

## FINAL NOTICE

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To: **U K Insurance Limited (Firm Reference Number: 202810)**

Date: 10 March 2026

### 1. Action

1.1. For the reasons set out in this Notice, the Prudential Regulation Authority (the '**PRA**') imposes a financial penalty on U K Insurance Limited (the '**Firm**') of £10.625 million for breaching:

1.1.1. PRA Fundamental Rule 6 (*A firm must organise and control its affairs responsibly and effectively*);

1.1.2. Rule 6.1, Notifications part of the PRA Rulebook ('**PRA Rulebook**');  
and

1.1.3. Rules 2.4 and 3.2, Reporting part of the PRA Rulebook,  
between 1 June 2022 to 23 August 2024 (the '**Relevant Period**').

1.2. The Firm participated in the Early Account Scheme under the PRA Settlement Policy ('**PRA Settlement Policy**'), producing a fulsome and candid account. Shortly following production of this, and significantly in advance of any settlement proposal being put to the Firm by the PRA, the Firm made admissions. As a result, the Firm qualified for a 50% settlement discount. Were it not for this discount, the PRA would have imposed a financial penalty of £21.25 million.

## 2. Summary of reasons for the action

### Firm overview

- 2.1. The Firm is a subsidiary of Direct Line Insurance Group plc (the group and its subsidiaries are collectively referred to as Direct Line Group or '**DLG**'). DLG are one of the UK's largest insurers. In 2024, DLG had almost 9 million in-force policies and gross written premiums of £3.7 billion. DLG was a FTSE 250 listed company during the Relevant Period. The Firm is the principal underwriter for DLG and is regulated by the PRA as a category 2 insurer, meaning its size, interconnectedness, complexity and business type gives it the capacity to cause some disruption to the UK financial system (and through that to economic activity more widely) by failing or by carrying on its business in an unsafe manner.
- 2.2. On 1 July 2025, Aviva plc ('**Aviva**') completed a takeover of DLG (and the Firm). The PRA's investigation and the facts and matters set out in this Notice ('**Notice or Final Notice**') relate to events pre-dating Aviva's ownership.

### The PRA and its expectations

- 2.3. As the prudential regulator for insurers, the PRA's role is to promote the safety and soundness of those firms. This is advanced by ensuring – amongst other things – that the business of those firms is carried out in a way that avoids an adverse effect on the stability of the UK financial system.
- 2.4. The provision of complete, timely and accurate prudential data is a key component in the PRA's supervisory approach. The PRA relies on firms submitting sufficient data, of appropriate quality, to inform its judgements about key risks, to measure individual firms' compliance and performance, and to feed into macro-prudential decisions.
- 2.5. Firms should take reasonable care to organise their affairs responsibly and effectively, with adequate systems and controls in place to mitigate and prevent inaccuracies in regulatory reporting. These systems and controls should be commensurate with the size and complexity of the firm and

designed to mitigate against potential risks to the integrity of the firm's regulatory reporting.

- 2.6. Accurate and timely prudential data supports going-concern supervision and is crucial in identifying, monitoring and managing periods when firms are under stress or recovering from such periods. A failure to provide accurate and timely regulatory data can indicate a range of weaknesses in a firm's ability to manage its business prudently. In the PRA's experience, firms who do not produce timely, complete and accurate data during periods of relative stability are less likely to produce it in times of stress. The accuracy of financial information required by the PRA's rules to be reported publicly is important. Compliance with these rules ensures that information published is accurate and reliable, thereby helping to support transparent and efficient markets.

## Background

- 2.7. Issues with the Firm's financial controls, staff capability, training and resourcing in its finance and actuarial functions were identified by independent consultants engaged by the firm throughout 2022 and 2023 and, following this, were deemed a supervisory priority by the PRA.
- 2.8. In response, the Firm initiated a number of remediation projects. However, several material commercial transactions which took place in 2023, ongoing remediation, as well as changes to accounting rules for insurers all added to demands on the finance and actuarial functions.
- 2.9. One of the material transactions, known as Project Athena (**'Project Athena'**), was a quota share re-insurance arrangement between the Firm and two re-insurers. The Firm had never undertaken a re-insurance arrangement of this nature before and, although it considered the financial accounting treatment of Project Athena and engaged external consultants to assist with those preparations, the Firm did not adequately consider the treatment of the Project Athena transaction under Solvency II reporting. The Firm's finance and actuarial teams were overstretched and under-resourced, exacerbated by certain changes to accounting standards. Preparation and plans for how to

account for Project Athena were not fully developed at the time the agreement was entered into nor in its implementation phase.

2.10. Following the completion of the Project Athena transaction, there was an internal accounting miscalculation (due to the mistaken double-counting of an asset in the Solvency II balance sheet used to determine Own Funds for regulatory reporting) (the '**Miscalculation**'). This resulted in incorrect reporting (an overstatement) of the Firm's Solvency Capital Requirement Coverage Ratio ('**SCR Coverage Ratio**') in the Firm's Quantitative Reporting Templates ('**QRT**') for the quarter Q1 2023, and then for subsequent quarters through to Q1 2024, and the 2023 Solvency and Financial Condition Report ('**SFCR**') produced by DLG. DLG produced a single 2023 SFCR covering the group and its individual entities (including the Firm). The SCR Coverage Ratio is a key metric, comparing a firm's capital resources against its Solvency II capital requirement, used by the PRA in assessing the financial health of insurers and the PRA relies on the SCR Coverage Ratio being accurately reported via QRTs and the SFCR.<sup>1</sup> Due to the Miscalculation, the Firm consistently overstated its solvency.

2.11. Despite opportunities to discover the double-counting error, it went undetected by the Firm's internal controls for a significant period of time. The nature of the error meant it compounded and grew, in line with the business written under the quota share agreement. In Q1 2023, the net overstatement in the Firm's Own Funds was approximately £19.7 million. By the end of 2023, the Firm was erroneously calculating and reporting its own SCR Coverage Ratio as 170% when the true figure was 161%, representing an Own Funds overstatement of £99.9m. This had a knock-on effect where DLG incorrectly reported its SCR Coverage Ratio for the same period as 197% (when the true figure was 188%), also representing an Own Funds overstatement of £99.9m.<sup>2</sup> DLG's normal risk appetite for its SCR Coverage

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<sup>1</sup> The SCR Coverage Ratio is the primary indicator of an insurer's financial strength and long-term stability, showing how much capital it has compared to the minimum required to absorb unexpected losses and survive extreme but plausible events, and to safeguard policyholders and the wider financial system.

<sup>2</sup> The DLG SCR considers risks arising from the operations of all Group entities. However, risks arising from the operations of the Firm accounted for circa 97% of the Group SCR as at Q4 2024.

Ratio was 140%, with an expectation this would be around 180% in normal times. Although DLG's SCR coverage ratio remained above the Group's risk appetite range of 140% - 180%, as a result of the Miscalculation DLG had significantly less headroom than it reported.

- 2.12. Overall, the Miscalculation occurred against a background where remediation of the Firm's financial control risk framework was ongoing, where the finance function was operating during a period of instability and where senior individuals within the finance function took on what the Firm described as a '*considerable*' workload to progress ongoing remediation programmes.
- 2.13. The Miscalculation and reporting inaccuracy were discovered by the Firm and were reported promptly by the Firm to the PRA and subsequently disclosed publicly via a market update on 23 August 2024. The Firm has since undertaken several detailed internal reviews to uncover the root causes of the Miscalculation. The Firm also invested in an extensive remediation programme to address deficiencies in its control environment, which Aviva committed to continuing following its acquisition of the Firm.

## Breaches

- 2.14. During the Relevant Period, the Firm breached several provisions of the PRA Rulebook, specifically:
- 2.14.1. PRA Fundamental Rule 6: The double counting error exposed ineffective preventative and detective controls within the Firm, as well as the effect of resourcing issues in its finance and actuarial functions;
- 2.14.2. Rule 6.1, Notifications part of the PRA Rulebook: The Firm did not take reasonable steps to ensure that the information given to the PRA in its QRTs and the 2023 SFCR was accurate; and
- 2.14.3. Rules 2.4 and 3.2, Reporting part of the PRA Rulebook: The Firm failed to ensure that the information about the level of its Own Funds and its SCR Coverage Ratio that it published pursuant to the PRA's rules was relevant, reliable and comprehensive.

- 2.15. The integrity of controls, and the provision of accurate and reliable regulatory reporting and disclosure, are of fundamental importance to achieving the PRA's safety and soundness objective.

### 3. Sanction

- 3.1. Taking into account the facts and matters in **Annex A** and the relevant factors set out in the PRA Penalty Policy, ('**PRA Penalty Policy**') the PRA considers the Firm's breaches as summarised above and set out more fully in **Annex B** justify the imposition of a financial penalty of £21.25 million. That penalty is reduced by 50% to £10.625 million because the Firm settled the matter with the PRA during the Discount Stage, ('**Discount Stage**') having provided a fulsome and candid Account and having made appropriate admissions at an early stage significantly in advance of any settlement proposal from the PRA. In the circumstances, in the PRA's view the Firm's co-operation merits a 50% discount.

### 4. Annexes, appendices and procedural matters

- 4.1. The structure of this Notice is as follows:
- 4.1.1. **Annex A** - full particulars of the facts and matters relied on by the PRA in its decision-making process regarding the Firm;
  - 4.1.2. **Annex B** - the relevant regulatory requirements and the breaches;
  - 4.1.3. **Annex C** - the basis for the sanction the PRA is imposing;
  - 4.1.4. **Annex D** - important procedural matters;
  - 4.1.5. **Appendix 1** - the definitions used in this Notice; and
  - 4.1.6. **Appendix 2** - relevant statutory, regulatory and policy provisions applicable during the Relevant Period.

#### David Chaplin

Head of Legal, Enforcement and Litigation Division

For and on behalf of the PRA

## ANNEX A: FACTS AND MATTERS RELIED UPON

### 1. Background

#### Firm and regulatory overview

- 1.1. The Firm is the main operating insurance subsidiary of DLG and its principal underwriter. The Firm is a general insurer, providing cover for a variety of risks including personal motor and home insurance.
- 1.2. The Firm is regulated by the PRA as a category 2 insurer, meaning it is an insurer whose size, interconnectedness, complexity and business type gives it the capacity to cause some disruption to the UK financial system (and through that to economic activity more widely) by failing, or by carrying on its business in an unsafe manner.
- 1.3. On 1 July 2025, DLG was acquired by Aviva. The events described in this notice all pre-date Aviva's acquisition.

#### Concerns with financial control environment in 2022 and 2023

- 1.4. In 2022 external consultants engaged by the Firm highlighted various issues with the Firm's actuarial and finance functions and aspects of its control environment, all of which required remediation. On 5 December 2022, external consultants who had been carrying out a review of the Firm's financial reporting controls reported interim findings to the Firm's Audit Committee. These included issues with a number of specific controls, as well as a thematic observation of '*stretch in the finance function*' and further control failures. These led to recommendations for improvements.
- 1.5. On 17 April 2023, the external consultants reported their final findings to the Firm's management. They recorded multiple issues within the Firm's finance and actuarial functions, including issues with staff training, where it was noted that on many occasions, staff were '*unable to answer questions which were expected to be answered in line with their role requirements*' and there was a lack of knowledge of accounting concepts and of DLG's own accounting policies. The

same consultants noted they had previously recommended that individuals in new roles or roles with significant change be given adequate training and *'checked that they are capable for their role'*. It was also noted there was *'limited understanding of what documentation is required to capture the performance of a control...and skills such as minute taking are not prevalent.'* Issues were also recorded with resourcing and capacity, where it was observed there were *'bottlenecks'* in the finance and actuarial functions, where a *'limited number of individuals'* had knowledge or ability to deal with queries. This had also led to a deterioration in some controls *'where preparer and reviewer segregation was not possible.'* Reliance on external consultancies for support with queries and challenges was also identified as an issue, and hiring more permanent staff was recommended.

- 1.6. These issues were not limited to the time of the review but had worsened over the previous two to three years during a period when the business had experienced significant change. Deterioration of these issues within the finance and actuarial functions was caused in part by outsourcing of capabilities offshore. This had resulted in a number of experienced individuals leaving the Firm. In later internal interviews conducted by the Firm, it was noted by a member of the DLG Board that the final findings were not surprising and it was not the *'first time that we were being given this message.'* Similarly, it was recognised by a different Board member that the consultant's findings were a sign the Firm was in *'a pretty poor place...from a financial control point of view'* and the position was *'clearly unacceptable'* for an organisation of the Firm's size. The Firm acknowledged these findings and provided a management response which was incorporated into the report provided on 17 April 2023, noting plans were in place and remedial work was underway across the issues identified by the consultants. Resourcing was a key priority throughout the Relevant Period, although this took time to resolve given the seniority and skills required.
- 1.7. The PRA also raised concerns regarding the Firm's control environment in the PRA's 2023 Periodic Summary Meeting (**PSM**) letter, sent to the Firm in early

January 2024.<sup>3</sup> The PRA noted the Firm should ensure adequate resources were deployed to the PRA's areas of concern. Key risks from the 2023 PSM letter which the Firm was to address included the '*Effectiveness of Risk Management and Controls*.' The PRA also noted the findings from the external consultants which had '*highlighted significant issues around specific financial controls as well as the control environment more generally*'.

### Finance and Actuarial Remediation programmes

- 1.8. During the Relevant Period, the Firm instigated three extensive remediation programmes focused on improving its financial and actuarial controls. These programmes were in response to regulatory concerns and issues identified by the external consultants in 2022-2023 as summarised above.
- 1.9. The particular financial and actuarial controls in scope of the remediation work were not directly relevant to the later Miscalculation. However, the remediation projects required significant commitments of time and resource from business units and management in the financial and actuarial teams. This took place during a period in which the Firm was also involved in a number of material commercial projects as set out below, which also required significant input from those teams.

### 2023 Material Commercial Transactions and Changes to Accounting Standards

- 1.10. During the Relevant Period, the Firm entered into three material commercial projects (the '**Material Commercial transactions**'), of which Project Athena was the most relevant to this Notice. Project Athena was a three-year 10% whole account quota share reinsurance agreement entered into between the Firm and two re-insurers. Under the terms of Project Athena, the Firm would share 10% of the premiums it underwrote with the two re-insurers, in exchange for the re-insurers taking on 10% of losses incurred on the policies underwritten in the period covered. Project Athena would support management of the Firm's capital resources. Preparatory work for Project Athena had begun as early as 2020. The

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<sup>3</sup> Periodic Summary Meetings (PSMs) are internal PRA stocktake meetings where supervisors discuss their views on risks which a firm may pose to the PRA's objectives. After the PSM, a letter is sent to the firm outlining key risks and action the PRA expects to be taken.

Project Athena contract was ultimately signed on 25 January 2023, with an agreed inception date of 1 January 2023 and end date of 31 December 2025. Project Athena was the first time the Firm had entered into a reinsurance arrangement of this nature and materiality.

- 1.11. Although the two other Material Commercial transactions did not directly form part of the underlying cause of the Miscalculation, these projects (like Project Athena) drew on limited capacity and resource within the Firm's finance and actuarial functions. A later review conducted in 2024 (described below) found that Project Athena and the two other Material Commercial transactions "contributed to the "noise" on the face of the Solvency II balance sheet" making it harder to identify the Miscalculation.
- 1.12. From 1 January 2023, IFRS 17 ('**IFRS 17**') (a new accounting standard for insurance contracts, such as Project Athena) became effective. The process of preparing for and implementing these changes to accounting standards also drew on the limited capacity and resource within the Firm's finance and actuarial functions.
- 1.13. Firms subject to the UK Solvency II regime ('**Solvency II**') are required to produce a balance sheet (the '**Solvency II balance sheet**') showing assets and liabilities which are recognised in accordance with Solvency II.

### The Athena Change Programme

- 1.14. The Firm began the 'Athena Change Programme' in the Spring of 2022 to manage the negotiation of the terms of Project Athena and its implementation.
- 1.15. At the time, the Firm did not have an existing reporting model that could be deployed to satisfy the Firm's new contractual obligations under the Project Athena contract. The Firm's existing quota-share agreements were all in run-off and were simpler to effect and account for. Project Athena took place at a time when the Firm was simultaneously experiencing a complex business and trading environment; undertaking extensive remediation work; and was engaged in other Material Commercial Projects.

- 1.16. The progress of Project Athena was managed by a working group, set up around April 2022 and overseen by an executive steering group (the '**Athena ESG**') and the Board.
- 1.17. The working group was responsible for considering the risks and ensuring processes were in place in advance of the Project Athena contract. The Athena Change Programme considered (amongst other workstreams) various financial accounting and reporting processes, including which reporting model to adopt; the expected impact of the Project Athena contract on IFRS reporting (including IFRS 17) and Solvency II reporting; and the risks associated with these processes.
- 1.18. However, it appears no specific consideration was given by the Project Athena working group, Athena ESG or the Board, at the time of entry into the Project Athena contract, as to whether the existing financial controls and processes would remain adequate. Neither was specific consideration given as to whether additional preventative or detective controls and/or processes should be introduced, given the effects on financial reporting arising from the Project Athena contract.
- 1.19. There was also a lack of documentation recording risk acceptances made, particularly in relation to operational capacity and resource before going ahead with Project Athena.

### **Preparations to go-live**

- 1.20. After the contract for Project Athena was signed on 25 January 2023 the Firm prepared for its implementation, referred to internally as '*go-live*', which took place in or around May 2023.
- 1.21. The Athena Change Programme focused on preparations for '*go-live*'. These included preparing a paper regarding the accounting treatment of the Project Athena contract (which was supported by external accounting firms). However, the accounting paper did not address how Project Athena would affect Solvency II reporting, focusing only on IFRS reporting.

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- 1.22. Preparations also included the production of a *'Finance Change Readiness Certificate.'* This was prepared by the Finance Risk team (an internal function which designed financial controls and advised on implementing new programmes).
- 1.23. The Firm's Finance Risk team had not been involved in Project Athena prior to the signing of the Project Athena QS Contract, as the team was limited in resources and other change programmes were ongoing within DLG. Additionally, according to a later interview, as the Finance Risk team *'didn't know anything about reinsurance,'* they decided not to be involved in Project Athena.
- 1.24. Nevertheless, the Finance Risk team were asked to undertake a *'light touch review'* of Project Athena. The *'light touch review'* involved reviewing certain items only, such as key controls documentation, processes and the delivery of certain financial reports. The Finance Change Readiness Certificate which was subsequently produced contained the caveat *'full assurance not done'* to reflect the limited scope of this review. Providing a *'light touch review'* was exceptional, as the Finance Risk team had never done this type of review before.
- 1.25. The Finance Change Readiness Certificate identified the overall control environment as amber. This reflected an assessment that the Finance Risk team *'didn't see enough tangible evidence'* to suggest that *'finance understand the operational impact and have a clear view of rules and responsibilities and controls'*.
- 1.26. The Athena ESG received a *'Go-Live Pack'* on or around 22 May 2023. Its purpose was to record the planning and testing of the accounting implementation of the Project Athena contract. The Go-Live Pack contained the Finance Change Readiness Certificate. The pack also identified a key risk that would need to be accepted should the decision be taken to go live as *'...any additional internal reporting requirements will need to be planned and developed if required post Go Live.'* The Athena ESG approved the decision for the Project Athena contract to go live on or around 22 May 2023.
- 1.27. Once the Athena contract went live, the associated financial accounting and reporting processes transitioned to the Firm's finance function to be incorporated

as part of business-as-usual processes. However, the Go-Live Pack noted there was *'limited support from BAU Finance team'* up until this point, and limited involvement from them when it came to building processes. It appears that accounting and reporting solutions for Project Athena had been developed in isolation from the business-as-usual finance function.

- 1.28. Senior staff from the Firm's finance function were of the view that the accounting treatment of the Project Athena contract in accordance with Solvency II was straightforward. Once the processes had been set up, it was assumed the Project Athena contract *'should have just started to flow through'* the 2023 financial reporting.

## 2. Miscalculation – occurrence and internal controls

### Process to generate the Solvency II balance sheet

- 2.1. At the Firm, the Solvency II balance sheet was produced using reported IFRS figures as the starting point, which were mapped and adjusted to create the Solvency II balance sheet. DLG's External Reporting function drew on information provided by several internal functions to produce a quarterly Solvency II balance sheet.
- 2.2. During the Relevant Period, the Firm used an accounting manual (the **'Solvency II Manual'**) to support preparation of the Solvency II balance sheet for quarterly and annual reporting. However, the Solvency II Manual was high level, focussing on the principles to be adopted in measuring and recognising material assets and liabilities when producing the Solvency II balance sheet, rather than documenting all the processes to be followed. The Firm did not maintain more detailed guides setting out the granular steps required to complete Solvency II balance sheet using IFRS figures.

### Internal controls

- 2.3. The key control in place during the Relevant Period to prevent errors in the creation of the Solvency II balance sheet was the quarterly exchange of data between External Reporting and Corporate Actuarial by means of a Data

Exchange File. This was a spreadsheet setting out which IFRS balances the External Reporting team expected the Corporate Actuarial team to include in its calculation of Technical Provisions, ('**Technical Provisions**') (amounts held to meet future policyholder obligations); and which balances were to remain elsewhere within the Solvency II balance sheet.

- 2.4. The Data Exchange File was updated by External Reporting, incorporating IFRS balances and assessing each balance to determine whether it should be written off. On a quarterly basis, the Firm's Corporate Actuarial function then addressed any written-off balances when calculating Solvency II Technical Provisions and producing the Solvency II balance sheet. As a final step, Corporate Actuarial returned the completed spreadsheet to External Reporting for checks before finalising the Technical Provisions and the Solvency II balance sheet.

### **The Double Counting Error**

- 2.5. As insurance business was written by the Firm from 1 January 2023 (upon the execution of the Project Athena contract), a reinsurance asset was built up, largely reflecting the 10% claim recoveries due under the quota share reinsurance under the contract. A double counting error arose in Q1 2023 because elements of the Project Athena contract were in effect accounted for twice, once in the Solvency II balance sheet as an asset, and again as a debit/offsetting asset in the Firm's Technical Provisions. In Q1 2023, the net overstatement in the Firm's Own Funds was approximately £19.7 million. This asset (and the size of the Miscalculation) grew throughout 2023 as it reflected 10% of all business written subject to the reinsurance. By the end of 2023, the Firm was erroneously calculating and reporting its own SCR Coverage Ratio as 170% when the true figure was 161%, representing an Own Funds overstatement of £99.9m. This had the knock-on effect of DLG incorrectly reporting its SCR Coverage Ratio for the same period as 197% (when the true figure was 188%), representing an Own Funds overstatement of £99.9m.
- 2.6. The immediate cause of the double counting error was due to incorrect completion of the Data Exchange File and a lack of communication between the External Reporting and Corporate Actuarial teams as to which balances should be removed from the file and which should be left in. In particular, External

Reporting erroneously left elements of the Project Athena Contract in the Solvency II balance sheet as an asset and failed to remove them.

### 3. Miscalculation – non-detection and correction

#### Non-detection and governance

- 3.1. The double-counting error in Q1 2023 was repeated in Q2 2023, Q3 2023, Q4 2023 and Q1 2024.
- 3.2. During this period, figures which included the double-counting error were discussed at executive level meetings (in particular the Reserving Oversight Committee ('ROC'), and were presented to, among others, the Audit Committee and the Board.
- 3.3. Potential opportunities to detect the error at an earlier stage were missed. From as early as the first ROC meeting following the error, in August 2023, senior staff requested that the reflection of Project Athena in the balance sheet be double-checked. The check requested related to the item that in fact comprised the double-counting error, but nevertheless the error was not detected. A lack of communication between the External Reporting and Corporate Actuarial teams contributed to this non-detection. Significantly, the ROC minutes for the following meeting did not return to this action item. At the relevant time, there does not appear to have been a systematic process of recording or following up action items raised at ROC meetings to establish whether they had been satisfactorily addressed. This contributed to the failure to detect the error sooner.
- 3.4. A later independent review (described below at paragraph 5.9) found aspects of the Firm's internal reporting contributed to the non-detection of the error. For instance, presentation of movements in Own Funds for the year ended 31 December 2023 were high level without an itemised breakdown of what was driving certain movements. Additionally, there was no comparison of the SCR Coverage Ratio against what it was expected to be (including the expected impact of the various transactions entered into in the year).

### Correction of the double counting error and miscalculation

- 3.5. Following FY 2023 and as part of work to improve its financial reporting systems, the Firm identified that simplifications could be made to the accounting process for the Project Athena contract. Changing this process had the effect of unintentionally self-correcting the undetected double counting error by removing the item that had been erroneously double-counted.
- 3.6. During an ROC meeting at the end of July 2024, at which the half-year 2024 report was being reviewed, a member of the committee raised a query concerning the Own Funds calculation, expecting there to have been a greater increase in that number than observed. The Firm investigated the issue and, upon identifying the error, proceeded to verify its nature and scale. That investigation confirmed that there had been an error in earlier Own Funds calculations (e.g. in the FY 2023 accounts), before the double-counting error inadvertently self-corrected when the Firm simplified its relevant account process.

## 4. Reporting and disclosure inaccuracies

- 4.1. As a result of the Firm's miscalculation, the Own Funds and SCR Coverage Ratio reported in its QRTs were overstated for Q1-Q4 2023 and Q1 2024.
- 4.2. The error was compounding in nature as at each quarter the reported value of the total premiums ceded and claims recoverable under the Project Athena Contract increased.
- 4.3. This meant that whilst in Q1 2023 the net overstatement in the Firm's Own Funds was approximately £19.7 million, by year end 2023 the Own Funds overstatement had grown to approximately £100m, and the gap between the misstated SCR Coverage Ratio and the true position had expanded to nine percentage points.
- 4.4. As a result of the miscalculation, the Firm's SCR Coverage Ratio as disclosed in the 2023 SFCR was overstated.

## 5. Disclosure of the Miscalculation

### Disclosure to regulators

- 5.1. The Firm identified the error on 6 August 2024. Senior executives and Board members were updated on the situation as it developed.
- 5.2. On 8 August 2024, the Firm notified the PRA that a potential error had been identified, and its impact was potentially significant. The Firm continued to provide the PRA with updates. Senior individuals within the Firm noted that updating its regulators of the miscalculation issue was a priority.
- 5.3. On 13 August 2024, the Firm provided a paper confirming the fact of an error to the PRA, along with a preliminary root cause analysis of the immediate reasons for the Miscalculation. The paper set out the Firm's finding that two preventative and detective controls were ineffective: i) there was inadequate documentation of the reconciliation between its IFRS and Solvency II balance sheets; and ii) analysis and explanation of movements in FY2023 Own Fund and between IFRS net assets and Own Funds lacked sufficient granularity.
- 5.4. The Firm informed the PRA it would be undertaking a full revalidation of its FY2023 and 1H 2024 Solvency II process and a review of previous reporting periods to assess any impacts from the miscalculation.

### Market disclosure

- 5.5. On 23 August 2024, DLG made a Regulatory News Service announcement acknowledging the miscalculation and the knock-on effect on the reported SCR Coverage Ratio and reporting the correct figure.

### DLG management response and internal remediation

- 5.6. After the miscalculation was discovered, the Firm promptly undertook internal reviews to identify the root causes.

### Root cause analysis

- 5.7. The Firm engaged an external adviser (the '**Accountant**') on 21 August 2024 to undertake a focused and expedited review of the root causes of the miscalculation.
- 5.8. The Accountant produced a report with their findings on 2 September 2024 (the '**Accountant's Report**') which was shared with the PRA on the same day.
- 5.9. The Accountant's Report found the Firm's SCR Coverage Ratio had been miscalculated for every quarter from Q1 2023-Q1 2024. The Accountant identified the root causes were threefold:
- (a) the Athena Change Programme;
  - (b) External Reporting Controls; and
  - (c) Governance.
- 5.10. The report found the Miscalculation emerging from the Project Athena transaction lay in its initial set-up. In particular, the report found the absence of '*sufficiently robust foundations*' undermined the effectiveness of financial controls and the ability of governance functions to assess the impact of the transaction.
- 5.11. The Accountant's Report found the Solvency II Own Funds reporting implications of Project Athena did not appear to have been appropriately considered as a part of the Athena Change programme. The Firm acknowledged there appears to be no evidence that specific consideration was given at the time as to whether the existing control framework would remain adequate given the effects on financial reporting arising from Project Athena.
- 5.12. The Accountant's Report also identified that a number of operational readiness risks for the Athena Change Programme were categorised as '*amber/red*' before the Athena ESG, but with no supporting evidence for how they were to be resolved. Although these operational risks were not directly relevant to the occurrence of the Miscalculation, there was not clear documentation of risk acceptances made or actions to be undertaken in transitioning the management of the Project Athena transaction to business-as-usual processes.

### DLG Management Response to independent root cause analysis

5.13. After reviewing the findings of the Accountant's Report, the Firm produced a response from its management (the '**Management Response**') which it shared with the PRA on 2 September 2024. The Management Response noted the Firm had taken steps to address a number of short term and strategic issues. Immediate actions included reviewing the accounting processes for the other material transactions from 2023 to ensure no Solvency II mapping issues had occurred with these, introducing an improved control sheet to ensure consistent Solvency II accounting treatment of reinsurance debtors and presenting more granular information on the movement of financial metrics. The Management Response outlined strategic actions against the findings of the Accountant's Report. These included:

- (a) Establishing a Transformation Management Office. This function would ensure major change programmes are mandated to consider financial reporting as part of their business case and implementation. It would also to provide central oversight, tracking and recording of risk acceptances.
- (b) Introducing a new 'Chief Controls Officer' to coordinate a consistent approach to first line controls, risk management and reporting.
- (c) Reviewing the culture and resourcing mix of the Firm's finance function, with an aim of reducing reliance on external contractors and consultants and improving communication within the finance function; and
- (d) Undertaking a formal effectiveness review of the Board, its committees and a revised executive committee structure.

## ANNEX B: BREACHES AND FAILINGS

### 1. Breaches

1.1. During the Relevant Period, as a result of the facts and matters set out in Annex A to this Notice, the Firm breached the following PRA rules:

1.1.1. PRA Fundamental Rule 6;

1.1.2. Rule 6.1, Notifications part of the PRA Rulebook; and

1.1.3. Rules 2.4 and 3.2, Reporting part of the PRA Rulebook.

1.2. These rules are set out at Appendix 2.

### 2. The PRA's expectations

2.1. As the prudential regulator for insurers, such as the Firm, the PRA's role is to promote the safety and soundness of those firms, which is advanced by ensuring – amongst other things – that the business of those firms is carried out in a way that avoids any adverse effect on the stability of the UK financial system.

2.2. The provision of complete, timely and accurate prudential data is a key component in the PRA's supervisory approach. The PRA relies on firms submitting sufficient data, of appropriate quality, to inform its judgements about key risks, to measure individual firms' compliance and performance and to feed into macro-prudential decisions. Where the PRA also requires financial information to be published, the accuracy and reliability of that information helps to support transparent and efficient markets.

2.3. Firms should take reasonable care to organise their affairs responsibly and effectively, with adequate systems and controls in place to mitigate and prevent inaccuracies in regulatory reporting. These systems and controls should be commensurate to the size and complexity of the firm and designed to mitigate against potential risks to the integrity of the firm's regulatory reporting.

- 2.4. Accurate and timely prudential data supports going-concern supervision and is crucial in identifying, monitoring and managing periods of when firms are under stress or recovering from such periods. A failure to provide accurate and timely regulatory data can indicate a range of weaknesses in a firm's ability to manage its business prudently. Experience shows that firms who do not produce timely, complete and accurate data during periods of relative stability are less likely to produce it in times of stress.
- 2.5. The PRA expects firms to maintain robust and comprehensive risk management frameworks that enable effective identification, measurement, monitoring, and reporting of risks. Controls should be proportionate to the nature, scale, and complexity of the business and support safety and soundness.
- 2.6. The PRA also expects firms to have available the information needed to support their control frameworks. Boards should receive information of an appropriate quality (current and consistent), integrity (that data is correct), and completeness to provide a reliable basis for making decisions and to control the business within agreed limits and tolerances and should be produced in a sufficiently timely manner. Such information should be able to be accessed and analysed in aggregate for the business as a whole, across the group, and for each business line and legal entity within it, to facilitate understanding and swift management of the risks to which the insurer is exposed.

### 3. Failings

- 3.1. The Firm breached the following PRA rules during the Relevant Period:

#### Fundamental Rule 6

- 3.2. During the Relevant Period, the Firm breached PRA Fundamental Rule 6 (*a firm must organise and control its affairs responsibly and effectively*).
- 3.3. The Firm failed to resolve the longstanding concerns over resourcing and ability within its finance and actuarial functions prior to entering into Project Athena. Despite ongoing efforts to increase resourcing and capability, these

resourcing issues led to stretch within the finance function against a backdrop of a challenging trading environment, several material commercial projects, multiple ongoing remediation workstreams and changing financial reporting standards for insurers. Resourcing issues within these functions contributed to an inadequate control framework which failed to prevent the miscalculation occurring or to detect it in a timely manner.

- 3.4. The Athena Change Programme did not consider the Solvency II Own Funds reporting implications of Project Athena nor the operational impact of this transaction on existing Solvency II reporting processes. Nor did the Athena Change Programme consider whether additional controls should be introduced, or whether existing controls or processes should be enhanced, to ensure Project Athena was correctly accounted for. Project Athena went live despite the presence of operational readiness risks, and although these were ultimately unrelated to the Miscalculation, risk acceptances were not clearly documented. The Firm's planning for the implementation of Project Athena was therefore inadequate and did not focus on Solvency II Own Funds reporting.
- 3.5. There were deficiencies in the Firm's financial control framework. The main preventative control (the data exchange file) was ineffective due to a lack of understanding and communication between the External Reporting and Corporate Actuarial teams regarding which balances should be adjusted or retained in the Solvency II balance sheet. The Firm's detective controls were ineffective due to operating at too high a level. For instance, the ROC was provided with analyses of movements in Solvency II reporting which failed to disaggregate Material Commercial transactions and show how each of these impacted on Own Funds. Nor was there any comparison of the SCR Coverage Ratio against what it was expected to be based on the transactions entered into in 2023. The Firm did not specifically consider the introduction of additional preventative or detective controls given the impact of Project Athena.

- 3.6. Due to weaknesses in the controls of its finance and actuarial functions, the Firm did not organise and control its affairs responsibly and effectively in contravention of Fundamental Rule 6.
- 3.7. Whilst the failings articulated above (and elsewhere in this Notice) did not result in any crystallised harm to policyholders during the Relevant Period, the PRA is concerned with potential as well as actual threats to its objectives. Failures by Firms to accurately record and report financial information may lead them to misunderstand their true financial position as well as undermine the ability of the PRA to effectively supervise them.

### **Notification rule 6.1 - accurate information**

- 3.8. During the Relevant Period, the Firm was required to comply with Notifications Rule 6.1 from the PRA Rulebook, which requires that a firm *'must take reasonable steps to ensure that all information it gives to the PRA in accordance with a rule is:*

*(1) factually accurate or, in the case of estimates and judgments, fairly and properly based after appropriate enquiries have been made by the firm; and*

*(2) complete, in that it should include anything of which the PRA would reasonably expect notice.'*

- 3.9. The Firm breached Notifications Rule 6.1 because information given to the PRA from 2023-2024 (in the Firm's QRTs each quarter from Q1 2023 - Q1 2024, and the 2023 SFCR) was not factually accurate. These documents contained an inaccurate calculation of the Firm's assets and its SCR Coverage Ratio. The SCR Coverage Ratio is an important metric of an insurer's financial strength and it is important to the ability of the PRA to effectively supervise firms that they are provided with accurate financial information. Differences between the reported SCR Coverage Ratio as opposed to the true position are detailed below in paragraph 3.12.

3.10. The Firm accepts it did not take reasonable steps to ensure that information on the SCR Coverage Ratio was factually accurate. The Firm's existing preventative and detective controls were ineffective and did not stop the double-counting error nor prevent it feeding through to the QRTs and SFCR mentioned above.

### Reporting rules 2.4 and 3.2 - reliable information

3.11. During the Relevant Period, the Firm was required to comply with the following reporting rules from the PRA Rulebook:

3.11.1. **Reporting Rule 2.4:** *The information which a firm submits to the PRA in accordance with 2.1 and 2.2 must comply with the following principles:*

*(1) it must reflect the nature, scale and complexity of the business of the firm, and in particular the risks inherent in that business;*

*(2) it must be accessible, complete in all material respects, comparable and consistent over time; and*

*(3) it must be relevant, reliable and comprehensive.*

3.11.2. **Reporting Rule 3.2:** *The information which a firm discloses in its SFCR must include the information required in 2.3 and must comply with the principles in 2.4.*

3.12. The Firm breached Reporting rule 2.4 because information submitted to the PRA, namely the QRTs for Q1 2023-Q1 2024, was incorrect due to the inaccurate calculation and reporting of the SCR Coverage Ratio. The size of the error grew over time due to the compounding nature of the miscalculation. The erroneous miscalculation of the Firm's Own Funds increased from £19.7m to just under £100m during the course of 2023. This fed through into incorrect reporting of the Firm and DLG's SCR Coverage Ratio as follows throughout 2023 as shown in the table below.

SCR Coverage Ratio						
Period	UK I	UK I	UK I	DLG	DLG	DLG
	<i>Reported</i>	<i>Actual</i>	<i>Over-statement</i>	<i>Reported</i>	<i>Actual</i>	<i>Over-statement</i>
	(%)	(%)	(% pts)	(%)	(%)	(% pts)
Q1 2023	129	127	2	148	146	2
Q2 2023	128	124	4	147	142	5
Q3 2023	148	140	8	168	160	8
Q4 2023	170	161	9	197	188	9

3.13. The SCR Coverage Ratio is a key metric used in insurance supervision. The failure to accurately report this in each of the above QRTs meant they were not reliable.

3.14. The Firm breached Reporting Rule 3.2 because the 2023 SFCR incorrectly disclosed its SCR Coverage Ratio as 170% when the true position was 161% (the knock-on effect on group reporting meant the 2023 SFCR reported DLG's SCR Coverage Ratio as 197% when it was actually 188%). This meant the 2023 SFCR did not comply with the principles of Reporting Rule 2.4, namely that the information contained within it must be '*relevant, reliable and comprehensive.*' The failure to accurately report the SCR Coverage Ratio (a key metric) in the 2023 SFCR meant this report was not reliable.

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## ANNEX C: PENALTY ANALYSIS

1. The Firm is authorised by the PRA under Part 4A of the Act. Consequently, the PRA has the power, under s. 206 of the Act, to impose on it a financial penalty for breaching PRA rules.
2. The PRA has concluded that the imposition of a penalty is appropriate in this case.

### PRA Penalty Policy

3. For the majority of the Relevant Period, the PRA's policy on imposing a financial penalty was as set out in '**The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure**', published September 2021 (the '**Sep-21 Policy**'). On 30 January 2024, the policy was updated. From that date up to and including the end of the Relevant Period, the relevant policy was as set out in '**The Bank of England's approach to enforcement: statements of policy and procedure**', published 30 January 2024 (the '**Jan-24 Policy**'), in particular: Annex 1, 'The PRA's approach to enforcement: statements of policy and procedure' (at para 4.40).
4. The Jan-24 Policy states: '*Where a breach spans two policies, two penalty calculations will be considered.*<sup>4</sup> Both policies apply a five-step framework to determine the appropriate level of financial penalty. Where the policies are distinct from one another at Step 2, separate calculations have been applied which have then been apportioned accordingly with reference to the Relevant Period.

### Step 1: Disgorgement

5. At Step 1 of both the September 2021 Policy and January 2024 Policy, the PRA seeks to deprive a person of any economic benefits derived from, or attributable to, the breach of its regulatory requirements, where it is practicable to ascertain and quantify them.

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<sup>4</sup> Jan-24 Policy, Annex 1, para 4.40.

6. The PRA has not identified any economic benefit that the Firm derived from the breaches, including any profit made or loss avoided. The PRA therefore does not require the disgorgement of any sum from the Firm.
7. The Step 1 figure is therefore **£0**.

## **Step 2: Seriousness of the breach**

8. In determining the seriousness of the breaches in this case, the PRA considered the misconduct in the round and has applied both the September 2021 Policy and the January 2024 Policy.

### *Calculation under the Sep-21 Policy*

9. At Step 2 under the Sep-21 Policy, the PRA determines a starting point figure for a financial penalty having regard to the seriousness of the breach by the firm, including any threat it posed, or continues to pose, to the advancement of the PRA's statutory objectives, and the size and financial position of the firm. The PRA would typically use a firm's total revenue or the revenue of one or more business areas as a suitable indicator of its size and financial position to determine a starting figure. Where using revenue as a starting point, the relevant revenue is ordinarily the firm's revenue during its last business year, that is, the financial year preceding the date when the breach ended (**'Relevant Revenue'**).
10. In this case, the breach period ended on 23 August 2024. Therefore, the PRA would ordinarily consider the Firm's revenue in the financial year to 31 December 2023 as its Relevant Revenue. Where revenue is considered an appropriate indicator, the Sep-21 Policy provides that the PRA will apply an appropriate percentage rate (the 'Seriousness Percentage') to the Relevant Revenue to produce a figure at Step 2 which properly reflects the nature, extent, scale and gravity of the breaches.
11. The Firm's revenue for the year ended 31 December 2023 was approximately £3.6 billion.
12. Under the Sep-21 Policy, where the PRA has determined that revenue is not an appropriate indicator, it may use an appropriate alternative indicator. In this case,

the PRA does not consider revenue to be an appropriate indicator as a financial penalty based on a percentage of the Firm's 2023 revenue figures would result in a disproportionately large penalty.

13. The PRA has taken the following factors into account to determine the appropriate alternative indicator:
  - 13.1. The breaches persisted for a significant period of time, until the double-counting error was detected, and the Firm missed opportunities during that time to detect it;
  - 13.2. The breaches revealed weaknesses in certain of the Firm's accounting controls and related governance;
  - 13.3. The PRA attaches considerable importance to timely, accurate and complete submission by firms of reports required under the PRA's rules, and the Firm submitted inaccurate QRTs from the quarterly period Q1 2023 until the quarterly period Q1 2024;
  - 13.4. The PRA attaches considerable importance to the accuracy of information firms include in notifications they are required to publish in accordance with PRA rules. The Firm published an inaccurate SFCR for 2023; and
  - 13.5. The PRA does not consider that the breaches were deliberate or reckless.
14. Having taken into account the relevant factors and having had regard to the matters set out at Annexes A and B, the PRA considers that the appropriate Step 2 figure under the Sep-21 Policy is **£25 million**.

*Calculation under the Jan-24 Policy*

15. Under the Jan-24 Policy: the PRA does not consider a firm's revenue when identifying an appropriate starting figure at Step 2. Instead, it uses a matrix featuring a series of ranges, based on the firm's size and the seriousness of its misconduct to generate a Step 2 figure. On account of the breaches of the PRA's Fundamental Rule 6, in addition to certain rules in the Notification and Reporting Parts of the PRA rulebook as outlined in Annex B, and having considered the

factors discussed at paragraph 13 above, the PRA regards the Firm's misconduct as Level 1 seriousness.

16. The Firm was categorised by the PRA as a Category 2 firm throughout the Relevant Period.
17. Having considered all the facts and having had regard to the applicable PRA penalty matrix as set out in the Jan-24 Policy, the PRA has determined the appropriate Step 2 figure is **£25 million**.

*Apportionment between the Sep-21 Policy and Jan-24 Policy*

18. The Relevant Period in this case lasted 815 days. The Sep-21 Policy was in force for 608 days of that period, and the Jan-24 Policy was in force for 207 days of that period. Apportioning the two respective Step 2 figures above between these two time periods, the PRA has determined the appropriate overall Step 2 figure is **£25million**.

**Step 3: Adjustment for any aggravating, mitigating or other relevant factors**

19. Both policies provide that the PRA may increase or decrease the Step 2 figure to take account of any factors which may aggravate or mitigate the breaches. Any such adjustments will normally be made by way of a percentage adjustment to the figure determined at Step 2.
20. The PRA considers that the following factors, among others, are relevant in this case in determining whether such an adjustment should be made:
  - 20.1. The Firm, and Aviva through the proactive involvement of its senior management team since Aviva acquired the Firm, has demonstrated a commitment to self-reflection and contrition, and has cooperated in an exemplary way with the PRA's investigation, including by voluntarily providing additional material. This material went above and beyond the scope of the information compelled by the PRA in the Account and gave the PRA helpful further context.

- 20.2. The DLG Board took prompt and effective action immediately following identification of the Miscalculation, including by commissioning, on its own initiative, a wide-ranging root cause analysis review which led to a clear management response in relation to underlying controls requiring enhancement.
- 20.3. Since its acquisition of the Firm, Aviva has undertaken significant further steps to remediate the issues identified, and has committed substantial resources to further improve the Firm's financial controls.
- 20.4. The Firm has no previous PRA disciplinary record.
21. On balance, the PRA considers that there are mitigating factors that warrant a downward adjustment of 15% to the Step 2 figure.
22. The Step 3 figure is therefore **£21.25 million**.

#### **Step 4: Adjustment for deterrence**

23. Both policies provide for the same approach at Step 4, namely that if the PRA considers the penalty determined following Steps 2 and 3 is insufficient effectively to deter the person who committed the breach and/or others who are subject to the PRA's regulatory requirements from committing similar or other breaches, it may increase the penalty at Step 4 by making an appropriate adjustment for deterrence.
24. The PRA considers that the Step 3 figure of **£21.25 million** represents a sufficient deterrent to the Firm and others, and so has not increased the penalty at Step 4.

#### **Step 5: Application of any applicable reductions for early settlement or serious financial hardship**

25. Pursuant to paragraph 10.37 of the *Statement of the PRA's policy on enforcement statutory notices and the allocation of decision-making in uncontested cases, and*

*settlement decision-making procedure and policy*,<sup>5</sup> (the '**Nov-24 Policy**') if the PRA and the firm upon whom a financial penalty is to be imposed agree to settle a case involving a financial penalty, the subject will be entitled to a reduction in the amount of that penalty. The reduction, known as a settlement discount, is determined by the PRA in accordance with its policy.

26. The settlement discount available in a given case will depend on a number of factors, as outlined in paragraph 10.40 of the policy. Where the PRA agrees to a subject's participation in the Early Account Scheme ('**EAS**'), the maximum settlement discount will be 50% of the pre-discount penalty amount. In cases where the EAS has not been used, the maximum settlement discount will be 30%.
27. In the present case the PRA agreed to the Firm's request to participate in the EAS. Accordingly, the maximum settlement discount available in this case is 50% of the pre-discount penalty amount in Step 4 above.
28. The PRA's policy sets out relevant factors when the PRA is considering whether, in its view, a discount of up to 50% should apply. These factors include the degree of co-operation shown by the investigation subject with respect to the EAS process, and whether the subject makes early admissions in relation to the potential breaches under investigation. The policy sets out further requirements, at paragraph 10.40(a)(iii), that must be satisfied for an enhanced discount of 50% to apply.
29. In the PRA's view, the Firm's participation in the EAS in this instance met the criteria for an enhanced settlement discount of 50%. In forming this view, the PRA has taken account of various factors, including:
  - 29.1. The Firm engaged proactively and candidly with the PRA, providing a comprehensive, timely, accurate and fulsome Account;
  - 29.2. By providing that Account, the Firm materially assisted the PRA in the efficient and effective conduct of the investigation;

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<sup>5</sup> The Bank of England's approach to enforcement: statements of policy and procedure (current version, November 2024)

- 29.3. Shortly following production of the Account, and significantly in advance of any settlement proposal being put to the Firm by the PRA, the Firm made admissions, both as to relevant facts and regulatory rule breaches;
- 29.4. The Firm has satisfied the PRA that it neither repeated nor failed to stop the behaviour giving rise to the breach; and
- 29.5. The Firm has satisfied the PRA that it has carried out adequate and prompt remediation.
30. The PRA considers the level of co-operation demonstrated by the Firm throughout the investigation, along with its engagement with the EAS, means it is appropriate to recognise an enhanced settlement discount of 50%. Therefore, a 50% settlement discount applies to the Step 4 figure.
31. The Step 5 figure is therefore **£10.625 million**.

## ANNEX D: PROCEDURAL MATTERS

### 1. Decision maker

- 1.1. The settlement decision makers made the decision, which gave rise to the obligation to give this Final Notice.
- 1.2. This Final Notice is given under and in accordance with section 390 of the Act. The following statutory rights are important.

### 2. Manner and time for payment

- 2.1. The firm must pay the financial penalty to the PRA by no later than 31 March 2026. If all or any of the financial penalty is outstanding on 1 April 2026 - the day after the due date for payment – the PRA may recover the outstanding amount as a debt owed by the Firm and due to the PRA.

### 3. Publicity

- 3.1. Sections 391(4), 391(6A) and 391(7) of the Act apply to the publication of information about the matter to which this Final Notice relates. Under those provisions, the PRA must publish such information about the matter to which this Final Notice relates as the PRA considers appropriate. However, the PRA may not publish information if such publication would, in the opinion of the PRA, be unfair to the persons with respect to whom the action was taken or prejudicial to securing an appropriate degree of protection to policyholders.

### 4. PRA contacts

- 4.1. For more information concerning this matter generally, please contact Press Office ([Press@BankofEngland.co.uk](mailto:Press@BankofEngland.co.uk)).

## APPENDIX 1: DEFINITIONS

The definitions below are used in this Notice:

1. **'Act'** means the Financial Services and Markets Act 2000 (as amended);
2. **'Accountant'** means the independent adviser engaged by the Firm on 21 August 2024 to undertake a review of the root causes of the Miscalculation;
3. **'Accountant's Report'** means the root causes report produced by the Accountant on 2 September 2024 setting out their findings;
4. **'Athena ESG'** means the Project Athena Executive Steering Group, that is, the executive steering group at the Firm, with responsibility for overseeing Project Athena;
5. **'Aviva'** means the insurance company Aviva plc, which since 1 July 2025 is the group holding company of DLG and the Firm;
6. **'Discount Stage'** means the period during which a firm or individual may qualify to for a reduction in financial penalty (up to 50% in cases where the EAS has been used), pursuant to the PRA Settlement Policy, by reaching a settlement at an early stage;
7. **'DLG'** or **'Direct Line Group'** means, DLIG plc and its subsidiaries collectively;
8. **'DLIG plc'** means Direct Line Insurance Group plc, which until 1 July 2025 (prior to the completion of the Aviva Acquisition) constituted the group of companies headed by DLIG, which group includes the Firm;
9. **'EAS'** means the Early Account Scheme, described in detail in the 'The PRA's approach to enforcement: statements of policy and procedure' within the Nov-24 Policy, available on the Bank of England's website;
10. **'FCA'** means the Financial Conduct Authority;

11. **'Firm'** means UK Insurance Limited, a subsidiary of DLIG plc and the principal insurance underwriter of DLG, authorised by the PRA and regulated by the PRA and FCA, with Firm Reference Number 202810;
12. **'IFRS'** means the International Financial Reporting Standards, which are a recognised set of accounting rules issued by the International Accounting Standards Board;
13. **'IFRS 17'** means the new IFRS accounting standard for insurance contracts, which became effective for annual reporting periods beginning from 1 January 2023;
14. **'Jan-24 Policy'** means the version of 'The Bank of England's approach to enforcement: statements of policy and procedure' published by the Bank in January 2024, available on the Bank of England's website;
15. **'Management Response'** means the response document produced by the Firm after reviewing the findings of the Accountant's Report;
16. **'Material Commercial transactions'** is a reference to the three material commercial projects entered into by the Firm during the Relevant Period, including Project Athena;
17. **'Miscalculation'** means the double-counting error that caused the breaches forming the basis of this Notice;
18. **'Notice'** or **'Final Notice'** means this notice, together with its Annexes and appendices;
19. **'Nov-24 Policy'** means the version of 'The Bank of England's approach to enforcement: statements of policy and procedure' published by the Bank in November 2024, available on the Bank of England's website;
20. **'Own Funds'** has the meaning given in the Glossary of the PRA Rulebook, for the purposes of the Solvency II Firms Sector of the PRA Rulebook, throughout the Relevant Period;

21. **'PRA'** means the Prudential Regulation Authority;
22. **'PRA Penalty Policy'** means the 'Statement of the PRA's policy on the imposition and amount of financial penalties under the Act' contained in the 'PRA's approach to enforcement: statutory statements of policy and procedure'. The relevant versions are those set out in the Sep-21 Policy and the Jan-24 Policy;
23. **'PRA Rulebook'** means the Prudential Regulation Authority Rulebook;
24. **'PRA Settlement Policy'** means the 'Statement of the PRA's policy on enforcement statutory notices and the allocation of decision-making in uncontested cases, and settlement decision-making procedure and policy' contained in the Nov-24 Policy;
25. **'Project Athena'** means the 10% whole account quota share reinsurance agreement entered into on 25 January 2023, between the Firm and two re-insurers, with an agreed inception date of 1 January 2023 and end date of 31 December 2025;
26. **'PSM'** means the Periodic Summary Meeting of the PRA;
27. **'QRT'** means the Quantitative Reporting Templates;
28. **'Relevant Period'** means the period from 1 June 2022 to 23 August 2024;
29. **'Relevant Revenue'**, in accordance with the Sep-21 Policy and in the context of calculating a financial penalty, means the firm's revenue during its last business year, that is, the financial year preceding the date when the breach ended;
30. **'ROC'** means the Reserves Oversight Committee of the Firm, with responsibilities relating to the reserving process for the UK regulated general insurance companies within Direct Line Group;
31. **'SCR Coverage Ratio'** means Solvency Capital Requirement coverage ratio, which is a metric comparing a firm's capital resources against its Solvency II capital requirement;

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32. **'Sep-21 Policy'** means the version of 'The Bank of England's approach to enforcement: statements of policy and procedure' published by the Bank in September 2021, available on the Bank of England's website;
  33. **'SFCR'** means the Solvency and Financial Condition Report, as detailed in Chapters 3 to 6 of the Reporting Part of the PRA Rulebook;
  34. **'Solvency II'** is a reference to the Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (No 2009/138/EC), as implemented in the Solvency II Firms Sector of the PRA Rulebook;
  35. **'Solvency II balance sheet'** means the balance sheet that firms subject to the UK Solvency II regime are required to produce, showing assets and liabilities which are recognised in accordance with Solvency II;
  36. **'Solvency II Manual'** is a reference to an accounting manual used by the Firm to support preparation of the Solvency II balance sheet for quarterly and annual reporting;
  37. **'Technical Provisions'**, means the provisions a Solvency II firm establishes with respect to all of their insurance and reinsurance obligations towards policyholders;
  38. **'UK'** means the United Kingdom; and
  39. **'Final Notice'** or **'Notice'** means this notice, together with its Annexes and appendices.

## APPENDIX 2: RELEVANT STATUTORY AND REGULATORY PROVISIONS

### The PRA's objectives

1. The PRA has a general objective, set out in section 2B(2) of the Act, to promote the safety and soundness of PRA-authorised persons. Section 2B(3) of the Act provides that the PRA's general objective is to be advanced primarily by:
  - (a) seeking to ensure that the business of PRA-authorised persons is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and
  - (b) seeking to minimise the adverse effect that the failure of a PRA-authorised person could be expected to have on the stability of the UK financial system.
2. The PRA also has an insurance objective, set out in section 2C(2) of the Act, to contribute to the securing of an appropriate degree of protection for those who are or may be policyholders.

### Section 206 – Disciplinary powers

3. Section 206 of the Act provides that: *'If the appropriate regulator considers that an authorised person has contravened a relevant requirement imposed on the person, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate'*.
4. The Firm is an authorised persons for the purposes of section 206 of the Act. Relevant requirements imposed on authorised persons include rules made under the PRA Rulebook, including the PRA's Fundamental Rules.

## RELEVANT REGULATORY PROVISIONS

The relevant rules from the PRA Rulebook are as follows:

### PRA's Fundamental Rules

5. The PRA has eight Fundamental Rules which apply to all PRA-authorized firms. These are high-level rules which collectively act as an expression of the PRA's general objective of promoting the safety and soundness of regulated firms. The relevant PRA Fundamental Rule is as follows:

5.1. Fundamental Rule 6: 'A firm must organise and control its affairs responsibly and effectively.'

## Notifications

6.1 A firm must take reasonable steps to ensure that all information it gives to the PRA in accordance with a rule is:

- (1) factually accurate or, in the case of estimates and judgments, fairly and properly based after appropriate enquiries have been made by the firm; and
- (2) complete, in that it should include anything of which the PRA would reasonably expect notice.

## Reporting

2.4 The information which a firm submits to the PRA in accordance with 2.1 and 2.2 must comply with the following principles:

- (1) it must reflect the nature, scale and complexity of the business of the firm, and in particular the risks inherent in that business;
- (2) it must be accessible, complete in all material respects, comparable and consistent over time; and
- (3) it must be relevant, reliable and comprehensive.

3.2 The information which a firm discloses in its SFCR must include the information required in 2.3 and must comply with the principles in 2.4.

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## RELEVANT POLICY

### Approach to the supervision of insurers

6. 'The Prudential Regulation Authority's approach to insurance supervision, April 2013' (as updated in July 2023) sets out the PRA's approach to insurance supervision.

### Approach to enforcement

7. 'The Bank of England's approach to enforcement: statements of policy and procedure', as amended from time to time, sets out the PRA's approach to exercising its main enforcement powers under the Act. For the purposes of this Notice, the relevant versions of the PRA's approach document are those published in September 2021, January 2024, and November 2024.
8. The PRA's approach to the imposition and amount of penalties is outlined in the PRA Penalty Policy, contained within 'the Bank of England's approach to enforcement: statements of policy and procedure'. The versions that were in force during the Relevant Period are those published in September 2021, January 2024, and November 2024. The PRA's approach to settlement is outlined in the PRA Settlement Policy, as set out in the 'Bank of England's approach to enforcement: statements of policy and procedure' published in November 2024.