



Transferring to Arch Insurance (EU) dac

Answers to your questions

Contents

Answers to your questions.....	1
Section 1 General overview	1
Section 2 More about Arch Insurance (EU) dac.....	3
Section 3 More about the Transfer process	5
Section 4 More about the Independent Expert.....	8
Section 5 Will there be any changes to my policy?	9
Section 6 Final comments	11
Glossary.....	13

Summary of the Scheme and the Independent Expert's Report (enclosed)

Legal Notice (enclosed)

Answers to your questions

Section 1

General overview

1.1 What are the proposed changes?

Arch Insurance (UK) Limited (**AIUK**) proposes to transfer to Arch Insurance (EU) dac (**AIEU**) the insurance business carried on by AIUK (excluding inwards reinsurance business) in any state within the European Economic Area (**EEA** and each such state being an **EEA State**) utilising AIUK's freedom of establishment and/or freedom of services (the **Transfer**).

The Transfer will include risks situated in any EEA State (other than the UK) as well as policies held by policyholders established or resident in an EEA State (other than the UK). Where a policy relates to risks situated both in the EEA and outside the EEA, only the part of the policy which relates to a risk situated in any EEA State (other than the UK) will transfer and where a policy relates to a risk situated solely in the UK or outside the EEA that policy will not transfer, unless the policyholder is established or resident within an EEA State (other than the UK).

This process is known as a Part VII transfer and is effected by means of a **Scheme**.

1.2 When will the Transfer happen?

If approved by the High Court of Justice of England and Wales (the **Court**), the Transfer is scheduled to take effect on the **Effective Date**. It is expected that this will be 31 December 2020.

Any change to the expected Effective Date will be announced on the website of the Arch group: www.archcapgroup.com/Insurance/Arch-Part-VII.

1.3 Which policies are transferring?

Insurance policies (excluding inwards reinsurance policies) written by AIUK in an EEA State on a freedom of establishment and/or freedom of services basis.

The Transfer will include risks situated in any EEA State (other than the UK) as well as policies held by policyholders established or resident in an EEA State (other than the UK). Where a policy relates to risks situated both in the EEA and outside the EEA, only the part of the policy which relates to a risk situated in the EEA (other than the UK) will transfer, unless the policyholder is established or resident within an EEA State (other than the UK).

Where a policy relates to a risk or risks situated solely in the UK or outside the EEA, that policy will not transfer, unless the policyholder is established or resident within an EEA State (other than the UK).

“Freedom of services” business refers to business written in the UK where the risk is situated elsewhere within the EEA or where the policyholder is established or resident within an EEA State (other than the UK).

If you are unsure which of your policies will transfer to AIEU and which of your policies will remain with AIUK, please contact us using the details provided in Section 6 below.

1.4 Why is AIUK doing this?

Following the decision of the UK electorate to vote in favour of leaving the European Union (the EU) (**Brexit**), it is necessary for the Arch group to restructure its European operations in order to continue to service our policyholders in the EEA after the UK's withdrawal from the EU on 31 December 2020.

Section 2

More about Arch Insurance (EU) dac

2.1 Who is AIEU?

AIEU was incorporated in October 2011 as Arch Mortgage Insurance Limited. Pursuant to changes in the Irish Companies Act 2014, AIEU changed its form to become a designated activity company with the new name Arch Mortgage Insurance dac on 20 October 2015, then subsequently changed its name to Arch Insurance (EU) dac on 4 March 2019. Its registered number is 505420 and its registered office is situated at 2nd Floor, Block 3 The Oval, 160 Shelbourne Road, Ballsbridge, Dublin 4, Republic of Ireland.

AIEU is part of the same corporate group as AIUK. Both AIUK and AIEU are indirect wholly-owned subsidiaries of Arch Capital Group Ltd. (**ACGL**), a Bermuda exempted company limited by shares, which maintains a listing on the NASDAQ Stock Market in the U.S..

On 6 March 2019, AIEU received authorisation from the Central Bank of Ireland to expand its insurance licence, covering all classes of insurance business, except Class 18 ‘Assistance’ and to write insurance business in all EEA States on a freedom of services basis. As a result of its authorisation from the CBI, since at least 31 December 2019, all new and renewal non-UK EEA business previously written by AIUK has been written through AIEU.

As a member of the Arch group, AIEU has adopted the same capital appetite framework as AIUK. AIUK's solvency capital ratio exceeds its minimum threshold in respect of its solvency capital ratio (calculated using its internal model approved by the Prudential Regulation Authority (**PRA**)). AIEU's solvency capital ratio exceeds its minimum threshold in respect of its solvency capital ratio (calculated using the Solvency II standard model).

2.2 How will AIEU administer my policy?

AIEU will administer the Transferring Policies in the same way as they are currently administered by AIUK, in line with the Arch group's current systems, policies and procedures for its European operations (as the same may be updated from time to time). Both companies have adopted similar corporate governance arrangements, key systems of governance (risk, compliance, legal, actuarial and internal audit) and financial and operational reporting arrangements. Both companies are under common control of ACGL, and thus share some common financial reporting practices, systems, Arch group arrangements and leadership oversight.

Arch Europe Insurance Services Ltd (**AEIS**), a subsidiary of AIUK, employs all staff which provide all services to support AIUK's operations. Starting 29 March 2019, AEIS UK staff commenced providing services to AIEU to support the new and renewing EEA risks of AIUK which were written by AIEU, as well as continuing to support the Transferring Policies. Following the Effective Date, the same AEIS UK staff will continue to service the Transferring Policies on the same terms as the service and secondment arrangements already in place between AIEU and AEIS.

Section 3

More about the Transfer process

3.1 What is the Transfer?

The Transfer is governed by a process under Part VII of the UK Financial Services and Markets Act 2000 (**FSMA**) that enables groups of insurance policies to be moved from one insurer to another. The insurers involved can either be in the same insurance group (as in this instance) or from different corporate groups. An application must be approved by the Court before the Transfer can be effected. The applicable regulations require AIUK and AIEU to appoint an Independent Expert, approved by the Regulators, who looks at the impact of the proposed Transfer on the various groups of affected policyholders, and submits a report to the Court. Policyholders must be notified and given time to consider the proposals, and they have the right to object or raise concerns if they feel they would be adversely affected.

3.2 Where and when will the Court Hearing take place?

The Court Hearing will be at the **High Court of Justice, 7 Rolls Building, Fetter Lane, London, EC4A 1NL, UK** on **18 December 2020**.

You will be able to check on the ACGL website at

www.archcapgroup.com/Insurance/Arch-Part-VII or by calling our dedicated helpline, free of charge when calling from the UK at:

+44 (0)808 196 3200 (open 09:00-17:00 London time on weekdays);

after this date for information about the outcome of the hearing. Each of the above opening hours excludes bank holidays and public holidays. Callers outside of these hours will be able to leave a message and request that their call is returned.

3.3 What will happen at the Court Hearing?

The Court will consider whether the Transfer adversely affects policyholders and whether it is appropriate to allow the Transfer. The judge will review the witness

statements and evidence presented by AIUK and AIEU, and consider the reports of the Independent Expert and the Regulators. Time will be allocated to hear any objections or concerns put forward (whether in writing, by telephone, or in person) by affected policyholders or any other person who believes that they would be adversely affected by the proposals. The judge must decide whether or not it is appropriate to approve the Transfer, taking all of the evidence into account. If the judge does approve the Transfer, then a Court Order is made which means the Scheme will come into effect at a time specified in the Court Order.

3.4 What can you do if you believe you may be adversely affected?

If you believe you may be adversely affected as a result of the Transfer, then you are entitled to object or raise your concerns either in writing or by telephone in advance, or in person at the Court Hearing. You may choose to appoint legal counsel to attend the Court Hearing on your behalf.

You can:

Call our dedicated helpline, free of charge when calling from the UK, on:

+44 (0)808 196 3200 (open 09:00-17:00 London time on weekdays); and

(the above opening hours excludes bank holidays and public holidays: callers outside of these hours will be able to leave a message and request that their call is returned); or

write to us at:

Arch Insurance (UK) Limited
5th Floor, Plantation Place South
London EC3R 5AZ
United Kingdom

e-mail us at: Archpart7@archinsurance.co.uk

Any objections or concerns to the Transfer notified to us by telephone or in writing will also be included in the information supplied to the Court. Should you need any further information or if you have any questions or concerns about the Transfer or consider that you may be adversely affected then please contact us as soon as possible and preferably no later than **1 December 2020**.

3.5 What do you mean by ‘adversely affected’?

Any types of effect on policyholders may be considered by the Court. This includes changes to the financial security of the companies involved, or changes to the administration of the Transferring Policies. If there are some changes for the worse, this does not necessarily mean that the Transfer is unfair or unreasonable, as they might be outweighed by other benefits, or they might be extremely small, or they may only occur infrequently. The Independent Expert considers the materiality of any adverse changes based on their size or likelihood of occurring and provides his conclusions in his Report.

Please refer to the enclosed summary of the Independent Expert’s Report and paragraph 5.4 below for an assessment of the adverse effects of the Transfer.

3.6 What will happen if the Court does not approve the Transfer?

If the transfer is rejected, your policy will remain with AIUK.

If the Transfer is delayed for any reason then we will inform policyholders of this via the ACGL website: www.archcapgroup.com/Insurance/Arch-Part-VII. If there is expected to be a protracted delay, or the Transfer is rejected, we will also write to affected policyholders to let them know.

If the transfer is rejected or delayed it is unclear how AIUK would be able to service its policyholders in the EEA after the UK’s withdrawal from the EU on 31 December 2020.

3.7 Will I be charged extra for any of this?

No, you will not be asked to bear any costs of the Transfer. AIUK and AIEU will meet the costs and fees of carrying out the Transfer.

Section 4

More about the Independent Expert

4.1 Who is the Independent Expert?

The Independent Expert is Simon Sheaf of Grant Thornton LLP.

4.2 What is the role of the Independent Expert?

Simon Sheaf has been appointed to give his opinion on the likely effect of the proposals on policyholders. His appointment has been approved by the PRA, following consultation with the Financial Conduct Authority (**FCA**). His Report is impartial, based on thorough scrutiny of the proposals and the businesses of AIUK and AIEU. AIUK and AIEU have provided him with access to key staff and information that he has requested, both private and public.

4.3 How do I know he is independent?

The Independent Expert's appointment has been approved by the PRA, following consultation with FCA, and independence is one of the criteria that the PRA and FCA use to assess his suitability. Simon Sheaf has confirmed that he has no financial interest in AIUK, AIEU or the group of companies to which they belong, nor has he ever provided any consulting services or acted in any advisory capacity to AIUK, AIEU, ACGL or any company that at the time a subsidiary of ACGL. Simon Sheaf's overriding duty of responsibility is to Court, and not AIUK or AIEU. His Report must be impartial. We have included a summary of his Report with this pack, but you can download a full copy of the Independent Expert's Report at the ACGL website: www.archcapgroup.com/Insurance/Arch-Part-VII. If you would like a paper copy sent to you then please contact us on the details set out section 3.4 above.

Section 5

Will there be any changes to my policy?

5.1 Who do I contact after the Transfer for a query on my policy or to make changes?

The administration of your policy will not change as a result of the Transfer and after the Transfer you should continue to contact your normal contact at Arch or your broker or any other intermediary through which you acquired your policy.

5.2 Will there be any changes to premiums I pay?

No changes will be made to your premium as a result of the Transfer.

5.3 Are there any changes to the terms and conditions of my policy?

The transfer will not change the terms and condition of your policy or the payments that you receive if you have a claim.

5.4 Are there any other changes I should be aware of as result of the Transfer?

Financial Services Compensation Scheme

In the event of the insolvency of AIUK, if you meet the relevant eligibility criteria, you currently have recourse to the Financial Services Compensation Scheme (the **FSCS**) to have any claim you bring under your policy paid. Since AIUK's business is mainly commercial insurance, the majority of policyholders will not meet the eligibility criteria, as the FSCS is aimed at consumers and very small businesses. However, a small minority of Transferring Policyholders may meet the eligibility criteria. If the Scheme is approved, and your policy is transferred to AIEU, you will no longer have recourse to the FSCS in the event of AIEU's insolvency. This does not impact AIUK policyholders who are not transferring to AIEU.

The Independent Expert has considered this issue in his Report at Section 9 and has concluded that this loss of access to the FSCS will not materially adversely affect the Transferring Policyholders, for the reasons set out in his Report.

Financial Ombudsman Service

In addition, in the event of a dispute with AIUK, if you meet the relevant eligibility criteria, you currently have recourse to the UK Financial Ombudsman Service (the **FOS**) which provides a free, independent services for resolving disputes. The eligibility criteria for this services is similar to that applying to the FSCS: for this reason, only a minority of Transferring Policyholders are expected to meet such criteria. Transferring Policyholders who currently have access to the FOS will maintain that access only in relation to complaints about policies written by AIUK pre-transfer, or written by AIEU's UK branch post-transfer, but will maintain access to the Irish equivalent, the Financial Services and Pensions Ombudsman (the **FSPO**).

The monetary limits for a claim under the FSPO are different to those under the FOS. Such policyholders would also maintain access to the equivalent scheme via the European network of alternative dispute resolution schemes, Fin-Net.

Again, the independent Expert has considered this issues in his Report at paragraphs 11.21-11.34 (inclusive) and has concluded that this loss of access to the FOS will not materially adversely the transferring policyholders, for the reasons set out in his Report.

Section 6

Final comments

6.1 I can't find the answer to my questions in this booklet. Where can I find out more?

We hope that the information we have provided has helped you to understand the proposals. AIUK and AIEU have published further information on the ACGL website: www.archcapgroup.com/Insurance/Arch-Part-VII. There you can download a full version of the legal terms of the Transfer, the full Report of the Independent Expert, and the policyholder communications pack. Alternatively call us on the dedicated helpline below and we will send you this information.

AIUK and AIEU have set up a dedicated helpline for customers who have questions or wish to raise concerns or objections related to the proposed Transfer on our dedicated helpline (free of charge when calling from the UK):

+44 (0)808 196 3200 (open 09:00-17:00 London time on weekdays); and

(the above opening hours excludes bank holidays and public holidays: callers outside of these hours will be able to leave a message and request that their call is returned).

Alternatively, you can write to us at:

Arch Insurance (UK) Limited
5th Floor, Plantation Place South
London EC3R 5AZ
United Kingdom

or e-mail us at: Archpart7@archinsurance.co.uk

We will also publish on the ACGL website copies of any Supplementary Reports that the Independent Expert writes before the Court Hearing date.

If you do think you may be worse off as a result of the Transfer please see sections 3.4 to 3.6 above or turn to the Legal Notice within this pack for information about how to make your objection or concern known to us.

6.2 How will I know if the Transfer has been approved?

We will announce the outcome of the Court application on the ACGL website: www.archcapgroup.com/Insurance/Arch-Part-VII following the Court Hearing due on **18 December 2020**. Any changes or information on the progress of the Transfer will also be announced on this website. You should check this website for any changes or updates or otherwise call our dedicated helpline set out at section 6.1 above.

If the application is successful then the Transfer should take place on the Effective Date (expected to be **31 December 2020**).

Glossary

ACGL means Arch Capital Group Ltd.

AIEU means Arch Insurance (EU) dac.

AIUK means Arch Insurance (UK) Limited.

Court means the High Court of Justice and England and Wales.

Court Hearing means the Hearing at the High Court of Justice in England and Wales at which the final decision to approve or disapprove the Scheme is made.

Court Order the order of the Court sanctioning the Scheme.

Effective Date means 31 December 2020, the date on which the Scheme is expected to become effective (subject to the approval of the Court). Any change to the date of the Transfer will be announced on the ACGL website.

FCA means the Financial Conduct Authority, which has objectives to protect consumers of financial services, to protect and enhance the integrity of the UK financial system and to promote effective competition in the interests of consumers.

FSMA means the UK Financial Services and Markets Act 2000.

Independent Expert means Simon Sheaf of Grant Thornton LLP who has been appointed, with the approval of the Regulators, to produce the Report.

PRA means the Prudential Regulation Authority, which is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.

Regulator(s) means the applicable regulator(s) of the UK insurance industry. This refers to, as the context requires, the PRA, the FCA or both.

Report means the Scheme report produced by the Independent Expert under the requirements of the FSMA, reflecting the guidance provided by SUP 18.2 of the FCA's

Handbook, FG18/4: The FCA's Approach to the review of Part VII insurance business transfers and the PRA's Statement of Policy on insurance business transfers.

Supplementary Report means a report, produced in advance of the Court Hearing, to consider the impact on the Independent Expert's conclusions of events that have happened subsequent to the issue of his initial Report.

Transfer means the legal transfer of the Transferring Policies from AIUK to AIEU.

Transferring Policies means the AIUK policies transferring to AIEU under the Scheme.

Transferring Policyholders means the holders of Transferring Policies.

Summary of the Scheme and the Independent Expert's Report (enclosed)

Legal Notice (enclosed)