved by the Prudential Regulation Authority ("PRA") having consulted with the Financial Conduct Authority ("FCA").

This summary sets out the key findings, methodology, assumptions and analysis from my Report. This summary is subject to the same limitations on its use as those set out in my Report. This summary of my Report must be considered in conjunction with my Report and reliance must not be placed solely on this summary. In the event of real or perceived conflict between this summary and my Report, my Report shall prevail. I have used a number of terms and abbreviations within this summary that are defined in my Report.

Copies of my Report can be obtained at **https://transfer.aviva.com/insurance/documents** or by writing to Transfer Mailing (BAU I), PO Box 3660, Norwich, NR1 3EQ, United Kingdom.

Purpose of the Scheme

The purpose of the Scheme is to ensure that the Aviva Group retains the ability to service its general insurance policyholders following the UK's departure from the EU ("Brexit"). AIL has established AIIDAC as a wholly owned subsidiary domiciled in Ireland. The Scheme will transfer certain policies of AIL transacted under EU Freedom of Establishment and Freedom of Services passports to AIIDAC prior to the UK's departure from the EU.

Who will be affected by the Scheme?

The policyholders affected by the Scheme include not only the policyholders within the Transferring Portfolio but also the policyholders remaining within AIL at the Effective Time of the Scheme. I understand that AIIDAC will not have any existing policyholders prior to the Scheme.

I am not required to consider the impact of the Scheme on any policyholder that subsequently takes out a policy with either AIL or AIIDAC.

My role

An Independent Expert's Report is required under Section 109 of the Financial Services and Markets Act 2000 in order that the Court may properly assess the impact of the proposed Scheme. My Report describes the proposed transfer of business under the Scheme and considers the potential impact on all affected policyholders, including the security of their policies and the levels of service that policyholders can expect to receive once the Scheme becomes effective.

Scope of Scheme

The proposed Scheme relates to the transfer to AIIDAC of the majority of insurance business currently underwritten by AIL on a Freedom of Services ("FOS") and a Freedom of Establishment basis in EEA countries other than the UK (the "Transferring Portfolio").

More specifically, the business being transferred is all of the following risks except for those set out in the next paragraph:

- General insurance risks written by the Ireland GI branch and situated in the EEA (including the UK), comprising both personal and commercial lines risks
- Retail policies covering risks situated in the EEA (excluding the UK) and written on a FOS basis. This business comprises of holiday home, creditor and mobile device insurance ("MDI") policies
- Commercial policies covering risks situated in the EEA (excluding the UK) written on a FOS basis
- French hospitalisation policies
- French construction bond policies including construction inwards reinsurance risks ceded by pools
- Belgian hospitalisation policies.

There are certain policies within the cohorts described above that will not be transferred to AIIDAC under the Scheme. These are:

- A small number of policies written by AIL on a FOS basis which will either have expired shortly before Brexit or where the continued periods of cover are for a very short time following Brexit, and, in either case, where all resulting claims are expected to have been notified within a relatively short period following Brexit
- A small number of EEA risks from certain global policies where it is not possible to separate out the EEA elements from the UK or wider global elements.
- Policies from portfolios of insurance business in respect of EEA risks that are in run-off and where AIL's reserving experts have concluded that no further claims are expected
- Inwards reinsurance business other than French construction inwards reinsurance risks.

I have been informed by AIL that it intends to continue to honour its legal obligations on all of the policies that will not be transferred to AIIDAC under the Scheme in all circumstances.

I am comfortable that excluding the policies described above from the Scheme will not result in a material detriment to these policyholders and have explained the reasons for my reaching this conclusion in my Report.

I am also comfortable that excluding the policies described above from the Scheme will not result in a material detriment to the remaining policyholders.

Overview of my analysis

In considering the impact of the Scheme on policyholders, I have considered both the impact of the Scheme on the financial resources available to support policyholders and also a number of non-financial impacts regarding how the policyholders' experience may change as a result of the Scheme.

My approach to considering the effect of the Scheme on non-financial service levels experienced by policyholders has been to determine if a change in service arrangements would occur if the Scheme were to proceed, and to compare any changes with the arrangements that would be in place were the Scheme not to proceed.

Will the Scheme impact the security of the policyholders?

Transferring Portfolio

My opinion is that I do not expect the security of the transferring policyholders to be materially adversely affected by the Scheme for the following reasons:

- They will be transferring to a company with sufficient coverage of its capital requirements
- I have been provided with a draft letter that AIL's Board of Directors intends to issue to AIIDAC that indicates AIL's intention to provide financial support to AIIDAC, subject to certain conditions, in the event that AIIDAC's coverage ratio against its SCR falls below a specified threshold and AIIDAC is not able to restore this coverage ratio within a period of six months.
- A reinsurance arrangement will be effected which will transfer the majority of the insurance risk associated with the Transferring Portfolio to AIL. The terms of this reinsurance arrangement also ensure that the transferring policyholders are not disadvantaged in comparison to the remaining policyholders in the event of the insolvency of AIL.
- I believe the likelihood of AIIDAC encountering significant financial difficulties to be remote.

Policyholders remaining in AIL

The proposed Scheme is relatively minor in comparison to AIL's overall business.

I believe the likelihood of AIL encountering significant financial difficulties to be remote. The Scheme causes relatively small reductions in AIL's coverage over its capital requirements. I would not expect these reductions to materially impact the security of the policyholders remaining in AIL.

The terms of the reinsurance arrangement between AIL and AIIDAC ensure that the remaining policyholders are not disadvantaged following the Scheme in comparison to the transferring policyholders.

As a result, I do not expect the security of the policyholders remaining in AIL to be materially adversely affected as a result of the Scheme.

What are the other financial impacts of the Scheme?

Compensation schemes

Following the Scheme, policyholders remaining within AIL that are currently eligible will, under the FSCS rules currently in force, continue to be eligible for the Financial Services Compensation Scheme ("FSCS") protection.

Following the Scheme, policyholders within the following elements of the Transferring Portfolio that are currently eligible for FSCS protection will also, under the FSCS rules currently in force, continue to be eligible:

- General insurance risks written by the Ireland GI branch and situated in the UK, comprising both personal and commercial lines risks
- Retail policies covering risks situated in the EEA (excluding the UK) written on a FOS basis, comprising of holiday home and creditor policies
- Commercial policies covering risks situated in the EEA (excluding the UK) written on a FOS basis
- French hospitalisation policies
- French construction bond policies
- Belgian hospitalisation policies.

Following the Scheme, consumer protection for the following elements of the Transferring Portfolio will be provided by the Insurance Compensation Fund ("ICF") in Ireland.

- General insurance risks written by the Ireland GI branch and situated in Ireland, comprising both personal and commercial lines risks
- Mobile device insurance policies written in on a FOS basis for policyholders situated in Ireland.

The ICF provides cover for policies written by insurers regulated by the Central Bank of Ireland ("CBI"), where the risk is situated in Ireland. It does not cover risks which are situated in another EEA state. In addition, the ICF imposes stricter limitations on compensation payments in comparison to the FSCS and does not cover all policyholders' liabilities. Therefore, it is my understanding that the consumer protection that is available to certain transferring policyholders may reduce as a result of the Scheme.

In addition, mobile device insurance policies written on a FOS basis for policyholders situated in the EEA, excluding the UK and Ireland, will not be eligible for either FSCS or ICF protection following the Scheme.

Although the transferring policyholders discussed in the preceding three paragraphs may be disadvantaged with respect to their access to compensation, I believe that this will be less detrimental to them than the impact should the Scheme not go ahead. This is because, should these policyholders remain within AIL, there is a risk that AIL may lose the right to continue to provide insurance cover to these policyholders following the UK's departure from the EU. Furthermore, it is my opinion that AIIDAC will be sufficiently capitalised following the Scheme and that it is highly unlikely that AIIDAC will experience financial difficulties that result in the transferring policyholders requiring compensation.

Other factors

In addition, I have considered the impact of the Scheme on each of the consequences of insolvency; pension arrangements; tax; investment strategies; ongoing expenses; liquidity; new business strategy; and existing guarantees. I do not identify any changes in any of these areas as a result of the Scheme that would cause any material adverse impact to either group of policyholders.

What is the non-financial impact of the Scheme?

In my Report, I have considered the impact of any changes as a result of the Scheme to each of management and governance arrangements; claims handling; and policy servicing. I do not identify any changes as a result of the Scheme in any of these areas that cause any material adverse impact on policyholders.

Regulatory arrangements

There will be no supervisory change for the policyholders remaining within AIL following the Scheme.

For the Transferring Portfolio, the prudential regulation will move to the CBI from the PRA following the Scheme. The impact of this change in terms of policyholder security will be immaterial due to the introduction of Solvency II, the common prudential regulatory framework across the EEA. At the Effective Time of the Scheme, Solvency II regulations are still expected to apply to UK insurers as the UK will still be within the EU. The UK will have the ability to change its local regulations following its departure from the EU; however, I believe that it is highly unlikely that UK regulations will be changed to be materially weaker than Solvency II.

From a conduct perspective, the Transferring Portfolio is currently regulated by a combination of the FCA (in the capacity of the home state regulator), the CBI and various other EEA regulators corresponding to the EEA states in which the risks are located and the EEA states in which the policies have been sold. Following the Scheme, the FCA will be replaced by the CBI as the home state regulator in respect of the Transferring Portfolio.

This means that, following the Scheme, both the FCA and the CBI will continue to be involved in the conduct regulation of the following elements of the Transferring Portfolio but the precise roles undertaken by the two regulators will change:

- General insurance risks written by the Ireland GI branch and situated in the UK, comprising both personal and commercial lines risks
- Retail policies covering risks situated in the EEA (excluding the UK) written on a FOS basis comprising of holiday home and creditor policies
- Commercial policies covering risks situated in the EEA (excluding the UK) written on a FOS basis
- French hospitalisation policies
- French construction bond policies including construction inwards reinsurance risks ceded by pools
- Belgian hospitalisation policies.

Also following the Scheme, the FCA will no longer be involved in the regulation of the following elements of the Transferring Portfolio from a conduct perspective, with its role being taken over by the CBI:

- General insurance risks written by the Ireland GI branch and situated in the EEA (excluding the UK), comprising both personal and commercial lines risks
- Mobile device insurance policies written on a FOS basis.

However, as both the FCA and the CBI have mature and established conduct regulatory frameworks, I do not expect any of the above changes in their respective roles to have a material detrimental impact on the transferring policyholders.

There will be no change in the conduct supervision provided by regulators in EEA countries other than Ireland and the UK following the Scheme.

Ombudsman services

Following the Scheme, policyholders remaining within AIL that are currently eligible will continue to be eligible to refer complaints to the Financial Ombudsman Service (“FOSUK”).

For most policies in the Transferring Portfolio where policyholders are currently eligible to refer complaints to FOSUK, they will continue to be eligible to do so following the Scheme. The only exceptions to this are mobile device insurance policies written on a FOS basis.

Should the Scheme become effective, the policyholders with mobile device insurance policies written on a FOS basis will lose the ability to refer complaints to the FOSUK in the UK, except in the case that the complaint relates to the sales process in respect of a policy sold by AIL before AIIDAC received it.

However all policyholders in Ireland will be able to refer complaints to the Financial Services and Pensions Ombudsman ("FSPO") which provides cover for policies written by insurers regulated by the CBI. I do not believe the loss of access to FOSUK will have a material adverse impact on these policyholders as these policyholders will have access to the FSPO which also offers a free service and is an equivalent ombudsman in terms of scope and authority to issue binding decisions.

In addition to FOSUK and FSPO, policyholders may also be able to refer complaints to their nearest ombudsman instead, as long as it is a member of FIN-NET. In this instance, the nearest ombudsman is the one that covers insurance business in the country where the consumer accessed the service or product.

The transferring policies that are not in Ireland or the UK will be able to refer complaints to their nearest ombudsman who will be able to assess the complaint. I do not believe the loss of access to FOSUK will have a material adverse impact on these policyholders as these policyholders will have access to the ombudsman services of their home country where the relevant home countries are Belgium, France, Germany, Netherlands, Portugal, Spain and Sweden. All of these countries are members of FIN-NET and have an ombudsman that offers a free service and is an equivalent to FOSUK in terms of scope and authority to issue binding decisions.

Will the Scheme impact reinsurers?

Following the Scheme, AIL and AIIDAC will continue to participate in the Aviva Group's external reinsurance programme on broadly the same terms as at present. They will retain the same reinsurers that currently provide reinsurance cover to AIL. It follows that the risk exposures of the external reinsurers involved in the external reinsurance programmes are not expected to change as a result of the Scheme. As a result, I am comfortable that the Scheme will not materially impact any of AIL's external reinsurers on its current reinsurance programme.

Aviva International Insurance Ltd ("AII") currently reinsures AIL on a Quota Share basis. Following the Scheme, a small proportion of the risk associated with the Transferring Portfolio will be retained by AIIDAC. Since AIIDAC will not be directly covered by the AII reinsurance, AII will have a reduced reinsurance premium and correspondingly reduced exposure to the risks within the Transferring Portfolio.

I understand that AIIDAC will not commence underwriting prior to the Scheme and therefore will not have any existing or historical reinsurance protections.

As a result, my opinion is that the Scheme will have no material adverse impact on AIL's or AIIDAC's current or historic reinsurers.

Overall conclusion

I have considered the Scheme and its likely effect on transferring policyholders, policyholders remaining within AIL and reinsurers. I do not expect any group of policyholders or reinsurers to be materially adversely affected by the Scheme and therefore I see no reason why the Scheme should not proceed.

Simon Sheaf FIA, FSAI

Head of General Insurance Actuarial & Risk
Grant Thornton UK LLP

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