

Insurance capabilities

2016



Introduction

Insurance – the change challenge

Tim Roff



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Business models and capital requirements are changing. Government policies and regulations are changing. Customers' expectations and our relationship with Europe is changing. Change it seems, is the only constant in the world of insurance today. If future strategic success is to be achieved, change is required, if not mandatory.

In this document, we have highlighted many of these changes, commented on some of the major themes now current in the market today and shared some examples of how we are helping companies to navigate these successfully.

In setting out our insurance capabilities we have opened with customer and product themes, followed with the more traditional regulatory, risk and capital topics and concluded with the capabilities across our wider Financial Services Group.

We are passionate about our work in the insurance sector. We continue to work collaboratively with a wide range of stakeholders to develop solutions to the challenges the market face and work tirelessly to support the implementation of these.

We hope you enjoy this brochure and look forward to discussing these and other themes with you in the future.

A handwritten signature in black ink, appearing to be 'Tim Roff', written in a cursive style.

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Changing market and distribution

Stuart Riddell



We require 'end to end' advice which allows us to evolve our capabilities with and increasingly dynamic market

Head of Strategy
FTSE 100 Insurance Group



Customer expectations of their insurance providers continue to evolve driven by technology but also by changes to their lifestyle – they expect to have simple interactions at points which are convenient to them. This is overlaid by an evolving regulatory landscape which is increasingly assertive as to how firms should engage both with customers and the wider market.

Insurers face the challenge of trying to grow their share of customers' wallets whilst facing into numerous challenges for ownership of the value chain. Aggregators continue to grow beyond their heartland of motor insurance, including into the life market, whilst famous brands seek to grow their revenue by expanding their offerings to include insurance.

Banks, facing a continuing low interest environment, are now re-examining how risk appetite and greater sales of insurance can align. IFAs are defining their role in a post RDR landscape and seeking to demonstrate value for customers who are increasingly comfortable with self service .

Insurers are presented with a raft of new technology solutions but have limited budgets so must place their bets wisely.



How we can help

You need

- A clearly defined strategic planning process
- Robust understanding of your current capabilities and where your key investment areas are
- An articulation of your target customers and why your products and services would make them choose you

We can

- Develop and improve your strategic planning processes
- Analyse your current operating model and map a pathway to your desired state
- Develop customer and distribution strategies and leverage our expertise at market analysis

A sample of our experience

Case Study

Grant Thornton were asked to conduct a review of a Life & Pension provider's UK strategy plan, which included providing insight and background on market related issues.

This helped the UK Board, and executive team of the client, agree and implement a robust medium term plan.

Case Study

We developed a robust process to articulate the five year strategic plan for a major insurance company. This included market analysis, articulation of risks and issues, and the development of a high level financial plan.

Work also included the development of a change portfolio to support this strategy (including new product developments, system investment and digital programmes) which was prioritised and agreed with the executive sponsor



Age of the customer

Sandy Trust



A world of change and challenge for the insurance industry – international and domestic regulations, the digital and data agenda, disruptors, enforced changes to distribution, technology and of course Brexit to name a few. But the customer needs are unchanged, they remain critically important and simply articulated – to pay for life (by securing enough wealth to ensure purchases can be made and later life funded) and to be protected against the uncertainties of life.

New entrants are showing customer engagement really can be done – leading on deeper understanding of customers and innovative engagement techniques. The prize is to become the provider of choice for a range of financial products over a significant length of time for each customer. Easy to say, hard to deliver, requiring clear strategic direction, the right product suite and crucially the right engagement with each customer as a valued individual – which in turn demands better customer analytics to facilitate segmentation and understand behaviours.

Customers remain high on the regulatory agenda, with severe penalties for getting it wrong and new guidance in both the life and general sectors. Interestingly, the tone from the top at the FCA has changed a little under Andrew Bailey, as he seeks to find the right balance between the duty of care towards consumers, the duty of responsibility of consumers for their decisions, the role of firms and the role of the regulator.

In summary, firms who can build a market defining customer capability could benefit commercially from improved brand, market penetration and increased wallet share per customer. Conversely, falling behind increases the risk of customer dissatisfaction and potential regulatory censure.

How we can help

You need

- To build engagement and loyalty with your customers by providing a customer experience that exceeds their expectations.
- To provide them with products that are simple for them to use and understand – but deliver the results they need
- To identify and resolve any latent risks of poor customer outcomes within your book.

We can

- Support you with a customer segmentation exercise, using both structured and unstructured data
- Provide you with advice around Fintech and digital tools to facilitate easier customer interactions
- Support you with incorporating behavioural nudges into your product design
- Carry out product reviews to identify pockets of risk in your book
- Support you with running remediation exercises in a robust and efficient manner

A sample of our experience

Case studies

- We have carried out customer outcome modelling to investigate optimal at retirement product strategies for different individuals
- We have helped to develop and implement customer segmentation models
- We have examined shortcomings in both financial promotions, advised and non-advised sales processes, complaints and claims handlings, making recommendations to improve customer understanding throughout the customer journey
- We have carried out a wide range of product reviews, including acting as the skilled person.

Case studies

- We have extensive remediation experience and have supported clients with all aspects of remediation, including:
 - ✓ Data analysis and population ID;
 - ✓ Development of remediation methodologies and robust calculators;
 - ✓ Remediation processes and controls; and
 - ✓ Regulatory and customer communications.



The fintech agenda

Neil Furnivall



Digital is our top customer experience priority

Client Customer
Service Director



New technologies have enabled solutions to insurance services that would have been unthinkable a few years ago. This combination of technological change, ever higher customer expectations, and regulatory drivers, has led to some delightfully innovative offerings and an explosion in the fintech market worth circa £ 20 billion in 2016.

The initial view of Fintech companies were as start-up disruptors competing against the incumbent players. What has emerged however is a much richer combination of approaches with large players collaborating, investing or imitating the start-ups. By leveraging the experience of those who are on the leading edge, it is possible to significantly increase your organisation's capability and understanding.

All trends indicate that staying abreast of technological developments and integrating them into the business is becoming a fundamental capability for business growth. The number of insurtech companies is lower than would be expected given the size of the industry, but the potential for change remains high. Depending on the particular developments in question, this may be a transformative change affecting the entire business model, or a more incremental approach focusing on particular performance improvements.

However, hand in hand with responding to fintech developments comes the challenge of embedding appropriate controls to manage the associated data and cyber security risks. Meeting the expectations of current and future customers to have instant and increasingly mobile access to products and services inevitably means a weaker perimeter – and organisations must tread carefully in order to be able to compete for customers whilst maintaining a risk exposure within appetite.

How we can help

You need

- Clarity over your overall strategy to keep ahead of fintech developments and define a response
- The business case to convince internal stakeholders of the size and urgency of investment and change
- Implementation and development of new technologies and delivery via innovative solutions
- A cyber security framework that keeps you safe

We can

- Provide practical and pragmatic advice on fintech developments in the Insurance space
- Assess your response to the fintech challenge and the impact on your business, including M&A advice
- Deliver market leading support for distribution developments, particularly video advice, and the change needed for growth
- Cyber security risk framework advice or penetration testing

A sample of our experience

Case Study

We worked with a large UK financial institution to set up and manage their innovation data lab to deliver innovative solutions using data. This covered the identification of areas for improvement within the company; setting up the associated technology tools and culture to support the innovation; and delivery of measured results and change improvements.

Case Study

We developed business Requirements, Solution Design, and Target Operating Model for an innovative video conferencing solution to selected branches for an adviser network. We undertook this project in three months and worked with all core functions from customer facing channels, to compliance to enterprise IT services. This project received a highly commended award from the MCA.



Better customer targeting and service

Paul Willis



Changes in customer expectations and demand (primarily driven by technology) and a rapidly evolving customer focused regulatory landscape have driven marked changes in the ways firms engage their customers and the wider market. The insurance sector has fallen behind others (such as banking) which have embraced this agenda in driving the provision of stronger customer service experiences (and thereby promoting greater brand loyalty).

In particular customers' increasing expectations are being serviced through leveraging technology, delivering the right products and services for that customer at the right time through the right (customer) desired channel.

The voice of the customer is now louder and more powerful than it has ever been and the consequences of ignoring this can be catastrophic.

Effective measurement of customer loyalty and engagement allows firms to (a) rapidly monitor, react, adapt and demonstrate customer interests; and (b) evidence that the broad range of regulatory requirements are being met in line with customer needs.

The diagram below is drawn from the Grant Thornton Customer Loyalty and Experience Index (CLIX), it shows how Financial Service brands are performing in the eyes on their customers both against each other and out of sector Brands. The Index is based on 16,000 customer responses. Most telling it shows performance of the Insurance Sector falling behind other Financial Service Sectors and leading retail brands.



How we can help

You need

- To be able to demonstrate that the needs of the customer are being met by your regulatory environment
- To know whether the processes and activities undertaken within the firm closely align to the customer's desire journey (and where to look if it doesn't)
- Accurate information on the market trends (and where you sit in relation to these) to allow customer focused strategic and operational decision-making.

We can

- Provide you with detailed understanding of your market and the business operations within it
- Produce extensive customer feedback indexes, and in particular align these to your specific customer models to highlight areas of for revision or improvement
- Support you with data collection and analysis capability

This will deliver clarity at a granular level of your customer expectations, your performance and what you can do to target investment for best customer benefit.

A sample of our experience

Case study

- We independently survey over 7000 financial services customers annually from more than 30 Life and Pensions and Banking brands.
- Our analysis provides an Index of the relative position of Brands as regards brand experience and resultant customer loyalty.
- This survey is used extensively by our clients for 3rd party assurance of their own customer research, provides broader market trending data and additional feedback on clients 'go to market' approaches.

Case study

- Using our customer analysis feedback we worked with our client to design an improved operating model to support their engagement with their customer base directly (and also with their outsource partners).
- This led to rapid and direct improvements in customer service across a range of critical touch points including complaints handling and servicing.
- On-going monitoring and feedback was also implemented to enable a demonstrable feedback loop to allow for further improvements going forward.



Conduct risk management

Jon Sperrin



Despite changes at the top of the organisation and the approach to supervision, the FCA’s strategic objective of ‘ensuring relevant markets function well so consumers get a fair deal’ remains unchanged. This has been brought into sharp focus in the life sector with the recent intense focus on annuity sales, the publication of the first Independent Governance Committee reports and the findings, and the enforcement action arising from the thematic work on the fair treatment of long standing customers. The FCA has indicated that further work in this area will be carried out – and supervisory work continues across the insurance spectrum.

In order to successfully demonstrate to the FCA that the customer really is at the heart of the business and products deliver value for money, a robust conduct risk framework, fit for purpose when viewed through the modern lenses of competition economics and customer outcomes is of fundamental importance.

The FCA expects a firm to address any products or aspects of its offering that risk poor customer outcomes. Failure to meet the FCA’s expectations on this increases the risk of the FCA concluding that a firm is unable to identify and thus manage the risks inherent in a product portfolio – severely constraining a company’s ability to plan strategically and increasing the risk of reactive and less effective engagement with the regulator.

Enforcement and Remediation

A product might be inherently flawed, too complex, or poorly designed for the target market. The execution of the product might be poor – poor sales practices or administration systems unfit for purpose. Or external pressures, such as unanticipated economic conditions, pressure from the media, the regulator or politicians, may cause a product to fail or to become unsuitable when viewed through a modern lens.

Regardless of the driver of product failure, enforcement and remediation exercises can be both time consuming and costly, with the risk of further regulatory censure and accompanying brand damage if not executed in a timely manner.

How we can help

You need

- To identify and resolve any latent risks of poor customer outcomes within your book
- To understand the extent to which your book of longstanding customers is sustainable from a conduct risk perspective
- Interact consistently and convincingly with the regulator
- Embed an honest and open culture with regards to challenging the status quo and genuinely putting the customer at the heart of your business

We can

- Provide you with support in preparation for FCA visits, enforcement action or S166 reviews
- Support you with analysing your business model and developing and embedding your conduct risk framework and culture
- Support you with running remediation exercises in a robust and efficient manner

The benefits to you are more successful interactions with the regulator, a better understanding of your risk profile and lower delivery costs on required actions.

A sample of our experience

Case studies

- We have acted as the Skilled Person in a number of recent product reviews
- We have examined shortcomings in both financial promotions, advised and non-advised sales processes, complaints and claims handlings, making recommendations to improve customer understanding throughout the customer journey
- We have helped firms articulate their RPPD responsibilities, aligned processes and controls to ensure their effective working towards good customer outcomes.

Case studies

- We have extensive remediation experience and have supported clients with all aspects of remediation, including:
 - ✓ Data analysis and population ID;
 - ✓ Development of remediation methodologies and robust calculators;
 - ✓ Remediation processes and controls; and
 - ✓ Regulatory and customer communications.



Actuarial Delivery

Simon Sheaf



"I've been delighted with the delivery of the Grant Thornton actuarial team – they understood our needs well, integrated very well with my team and have helped us to transform our modelling capabilities. The difference for me has been the 'can do' attitude and ability to find practical solutions quickly"

Chief Actuary
Medium sized insurer



Regardless of the changes to internal structures that finance effectiveness or transformation programmes make, robust and efficient actuarial delivery remains a critically important part of the operating model. The technical implementation of Solvency II has had significant focus recently but the universe of change the industry faces is much broader than capital and risk reporting, with significant changes to the product and distribution environment, rapidly changing customer expectations, macro-economic uncertainty and of course wider regulatory requirements, to name a few.

Innovation and delivery in the actuarial space are key to allowing companies to not only navigate the many challenges facing them but also to compete more effectively in the market. Whether it is delivery on quarterly reporting processes (from both an efficiency and robustness perspective), improved understanding of and pricing of risk, innovation around pensions freedom or protection products, development of better customer metrics and analysis or delivering on capital initiatives a dynamic actuarial capability, open to change and challenge, working highly collaboratively with the rest of the business is of fundamental importance.

How we can help

You need

- An efficient and streamlined reporting process, underpinned by robust and well controlled models, allowing you to spend less time on production and more on value add
- Expert opinions for Part VII transfers or Section 166 reviews, or transaction related due-diligence
- A robust product governance process, both for the development of new products and the pricing and monitoring of existing products.

We can

- Develop and improve your target operating model, your control environment and your models.
- Provide actuarial support for mergers & acquisitions, start-up, IPO, disposals, portfolio transfers, commutations and novations.
- Act as Actuarial Function Holder, With-Profits Actuary, skilled person or independent expert.
- Develop customer outcome and value for money analytical tools.
- Provide business as usual actuarial support on reserving, pricing and management information.

A sample of our experience

Process & Performance

Some examples of our engagements include establishing a target operating model, implementing improvements to control frameworks, automating key sub processes, testing existing models and rebuilding actuarial models.

We have also helped clients to optimise their regulatory capital requirements, optimise the deployment of economic capital, improve return on equity, reduce balance sheet and income statement volatility and improve new business value.

Transactions and Expert Opinions

Some examples of our engagements include deal modelling, actuarial due diligence, acting as an Expert Witness, a Skilled Person on Section 166 Reviews, an Independent Expert for a Part VII Transfer, the Solvency II Actuarial Function Holder and the Scheme Actuary for a Scheme of Arrangement.



Pace of regulatory reporting change

Andy Heffron



It is important to maintain an active market in audit services for Financial Services and Grant Thornton is an example of an excellent alternative to the Big 4.



If the number of pages in Solvency II regulatory text, spreadsheet templates and log files appear daunting, it is not until insurers move to quarterly reporting within new compressed timelines and add the discipline of third-party review, that the true scale of the task really dawns. Data issues previously managed by manual workarounds, IT systems that cannot cope and legacy reporting routines all come into sharp focus. The complexity and granularity of regulatory reporting has substantially increased, as have quality control thresholds over SII balance sheet preparation. Resources continue to be a challenge as financial results are required on both new and old bases, with appropriate reconciliations and commentary.

Pillar III is all too often the underinvested area of SII implementation. While many insurers are playing catch-up, competing priorities continue to emerge:

- The second wave of IMAP - many market participants are developing partial internal models.
- For some insurers, recent market events or business model changes will trigger recalculation of transitional measures shortly after initial approval.
- Boards are occupied with developing adequate strategic responses to uncertainties arising from the 'Brexit' referendum and are facing new challenges with potential commercial sensitivity around required public disclosures.

Adding to the financial reporting pressure, IFRS reporters have to commence implementation of new or amended IFRSs on insurance contracts, financial instruments, leases and revenue recognition, etc. The IFRS transitional timeline is compressed further by the need to account for the new standards' impact on Solvency II balance sheets earlier than in IFRS accounts: eg where the IFRS implementation date is within the ORSA planning horizon.

In this context, the Solvency II focus on robust governance, forward-looking and risk-sensitive capital assessment, and market-consistent valuations raise the bar significantly for narrative reporting. The first set of annual QRTs, Solvency and Financial Condition Report and Regular Supervisory Report are due shortly. If insurers are to achieve these new heights, they will need their teams to be performing dry-runs now.

How we can help

You need

- A lean process to report within ever accelerating reporting deadlines
- Efficient routines for SII narrative reporting across Finance, Risk and Actuarial and key business divisions
- Robust performance analytics to monitor the business
- Aligned GAAP and SII valuation and reporting policies
- Reliable data and automated balance sheet valuation models with rapid response times
- Efficient process to implement new IFRSs and project impact for your ORSA

We can

- Streamline your reporting process and SII balance sheet controls
- Design and implement routines for SII P&L Attribution or Source of Earnings analyses.
- Assist your FRS102/FRS103 risk analytics and sensitivities reporting
- Enhance governance and disclosure over SII and GAAP valuation uncertainty
- Assist you remediate QRT data gaps
- Design SII monitoring MI
- Assess the impact of new IFRSs (eg Insurance, Leases) and manage implementation projects
- Train your teams

A sample of our experience

- We have delivered an FRS 101 conversion for the UK subsidiaries of one of the largest global reinsurers with branches in Europe and North America.
- We advised a top UK insurer in the implementation of their SII Pillar III reporting solution and FRS102 and 103 risk sensitivity disclosures
- We have assisted numerous intermediaries with their transition to new UK GAAP FRS 102, including one of the world's largest brokers.
- We are advising a leading annuity provider in the IFRS and SII interpretation of their reinsurance program and structure for Matching Adjustment purposes.
- We are experienced in implementing Pillar III QRTs and narrative reporting solutions for insurers of varying scale.
- We are working with insurers for the second wave of IMAP and provide assurance under the PRA's 2-step review process of SII Balance Sheets.
- We provide training to compliance and internal audit teams of insurance broker on the reporting and control requirements around regulatory returns (RMAR).
- We have also partnered with LIIBA in their 'new UK GAAP' training program.



Keeping the company safe

Sarah Talbott



Through a co-source arrangement, GT have provided us with specialist expertise relating to a number of technical areas in the internal audit of our IT GC environment. I found and continue to find their staff to be very professional, pragmatic and responsive to our ever demanding requirements.

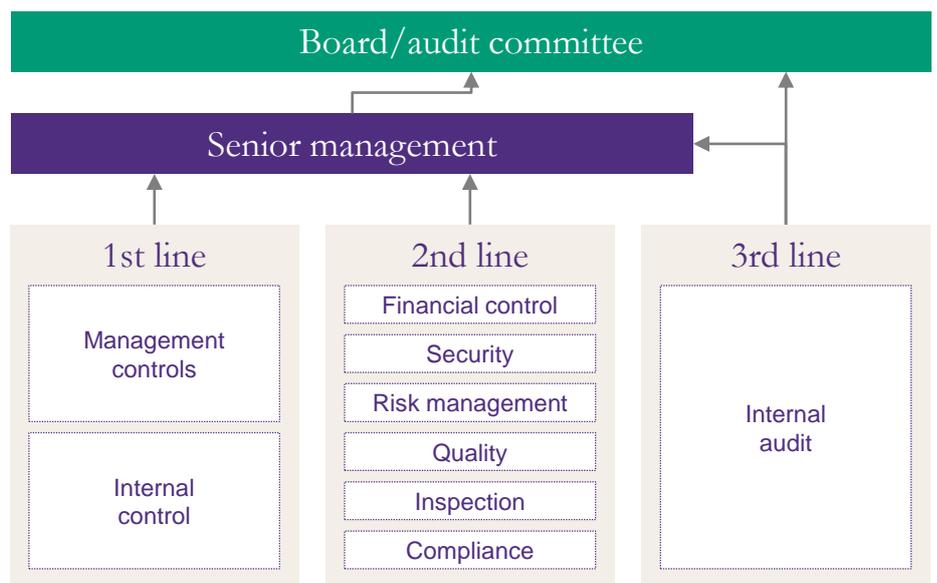
Group Head of Internal Audit, General Insurer



Firms are facing increasing threats from external sources, such as the impact of regulatory sanctions, commercial pressures in soft-market conditions and those risks posed by emerging cyber and technological innovations.

One of the key considerations is therefore how best to keep the company safe from such threats, in a cost-effective, practical and appropriate manner. By strengthening the internal 'three lines of defence' through its integrated assurance, a firm is better placed to identify and manage the risks it faces, in order to achieve its specific objectives.

We are seeing a greater role for the CRO and many firms putting commercial individuals into these positions with a view to getting added value from the Risk Function, not just compliance. We also see an increased emphasis on implementing a risk operating model across the organisation that can demonstrate it is both efficient and effective.



How we can help

You need

- Objectivity and independence – a fresh and unfettered view of the key risks facing your organisation and the adequacy of mitigating control solutions
- Strengthened controls and a more mature and further embedded risk culture
- Ongoing support to understand and manage new and emerging regulatory requirements

We can

- Internal audit services, on a fully outsourced or co-sourced basis
- External Quality Assessment (EQA) reviews of your Internal Audit function effectiveness
- Joined up approach with Regulatory, Risk and Actuarial colleagues
- integrated assurance through assessment of, and reliance upon, first line (operations) and second line (risk & compliance)

A sample of our experience

Case Study

We provide fully outsourced internal audit services for a number of insurance carriers. We continually work with the business to understand, assess and test key parts of the organisation. We develop and present risk-based internal audit plans and engage regularly with senior management and the Audit Committee. We have also provided regulatory audits and other specialist reviews to ensure all key risk areas are appropriately controlled.

Case Study

We are the co-source internal audit partner for a large number of Internal Audit Functions of Companies and Brokers across the GI and Life Markets. We provide experienced internal audit staff and subject matter expertise to supplement the client's resources on specific reviews and also provide specific technical input where required, for example, regulatory actuarial, risk or cyber security reviews.



Financial services group

Insurance businesses operate in an increasingly competitive and heavily regulated environment.

Grant Thornton’s multi-disciplinary Financial Services Group (FSG) uses its deep knowledge of the sector to provide robust, independent and professional advice on today’s most important issues. FSG is a market-focused financial advisory and consulting practice. Whether it’s a significant change programme, a major issue, a complex problem, an unforeseen crisis or just a straightforward technicality, we are there to guide you through it.

FS Regulatory

Our Regulatory Consultancy team provides innovative, but practical, solutions to firms to deliver the assurance and outcomes that both our clients and their regulators require.

Conduct	Governance
Prudential	Compliance

FS Business Consulting

Our Business Consulting practice provides market-leading strategic, operational and change management consultancy services.

Strategic Advisory	Operational Excellence
Change & Project Management	Data & Analytics

FS Business Risk Services

Our Business Risk Services (FSBRS) team provides market-leading risk, control and governance services to the sector.

Finance & Risk Management	Technology Risk Services
Internal Audit	IT Advisory

FS Actuarial and Risk

Our Actuarial team provides a full range of actuarial services to clients in the life, general insurance and pensions sector.

Capital Management	Solvency II
Independent expert	Risk Management



FS Transactions & Restructuring

Our FS Transactions and Restructuring practice provides a range of corporate finance and transaction consultancy services to clients.

Transaction Support	Restructuring
Leasing & asset finance advisory	M&A due diligence

FS Tax

Our FS Tax practice provides a range of tax advisory services to clients across the sector.

Tax advisory & compliance	Employer solutions
Indirect tax planning	VAT & Optimisation

FS Audit

Our FS Audit practice provides a range of audit services including financial/regulatory reporting, internal control assurance, Solvency II.

Financial reporting & assurance	Regulatory reporting & assurance
Internal controls assurance	Financial Processes

Financial Crime & Investigations

Our Financial Crime & Investigations team help organisations mitigate against, understand and respond to a wide range of financial crime issues.

FC regulatory compliance and S166	Internal investigations
Commercial disputes	Digital Forensics and e-Discovery

Why work with us

1

Financial Services Experience

Grant Thornton's UK Financial Services Group (FSG) is focused wholly on working with financial services institutions. We make it our business to understand all of the strategic issues facing the industry. Our aim is to act as a long term partner for our clients in addressing these issues.

2

An interdisciplinary approach

Our team is made up of skilled individuals from a variety of backgrounds: accountancy, actuarial, regulatory and compliance, risk, audit, strategic and operational advisory experts. We are also able to draw on the expertise and resources of Grant Thornton's wider service lines covering forensic investigations, restructuring and recovery. Together, we make sure the solutions we craft for our clients are operationally sound and strategically aligned, as well as compliant and risk-appropriate.

3

A strong track record

Our experience spans engagements tackling all the major issues facing insurers today. Whether it's helping firms to optimise their capital management, deliver major programmes of change, conclude acquisition or undertake customer remediation, we have the practical know-how to get the job done. As a firm trusted by the regulator to deliver Skilled Person's reviews you can have confidence in our ability to help you meet your regulatory obligations.

4

Insight where you need it the most

We are alert to the ever-changing nature of the industry and the consumer marketplace. You can rely on us to help you think through the implications of new regulations and of a fast-evolving political, economic and technological environment. We will also make sure that insight is delivered to you in ways you can use: regular board briefings, up-to-date criteria for risk assessments and focused staff training are just some of the ways we translate insight into action for our clients.

For more information, please contact

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