

# **Scheme Booklet**

**Proposed insurance business transfer scheme by:**

**Hiscox Insurance Company**

**to**

**Hiscox SA**

**Under Part VII of the Financial Services and Markets  
Act 2000**

## **This booklet contains important information on the Proposed Transfer by Hiscox Insurance Company Limited**

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This booklet is intended as a guide only and is not a definitive statement of your rights. Other persons may have an interest in your policy (for example, if you are a joint policyholder). We would ask that you ensure they also have the opportunity to review the contents of this booklet.

If you have any questions that are not covered in this booklet, please contact us using any of the contact details on the front of the letter enclosed with this booklet. Please note that our Hiscox teams are legally prohibited from providing financial advice, but will answer general questions on the effects of the Proposed Transfer.

Information on the Proposed Transfer is also be provided on our website at [www.hiscoxgroup.com/partvij](http://www.hiscoxgroup.com/partvij)

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## PART A: Introduction

### In summary, what's happening?

Following the UK's decision to leave the European Union (commonly known as 'Brexit') Hiscox Insurance Company Limited (**HIC**) is proposing to make some necessary changes to its business so that it can continue to service its policyholders and claimants in the UK and across Europe after Brexit.

HIC is proposing to transfer certain policies from HIC (a company registered in the UK), to Hiscox SA (**HSA**) (a subsidiary of Hiscox Ltd that is based in Luxembourg), via an insurance business transfer process known as a Part VII transfer.

Our customers are important to us and we are making these proposed changes so that we can continue to service our policyholders and claimants in the UK and across Europe after Brexit.

The Proposed Transfer will be effected as an insurance business transfer as provided for in Part VII of the Financial Services and Markets Act 2000 (**FSMA**). A Part VII transfer is a process which transfers insurance business from one insurer to another, which culminates in a review by the Court. An independent expert (the **Independent Expert**), whose appointment has been approved by the industry regulators, the Prudential Regulation Authority (the **PRA**) and the Financial Conduct Authority (the **FCA**) is required to report to the Court on the impact on policyholders

In addition to the Proposed Transfer we intend to apply to the Royal Court of Jersey (the **Jersey Court**) for the sanction of a scheme of transfer pursuant to the Insurance Business (Jersey) Law 1996 (the **Jersey Scheme**).

The Jersey Scheme is intended to transfer certain business carried on by HIC in or from within Jersey on the same terms as the Proposed Scheme. The terms of the Proposed Scheme are incorporated into the Jersey Scheme as a schedule to the Jersey Scheme.

This document provides you with a full description of the Proposed Transfer of the business of HIC and includes:

- Some questions and answers;
- A summary of the transfer document;
- A summary of the Independent Expert's Report;
- The Notice of Transfer;
- Details of how you can contact us.

### Expected Timetable

- Hearing at the Royal Courts of Justice, Rolls Building, 7 Rolls Buildings, Fetter Lane, London, EC4A 1NL, to consider the Proposed Transfer 14 December 2018.
- Hearing at the Royal Court of Jersey, Royal Court House, Royal Square, St Helier, Jersey, JE1 1JG to consider the proposed Jersey Scheme, 17 December 2018.
- Proposed date on which the transfer becomes effective (the Effective Date) 1 January 2019 00.01 BST.

## PART B: Questions and Answers:

### 1. I am no longer a policyholder, why are you making me aware of the Proposed Transfer?

The terms of some of the policies issued by HIC may allow claims to be made a number of years after the original policy has expired. Depending on the terms of your policy, you may still have the right to bring a claim under this policy – which is why we're making you aware of the Proposed Transfer.

### 2. Do I need to do anything?

You are not required to take any action – unless you have questions or think you might be adversely affected by the Proposed Transfer.

If you have a joint policy or are a group policyholder, please could you let the other policyholders know about the Proposed Transfer.

We would encourage you to read the information in the letter and the Scheme Booklet and the details on the dedicated transfer website (at [www.hiscoxgroup.com/partvii](http://www.hiscoxgroup.com/partvii)) carefully, so that you can consider the implications of the Proposed Transfer. You can also contact us should you have any questions. Details on how to contact us are provided on the back cover of the Scheme Booklet.

Although the PRA and FCA provide oversight on the Part VII process and both provide the High Court of England and Wales ( the “**High Court**”) with a report setting out their respective views on the Proposed Transfer, this should not be a substitute for each customer giving consideration as to how the Proposed Transfer may affect them.

### 3. How will I know if my policy is transferring in the Proposed Transfer?

It is proposed that HIC policies will transfer to Hiscox SA if they were issued by:

- A branch of HIC in the European Economic Area (**EEA**) (i.e. Belgium, France, Germany, Netherlands, Portugal, Spain and the Republic of Ireland)
- A UK branch of HIC and
  - The policyholder is located in the EEA (excluding the UK);
  - Provides cover for EEA risks only;
  - Provides cover on risks in the UK, an EEA country (excluding the UK) and/or countries outside of the EEA. These policies will become 'Mixed Policies' with the UK risks and risks for countries outside of the EEA continuing to be covered by HIC and the EEA risks transferring to Hiscox SA in the Proposed Transfer. Terms and conditions (including applicable policy limits) would remain the same for both parts of the '**Mixed Policy**'.

For policies that transfer, HSA will be the insurer and take the place of HIC in any proceedings (whether current, future, pending, threatened or otherwise) involving HIC.

It is proposed that policies will remain with HIC if they were issued by the UK branch of HIC and the policyholder is located in the UK or countries outside of the EEA.

**4. Who is Hiscox SA (HSA)?**

HSA is a regulated insurance company within the Hiscox Group. HSA is incorporated in Luxembourg and operates from its headquarters located at 35F, Avenue J.F. Kennedy, L-1855, Luxembourg. HSA is authorised by the Luxembourg Minister of Finance and is subject to supervision from the Commissariat Aux Assurances (the Luxembourg insurance regulator). Hiscox SA received its licence from the Luxembourg regulator in January 2018 and has an A rating from S&P. The competent commercial register of HSA in Luxembourg is the “Registre du Commerce et des Sociétés” (RCS) of the Grand Duchy of Luxemburg and the registration number is B217018.

**5. Why was Luxembourg chosen as the European headquarters for HSA?**

Luxembourg was chosen for several reasons after a thorough review of possible locations. Luxembourg is well positioned at the centre of our existing European operations, has a stable economy, an experienced and well-respected insurance regulator and is a hub for financial services generally.

**6. Can I cancel my policy if I am not comfortable with the Proposed Transfer?**

Any rights that you currently have to cancel your policy are unaffected by the Proposed Transfer.

With respect to insurance policies covering risks localised in Spain, policyholders affected by the Proposed Transfer have the right to early terminate their insurance contracts as well as the right to obtain the reimbursement of any unspent premium at said termination date.

In this regard, once the Proposed Transfer is authorised by the relevant Authorities, the Directorate-General of Insurance and Pension Funds (the DGSFP) will publish an information notice in the Spanish Official Gazette. Hiscox will inform you through your regular means of contact so, if appropriate, you can exercise your early termination rights within one month from said publication. For that purpose, you will need to contact HSA by sending a notification to:

Hiscox SA,  
Paseo de la Castellana 60,7ª planta,  
28046 Madrid

While we will keep you updated on this, we also encourage you to check the Scheme Website [www.hiscoxgroup.com/partvij](http://www.hiscoxgroup.com/partvij) for more information.

**7. Will the same people continue to deal with my policy?**

Yes, all contact details and customer service phone numbers will remain the same.

**8. Does the Proposed Transfer affect my Direct Debit?**

No, there will be no changes to your Direct Debit as a result of the Proposed Transfer. We will contact you should your direct debit need to change for any other reasons.

**9. I have an open claim at present, what happens now?**

The Proposed Transfer will not affect how your claim is handled or the claims payment process.

**10. I have a claim which has not been agreed or is subject to a legal dispute – what happens to this?**

Following the Proposed Transfer, any current, pending or future proceedings by or against HIC under policies that transfer will be brought against HSA. For policies that do not transfer, such claims will continue to be brought against HIC.

**11. What is the Financial Services Compensation Scheme (FSCS)?**

The FSCS is a UK statutory scheme funded by members of the UK financial services industry. It provides monetary compensation to eligible policyholders (generally, consumers and small businesses) in the event of the insolvency of any insurance company authorised by the PRA and the FCA.

**12. Will the Proposed Transfer affect my access to the FSCS?**

Policies that stay with HIC will continue to keep existing FSCS protection before and after the Proposed Transfer, including should you choose to renew with HIC following the next renewal date.

European Policy - If your policy is transferring to HSA in the Proposed Transfer, your eligibility for access to the UK's FSCS will continue following the Proposed Transfer. If you make the choice to renew under HSA, your insurance policy will be issued by HSA and going forward, you will not have access to the UK's FSCS for that policy, but instead, you will have access to the Luxembourg protection regime.

Mixed Policy - If you have a Mixed Policy (as defined above), the FSCS will continue to cover any claims under your policy before and after the Proposed, including should you chose to renew. The part of your policy insured with HSA will also have access to the Luxembourg protection regime after the Proposed Transfer.

The Luxembourg protection regime does not offer a guarantee fund for policyholders but sets out a strict regulatory regime so that, in the event of insolvency of a Luxembourg insurance company, its assets will be distributed in absolute preference to pay insurance claims. These rules are intended to limit the need for policyholders to seek compensation from a scheme similar to the FSCS.

In addition, policyholders with policies which were written through local branches in some EEA countries may have access to the national insurance compensation scheme in that country.

The Independent Expert has concluded that policyholders will not be materially adversely affected by the Proposed Transfer. In addition, the Independent Expert has noted in his report that the possibility of the insolvency of HSA after the Proposed Transfer is remote. For more information on the security of policyholders following the Proposed Transfer, please see the Independent Expert's report on our website [www.hiscoxgroup.com/partvii](http://www.hiscoxgroup.com/partvii) or see question 18 for how you can obtain a copy of the Independent Expert's report.

**13. What is the UK Financial Ombudsman Service (UK Ombudsman)?**

The UK Ombudsman provides individuals with a free, independent service for resolving disputes or complaints with insurers authorised by the PRA and the FCA. HIC policyholders who fulfil the eligibility criteria of the applicable rules (generally, consumers and small businesses) currently

have access to the UK Ombudsman. The UK Ombudsman is able to issue decisions which are binding on insurance companies.

**14. Will the Proposed Transfer affect my access to the UK Ombudsman?**

Policies that stay with HIC will continue to keep existing UK Ombudsman protection before and after the Proposed Transfer, including should you choose to renew with HIC following the next renewal date.

European Policy - If you have a European Policy, you will continue to have the same access to the UK Ombudsman as you currently have in respect of any of HIC's activities or services carried out before the Proposed Transfer. After the Proposed Transfer has happened, your policy will be serviced by HSA instead of HIC. Therefore, you will no longer have access to the UK Ombudsman but instead, if you are a consumer, you will have access to the Luxembourg Ombudsman Regime (as defined below).

The Independent Expert has concluded that policyholders will not be materially adversely affected by the Proposed Transfer. In addition, the Independent Expert has noted in his report that the possibility of the insolvency of HSA after the Proposed Transfer is remote. For more information on the security of policyholders following the Proposed Transfer, please see the Independent Expert's report on our website [www.hiscoxgroup.com/partvii](http://www.hiscoxgroup.com/partvii) or see question 18 for how you can obtain a copy of the Independent Expert's report.

**15. When would the Proposed Transfer take place?**

If approved by the High Court of England and Wales, the Transfer is expected to become effective on 1 January 2019 at 00.01 BST. This is known as the Effective Date.

Policies in Jersey will remain with HIC until the proposed Jersey Scheme is approved by the Royal Court of Jersey.

**16. How will I know the Proposed Transfer has gone ahead and my policy has transferred?**

If the Proposed Transfer is approved by the High Court, the effective date is expected to be 1 January 2019.

We will release an announcement on our dedicated transfer website [www.hiscoxgroup.com/partvii](http://www.hiscoxgroup.com/partvii) shortly after the High Court of England and Wales hearing which is expected to take place on 14 December 2018 and the Royal Court of Jersey on 17 December 2018.

A notice will also be published in Europe-wide newspapers to notify policyholders that the Proposed Transfer has been approved.

We would encourage you to check our dedicated transfer website [www.hiscoxgroup.com/partvii](http://www.hiscoxgroup.com/partvii) at regular intervals in case of changes to the timetable including the Effective Date.

**17. What happens if the Proposed Transfer is not approved?**

If the Proposed Transfer is not approved by the High Court, no policies will transfer. We will update our dedicated transfer website [www.hiscoxgroup.com/partvii](http://www.hiscoxgroup.com/partvii) with further information, so we would encourage you to check the Scheme Website at regular intervals.



**18. Where can I find further information?**

Copies of all documents relating to the Proposed Transfer including the Independent Expert's full report, full Scheme document and the Independent Expert's Supplemental Report (when it becomes available) can be downloaded from our dedicated transfer website [www.hiscoxgroup.com/partvij](http://www.hiscoxgroup.com/partvij).

Updates regarding the Proposed Transfer will be posted onto the dedicated transfer website from time to time including any changes to the date of the High Court of England and Wales and the Royal Court of Jersey hearings and the Effective Date.

**Alternatively**, if you would like further information or copies of the Proposed Transfer documents, free of charge, or have any other queries relating to the Proposed Transfer please contact us using one of the country numbers sent out on the back page of this booklet. We will be open between the hours of 9.00am and 5.00pm from Monday to Friday (excluding public holidays).

## **Part C: Summary of the Independent Expert's Report**

The following has been prepared by the Independent Expert and is a summary of his main report. If you wish to read the full report, please visit our dedicated transfer website [www.hiscoxgroup.com/partvii](http://www.hiscoxgroup.com/partvii)

### **Introduction**

I, Philip Tippin, am a partner in the actuarial practice of KPMG LLP ('KPMG'). I have been a Fellow of the Institute and Faculty of Actuaries for 19 years. I have been appointed by Hiscox Insurance Company Limited ('HIC') to act as the Independent Expert in connection with the proposed transfer described below (the 'Transfer') between HIC and Hiscox SA ('HSA') (together 'the Transfer Companies'). My appointment was approved by the Prudential Regulation Authority ('PRA') in consultation with the Financial Conduct Authority ('FCA') on 21 December 2017.

The proposed effective date ('the Effective Date') for the completion of the Transfer is 1 January 2019.

This summary report covers the main conclusions of my Independent Expert's Report. As noted in the Independent Expert's Report, I have not considered any alternative arrangements to those set out in the Transfer documents submitted to the High Court of Justice of England and Wales ('the Court'). I have relied on data and other information made available to me by the Transfer Companies. While I have received written confirmation from the Transfer Companies of the accuracy of the information provided to me, I have not sought independent verification and my work does not constitute an audit of the financial or other information provided to me.

This summary must be considered in conjunction with the Independent Expert's Report and reliance must not be placed solely on this summary. Both this summary and the Independent Expert's Report must be considered in their entirety, including the limitations on their use as set out in the Independent Expert's Report. In the event of any real or perceived conflict between this summary and the Independent Expert's Report, the latter shall be definitive.

### **The Proposed Transfer**

On 23 June 2016, the UK electorate voted to leave the European Union ('EU'). The consequences of this decision - commonly referred to as 'Brexit' – remain uncertain. The UK formally served notice under Article 50 of the Lisbon Treaty on 29 March 2017 and has commenced a two-year period of staging negotiations regarding the terms of its exit from the EU.

A potential implication of Brexit for UK insurance companies is the loss of insurance passporting rights (the ability to underwrite on a Freedom of Services or Freedom of Establishment basis).

The Hiscox Group ('Hiscox') is engaged in a wide range of insurance and reinsurance business through its subsidiaries. Hiscox Ltd is the ultimate parent of Hiscox and is headquartered in Bermuda.

Hiscox currently underwrites business relating to risks in the EU under Freedom of Establishment and Freedom of Services arrangements through HIC, an insurance company which is a wholly owned subsidiary of Hiscox Insurance Holdings Limited. HIC is an insurance company based in the UK that underwrites non-life insurance business, and personal and commercial lines in particular. Personal lines include high-value household, fine art and collectibles, and luxury motor vehicles. Commercial lines are focused on small and medium-sized businesses, in particular professional indemnity and other liabilities including employment liability and property risk. It underwrites business in the UK and in the European Economic Area.

HSA is a subsidiary of Hiscox Ltd and a newly incorporated Luxembourg-based non-life insurer, which will underwrite business in the European Economic Area excluding the UK ('EEA') from 1 January 2019. Please note that references throughout this report to the EEA mean the EEA excluding the UK.

It is intended that HSA will begin underwriting EU renewals from the HIC portfolio and new business from the Effective Date of the Transfer.

HIC will use three main factors to determine which policies are to be transferred from HIC to HSA: the location in which the policy is underwritten, the risk location of the primary policyholder (either an individual or a corporate) and the location of risk. If the policy was underwritten in the EEA, or customer is in the EEA, or the risk location was in the EEA then the policy will transfer. For other policies underwritten in the UK only, the EEA exposures within such a policy will transfer, creating a joint policy by adding HSA as additional insurer covering the EEA risks only.

In addition to the transfer described above, which takes place under the jurisdiction of the law of England and Wales and as such needs to be sanctioned by the Court, a parallel transfer of the Jersey EEA risks within HIC to HSA is proposed in Jersey. The transfer of insurance business carried on in or from within Jersey must be approved by the Royal Court of Jersey. In the unlikely case of this transfer not being approved, the policies in question will remain within HIC until a further solution is agreed upon. For the avoidance of doubt, I have specifically considered the position of Jersey policyholders and my conclusions equally apply to those policyholders affected by the Jersey transfer. I will comment on further developments relating to these policies in a supplemental report.

The following related transactions are also expected to occur:

- A cross-border merger will occur between Hiscox Vertrieb AG ('HAG') and Hiscox Europe Underwriting Limited ('HEUL'). HAG is a former intermediary company within the Hiscox Group and HEUL is an established intermediary company within the Hiscox Group that introduces business to HIC. This merger is driven by the aim to establish a more effective and efficient legal structure for Hiscox. It is also part of a wider restructuring of Hiscox which is driven, in part, by the United Kingdom's impending departure from the European Union. It is anticipated to occur before the Transfer becomes effective.
- A cross-border merger will occur between HEUL and HSA. The vast majority of the EEA risks underwritten by HIC are introduced by HEUL and the bulk of its operations are in offices in the EEA, so this cross-border merger transfers all renewal rights, staff contracts, broker arrangements, DAAs and staff from HEUL to HSA (though some of these rights and arrangements will move from HEUL before the Transfer where they are in respect of business transacted at Lloyd's). It is anticipated to be effected one minute after the Transfer.

To the best of my knowledge, information and belief, I have no conflicts of interest in connection with the parties involved in the proposed Transfer, either through my professional work, my personal relationships or my financial relationships. I therefore consider myself able to act as an Independent Expert on this transaction. In reporting to the Court on the proposed Transfer my overriding duty is to the Court. This duty applies irrespective of any person or firm from whom I have been instructed or paid.

Copies of the Independent Expert's Report are available at the following link:

[www.hiscoxgroup.com/partvi](http://www.hiscoxgroup.com/partvi)

## Overview of my analysis

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

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

I have identified the following groups of policyholders and have considered the interests of each group separately:

- i. transferring HIC policyholders currently protected by the Financial Services Compensation Scheme ('FSCS') (these are a subset of the transferring retail and small commercial policyholders);
- ii. transferring HIC policyholders not protected by the FSCS (being all transferring policyholders not included in i) above); and
- iii. non-transferring HIC policyholders.

I note that there will be no policyholders in HSA before the Effective Date.

## What is the non-financial impact of the Transfer?

In the Independent Expert's Report, I have considered the impact of any changes as a result of the Transfer to each of:

- the FCA's Treating Customers Fairly principles;
- the ease of presenting a new claim;
- protection of customer data;
- the impact of 'Brexit'; and
- other considerations including regulatory framework, executive management and governance.

### Treating Customers Fairly

#### *Claims and policy administration*

There will be no substantial change in the standards of service which the policyholders of the Transfer Companies will receive as a consequence of the Transfer. Insofar as they believe possible, the Transfer Companies have designed the Transfer and related transactions to keep all of the systems, people and processes that customers would interact with materially unchanged.

There will be no impact on the ability for policyholders to present new claims, and no impact on the protection of customer data as a consequence of the Transfer.

Therefore there is no anticipated impact on any group of policyholders with regard to claims and policy administration.

### *Conduct risk*

The primary areas in which conduct risk can materialise for HIC and HSA are the policy origination and underwriting process, and claims handling. It is intended that changes are kept to a minimum in each of these, as noted above. For HIC and HSA the Boards are ultimately responsible for conduct risk. Monitoring of regulatory compliance will be performed by different individuals before and after the Transfer for transferring policyholders as the compliance function of HSA is one of the key functions that has been established in Luxembourg. The processes followed for monitoring conduct risk are not intended to materially change however between HIC and HSA.

### Protection of customer data

Cyber security risk is a relatively new and increasing threat to businesses today. Cyber-attacks on companies are becoming more frequent. These attacks can take forms such as gaining access to and selling or publicising customers' data, or preventing the business from operating as usual. Cyber security is, therefore, becoming ever more paramount. It is a reasonable expectation of a customer that their insurer should take appropriate steps to protect their confidential data.

There is no expectation that the protection of customers' data will diminish as a result of the Transfer and I conclude that there is no risk of any material adverse impact on policyholders with respect to data loss resulting from the Transfer, with HSA expected to follow the same operating model as HIC. Cyber-attacks are often attempted on businesses, so there is always the risk that one may be successful, but the Transfer does not appear to increase that risk in any way. I therefore identify no impact on the protection of customer data on any group of policyholders as a result of the Transfer.

### The impact of 'Brexit'

The whole purpose of the proposed Transfer is to mitigate the risks arising from Brexit. By transferring policies from HIC to HSA, the Transfer Companies guarantee that they will be able to continue to service those policies in the future. So for transferring policyholders the risk that valid claims cannot legally be paid post-Brexit will be removed once the Transfer has occurred. If the Transfer does not take place then as there is no agreement on the continuation or otherwise of passporting rights at the date of writing this report it could become illegal for HIC to service contracts or pay claims to EEA policyholders.

The rights of non-transferring policyholders of HIC are not affected by Brexit. There will be no HSA policyholders as at the Effective Date. There is therefore no adverse impact on any of the policyholders with regard to Brexit uncertainties as a result of the Transfer, and in fact the situation improves for the transferring policyholders, as without the Transfer it could be illegal for HIC to service their policies or pay any claims after Brexit.

### Other considerations

#### *Regulatory framework*

HIC's primary regulators are currently the PRA and the FCA, and there will be no supervisory change for non-transferring policyholders as a result of the Transfer. EEA policyholders already underwritten through HIC's EEA branches will already be subject to the conduct regime in their local country, and this does not change.

Following the Transfer there will be a change in regulatory environment for transferring policyholders as HSA's primary regulator will be the CAA, the Luxembourg regulator. In addition, HSA will have a

UK branch, which will be established by the exercise of passporting rights. Whilst transferring policyholders that are not considered to be underwritten through the UK branch of HSA will cease to be subject to the over-arching principles that the FCA requires its regulated businesses to follow, the fact that the UK branch of HSA will need to follow those principles means that HSA will continue to consider the conduct guidelines currently followed by HIC insofar as they do not conflict with the Luxembourg regime.

Luxembourg and the UK are both currently members of the EU, and follow the Solvency II regime for prudential regulation.

I do not identify any adverse impact as a result of these changes in regulatory environment.

#### *Additional policyholder protections*

The FSCS is a statutory scheme funded by members of the UK financial services industry. It provides compensation to individual holders of policies issued by UK insurers in the UK or another EEA state who are eligible for compensation under the FSCS in the event of the insurer's default.

The non-transferring policyholders of HIC that are eligible for protection under the FSCS will retain this protection in the event that claims cannot be paid in full out of current reserves, capital and reinsurance. FSCS protection will also continue to apply to claims under transferring policies that were eligible for such protection arising before or after the effective date of the Transfer. FSCS protection will then end on renewal for transferring policies that renew with HSA in the future, who will instead be protected by the Luxembourg system of policyholder protection, which uses legally protected capital held under a tripartite agreement between the insurance company, a custodian bank, and the CAA, to protect policyholder security.

Transferring policyholders who were not eligible for protection under FSCS will also be eligible under the Luxembourg system.

The Financial Ombudsman Service ('FOS') is an independent public body that aims to resolve disputes between individuals and UK financial services companies. It may make compensation awards in favour of policyholders. Only holders of policies that constitute business carried out in the UK are permitted to bring complaints to the FOS.

Post-Transfer, the non-transferring policyholders of HIC will continue to have access to the FOS, if they previously had access to the FOS pre-Transfer. Any transferring policyholders of HIC that currently have access to FOS will continue to be able to complain to the FOS about the regulated activities of HIC or the UK branch of HSA; i.e. regarding regulated activities that are carried out in the UK. For other complaints they will have access to an Insurance Ombudsman which is run by the Association of Insurance Companies and the Luxembourgish Consumers Association, and can also address complaints directly to the CAA. The Insurance Ombudsman described here is the Luxembourg equivalent of the FOS with regard to insurance companies.

There will be no other changes to the circumstances of HIC or HSA as part of the Transfer that I am aware of.

Whilst there are changes to protections available for transferring policyholders currently protected by the FSCS, these do not arise until renewal of the policies. Furthermore, I do not consider there to be a material difference in security of protection between the FSCS and the Luxembourg system, though as FSCS protection continues for eligible transferring policies there will be no impact from what differences there are for these policies.

They will retain access to the FOS, if they have it currently, in respect of activities of HIC or HSA's UK branch and gain access to the CAA for all other complaints. The protections for this group of

policyholders are therefore the same until renewal. On renewal a policyholder has the right to look for alternate cover if they wish.

Transferring policyholders that do not currently benefit from protection by the FSCS do not have any protection to lose. In fact, they will gain as the Luxembourg policyholder protection system will apply to them after the Transfer. If they have access to the FOS currently they will also retain it in respect of activities of HIC and HSA's UK branch, and will be able to refer to the CAA for all other complaints. The protections for this group of policyholders are therefore increased by the Transfer.

Non-transferring policyholders will see no changes.

I therefore do not identify any adverse impact of the Transfer on any of the relevant policyholder groups caused by changes in policyholder protections.

### **Will the Transfer impact the security of policyholders?**

I identify no material adverse change in the economic circumstances of any of the relevant policyholder groups.

Pre-Transfer, at 1 January 2019, and on the assumption that HIC is able to continue writing European business through 2019, the Capital Cover Ratio (the amount of assets available to meet regulatory capital requirements as a proportion of that regulatory requirement) would be 113%. The HIC targeted Capital Cover Ratio range is 120% to 125% in normal business conditions; this is lower than that target, but reflects the fact that it is already anticipated that HIC will not be able to continue writing European business after 29 March 2019, and therefore a dividend has been paid by HIC, in part to be used to capitalise HSA.

Following the Transfer, the Capital Cover Ratio is projected to be in the range of 120% to 123% for HIC and HSA, in line with management's target in excess of 120%. Splitting the business produces a reduction in diversification which I would expect (absent other factors) to reduce the overall Capital Cover Ratio, though the additional reinsurance protection (as I describe below) offsets this.

Hence the Capital Cover Ratio after the Transfer remains substantially unchanged in the range of 120%-125%, in excess of 100% and within HIC's and HSA's stated target range after the Transfer.

#### *Reinsurance protections post-Transfer*

The majority of reinsurance arrangements currently cover HIC and HSA, and the 2018 policies have been written to cover both HIC and HSA explicitly. For legacy placements which currently cover only HIC, HSA will be added as an endorsement to the existing reinsurance contract as part of the Transfer so as to become a reinsured under the policy. Reinsurance assets along with the liabilities associated with them will transfer under the Transfer with the reinsured party's name changing from HIC to HSA.

All of the external reinsurance arrangements that are relevant to this Transfer are governed by UK law, so there should be no contracts where the recognition of the Transfer could be challenged under the law of another jurisdiction.

In addition to the changes to the existing protections to include HSA, there will be additional reinsurance provided by Hiscox Insurance Company (Bermuda) Ltd ('HIB'). HIB currently reinsures 70% of the HIC liability portfolio, but after the Transfer a new policy will be set up to protect HSA that will reinsure 90% of all of the business, as well as 90% of the current reserves. This helps to maintain capital coverage levels in HIC and HSA at levels consistent with those seen pre-Transfer, and also protects against aggregation of risk in HSA post-Transfer.

I conclude that no group of policyholders is materially adversely affected by the Transfer in terms of policyholder security.

### **Pension Scheme Obligations**

The statutory employer of the defined benefit pension scheme for the people who perform services for the Transfer Companies is the service company Hiscox Underwriting Group Services Limited ('HUGS'), and not HIC or HSA. The statutory employer sponsors the scheme and is legally responsible for its funding. Hiscox management have informed me that HIC has not employed any of the staff eligible for the pension scheme since 1 April 2001, and HSA never has. The scheme has been closed to new members since 31 December 2000 and to future accrual of benefits since 31 December 2006.

Hiscox PLC, the parent of HUGS, has provided a guarantee to HUGS, which provides that if HUGS were to fail to meet its obligations to the Scheme, then Hiscox PLC would meet the first £50m of any resulting liability.

I have been advised by pensions specialists within my team that The Pensions Regulator has wide-ranging powers in the event of any default, and would be able to look to other members of Hiscox Group in order to collect funds, so I have considered further the impact of an extreme event on the pension scheme. The probability of such an event is remote, and the risk exists both before and after Transfer, so after considering the impact of the extreme event I conclude that the pension scheme obligations do not cause any group of policyholders to be materially adversely affected by the Transfer.

### **Overall conclusion**

I have considered the Transfer and its likely effect on each of the relevant policyholder groups. I have concluded that the risk of any policyholder being adversely affected by the proposed Transfer is sufficiently remote for it to be appropriate to proceed with the proposed Transfer as described in my report.

I will issue a supplemental report containing the most up-to-date financial information prior to the final hearing at which the Court's sanction for the Transfer will be sought. This report will also address any market developments, updates on Brexit, and any policyholder responses following communications in respect of the Transfer to policyholders (as referred to in my Independent Expert's Report).

Philip Tippin

Fellow of the Institute and Faculty of Actuaries

Partner, KPMG LLP

27 July 2018



## Part D: Summary of the Scheme

### SCHEME SUMMARY

## SUMMARY OF THE TERMS OF THE TRANSFER OF INSURANCE BUSINESS FROM HISCOX INSURANCE COMPANY LIMITED (HIC) TO HISCOX S.A. (HSA)

### INTRODUCTION – WHY WE ARE MAKING CHANGES?

Following the UK's decision to leave the European Union, commonly known as 'Brexit', Hiscox Insurance Company Limited (**HIC**) may cease to have a right to conduct business on a freedom of services and freedom of establishment basis in the European Union. The Hiscox Group is taking steps in advance of Brexit to ensure that the Hiscox Group continues to be able to service European claims from policyholders in the UK and across Europe after Brexit.

The Hiscox Group has therefore set up a new insurance company in Luxembourg, Hiscox S.A. (**HSA**), within the Hiscox Group to write new insurance business across the EEA and also to service those claims that HIC may not be able to after Brexit.

As a result, some of HIC's insurance business is being transferred to HSA. This is being done under a Court sanctioned insurance business transfer scheme pursuant to Part VII of the Financial Services and Markets Act 2000 (the **Scheme**). This document provides a summary of the key terms of the proposed transfer (the **Transfer**), as set out in the Scheme, and provides further information about the changes. Please read it carefully.

If you require further information, more detail can be found by reading the Scheme document in full and the report of an independent expert which confirms that in his opinion the Transfer will not materially adversely affect the security of benefits, benefit expectations or service standards and governance, of policyholders of HIC.

Both of these are available on our website [www.hiscoxgroup.com/partvii](http://www.hiscoxgroup.com/partvii).

### WHICH POLICIES ARE TRANSFERRING?

Only certain policies are transferring to HSA under the Transfer, the majority of policies are not transferring and will continue to be insured by HIC. The policies which are transferring are:

- all policies written by a branch of HIC in the EEA;<sup>1</sup>
- all policies written in respect of policyholders based in the EEA;
- all policies written in respect of EEA risks only, (the **European Policies**).

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<sup>1</sup> When we refer to the EEA, we refer to the 31 States which make up the EEA **excluding** the UK.

In addition, where a policy (which is not a European Policy) has been written in respect of: (i) EEA risks and; (ii) UK risks and/or non-EEA risks (a **Mixed Policy**), HSA will become the insurer under the policy in respect of EEA risks and will service any claims resulting from EEA risks. HIC will continue to service any claims resulting from UK risks and/or non-EEA risks, so that you will become a policyholder of both HIC and HSA.

The policies referred to at paragraphs (a) to (c), plus the part of the Mixed Policy written in respect of EEA risks will transfer to HSA (the **Transferring Policies**).

### **EFFECT OF THE TRANSFER ON POLICIES TRANSFERRING TO HSA**

Your eligibility for access to the UK's Financial Services Compensation Scheme and Financial Ombudsman Service may change, as a different regulatory regime will apply to HSA after the transfer. Further information is provided on this in the frequently asked questions document (**FAQ**) enclosed with this letter.

If the Transfer goes ahead:

If you obtained your policy from HIC via an intermediary, the intermediary will continue to be responsible for administering and making payments under your policy.

- **for policyholders based in Europe**, HSA will become the provider in relation to your policy and be responsible for administering your policy via your intermediary, for collecting premium on your policy and for making payments under it. No additional action is required on your part in relation to payments due to HSA (for example, you do not need to inform your bank);
- **for policyholders based in the UK**, HSA or HIC and HSA will be the provider in relation to your policy. Hiscox Underwriting Limited (**HUL**) will continue to be responsible for administering your policy via your intermediary, for collecting premium on your policy and will continue to be your and your intermediary's first point of contact for all claims.

If you purchased your policy directly i.e. not via an intermediary:

- **for policyholders based in Europe**, HSA will become the provider in relation to your policy and be responsible for administering your policy, for collecting premium on your policy and for making payments under it. No additional action is required on your part in relation to payments due to HSA (for example, you do not need to inform your bank);
- **for policyholders based in the UK**, HSA or HIC and HSA will be the provider in relation to your policy. Hiscox Underwriting Limited (**HUL**) will continue to be responsible for administering your policy, for collecting premium on your policy and will continue to be your first point of contact for all claims.

The Transfer will not affect the terms and conditions of your policy, except that Mixed Policies will be amended so that HSA becomes the insurer in respect of any EEA risks. If you have a Transferring Policy, you will be entitled to the same cover with HSA under your policy as you had with HIC.

## **HOW THE TRANSFER WILL BE IMPLEMENTED**

The proposed move of the Transferring Business to HSA is to be carried out under section 111(1) of the Financial Services and Markets Act 2000. The Transfer will not proceed unless an order sanctioning the Scheme is given by the High Court of Justice of England and Wales (the **Court**).

## **COURT APPROVAL OF THE TRANSFER**

If the Court approves the Scheme, the Transferring Business will transfer from HIC to HSA.

It is expected that the Transfer will become effective at 00:01 BST on 1 January 2019 (the **Transfer Date**). This date may be subject to change with the Court's consent.

## **THE TRANSFERRING BUSINESS**

On the Transfer Date, all assets, rights, benefits, obligations or liabilities of HIC in respect of the Transferring Policies (unless specifically excluded) will transfer to HSA (the **Transferring Business**).

The documents, files and other records held by or on behalf of HIC in relation to the Transferring Business will be transferred on the Transfer Date.

## **EXCLUDED POLICIES AND EXCLUDED LIABILITIES**

If for any reason we are unable to transfer any policy or group of policies intended to be transferred on the Transfer Date, these will be treated for all practical purposes in the same way as if they had been transferred, using a reinsurance arrangement which will be put in place between HIC and HSA (such that HSA accepts financial responsibility for these policies, although the responsibility for administering them will stay with HIC). Certain assets and liabilities related to the Transferring Business are excluded from the Transfer (such as tax reliefs and liability for fraud of HIC) and will not transfer to HSA under the Scheme.

## **CONTINUITY OF PROCEEDINGS**

Any proceedings by or against HIC in relation to the Transferring Business (including any future proceedings not yet begun) will be continued by or against HSA after the Transfer Date. HSA will be entitled to any and all defences, claims, counterclaims, rights of set-off and any other rights that HIC would have had.

## **DATA PROTECTION**

From the Transfer Date, HSA will become the data controller in place of HIC in relation to the Transferring Business, except in respect of personal data comprised in the Mixed Policies, which HIC will continue to process after the Transfer Date for the purposes of performing its obligations in respect of the Mixed Policies, in which case HSA and HIC shall each be independent (and not joint) data controllers, and consents and information given to HIC will be deemed to have been given to HSA.

## **MANDATES AND OTHER INSTRUCTIONS**

From the Transfer Date, any mandates, including direct debits, standing orders or other instructions or authorities, payable to or from HIC in respect of the Transferring Business will be payable to or from HSA instead.

## **AMENDMENT OF THE SCHEME**

The Scheme provides that it may be amended by application to the Court, provided that the Prudential Regulation Authority (the **PRA**) and Financial Conduct Authority (the **FCA**) have been notified of the application and a certificate is obtained from an independent expert whose appointment would need to be approved by the PRA, confirming that in his opinion (taking account of appropriate obligations to treat customers fairly) the proposed amendment will not materially adversely affect: (i) the security of benefits or the reasonable benefit expectations of the Policyholders of the Transferor or Policyholders of the Transferee; or (ii) the standard of service provided to and the governance applicable to the management of the policies held by those Policyholders. The Scheme also provides that it may be amended without application to the Court where the amendment is considered to be minor and/or technical, or where the amendment is necessary in order, for example, to reflect a change of applicable law, provided that the PRA and the FCA have been notified of the amendment and have not objected.

## **OBJECTIONS**

If you feel you may be disadvantaged by the proposed transfer, you have the right to object and to present your views to Court. You can also choose to be represented at Court if you prefer.

If you wish to object, you can contact HIC by telephone, email or post using the contact details below: HIC will acknowledge, in writing, all objections they receive. HIC will also submit details of all objections received to the Court, which will consider the Scheme and all objections from policyholders on 14 December 2018.

If you believe you will be disadvantaged by the proposed transfer, although you do not have to give notice of your concerns to us in writing, we request you to do so, so that we have the opportunity to understand and discuss them with you. Please therefore give notice to us in writing as soon as possible and preferably at least 5 working days prior to 14 December 2018.

Country / Branch	Commercial Register	Branch Registration Number (HIC)	Branch Registration Number (HSA)	Contact Address	Telephone Number	Email Address
United Kingdom	Companies House of England and Wales	00070234	FC034787	Part VII Transfer Team, The Hiscox Building, Peasholme Green, York, YO1 7PR	+44 (0)800 781 3049	<a href="mailto:transfer@hiscox.co.uk">transfer@hiscox.co.uk</a>
Belgium	Kruispuntbank van Ondernemingen / Banque-Carrefour des entreprises	0683.642.934	0683.642.934	<b>Dutch/Flemish:</b> Hiscox Europe Underwriting Limited, Belgian Branch, Bourgetlaan 42 B8, Building Airport, 1130 Brussel  <b>French:</b> Hiscox Europe Underwriting Limited, Belgian Branch, Avenue du Bourget 42 B8, Building Airport, 1130 Bruxelles	080029366	<a href="mailto:transfer@hiscox.be">transfer@hiscox.be</a>
France	Trade and Companies Register	428 239 511	833 546 989	Hiscox France, Service Transfert, 12 quai des Queyries, CS 41177, 33072 Bordeaux	0800940182	<a href="mailto:transfer@hiscox.fr">transfer@hiscox.fr</a>
Germany	Handelsregister des Amtsgerichts München (Commercial Register of the Local Court of Munich)	HRB 132701	HRB 238125	Hiscox, Arnulfstraße 31, 80636 München, Germany	08008888257	<a href="mailto:transfer@hiscox.de">transfer@hiscox.de</a>
Ireland	Companies Registration Office	-	908764	Part VII Transfer Team, The Hiscox Building, Peasholme Green, York, YO1 7PR	+44 (0)800 781 3049	<a href="mailto:transfer@hiscox.co.uk">transfer@hiscox.co.uk</a>
Netherlands	Netherlands Chamber of Commerce (KvK)	34125607	70191603	Hiscox Nederland, Arent Janszoon, Ernststraat 595B, 1082 LD Amsterdam	0800 252 4100	<a href="mailto:transfer@hiscox.nl">transfer@hiscox.nl</a>
Portugal	Commercial Registry Office of Lisbon (Conservatória do Registo Comercial de Lisboa)	980350131	980 595 185	Hiscox Portugal, Atrium Saldanha, Praça Duque de Saldanha no1, Piso 5, 1050-094 Lisboa	0800780071	<a href="mailto:transfer@hiscox.pt">transfer@hiscox.pt</a>
Spain	Registro Mercantil Central (Central Mercantile Register)	W00674061	To be published on the website in due course	Hiscox Paseo de la Castellana 60, 7ª planta, 28046 Madrid	0900800124	<a href="mailto:transfer@hiscox.es">transfer@hiscox.es</a>

## Part E: Pre-Transfer Legal Notice

CR-2018-001740

IN THE HIGH COURT OF JUSTICE  
BUSINESS AND PROPERTY COURT  
OF ENGLAND AND WALES  
COMPANIES COURT (ChD)

IN THE MATTER OF HISCOX INSURANCE COMPANY LIMITED

-and-

IN THE MATTER OF HISCOX S.A.

-and-

IN THE MATTER OF PART VII OF  
THE FINANCIAL SERVICES AND MARKETS ACT 2000

**NOTICE IS HEREBY GIVEN** that Hiscox Insurance Company Limited (“**HIC**”) (the “**Transferor**”) and Hiscox S.A. (“**HSA**”) (the “**Transferee**”) have made an application to the High Court of Justice of England and Wales (the “**Court**”), pursuant to section 107(1) of the Financial Services and Markets Act 2000 (the “**Act**”) for an order under section 111(1) of the Act sanctioning an insurance business transfer scheme (the “**Scheme**”) for the transfer to HSA of certain general insurance business carried on by HIC (the “**Transferring Business**”) and for the making of ancillary orders in connection with the implementation of the Scheme under section 112 of the Act.

If the Scheme is sanctioned by the Court, it will result in the transfer to HSA of all the contracts, property, assets and liabilities relating to the Transferring Business and accordingly, unless otherwise provided for in the Scheme, payments in respect of the policies comprising the Transferring Business shall, upon the transfer becoming effective, be dealt with by HSA.

Copies of the report on the terms of the Scheme prepared by an independent expert in accordance with section 109 of the Act (the “**Independent Expert's Report**”), copies of the letters sent to policyholders, a statement setting out the terms of the Scheme and a summary of the Independent

Expert's Report, and copies of the Scheme document itself can be obtained from [www.hiscoxgroup.com/partvij](http://www.hiscoxgroup.com/partvij). Copies can also be requested free of charge by contacting HIC or HSA using the telephone number or address set out below from the date of publication of this notice until the date on which the application is heard by the Court. These documents, other documents relating to the Scheme (including other actuarial reports and a Questions and Answers document) and any further news about the Scheme will be posted on the website which can be checked for updates.

Any questions or concerns relating to the proposed transfer should be referred to HIC or HSA using the following telephone number, email or postal address:

Country / Branch	Commercial Register	Branch Registration Number (HIC)	Branch Registration Number (HSA)	Contact Address	Telephone Number	Email Address
United Kingdom	Companies House of England and Wales	00070234	FC034787	Part VII Transfer Team, The Hiscox Building, Peasholme Green, York, YO1 7PR	+44 (0)800 781 3049	<a href="mailto:transfer@hiscox.co.uk">transfer@hiscox.co.uk</a>
Belgium	Kruispuntbank van Ondernemingen / Banque-Carrefour des entreprises	0683.642.934	0683.642.934	<b>Dutch/Flemish:</b> Hiscox Europe Underwriting Limited, Belgian Branch, Bourgetlaan 42 B8, Building Airport, 1130 Brussel  <b>French:</b> Hiscox Europe Underwriting Limited, Belgian Branch, Avenue du Bourget 42 B8, Building Airport, 1130 Bruxelles	080029366	<a href="mailto:transfer@hiscox.be">transfer@hiscox.be</a>
France	Trade and Companies Register	428 239 511	833 546 989	Hiscox France, Service Transfert, 12 quai des Queyries, CS 41177, 33072 Bordeaux	0800940182	<a href="mailto:transfert@hiscox.fr">transfert@hiscox.fr</a>
Germany	Handelsregister des Amtsgerichts München (Commercial Register of the Local Court of Munich)	HRB 132701	HRB 238125	Hiscox, Arnulfstraße 31, 80636 München, Germany	08008888257	<a href="mailto:transfer@hiscox.de">transfer@hiscox.de</a>
Ireland	Companies Registration Office	-	908764	Part VII Transfer Team, The Hiscox Building, Peasholme Green, York, YO1 7PR	+44 (0)800 781 3049	<a href="mailto:transfer@hiscox.co.uk">transfer@hiscox.co.uk</a>
Netherlands	Netherlands Chamber of Commerce (KvK)	34125607	70191603	Hiscox Nederland, Arent Janszoon, Ernststraat 595B, 1082 LD Amsterdam	0800 252 4100	<a href="mailto:transfer@hiscox.nl">transfer@hiscox.nl</a>

Portugal	Commercial Registry Office of Lisbon (Conservatória do Registo Comercial de Lisboa)	980350131	980 595 185	Hiscox Portugal, Atrium Saldanha, Praça Duque de Saldanha no1, Piso 5, 1050-094 Lisboa	0800780071	<a href="mailto:transfer@hiscox.pt">transfer@hiscox.pt</a>
Spain	Registro Mercantil Central (Central Mercantile Register)	W00674061	To be published on the website in due course	Hiscox Paseo de la Castellana 60, 7ª planta, 28046 Madrid	0900800124	<a href="mailto:transfer@hiscox.es">transfer@hiscox.es</a>

The application is due to be heard at the Rolls Building, Fetter Lane, London, EC4A 1NL on 14 December 2018. If approved by the Court, it is currently proposed that the Scheme will take effect at 00:01 BST on 1 January 2019.

**Any person who claims that he or she would be adversely affected by the carrying out of the Scheme has a right to attend the hearing and express their views either in person or through a legal representative.**

Any person intending to attend is requested (but is not obliged) to give notice of such intention as soon as possible and preferably at least five business days before the hearing on 14 December 2018, setting out their grounds of objection, to HIC or HSA by calling the above number or in writing to the contact address above.

Any person who claims that they will be adversely affected by the Scheme but does not intend to attend the hearing may also make representations about the Scheme by giving notice of such representations, as soon as possible and preferably at least five business days before the hearing on 14 December 2018, by calling the above number or in writing to the contact address above.