



# Grant Thornton

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17 January 2019

Dear Sirs

**Update to the Supplementary Report by Simon Sheaf FIA, FSAI, Independent Actuary, on the Proposed Transfer of a Portfolio of Policies from Aviva Insurance Limited to Aviva Insurance Ireland DAC**

Aviva Insurance Limited ("AIL") and Aviva Insurance Ireland Designated Activity Company ("AIIDAC") have jointly nominated Simon Sheaf ("I", "me") of Grant Thornton UK LLP ("Grant Thornton", "we", "us") to act as the Independent Expert for the proposed insurance business transfer scheme ("the Scheme") of elements of the insurance business of AIL to AIIDAC. The Scheme is intended to be effected on 00:01 on Friday 1 February 2019.

I prepared a report addressed to the Court of Session in Scotland ("the Court") dated 23 August 2018 and entitled "Report by Simon Sheaf FIA FSAI, Independent Expert, on the Proposed Transfer of a Portfolio of Policies from Aviva Insurance Limited to Aviva Insurance Ireland Designated Activity Company" ("the Report"). The Report set out my considerations as to the likely effects of the proposed Scheme on the policyholders of AIL and AIIDAC. This included my assessment as to whether the Scheme will result in material detriment to any policyholders affected by the Scheme relative to their current situation.

**Chartered Accountants**

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I prepared a supplementary report dated 4 January 2019 and entitled "Supplementary Report by Simon Sheaf FIA FSAI, Independent Expert, on the Proposed Transfer of a Portfolio of Policies from Aviva Insurance Limited to Aviva Insurance Ireland Designated Activity Company" ("the Supplementary Report"). The Supplementary Report considered additional information received and changes that had occurred between the dates on which the Report and the Supplementary Report were signed. It provided an update to the conclusions set out in the Report in the light of that updated information and those changes.

In paragraphs 10.31 to 10.41 of the Report, I discussed my opinion on the impact of the Scheme on policyholders' access to compensation, including from the Financial Services Compensation Scheme ("FSCS").

Between the dates on which the Report and the Supplementary Report were signed, the PRA issued a consultation paper (CP 26/18), which discusses the changes to the PRA's rules as a result of the UK's withdrawal from the EU. This includes the PRA's proposed stance in respect of the compensation available to the transferring policyholders of insurance portfolio transfers from UK entities into entities in the EEA.

In paragraphs 7.13 to 7.16 of the Supplementary Report, I provided an update to my opinion on the impact of the Scheme on policyholders' access to compensation, based on my interpretation of the consultation paper issued by the PRA. In particular, in paragraph 7.14 of the Supplementary Report, I set out my interpretation that, should the proposed rules in CP26/18 come into force then:

- Policies in the Transferring Portfolio that will become part of AIIDAC's UK Branch will continue to benefit from FSCS protection irrespective of when the relevant claim events occur.
- Policies in the Transferring Portfolio that will not become part of AIIDAC's UK Branch will continue to benefit from FSCS protection in respect of claims events that occur prior to the Effective Time. However, they will not benefit from FSCS protection in respect of claims events that occur after the Effective Time.

Since the Supplementary Report, the PRA has informed me that its interpretation of the implications of the proposed rules in CP26/18 on the Transferring Portfolio differs from my interpretation. The PRA has informed me that its interpretation is that, should the proposed rules in CP26/18 come into force, all qualifying policies in the Transferring Portfolio are likely to continue to benefit from FSCS protection irrespective of when the relevant claim events occur. This will include those transferring policyholders that will not become part of AIIDAC's UK Branch as well as those that that will become part of AIIDAC's UK Branch.

I note that the PRA's interpretation, as described to me, would be more beneficial to the transferring policyholders than mine. As a result, should its interpretation turn out to be correct, that would not change my overall conclusion as set out in paragraph 13.8 of the Report and paragraph 10.7 of the Supplementary Report. In other words, my conclusion that *"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"* remains the same regardless of which of the two interpretations is correct.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Sheaf', with a horizontal line underneath.

Simon Sheaf  
Head of General Insurance Actuarial and Risk  
Grant Thornton UK LLP