Supplementary 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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Final

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Contents

1 Executive summary

1.1 Introduction

1.1.1 The proposed transfer of Pinnacle Insurance PLC's ("Pinnacle") non-Pet general insurance business to ElFlow Insurance Ltd ("ElFlow"), a Gibraltar-based insurer regulated by the Gibraltar Financial Services Commission ("GFSC"), is described in my original Independent Expert report named "Report of the Independent Expert on the proposed transfer of a portfolio of Pinnacle Insurance PLC's general insurance business to ElFlow Insurance Ltd" dated 11 July 2024 (my "Original Report"). My opinions on the effect of the transfer on policyholders as set out in my Original Report were based upon information as at 31 December 2023.

1.2 Scope of the report

1.2.1 The purpose of this report (the "Supplementary Report") is to consider any new information that has come to light since the date of my Original Report and to determine whether the conclusions set out in my Original Report have changed as a result of that new information.

1.2.2 This report describes any significant changes of which I have become aware between the date of my Original Report and the date of issuing this Supplementary Report ahead of the Sanction Hearing on 9 December 2024.

My approach

1.2.3 In preparing this report, I have considered:

a) Any changes in Pinnacle and ElFlow's financial positions, including changes in the reserve estimates and capital strength;

b) Any changes in the external environment of Pinnacle and ElFlow, including the economic and regulatory environment;

c) The implications of these changes on the level of policyholder security and levels of service; and

d) The implications of these changes on reinsurers.

1.2.4 This report also provides an update on the financial position of the affected companies and an update on any areas where I stated in my Original Report that an update would be provided, specifically:

a) an update on the progress of the renewal process for the Creditor business;

b) any policies which are not capable of being transferred for legal reasons;

c) updated balance sheets;

d) an update following receipt of WTW Reserve Review Report and ElFlow Actuarial Function Holder report as at 31 December 2023; and

e) an update following drafting of formal Third-Party Administrator ("TPA") agreement which would be entered into between Pinnacle and ElFlow relating to the Warranty & GAP claims handling.

A mapping of the above areas to relevant sections of this report can be found in Appendix B.

1.2.5 I have also considered any feedback or objections from policyholders or reinsurers in relation to the transfer.

1.2.6 I have been provided with detailed financial information as at 30 June 2024 for each entity. I have also held discussions with the companies and obtained confirmation from them of the changes relating to each entity.

1.2.7 Prior to submitting the final version of this report, I have been provided with some financial information as at 30 September 2024. This has been provided on a summarised level due to the short time period between this data becoming available and the date that this report is submitted to the Court. As such, the information presented in my report primarily focusses on the 30 June 2024 data, but where relevant I provide a brief update on any changes up to 30 September 2024.

Regulatory and professional guidance

1.2.8 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.

1.2.9 I set out how my Original Report complies with SUP 18 and the PRA Statement of Policy requirements in Appendix G of my Original Report.

1.2.10 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.

1.2.11 This report has also been produced in line with the requirements of Actuarial Professional Standard ("APS") X2: Review of Actuarial Work, with the same peer review process as for my Original Report; and APS X3: The Actuary as an Expert in Legal Proceedings produced by the Institute and Faculty of Actuaries.

1.3 Use of this report

1.3.1 This Supplementary Report should be read in full and in conjunction with my Original Report. I have not included all the information used to reach my conclusions on the transfer (or any background information on the transfer) in this Supplementary Report and therefore reading it in isolation could be misleading.

1.3.2 This report has an equivalent scope and is subject to the same reliances and limitations and restrictions on distribution and use as my Original Report.

1.3.3 The definitions and abbreviations used in my Original Report remain unchanged. I have not repeated these definitions or included a full glossary in this Supplementary Report. See Section 2.2 and Appendix B of my Original Report for any clarifications on terminology used.

1.3.4 A full list of the additional data received from the companies in preparing this Supplementary Report can be found in Appendix A. See Appendix D of my Original Report for a full list of the data provided previously.

1.3.5 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.

1.4 Role of the Independent Expert

1.4.1 I have been appointed as the Independent Expert to provide the required reports 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 Engagement Letter between Mazars LLP (now known as Forvis Mazars LLP) and the companies can be found in Appendix A of my Original Report.

1.4.2 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. A full CV can be found in Appendix C of my Original Report.

1.4.3 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.

1.4.4 I confirm that there have been no changes to my nor Forvis Mazars' independence from the companies involved in the transfer. No new connections or conflicts of interest have arisen since the date of my Original Report.

Peer review process

1.4.5 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.

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

1.5 Summary of conclusions

1.5.1 I have assessed any new information that has come to light since the date of my Original Report to determine whether the conclusions set out in my Original Report around the proposed transfer and the likely effect on the transferring policyholders, Pinnacle's remaining policyholders and ElFlow's existing policyholders ("the affected policyholders") have changed as a result of that new information.

1.5.2 Note that any references in *italic* relate to paragraphs or sections in my Original Report.

Transferring portfolio

1.5.3 Given the movement in reserves since my Original Report is in line with my expectations and the methodology used to calculate them has not changed, I have no reason to change the conclusions contained within my Original Report with respect to Pinnacle's best estimate claims reserves for the transferring portfolio (*paragraphs 5.2.60-66*).

1.5.4 Given the methodology used to calculate the Solvency II technical provisions has not changed, I have no reason to change the conclusions contained within my Original Report with respect to Pinnacle's Solvency II technical provisions for the transferring portfolio (*paragraph 5.2.67*).

1.5.5 Given the additional risk premium remains unchanged and the net impact of the transfer on the statutory balance sheets is not materially different, I have no reason to change the conclusions contained within my Original Report with respect to the reserve estimate for the transferring portfolio as determined by EIFlow (*paragraphs 5.2.60-66*).

1.5.6 The ratio of net asset value to net technical provisions in EIFlow following the transfer is 130% relative to a ratio of 627% in Pinnacle prior to the transfer. The reduction in this ratio is larger than it was based on 31 December 2023 figures (140% in EIFlow post transfer compared to 591% in Pinnacle pre transfer). This is primarily driven by a reduction in Pinnacle's net asset value less than the reduction in its net technical provisions. The reasons for the differential remain the same as in my Original Report (*paragraph 7.2.3*), as do the reasons why I do not believe this constitutes a material adverse financial impact for the transferring policyholders (*paragraph 7.2.4*).

1.5.7 EIFlow's coverage ratio following the transfer (295%) is higher than that of Pinnacle pre transfer (249%); hence, the transferring policyholders are moving to a company with higher levels of capital protection, relative to the regulatory capital requirements. This is in line with the observation made in my Original Report (*paragraph 6.3.19*). I therefore have no reason to change the conclusions contained within my Original Report with respect to the level of protection for the transferring policyholders following the transfer (*paragraph 7.2.4*).

1.5.8 EIFlow's risk appetite statement states that the coverage ratio should not fall by more than 20% in a quarter or in a year. EIFlow's coverage ratio has fallen by 80 percentage points since 31 December 2023, driven by a change in reserves as a result of the external actuarial review which is completed at least once every 3 years. I consider the reduction in coverage ratio to be an exceptional movement whereby EIFlow has appropriately reflected the external actuary's view, in line with its reserving policy, hence I am not concerned that the reduction breaches EIFlow's internal risk appetite statement in this instance. Additionally, EIFlow remains well in excess of regulatory thresholds, as mentioned above. This reduction in coverage ratio between 31 December 2023 and 30 June 2024 does not change my view that transferring policyholders are not adversely affected.

Remaining portfolio

1.5.9 Given the movements in the reserves are in line with my expectations and the methodology used to calculate them has not changed, I have no reason to change the conclusions contained within my Original Report with respect to Pinnacle's best estimate claims reserves for the remaining portfolio (*paragraph 5.3.25*).

1.5.10 Given the methodology used to calculate the Solvency II technical provisions has not changed (aside from the risk margin methodology covered in paragraph 2.1.17, which does not result in a material movement), I have no reason to change the conclusions contained within my Original Report with respect to Pinnacle's Solvency II technical provisions for the remaining portfolio (*paragraph 5.3.26*).

1.5.11 The impact of the transfer on Pinnacle's coverage ratio based on 30 June 2024 figures is a one percentage point increase, which is in line with the impact observed in my Original Report (*paragraph 6.2.17*). I therefore have no reason to change the conclusions contained within my Original Report with respect to the impact of the transfer on Pinnacle's capital position (*paragraph 6.2.18*).

Existing portfolio

1.5.12 Given the movements in EIFlow's reserves:

a) have been sufficiently explained by EIFlow;

b) appropriately reflect the external actuary's view; and

c) the aggregate net reserves have not materially changed,

I have no reason to change the conclusions contained within my Original Report with respect to EIFlow's best estimate claims reserves for the existing portfolio (*paragraph 5.4.36*).

1.5.13 Given I understand the rationale for the movement in net technical provisions and the changes in methodology used to calculate them are in line with the expectations outlined in my Original Report (*paragraph 5.4.37*), I have no reason to change the conclusions contained within my Original Report with respect to EIFlow's Solvency II technical provisions for the existing portfolio (*paragraph 5.4.38*).

1.5.14 The impact of the transfer on EIFlow's coverage ratio based on 30 June 2024 figures is 19 percentage points (a reduction from 314% to 295%). While EIFlow's solvency ratio reduces as a result of the transfer, the impact is lower than it was based 31 December 2023 figures (a reduction of 55 percentage points from 394% to 339%). Additionally, EIFlow remains well in excess of both regulatory and internal risk appetite thresholds and EIFlow therefore continues to be highly capitalised post transfer. This is in line with the observation made in my Original Report (*paragraph 6.3.17*). I therefore have no reason to change the conclusions contained within my Original Report with respect to the impact of the transfer on EIFlow's capital position and the existing policyholders (*paragraph 6.3.18*).

Other considerations

1.5.15 Given Pinnacle's Creditor portfolio has renewed into EIFlow as planned, I conclude that the business forecasts included in *Section 6* of my Original Report were appropriate to base my conclusions on.

1.5.16 Given the TPA agreement relating to the Warranty & GAP portfolio is in line with my expectations outlined in my Original Report, I have no reason to change the conclusions contained within my Original Report with respect to the policy and claims administration arrangements or levels of service.

1.5.17 I am satisfied that the policyholder notifications were carried out appropriately and in accordance with the approach set out in *Section 10* of my Original Report.

1.5.18 I am satisfied that no objections to the transfer have been received to date, and no complaints raised constitute anything that I would consider an objection.

Overall conclusion

1.5.19 Overall, my opinion has not changed from my Original Report, and I conclude that none of the affected policyholders are materially adversely impacted by the transfer.

1.6 Expert's declaration

1.6.1 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.

1.6.2 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.

1.6.3 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

2 Financial updates

2.1 Reserving considerations

The transferring portfolio

2.1.1 In *Section 5.2* of my Original Report, I described Pinnacle's approach for estimating the reserves for the transferring portfolio on a statutory and Solvency II basis in detail using information as at 31 December 2023. At the time of this report, the latest information available is as at 30 June 2024. Between these dates, there have been no material changes to Pinnacle's reserving process or approach. The reserving exercise performed by Pinnacle as at 30 June 2024 is a less detailed review than that performed at the year end. As a result, no additional actuarial report has been prepared by Pinnacle.

2.1.2 A breakdown of the gross and net reserves by line of business for the transferring portfolio as at 30 June 2024, including the movements from 31 December 2023, is shown in Table 1.

Statutory Reserves (£m)	Gross			Net		
	30-Jun-24	31-Dec-23	*Mvmt*	30-Jun-24	31-Dec-23	*Mvmt*
Claims Reserves						
Motor	10.3	10.2	*0.2*	-	-	-
Household	0.3	0.3	*(0.0)*	-	-	-
Warranty & GAP	0.2	0.2	*(0.0)*	-	-	-
Margin	**4.9**	**5.1**	*(0.2)*	**-**	**-**	-
ULAE	**0.3**	**0.3**	*0.0*	**-**	**-**	-
UPR	**1.7**	**3.4**	*(1.7)*	**-**	**-**	-
Total	**17.7**	**19.4**	*(1.7)*	**-**	**-**	-

Table 1: Movement in gross and net reserves for transferring portfolio

2.1.3 The gross UPR, which relates to the Warranty & GAP portfolio, has reduced by £1.7m as the premium has been earned. As at August 2024, there were approximately 20,000 open policies (in my Original Report I noted that there were approximately 28,000 open as at March 2024 and expiring at a rate of approximately 1,300 per month).

2.1.4 Over the 6 months to 30 June 2024 there has been £0.8m of gross paid claims. The gross reserves (including UPR) have therefore reduced by £0.9m over this period after adjusting for claims paid.

2.1.5 The net reserves remain unchanged at nil due to the 100% reinsurance in place with Darnell DAC.

2.1.6 In *Section 7.2* of my Original Report, I quantified the impact of a range of reserve deterioration scenarios excluding the Darnell DAC reinsurance given the transferring policyholders will no longer benefit from this cover. Given the gross reserves have not materially changed since 31 December 2023 and the risks affecting the transferring portfolio have not changed, I have not considered it necessary to re-perform these scenarios using the 30 June 2024 reserves.

2.1.7 Prior to submitting the final version of this report, I have been provided with some financial information as at 30 September 2024. This shows that the gross reserves for the transferring portfolio have reduced from £17.7m as at 30 June 2024 (shown in Table 1) to £17.2m. The reduction is driven by a reduction in UPR on the Warranty & GAP portfolio, consistent with the reason discussed in paragraph 2.1.3 above.

2.1.8 Given the movement in reserves since my Original Report is in line with my expectations and the methodology used to calculate them has not changed, I have no reason to change the conclusions contained within my Original Report with respect to Pinnacle's best estimate claims reserves for the transferring portfolio (*paragraphs 5.2.60-66*).

2.1.9 A breakdown of the Solvency II technical provisions by line of business as at 30 June 2024, including the movements from 31 December 2023, is shown in Table 2. Note this includes the technical provisions for both the transferring and remaining portfolios, whereas Table 1 only included the transferring portfolio. The technical provisions for the transferring portfolio only are summarised in the final few rows.

Solvency II TPs		Gross			RI			Net	
Figures in £m	30-Jun-24	31-Dec-23	*Mvmt*	30-Jun-24	31-Dec-23	*Mvmt*	30-Jun-24	31-Dec-23	*Mvmt*
Pet	21.0	24.6	*(3.5)*	1.5	3.2	*(1.7)*	19.6	21.4	(1.8)
Creditor	2.5	3.0	*(0.5)*	2.5	3.0	*(0.5)*	-	-	-
Warranty	0.5	1.7	*(1.2)*	0.5	1.7	*(1.2)*	-	-	-
Motor	6.4	6.5	*(0.1)*	6.4	6.5	*(0.1)*	-	-	-
Motor PPO	5.8	6.7	*(0.9)*	5.8	6.7	*(0.9)*	-	-	-
Household	0.3	0.3	*(0.0)*	0.3	0.3	*(0.0)*	-	-	-
Life	15.7	16.8	*(1.1)*	15.7	16.8	*(1.1)*	-	-	-
Total excl. Risk Margin	**52.2**	**59.5**	***-7.3***	**32.6**	**38.2**	***-5.5***	**19.6**	**21.4**	***-1.8***
Risk Margin	1.8	2.3	*(0.5)*				1.8	2.3	*(0.5)*
Total TPs	**54.0**	**61.8**	*(7.8)*	**32.6**	**38.2**	*(5.5)*	**21.3**	**23.6**	*(2.3)*
Transferring portfolio	**13.0**	**15.2**	***-2.2***	**13.0**	**15.2**	***-2.2***	**0.0**	**0.0**	***0.0***
Risk Margin	0.5	0.3	*0.2*				0.5	0.3	*0.2*
Total TPs	**13.6**	**15.5**	*(2.0)*	**13.0**	**15.2**	*(2.2)*	**0.5**	**0.3**	*0.2*

Table 2: Movement in Pinnacle Solvency II technical provisions

2.1.10 The gross and reinsurance technical provisions for the transferring portfolio have reduced by £2.2m since 31 December 2023, primarily driven by the Warranty & GAP portfolio. The value of the risk margin allocated to the transferring portfolio has increased by £0.2m, hence the overall movement in the net technical provisions is £0.2m.

2.1.11 Given the methodology used to calculate the Solvency II technical provisions has not changed, I have no reason to change the conclusions contained within my Original Report with respect to Pinnacle's Solvency II technical provisions for the transferring portfolio (*paragraph 5.2.67*).

The remaining portfolio

2.1.12 The statements made in paragraph 2.1.1 also apply to the remaining portfolio.

2.1.13 A breakdown of the gross and net reserves by line of business for the remaining portfolio as at 30 June 2024, including the movements from 31 December 2023, is shown in Table 3.

Statutory Reserves (£m)	Gross			Net		
	30-Jun-24	31-Dec-23	*Mvmt*	30-Jun-24	31-Dec-23	*Mvmt*
Claims Reserves						
Pet	15.3	16.2	*(0.9)*	6.7	13.4	*(6.7)*
Life	16.3	16.3	-	-	-	-
Creditor	1.4	1.7	*(0.3)*	-	-	-
Margin	**4.1**	**2.7**	*1.4*	**3.9**	**2.4**	*1.5*
ULAE	**0.6**	**0.5**	*0.1*	**0.4**	**0.3**	*0.1*
UPR	**76.4**	**70.8**	*5.6*	**37.8**	**67.5**	*(29.7)*
Total	**114.1**	**108.2**	*5.9*	**48.8**	**83.6**	*(34.8)*

Table 3: Movement in gross and net reserves for remaining portfolio

2.1.14 The gross reserves have increased by £5.9m, driven by the growth in the Pet business premiums leading to a higher UPR. This growth in premium volumes was expected and discussed in *paragraph 4.2.56* of my Original Report.

2.1.15 The small reduction in Creditor reserves was also expected due to the renewal of this business into ElFlow. A more detailed update on this renewal process will be provided in Section 3.1.

2.1.16 The net reserves have reduced by £34.8m, due to the new 50% quota share reinsurance in place effective from 1 January 2024. For clarity, this new reinsurance programme would not affect the transferring portfolio should the proposed transfer not take place.

2.1.17 Given the movements in the reserves are in line with my expectations and the methodology used to calculate them has not changed, I have no reason to change the conclusions contained within my Original Report with respect to Pinnacle's best estimate claims reserves for the remaining portfolio (*paragraph 5.3.25*).

2.1.18 A breakdown of the Solvency II technical provisions by line of business as at 30 June 2024, including the movements from 31 December 2023, was shown in Table 2. The net technical provisions (including the risk margin) for the remaining portfolio have reduced by £2.5m. This is driven by:

a) A reduction in the net best estimate reserves for the Pet portfolio, driven by improved loss ratios on bound business as a result of underwriting actions; and

b) A reduction in the risk margin because of a refinement in methodology following the year-end 2023 external audit recommendations (specifically in relation to the application of contract boundaries to calculate the bound premiums).

2.1.19 Given the methodology used to calculate the Solvency II technical provisions has not changed (aside from the risk margin methodology which does not result in a material movement), I have no reason to change the conclusions contained within my Original Report with respect to Pinnacle's Solvency II technical provisions for the remaining portfolio (*paragraph 5.3.26*).

The existing portfolio

2.1.20 In *Section 5.4* of my Original Report, I noted that WTW had been commissioned by EIFlow to perform an independent reserve projection as at 31 December 2023 but that the review was ongoing. EIFlow was provided with the final WTW report in July 2024 and subsequently made an adjustment to its best estimate reserves.

2.1.21 A breakdown of the gross and net reserves by line of business for the existing portfolio as at 30 June 2024, including the movements from 31 December 2023, is shown in Table 4. Note that some of the movement relates to a change in the USD to GBP exchange rate used from £1 = US$1.27 as at 31 December 2023 to £1 = US$1.26 as at 30 June 2024[1].

Statutory Reserves (£m)	Gross			Net		
	30-Jun-24	31-Dec-23	*Mvmt*	30-Jun-24	31-Dec-23	*Mvmt*
Claims Reserves	**16.3**	**15.6**	*0.7*	**14.6**	**13.9**	*0.7*
Icarom	5.0	5.1	*(0.1)*	5.0	5.1	*(0.1)*
PMI	-	-	-	-	-	-
Groupama	0.5	0.5	*0.0*	0.5	0.5	*0.0*
LAMP	2.2	1.2	*1.0*	2.2	1.2	*1.0*
Preserve	2.0	2.0	*(0.0)*	0.3	0.3	*(0.0)*
Cardinal Re	6.6	6.8	*(0.2)*	6.6	6.8	*(0.2)*
MPI (Creditor business)	0.0			0.0		
UPR	0.4	1.2	*(0.8)*	**0.4**	1.2	*(0.8)*
ULAE	0.8	0.8	*0.0*	**0.8**	0.8	*0.0*
Total	**17.5**	**17.6**	*(0.1)*	**15.8**	**15.9**	*(0.1)*

Table 4: Movement in gross and net reserves for existing portfolio

2.1.22 The results of WTW's report showed that there was a surplus in EIFlow's net reserves as at 31 December 2023 (i.e. the reserves booked by EIFlow were higher than WTW's best estimate view). However, there were some offsetting differences between portfolios and on a

[1] Closing USD to GBP rate 30 June 2024 – www.exchangerates.org.uk/USD-GBP-spot-exchange-rates-history-2024.html

gross and reinsurance basis. In response to WTW's findings, EIFlow made the following adjustment as at 30 June 2024:

a) On the LAMP portfolio, WTW had a higher best estimate view of the IBNR than EIFlow. However, EIFlow had additional amounts held for the LAMP portfolio within the UPR and bad debt reserves. Therefore, EIFlow increased the IBNR and offset this with a reduction in UPR and the bad debt reserve, leading to no impact on EIFlow's reserves on a net statutory basis. These movements can be seen in Table 4.

b) On the Preserve portfolio, WTW had a higher best estimate view of both the gross and reinsurance reserves. On a net basis, there was an immaterial difference in view, hence EIFlow made no adjustments for this in the statutory accounts.

c) On the Cardinal Re and Icarom portfolios, WTW had a lower best estimate view of the IBNR than EIFlow, suggesting a surplus in the booked reserves. No reserve releases have been made in the statutory figures booked at 30 June 2024 to reflect this. EIFlow's Board met in September 2024 to discuss the WTW results and agreed no further releases will be made as at 30 September 2024, therefore EIFlow's reserves will remain higher than WTW's best estimate leading to some surplus in the booked numbers.

2.1.23 In summary, EIFlow has reflected the results of the external actuary's review of the reserves on portfolios where the external view was higher and has chosen not to adjust the reserves where the external view was lower, leading to a surplus in its booked reserves relative to the external actuary's view.

2.1.24 Note that there is a new portfolio, MPI, which relates to the Creditor business that has started to renew into EIFlow from Pinnacle (this will be discussed in more detail in Section 3.1). The reserves held for this as at 30 June 2024 are not material to the overall book.

2.1.25 Prior to submitting the final version of this report, I have been provided with some financial information as at 30 September 2024. This shows that the net reserves for the existing portfolio have reduced from £15.8m as at 30 June 2024 (shown in Table 4) to £15.3m. There have been small increases in the reserves on the LAMP and new MPI portfolio. However, this is offset by a reduction on Cardinal Re, primarily due to a strengthening of GBP relative to USD (in which the Cardinal Re portfolio is denominated). The reserves for Cardinal Re remain higher than WTW's best estimate, consistent with the comment made in paragraph 2.1.22(c) above.

2.1.26 Given the movements in EIFlow's reserves:

a) have been sufficiently explained by EIFlow;

b) appropriately reflect the external actuary's view; and

c) the aggregate net reserves have not materially changed,

I have no reason to change the conclusions contained within my Original Report with respect to EIFlow's best estimate claims reserves for the existing portfolio (*paragraph 5.4.36*).

2.1.27 A breakdown of the Solvency II technical provisions by line of business as at 30 June 2024, including the movements from 31 December 2023, is shown in Table 5.

Solvency II TPs	Gross			RI			Net		
Figures in £m	30-Jun-24	31-Dec-23	*Mvmt*	30-Jun-24	31-Dec-23	*Mvmt*	30-Jun-24	31-Dec-23	*Mvmt*
Icarom / Groupama	4.5	4.3	*0.2*	-	0.0	*(0.0)*	4.5	4.2	0.3
LAMP	2.2	1.5	*0.7*	-	-	*-*	2.2	1.5	0.7
Preserve - Motor	0.0	0.5	*(0.5)*	0.0	0.4	*(0.4)*	0.0	0.1	(0.1)
Preserve - PPO	1.5	0.6	*0.9*	1.3	0.5	*0.8*	0.2	0.1	0.1
Cardinal	5.8	5.6	*0.2*	-	-	*-*	5.8	5.6	0.2
MPI (Creditor business)	0.0			-			0.0		
Total excl. Risk Margin	**14.0**	**12.4**	***1.6***	**1.3**	**0.9**	***0.4***	**12.7**	**11.5**	***1.2***
Risk Margin	0.3	0.5	*(0.1)*				0.3	0.5	*(0.1)*
Total TPs	**14.4**	**12.9**	***1.4***	**1.3**	**0.9**	***0.4***	**13.1**	**12.0**	***1.1***

Table 5: Movement in EIFlow Solvency II technical provisions

2.1.28 The gross technical provisions for the existing portfolio have increased by £1.4m and the net technical provisions have increased by £1.1m. This is primarily driven by the increase in IBNR on the LAMP portfolio, as mentioned above, as the offsetting reduction in UPR does not have full impact on a Solvency II basis as the Solvency II technical provisions are based on best estimate cashflows[2].

2.1.29 On the Preserve portfolio, despite not making any adjustment on a statutory basis, EIFlow has made some adjustments to the technical provisions on a Solvency II basis:

a) In *paragraph 5.4.30* of my Original Report, I noted that in the discounting calculation, the PPO was effectively discounted twice. However, I concluded that the impact of these two differences in view was not material to my conclusions. I note that as at 30 June 2024, this point has been corrected such that the methodology applied is now in line with my expectations. This is the driver of the increase in both the gross and reinsurance reserve for the Motor PPO, with £0.1m impact on a net basis.

[2] For more detail, see *Section 3.4* of my Original Report where I discussed the difference between statutory reserves and Solvency II technical provisions.

b) On the non-PPO element of the Motor book, EIFlow has reduced the technical provisions as a result of this business running off over time. The IBNR on this portfolio is now negligible. On a net basis the movement is a £0.1m reduction.

2.1.30 In *paragraph 5.4.27* of my Original Report, I also noted that as at 31 December 2023 EIFlow was using a cost of capital rate of 6% in calculating the risk margin, as opposed to the 4% prescribed for Gibraltar-licensed firms. I note that as at 30 June 2024, this point has been corrected such that the methodology applied is now in line with my expectations.

2.1.31 I also noted in *paragraph 5.4.7* of my Original Report that EIFlow's Actuarial Function report for 31 December 2023 was unavailable at the time of submitting my Original Report. I have since been provided with this report and I have confirmed that the information I was provided verbally by Quest around the methodology and assumptions used to calculate the technical provisions was in line with what has been written in the Actuarial Function report. Nothing in this report has changed my opinion on EIFlow's Solvency II technical provisions.

2.1.32 Given I understand the rationale for the movement in net technical provisions and the changes in methodology used to calculate them are in line with the expectations outlined in my Original Report, I have no reason to change the conclusions contained within my Original Report with respect to EIFlow's Solvency II technical provisions for the existing portfolio (*paragraph 5.4.38*).

2.2 Financial impact of the proposed transfer

Statutory balance sheets

2.2.1 Table 6 and Table 7 show simplified pre and post transfer balance sheets on a statutory basis for Pinnacle and EIFlow based on 30 June 2024 figures. Note that EIFlow's balance sheet has been converted from USD to GBP at a rate of £1 = US$1.26.

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	**93.6**	5.3	14.4	(19.7)	**93.6**	-
Cash & cash equivalents	**51.8**	-	-	-	**51.8**	-
Reinsurance asset	**83.0**	(8.4)	-	(9.3)	**65.2**	*(17.7)*
Insurance and other receivables	**101.9**	(0.3)	-	(0.4)	**101.2**	*(0.7)*
Deferred acquisition costs	**10.5**	-	-	-	**10.5**	-
Total assets	**340.8**	**(3.4)**	**14.4**	**(29.5)**	**322.3**	***(18.5)***
Insurance liabilities	**131.7**	-	-	(17.7)	**114.0**	*(17.7)*
Insurance and other payables	**72.7**	(0.4)	-	(0.3)	**71.9**	*(0.7)*
Total liabilities	**204.4**	**(0.4)**	**-**	**(18.1)**	**185.9**	***(18.5)***
Total equity (net assets)	**136.4**	**(3.0)**	**14.4**	**(11.4)**	**136.4**	**-**
Net insurance liabilities	**48.8**				**48.8**	
Net assets / insurance liabilities	*280%*				*280%*	
Total equity and liabilities	**340.8**	**(3.4)**	**14.4**	**(29.5)**	**322.3**	***(18.5)***

Table 6: Pinnacle statutory balance sheet pre and post transfer

Statutory Balance Sheet Figures in £m	ElFlow pre transfer	Transferring portfolio as valued by Pinnacle	Adjustments to be made by ElFlow	ElFlow post transfer	*Impact of transfer*
Investments	**36.3**	19.7	-	**56.0**	*19.7*
Cash & cash equivalents	**3.7**	-	-	**3.7**	-
Reinsurance asset	**1.7**	9.3	-	**11.1**	*9.3*
Insurance and other receivables	**4.0**	0.4	-	**4.4**	*0.4*
Deferred tax asset	**-**	-	-	**-**	-
Deferred acquisition costs	**-**	-	-	**-**	-
Other assets	**0.2**	-	-	**0.2**	-
Total assets	**46.0**	**29.5**	**-**	**75.4**	***29.5***
Insurance liabilities	**17.5**	17.7	5.0	**40.2**	*22.7*
Insurance and other payables	**5.5**	0.3	-	**5.8**	*0.3*
Total liabilities	**23.0**	**18.1**	**5.0**	**46.1**	***23.1***
Total equity (net assets)	**23.0**	**11.4**	**(5.0)**	**29.4**	***6.4***
Net insurance liabilities	**15.8**			**29.2**	
Net assets / insurance liabilities	*146%*			*101%*	
Total equity and liabilities	**46.0**	**29.5**	**-**	**75.4**	***29.5***

Table 7: ElFlow statutory balance sheet pre and post transfer

2.2.2 Compared to the balance sheet presented in my Original Report, which was based on 31 December 2023 figures, the key changes are:

a) Pinnacle's net assets pre transfer have reduced by £10.2m. There has been a significant increase in the reinsurance asset, driven by the new quota share arrangement in place. However, this is offset by a large creditor balance. The ratio of net assets to insurance liabilities[3] has increased from 175% to 280%.

b) ElFlow's net assets have increased by £1.0m and the ratio of net assets to insurance liabilities has increased from 139% to 146%.

c) The net asset value of the transferring portfolio has increased by £0.4m to £11.4m. This is driven by a reduction in the gross claims reserves (as discussed earlier in relation to Table 1) which is partly offset by a reduction in insurance receivables relating to the transferring portfolio.

d) The total amount of cash transferring to ElFlow is unchanged. However, the proportion of cash that will be transferred to ElFlow from Pinnacle Pet Group Ltd and Darnell DAC has slightly changed. As at 30 June 2024, the estimated Darnell DAC portion of this cash is

[3] I discuss the ratio of net assets to net technical provisions post transfer in the next section on Solvency II.

£5.3m while Pinnacle Pet Group Ltd and BNP Paribas Cardif S.A. make up the remaining £14.4m of funds[4].

2.2.3 The net impact on Pinnacle's statutory balance sheet remains zero.

2.2.4 The impact on ElFlow's statutory balance sheet is an increase in the net assets of £6.4m which is £0.4m higher than based on 31 December 2023 figures, driven by point (c) above.

2.2.5 Prior to submitting the final version of this report, I have been provided with some financial information as at 30 September 2024. This shows that Pinnacle's ratio of net assets to insurance liabilities has reduced to 249% and ElFlow's has increased to 150%. Given the direction of these movements, this has no impact on my opinion.

2.2.6 In *paragraphs 5.2.21 to 5.2.33* of my Original Report I discussed a £5.0m adjustment to be made by ElFlow which related to a difference in view of the Motor liabilities. There has been no change in this additional risk premium since my Original Report.

2.2.7 Given the additional risk premium remains unchanged and the net impact of the transfer on the statutory balance sheets is not materially different, I have no reason to change the conclusions contained within my Original Report with respect to the reserve estimate for the transferring portfolio as determined by ElFlow (*paragraphs 5.2.60-66*).

Solvency II balance sheets

2.2.8 Table 8 shows the pre and post transfer balance sheets on a Solvency II basis for Pinnacle based on 30 June 2024 data. Table 9 shows the simplified Solvency II balance sheets compared to 31 December 2023.

[4] Note that in my Original Report I commented that Pinnacle Pet Group Ltd would make up the remaining funds. Its' parent company (BNP Paribas Cardif S.A.) agreed to make up any potential shortfall between the required funds and the fund initially set aside by the group and held within Pinnacle Pet Group Ltd (approximately £13m). Based on figures as at 30 June 2024, Pinnacle Pet Group Ltd will contribute approximately £12.3m and BNP Paribas Cardif S.A. approximately £2.1m.

Solvency II Balance Sheet Figures in £m	Pinnacle pre transfer	Pinnacle post transfer	Impact of transfer
Investments	132.6	132.6	-
Cash & cash equivalents	13.5	13.5	-
Reinsurance technical provisions	32.6	19.6	(13.0)
Insurance and other receivables	23.0	22.3	(0.7)
Deferred tax asset	1.2	1.2	-
Other assets	-	-	-
Total assets	**202.9**	**189.1**	**(13.8)**
Gross technical provisions	54.0	40.4	(13.6)
Insurance and other payables	13.8	13.1	(0.7)
Other liabilities	1.2	1.2	-
Total liabilities	**69.0**	**54.7**	**(14.3)**
Total equity (net assets)	**133.9**	**134.4**	**0.5**
Net technical provisions	**21.3**	**20.8**	
Net assets / technical provisions	*627%*	*647%*	
Total equity and liabilities	**202.9**	**189.1**	**(13.8)**
Market Risk	2.0	2.0	-
Counterparty Risk	8.6	8.5	(0.1)
Non-Life Risk	43.5	43.5	-
Health Risk	-	-	-
Life Risk	0.0	-	(0.0)
Operational Risk	4.7	4.7	-
Diversification	*(5.2)*	*(5.1)*	*0.0*
SCR	**53.7**	**53.6**	**(0.1)**
Coverage ratio	**249%**	**251%**	**1.3%**

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

Solvency II Balance Sheet	As at 31 Dec 2023		As at 30 Jun 2024		*Movement*	
Figures in £m	pre transfer	post transfer	pre transfer	post transfer	*pre transfer*	*post transfer*
Total assets	223.0	206.6	202.9	189.1	*(20.1)*	*(17.4)*
Total liabilities	83.3	66.6	69.0	54.7	*(14.3)*	*(11.9)*
Total equity (net assets)	**139.7**	**140.0**	**133.9**	**134.4**	*(5.8)*	*(5.6)*
SCR	50.3	50.2	53.7	53.6	*3.4*	*3.4*
Coverage ratio	**278%**	**279%**	**249%**	**251%**	*-28%*	*-28%*

Table 9: Movement in Pinnacle Solvency II balance sheet

2.2.9 Compared to the balance sheet presented in my Original Report, which was based on 31 December 2023 figures, the key changes in the pre transfer position are:

a) Pinnacle's pre transfer net assets on a Solvency II basis have reduced by £5.8m due to the same reasons as discussed above on a statutory basis.

b) Its SCR has increased by £3.4m, leading to a 28% reduction in the coverage ratio down to 249%. The main driver of the increase in the SCR is the non-life underwriting risk.

2.2.10 A reduction in Pinnacle's pre transfer coverage ratio since 31 December 2023 was expected. In my Original Report, I referred to a projected coverage ratio of 170% for the year ending

2024 (a reduction of 108 percentage points over a year). Hence, the coverage ratio of 249% as at 30 June 2024 (a reduction of 28 percentage points) is higher than my expectations for halfway through the year; in other words, Pinnacle's solvency position is more favourable than my expectations based on the forecast included in my Original Report. This does not affect my view on the transferring policyholders being disadvantaged as the coverage ratio following the transfer is higher than that of Pinnacle, hence the transferring policyholders are moving to a company with higher levels of capital protection.

2.2.11 Prior to submitting the final version of this report, I have been provided with some financial information as at 30 September 2024. This shows that Pinnacle's estimated coverage ratio has reduced to 213% (this is an estimation with some simplifications as Pinnacle is exempt from solo reporting as at Q3). The reduction is driven by similar reasons to the reduction between 31 December 2023 and 30 June 2024; specifically the growth in the Pet business. The statements I made in the previous paragraph therefore still apply based on the latest financial information.

2.2.12 The impact of the transfer on Pinnacle's coverage ratio based on 30 June 2024 figures is a one percentage point[5] increase, which is in line with the impact observed in my Original Report (*paragraph 6.2.17*). I therefore have no reason to change the conclusions contained within my Original Report with respect to the impact of the transfer on Pinnacle's capital position (*paragraph 6.2.18*).

2.2.13 Table 10 shows the pre and post transfer balance sheets on a Solvency II basis for ElFlow based on 30 June 2024 data. Table 11 shows the simplified Solvency II balance sheets compared to 31 December 2023.

[5] The percentage figures in the table are rounded to the nearest whole number for consistency with other tables in my report. However, to 1 decimal place, the impact of the transfer as at 30 June 2024 is 1.3% which compares to 1.2% as at 31 December 2023.

Solvency II Balance Sheet Figures in £m	ElFlow pre transfer	ElFlow post transfer	Impact of transfer
Investments	36.6	56.3	19.7
Cash & cash equivalents	3.7	3.7	-
Reinsurance technical provisions	1.3	10.2	8.9
Insurance and other receivables	4.0	4.4	0.4
Deferred tax asset	-	-	-
Other assets	-	-	-
Total assets	**45.6**	**74.5**	**29.0**
Gross technical provisions	14.4	35.6	21.2
Insurance and other payables	2.1	2.5	0.3
Other liabilities	3.3	3.3	-
Total liabilities	**19.8**	**41.4**	**21.5**
Total equity (net assets)	**25.7**	**33.2**	**7.4**
Net technical provisions	**13.1**	**25.4**	
Net assets / technical provisions	*197%*	*130%*	
Total equity and liabilities	**45.6**	**74.5**	**29.0**
Market Risk	5.4	5.3	(0.1)
Counterparty Risk	0.7	2.8	2.1
Non-Life Risk	3.9	5.8	1.9
Health Risk	0.0	-	(0.0)
Life Risk	0.2	-	(0.2)
Operational Risk	0.4	0.8	0.5
Diversification	*(2.4)*	*(3.4)*	*(1.0)*
SCR	**8.2**	**11.2**	**3.1**
Coverage ratio	**314%**	**295%**	**-19%**

Table 10: ElFlow Solvency II balance sheet and coverage ratio pre and post transfer

Solvency II Balance Sheet	As at 31 Dec 2023		As at 30 Jun 2024		*Movement*	
Figures in £m	pre transfer	post transfer	pre transfer	post transfer	*pre transfer*	*post transfer*
Total assets	45.5	73.8	45.6	74.5	*0.0*	*0.7*
Total liabilities	19.6	39.9	19.8	41.4	*0.3*	*1.4*
Total equity (net assets)	**25.9**	**33.9**	**25.7**	**33.2**	***(0.2)***	***(0.7)***
SCR	6.6	10.0	8.2	11.2	*1.6*	*1.2*
Coverage ratio	**394%**	**339%**	**314%**	**295%**	***-80%***	***-44%***

Table 11: Movement in ElFlow Solvency II balance sheet

2.2.14 Compared to the balance sheet presented in my Original Report, which was based on 31 December 2023 figures, the key changes are:

a) ElFlow's pre transfer net assets on a Solvency II basis have reduced by £0.2m.

b) Its SCR has increased by £1.6m, leading to an 80 percentage point reduction in the coverage ratio down to 314%. The main driver of the increase in the SCR is the non-life underwriting risk, in which there has been a reduction in the premium risk and an increase in the reserve risk as a result of the movement of reserves from UPR to IBNR on the LAMP portfolio.

2.2.15 EIFlow's risk appetite statement states that the coverage ratio should not fall by more than 20% in a quarter or in a year. EIFlow's coverage ratio has fallen by 80 percentage points (20.3% of the coverage ratio) since 31 December 2023, driven by a change in reserves as a result of the external actuarial review which is completed at least once every 3 years. I consider the reduction in coverage ratio to be an exceptional movement whereby EIFlow has appropriately reflected the external actuary's view, in line with its reserving policy, hence I am not concerned that the reduction breaches EIFlow's internal risk appetite statement in this instance. Additionally, EIFlow remains well in excess of regulatory thresholds. This reduction in coverage ratio between 31 December 2023 and 30 June 2024 does not change my view that transferring policyholders are not adversely affected.

2.2.16 The impact of the transfer on EIFlow's coverage ratio based on 30 June 2024 figures is 19 percentage points (a reduction from 314% to 295%). While EIFlow's solvency ratio reduces as a result of the transfer, the impact is lower than it was based 31 December 2023 figures (a reduction of 55 percentage points from 394% to 339%). EIFlow remains well in excess of regulatory thresholds and EIFlow continues to be highly capitalised post transfer. This is in line with the observation made in my Original Report (*paragraph 6.3.17*). I therefore have no reason to change the conclusions contained within my Original Report with respect to the impact of the transfer on EIFlow's capital position and the existing policyholders (*paragraph 6.3.18*).

2.2.17 The ratio of net asset value to net technical provisions in EIFlow following the transfer is 130% relative to a ratio of 627% in Pinnacle prior to the transfer[6]. The reduction in this ratio is larger than it was based on 31 December 2023 figures (140% in EIFlow post transfer compared to 591% in Pinnacle pre transfer). This is primarily driven by a reduction in Pinnacle's net asset value less than the reduction in its net technical provisions. The reasons for the differential remain the same as in my Original Report (*paragraph 7.2.3*), as do the reasons why I do not believe this constitutes a material adverse financial impact for the transferring policyholders (*paragraph 7.2.4*).

2.2.18 EIFlow's coverage ratio following the transfer is higher than that of Pinnacle, hence the transferring policyholders are moving to a company with higher levels of capital protection. This is in line with the observation made in my Original Report (*paragraph 6.3.19*). I therefore have no reason to change the conclusions contained within my Original Report with respect to the level of protection for the transferring policyholders following the transfer (*paragraph 7.2.4).*

[6] I note that Pinnacle's estimate net asset to technical provisions ratio has reduced to 583% as at 30 September 2024 which is the same order of magnitude as the figures discussed here. As I do not have comparative figures for EIFlow, I have not commented on this in the main body of this report.

2.2.19 I have been informed verbally by Pinnacle that, as part of its strategic business plan, it continues to investigate potential partnerships and growth opportunities across its Pet portfolio. It has been suggested to me that Pinnacle may grow at a faster rate than reflected in its business plan. However, I have not been provided with any further details. Without the consideration of any potential future management actions relating to capital that Pinnacle may take, which is beyond the scope of this report, any such growth would not affect Pinnacle's capital position in a way that affects my opinion on:

a) the transferring policyholders: as these policyholders would continue to benefit from an increased coverage ratio following the transfer;

b) the remaining policyholders: as Pinnacle's capital position is not materially impacted by the transfer; or

c) the existing policyholders: as the growth of Pinnacle does not affect them.

2.2.20 This is consistent with the comments made in my Original Report (*paragraphs 6.2.18 to 6.2.22).* I would also note that the cash transferring to EIFlow is payable by Pinnacle Pet Group Ltd, BNP Paribas Cardif S.A. and Darnell DAC and therefore the transfer amount payable to EIFlow does not affect remaining policyholders.

3 Business updates

3.1 Progress of renewals process for the Creditor business

3.1.1 In *paragraphs 4.2.34 to 4.2.40* of my Original Report, I explained that Pinnacle's Creditor portfolio was in the process of being transferred to EIFlow via tacit renewal. This process was expected to take place in tranches between May and October 2024. Should policyholders choose not to renew into EIFlow, their cover with Pinnacle would be cancelled effective from the renewal date.

3.1.2 EIFlow have appointed Wessex to act as Third-Party Administrator ("TPA") for the Creditor business. Pinnacle have been in regular contact with Wessex to plan and ensure smooth-running of the transition.

3.1.3 The transferring business was split in to five tranches, transferring at the start of May, July, August, September and October respectively.

3.1.4 All five transfers have been executed successfully. Hence, Pinnacle have no further exposure to the Creditor business.

3.1.5 Given Pinnacle's Creditor portfolio has renewed in to EIFlow as planned, I conclude that the business forecasts included in *Section 6* of my Original Report were appropriate to base my conclusions on.

3.2 Claims handling agreement

3.2.1 In *Section 8.1* of my Original Report, I explained that 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 the end of 2025 there will be very few open claims remaining on the Warranty & GAP portfolio.

3.2.2 A formal TPA agreement outlining the claims handling arrangements for the Warranty & GAP portfolio was being drafted at the date of my Original Report.

3.2.3 The final TPA agreement has since been provided to me and I have reviewed it. The agreement provides background information on the transfer and states that in order to ensure the continuity of the policy administration and, in particular, claims handling in relation to the Warranty & GAP policies, EIFlow has appointed Pinnacle Insurance Management Services Plc to provide claims management services. Pinnacle Insurance Management Services Plc is obliged to provide the claims management services in accordance with regulatory requirements and laws, in a timely and cost-efficient manner, with reasonable skill and care, and in accordance with service levels as specified in the agreement.

3.2.4 The agreement states that it shall be effective from 31 December 2024 (the effective date of the transfer). It shall remain in full force for a period of 12 months, whereafter, if agreed in writing between the parties, shall continue on a monthly basis until terminated. This is consistent with comment made in *paragraph 8.1.4* my Original Report.

3.2.5 In the event that the TPA agreement is not extended, EIFlow would manage the transition of claims handling from Pinnacle Insurance Management Services Plc 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 Insurance Management Services Plc. 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* of my Original Report. Therefore, in my view, Quest has the experience to manage this transition effectively should it be required.

3.2.6 Given the TPA agreement is in line with my expectations outlined in my Original Report, I have no reason to change the conclusions contained within my Original Report with respect to the policy and claims administration arrangements or levels of service.

3.3 Other updates

3.3.1 Since my Original Report, no policies have been excluded due to being identified as not capable of being transferred for legal reasons.

3.3.2 Since my Original Report, Pinnacle has confirmed that, to the best of its knowledge, there are still no ongoing or potential litigation or complaint cases against it relating to the transferring policies, and none of the transferring policyholders are subject to Russian sanctions.

4 Other considerations

4.1 Update on economic and regulatory matters

4.1.1 In my Original Report, I commented on the relevant economic and regulatory considerations in the UK under the supervision of the FCA and PRA and Gibraltar regulated by the GFSC, factors affecting the wider insurance market, and the level of consumer protection policyholders will receive from the FSCS/FOS.

4.1.2 I also discussed the external factors that I considered may affect the ultimate value of the liabilities of the transferring portfolio. This included the transition to Solvency UK, inflation, PPOs, changes to the Ogden discount rate ("ODR") and the suspension of sales from GAP insurance providers following the FCA's concerns around fair-value under the Consumer Duty.

4.1.3 Inflation has remained broadly in line with the BoE's long-term target of 2% p.a. since my Original Report; in September 2024 the annual rate of CPI was 1.7%. The month-on-month inflation rate has remained between -0.2% and +0.3% since April 2024. Given that economic inflation has not materially changed since my Original Report, my comments made in relation to inflation remain applicable.

4.1.4 In *Section 5.6* of my Original Report, I noted that the upcoming change in the ODR creates uncertainty, but that this uncertainty is mitigated by the excess of loss reinsurance arrangements in place on the Motor portfolio. On 15 July 2024, the Ministry of Justice announced that the Lord Chancellor commenced the review of the ODR for England & Wales. A decision on whether the current rate (-0.25%) should be changed or not will be made on or before 11 January 2025. Despite this announcement, there is no further clarity on the new ODR and hence, my comments made in relation to the uncertainty remain applicable.

4.1.5 I am not aware of any other new economic or regulatory updates since my Original Report that would have a material impact on the transfer. Therefore, the conclusions in my Original Report remain unchanged and, in my view, these factors will have no material impact on policyholders of the transferring portfolios.

4.2 Customer communications

4.2.1 Both Pinnacle and ElFlow have confirmed that the communications strategy has been carried out in line with that presented in *Section 10* of my Original Report and there were no changes to the planned timeline.

4.2.2 The rate of returned post has been 4% which is below the 5 to 10% estimation set out in my Original Report. I have been informed that for the communications returned, the follow-up actions were completed according to the process for uncontactable customers as set out in my Original Report.

4.2.3 I am satisfied that Pinnacle and ElFlow have carried out its policyholder notifications appropriately and in accordance with the approach set out in my Original Report.

4.3 Commentary on feedback received

4.3.1 No objections have been received as of the date of this Supplementary Report. Only 7 complaints have been received. I have reviewed the content of the complaints received and none of them are in relation to the transfer, hence I conclude that they do not constitute anything that I would consider an objection.

4.3.2 I have requested that Pinnacle and ElFlow continue to keep me informed of any significant policyholder objections and further complaints received between the date of this Supplementary Report and the date of the Sanction Hearing. If any new objections or complaints are received that I determine to be materially significant to my conclusions, this will be communicated to the Court by the date of the Sanction Hearing.

Appendices

Appendix A Data

The list below sets out the additional information I have relied upon in preparing this Supplementary 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.

Pinnacle

Reserving / Accounts:

- Closing Summary Q2 2024
- Non-Pet BS 300624
- Non-Pet BS 300924
- PIC BS_UKGAAP_June2024
- PIC BS_UKGAAP_Sept 2024
- PIC_BS_June 2024 Pre& Post Transfer

Solvency II:

- Pinnacle Insurance PLC ORSA Report 2023
- S2 Assist Templates PIC Q2 2024 V1
- 24Q2PIC_BEL_RM_SCR_PostTransferSCR_20240910

EIFlow

Reserving / Accounts:

- FINAL EIFlow Claims Reserve Analysis December 2023 FINAL
- EIL Board Pack Q2 2024
- EIFlow Management Accounts September 2024

Solvency II:

- EIL Actuarial Function Holder Report 2023
- EIFlow SCR Modelling 2024-26 with Bluebird RI v2

Other

- Communications Response Pinnacle Insurance Management Services
- EIFLOW PIMS TPA Agreement Final 25.10.24
- Complaints received

Appendix B Mapping to Original Report

In my Original Report, there were a number of areas where I stated that I would provide an update within the Supplementary Report. For ease of review, I have listed these areas below along with a reference to where this update can be found.

Area	Original Report reference	Supplementary Report reference
Update on the progress of the renewal process for the Creditor business	Paragraphs 4.2.36 and 4.7.5	Section 3.1
Update following receipt of Pinnacle ORSA report for 2023	Paragraph 4.2.48	In *Section 4.2* of my Original Report, I stated that the 2023 ORSA was unavailable to me at the time of submitting my report. However, this was an inaccuracy. As stated in Section 6.2, I did receive the 2023 ORSA in time for my final report and the information in Section 6.2 was taken from the ORSA report.
Any policies which are not capable of being transferred for legal reasons	Paragraph 4.4.2	Paragraph 3.3.1
Updated balance sheets	Paragraph 4.6.2	Section 2.2
Update following receipt of WTW Reserve Review Report and EIFlow Actuarial Function Holder report as at 31 December 2023	Paragraphs 5.4.8 and 6.3.4	Section 2.1
Update following drafting of formal Third-Party Administrator ("TPA") agreement which would be entered into between Pinnacle and EIFlow relating to the Warranty & GAP claims handling	Paragraph 8.1.3	Section 3.2

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