



## Summary of the IE report on the transfer from AICL to AECS

### *The Independent Expert and the Independent Expert's Report*

Mr Gregory Overton of PricewaterhouseCoopers LLP, a Fellow of the Institute of Actuaries, has been appointed as an independent expert ("the Independent Expert") to provide an Independent Expert's Report ("the Transfer Report"). This report considers the effects of the proposed transfer of Spanish and Italian risks from Admiral Insurance Company Limited ("AICL") to Admiral Europe Compañía de Seguros, S.A. ("AECS"), (the "AICL Transfer" or "Transfer").

Mr Overton's appointment has been approved by the Prudential Regulation Authority ("PRA") in consultation with the Financial Conduct Authority ("FCA") in accordance with Part VII of the Financial Services and Markets Act 2000.

The Transfer Report sets out the analysis that the Independent Expert has performed in order to form his opinion on the effect of the AICL Transfer on the interests of policyholders (and third parties who rely on their policies), and the conclusions he has reached. It also sets out the purpose of the Transfer Report and the terms of use of the Transfer Report. Those terms apply equally to this summary.

A simultaneous transfer of French and Italian risks from Admiral Insurance (Gibraltar) Limited ("AIGL") is proposed under a parallel transfer process in Gibraltar to complete at the same time. Mr Overton's Transfer Report focuses on the policyholders affected by the Part VII transfer from AICL only. A separate review process in Gibraltar, which does not require an Independent Expert opinion, governs the AIGL transfer. The UK and Gibraltar transfers will succeed or fail together.

A copy of the Transfer Report is available to view and/or download at Admiral's website <https://admiralgroup.co.uk/our-business/corporate-governance/european-business-transfer-2018>. This summary highlights the key aspects of the Transfer Report and the conclusions reached by the Independent Expert. Anyone wishing to understand the analysis that has led to these conclusions should refer to the full Transfer Report.

### *The Independent Expert's work*

The Independent Expert has reviewed the terms of the Transfer and considered its impact on the security of policyholders of AICL and on the service that they receive.

He has reviewed financial information relating to AICL and AECS (collectively the "Companies") before and after the Transfer; including audited accounts, reserve studies and capital assessments. He notes that he has received all the information that he has requested in order to prepare the Transfer Report. He also notes that the witness statements made to the Court by individuals on behalf of the Companies as part of the Transfer process have confirmed that the information provided to him by the Companies is accurate and complete.

The Independent Expert has considered the following groups of policyholders, including third parties who rely on their policies:

- Policyholders of AICL who are remaining within AICL.
- The Spanish and Italian policyholders of AICL who are transferring to AECS (collectively the "Transferring policyholders").



The Independent Expert has performed separate analyses to investigate the impact of the Transfer on the above policyholder groups. He has also considered in a more qualitative manner and commented on the particular interests of the following policyholder subgroups: -

- Periodic Payment Order (“PPO”) claimants and other long-term policyholders.
- Spanish versus Italian transferring policyholders.

In assessing the impact upon the security of policyholders the Independent Expert has considered: -

- the nature and duration of the policyholder liabilities;
- the impact of the Transfer on the assets and liabilities of the Companies;
- the operation of the external reinsurance agreements which provide protection to each of the Companies;
- the impact of the Transfer on the capital position of the Companies as assessed against a consideration of the risks inherent within the business of each of the Companies, including the impact of adopting alternative plausible assumptions.

### *Conclusion*

In his Report the Independent Expert concludes as follows:

*“I have considered the proposed Transfer and the likely effect on both the UK and Transferring policyholders of AICL. At the point of transfer, Admiral is providing significantly more capital than previously used to support the business. I understand action will be taken by management in the future to remove surplus capital arising above target in AICL. Nevertheless, I consider Admiral is adopting a prudent approach to the Transfer to ensure that:*

- *adequate levels of policyholder protection are maintained for both AICL and AECS over the period of transition caused by the Transfer, and*
- *European policies can continue to be serviced no matter what form Brexit takes.*

*I have concluded that policyholders (and third parties who rely on their policies) will not be materially adversely affected by the proposed Transfer.”*

In drawing his conclusions, the Independent Expert notes separately for the different groups of affected policyholders that: -

- The UK policyholders of AICL are not adversely affected by the proposed Transfer because:
  - a. the company will reduce in size only marginally;
  - b. there is an increase in the level of surplus capital for both short and long tail claimants immediately as a result of the Transfer; and
  - c. in the medium-term the security provided is likely to be consistent with pre-Transfer levels.
- The Transferring policyholders of AICL are not materially adversely affected by the proposed Transfer because, whilst they are moving to a smaller entity with more volatile claims reserves, additional capital support is being provided to ensure an equivalent Capital Cover Ratio for short-tailed policyholders and a lower but still reasonable Capital Cover Ratio for longer-tailed policyholders.



### *Other considerations*

Whilst activities may be carried out by a different entity for Transferring policyholders, there will be no changes to the personnel or processes used to administer policies and handle claims as a result of the Transfer. As such, the Independent Expert has concluded that he does not expect any change in the policyholder experience as a result of the Transfer.

The Independent Expert comments on additional points as supportive of his conclusion as follows:-

- AICL and the new AECS entity are part of a larger insurance group that may be able to provide additional capital support if required.
- AICL is a member of the Financial Services Compensation Scheme and, in the unlikely event of failure of this company, policyholders may seek compensation from this Scheme. The FSCS will cover up to 90% of claims or 100% for motor third party claims.
- Whilst Transferring policyholders will lose protection from the Financial Services Compensation Scheme and they will no longer have access to the Financial Ombudsman Service in the event of complaint where it may have applied, they will have access to compensation and ombudsman services provided by the Spanish authorities after the Transfer.
- If the Transfer were not to proceed then policyholders in Italy and Spain may find their policies cannot be serviced and their claims cannot be paid legally by the company in the event that the UK departs the EU without a new trade agreement in place, often referred to as a 'Hard' Brexit.