



The Part VII transfer of the business of ReAssure Life Limited to ReAssure Limited, and the reallocation of certain policies from the Windsor Life With-Profits Fund of ReAssure Limited

The report of the Independent Expert

Prepared by:

Oliver Gillespie, FIA

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1 INTRODUCTION

The Independent Expert

- 1.1 When an application is made to the High Court of Justice of England and Wales (the “Court”) for an order to sanction the transfer of long-term insurance or reinsurance business from one insurer to another, the application is subject to Part VII of the Financial Services and Markets Act 2000 (“FSMA”) and approval by the Court under Section 111 of FSMA. FSMA requires the application to be accompanied by a report on the terms of the Scheme by an Independent Expert.
- 1.2 I have been appointed by ReAssure Limited (“ReAssure”) and ReAssure Life Limited (“RLL”) (formerly called Guardian Assurance Limited or “GAL”) to report, pursuant to Section 109 of FSMA, in the capacity of the Independent Expert, on the terms of the proposed scheme providing for the transfer of the business of RLL to ReAssure.
- 1.3 As with the other costs of the Scheme, and as set out in Section 6, my fees will be borne by ReAssure and Admin Re UK Limited.
- 1.4 The purpose of this report is to review the proposed transfer of the business of RLL to ReAssure and, in particular, to consider the impact of the proposed transfer on the security of the benefits and the benefit expectations of the policyholders of ReAssure and RLL.
- 1.5 In this report (“my report”) I refer to this proposed scheme as “the Scheme”, “the RLL Scheme” or “this Scheme” and throughout the remainder of this report, these terms are used to cover all the proposals included in the scheme of transfer, including any documents referred to therein relating to the proposed implementation and operation of the scheme of transfer.
- 1.6 The Scheme will be presented to the Court for sanction under Section 111 of FSMA.

The reallocation of the ReAssure Defined Book

- 1.7 As part of the RLL Scheme, ReAssure is applying to the Court to effect the reallocation of certain long-term insurance policies, known as the ReAssure Defined Book (“the DB”), out of one of ReAssure’s ring-fenced funds.
- 1.8 I have considered any impact of this proposed reallocation on policyholders alongside the other provisions of the Scheme.

The scope of my report

- 1.9 My terms of reference have been reviewed by the Financial Conduct Authority (“FCA”) and the Prudential Regulation Authority (“PRA”).
- 1.10 My report has been prepared in accordance with the approach and expectations of the PRA, as set out in “The Prudential Regulation Authority’s approach to insurance business transfers”, dated April 2015 (the “PRA Statement of Policy”), as well as Chapter 18 of the Supervision Manual (“SUP 18”) contained in the FCA Handbook.
- 1.11 My report considers the consequences of the Scheme for those policyholders likely to be affected by the implementation of the Scheme, principally the policyholders of ReAssure and RLL.
- 1.12 Similar schemes are to be presented to:
 - The Royal Court of Jersey to transfer the long-term insurance business in respect of policies issued to residents of Jersey by ReAssure and/or RLL; and
 - The Royal Court of Guernsey to transfer the long-term insurance business in respect of policies issued to residents of Guernsey by ReAssure and/or RLL.
- 1.13 I understand that this report will be presented to the Royal Court of Jersey and the Royal Court of Guernsey, respectively, to satisfy the requirement for a report by an Independent Expert on the terms of those schemes.

- 1.14 I confirm that the comments and conclusions in this report apply to all policyholders of ReAssure and RLL irrespective of their place of residence and/or the jurisdiction within which the business is said to be carried on or in which their policy was issued. References to “the Scheme” or “this Scheme” should be taken to include the local schemes in Jersey and Guernsey.
- 1.15 My report will be presented to the Court and will be made available to policyholders via the ReAssure website (www.reassure.co.uk/GFS-transfer) and a summary of my report will be included in the communications pack that is sent to policyholders.
- 1.16 In assessing the impact of the implementation of the Scheme on the policyholders of ReAssure and RLL, and whether those policyholders are being treated fairly as a result of the implementation of the Scheme, I have had regard to:
- The likely effect of the implementation of the Scheme on the security of policyholder benefits and on the benefit and other expectations of policyholders created by past practices employed, contractual terms and conditions, or statements made, by each company;
 - The Scheme document;
 - The Principles and Practices of Financial Management (“PPFM”) documents of ReAssure and RLL;
 - The report of the Chief Actuary of ReAssure and RLL; and
 - The report of the With-Profits Actuary (“WPA”) of ReAssure and RLL.
- 1.17 There are no documents or other information that I have requested and that have not been provided. Appendix 4 contains a list of the data upon which I have relied.
- 1.18 As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the Scheme and in preparing my report, but that nonetheless should be drawn to the attention of policyholders in their consideration of the terms of the Scheme.

Qualifications and disclosures

- 1.19 I am a Fellow of the Institute and Faculty of Actuaries and hold certificates issued by the Institute and Faculty of Actuaries in respect of practising as a life actuary for non-profit, unit-linked and with-profits business.
- 1.20 I am a partner of Milliman LLP (“Milliman”) and I am based in its UK Life Insurance and Financial Services practice. I am an approved person on the Financial Services Register and I currently hold a number of Chief Actuary roles. I have fulfilled the role of Independent Expert in relation to a number of Part VII transfers that have subsequently been approved by the Court.
- 1.21 My appointment as the Independent Expert was approved by the PRA (after consulting with the FCA) in a letter dated 26 February 2016 to ReAssure.
- 1.22 I submitted a statement of independence to the PRA and FCA for review before my approval and this statement of independence has been approved by the PRA and FCA. In this statement I have set out why I believe I am able to act independently in relation to this assignment. In particular:
- I am not a shareholder or policyholder in Swiss Re or Guardian, including their subsidiaries. I hold no individual policies issued by either company or their subsidiaries, and I am not a member of any of the pension schemes under the management of ReAssure or Guardian.
 - Work carried out for Swiss Re and its subsidiaries (including Guardian) worldwide by Milliman represented less than 1% of Milliman’s global revenue between 2013 and 2015 inclusive.
- 1.23 As set out above, I confirm that neither I nor Milliman LLP have or have had any direct or indirect interest in either ReAssure, RLL or other related firms that could influence my independence.

The parties for whom the report has been prepared

- 1.24 This report, and any extract or summary thereof has been prepared particularly for the use of:

- The Court;
 - The Royal Court of Guernsey;
 - The Royal Court of Jersey;
 - The Directors and senior management of ReAssure;
 - The Directors and senior management of RLL;
 - The FCA and the PRA, and any governmental department or agency having responsibility for the regulation of insurance companies in the UK;
 - The insurance regulator of any EEA country who requests a copy of the report;
 - The Guernsey Financial Services Commission;
 - The Jersey Financial Services Commission; and
 - The professional advisers of any of the above.
- 1.25 In accordance with the legal requirements under FSMA, copies of my report may be made available to the policyholders of ReAssure and RLL and to other interested parties.

My approach to related Part VII transfers

- 1.26 As described in Section 4 of this report, another Part VII transfer involving ReAssure and Phoenix Life Limited (the Phoenix Annuity Scheme) is scheduled to be implemented on the same Transfer Date as this Scheme, with its implementation taking place immediately prior to the implementation of this Scheme. I have also been appointed as independent expert for the Phoenix Annuity Scheme.
- 1.27 As the Scheme to which this report relates is scheduled to be implemented after the Phoenix Annuity Scheme, in this report I have generally considered the impact of this Scheme assuming that the Phoenix Annuity Scheme has implemented.
- 1.28 However, the implementation of the Phoenix Annuity Scheme is, as with all such schemes, at the discretion of the Court and so in Section 9 of this report I also consider whether my conclusions in relation to the RLL Scheme would change in the event that the Phoenix Annuity Scheme was not sanctioned by the Court and therefore not implemented.

Limitations

- 1.29 In preparing my report, I have had access to certain documentary evidence provided by ReAssure and RLL, the key elements of which are listed in Appendix 3. I have also had access to, and discussions with, senior management of ReAssure and RLL. My conclusions depend on the substantial accuracy of this information and I have relied on this information without independent verification. I have considered, and am satisfied with, the reasonableness of this information based upon my own experience across the industry.
- 1.30 This report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of this report should not be relied upon for any purpose. I have provided a summary of my report for inclusion in the policyholder information booklet (and, where relevant, distribution to any persons requesting a copy of it). Any other purported summary of my report or elements within my report should not be treated as having been approved or authorised by me.
- 1.31 This report has been prepared on an agreed basis for ReAssure and RLL in the context of the Scheme and must not be relied upon for any other purpose. No liability will be accepted by Milliman, or me, for any application of my report to a purpose for which it was not intended, nor for the results of any misunderstanding by any user of any aspect of the report. In particular, no liability will be accepted by Milliman or me under the terms of the Contracts (Rights of Third Parties) Act 1999.

The Technical Actuarial Standards (“TAS”)

- 1.32 My report has been prepared subject to the terms of the TAS applicable to Transformations (“Transformations TAS”) issued by the Financial Reporting Council. In my opinion, my report complies with the Transformations TAS and is compliant with those elements of the TASs on Data, Modelling, Reporting and Insurance that are applicable to transformations. In complying with these requirements, I note that a number of the key documents listed in Appendix 3 have been prepared or reviewed by individuals who were subject to professional standards in undertaking their work, including, where appropriate, TAS requirements.

The Actuarial Profession Standards (“APS”)

- 1.33 APS X2, as issued by the Institute and Faculty of Actuaries, requires members to consider whether their work requires an independent peer review.
- 1.34 In my view this report does require independent peer review and this has been carried out by a senior actuary in Milliman LLP who has not been part of my team working on this assignment.

The structure of my report

- 1.35 Section 2 of this report covers the considerations of the Independent Expert for a Part VII transfer of long-term insurance business in the UK.
- 1.36 Section 3 provides some background information on the regulatory regime in the UK, and Sections 4 and 5 provide background to ReAssure and RLL respectively.
- 1.37 Section 6 provides a summary of the key aspects of the Scheme.
- 1.38 The effects of the implementation of the Scheme on the policies of RLL and ReAssure and on the holders of these policies, as well as the effects on other stakeholders, are covered in Sections 7, 8, 9 and 11.
- 1.39 Section 10 contains my considerations in respect of conduct of business and the treatment of customers.
- 1.40 Section 12 contains my conclusions on the Scheme.
- 1.41 The appendices contain financial information relevant to the companies involved in the Scheme, some relevant background information and a glossary of terms used in my report.

2 THE GENERAL CONSIDERATIONS OF THE INDEPENDENT EXPERT

The role of the Independent Expert

- 2.1 I have compiled my report in accordance with the PRA Statement of Policy (paragraphs 2.27 to 2.40) and with paragraphs 31 to 41 of section 2 of SUP 18, which give guidance on the form of the Scheme Report.
- 2.2 In considering the proposed Scheme, the concept of treating customers fairly (“TCF”) should be applied. To ensure that customers are treated fairly in the future, it is necessary to establish the ways in which customers have been treated in the past. From the policyholders’ perspective, the successful implementation of the Scheme must be on the basis that their benefits and fair treatment are not materially adversely affected.
- 2.3 As described in Section 1 of this report, the Scheme concerns two life insurance companies: ReAssure and RLL (formerly GAL). I need to consider the terms of the Scheme generally and how the different groups of policyholders of ReAssure and RLL and the different generations of policyholders within the different groups are likely to be affected by the implementation of the proposed Scheme. In particular I need to consider:
- The effect of the implementation of the Scheme on the security of the policyholders’ contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
 - The effect of the implementation of the Scheme on the reasonable benefit expectations of policyholders; and
 - The effect of the implementation of the Scheme on the service standards and governance applicable to policyholders.
- 2.4 In this report I have not restricted my assessment of the Scheme to adverse effects.
- 2.5 The two life insurance companies involved in the Scheme have a different mix of policies and policyholders. The type of policy held by a policyholder will be a key determinant of the risks to which the policyholder is exposed. Other than this, the key determinants of the policyholder’s risk exposure will be the characteristics of the company in which the policy is held, for example:
- The size of the company;
 - The amount and quality of capital resources available, other calls on those capital resources and capital support currently available to the company;
 - The internal capital policy of the company;
 - The investment strategy of the company;
 - The mix of business of the company;
 - The company’s strategy, and governance around its objectives and strategy: for example, its acquisition and new business strategy; and
 - Other factors, such as operational risks faced by the company, reinsurance agreements of the company, the company’s governance framework and its tax position.
- 2.6 Some of these risks are company-specific, for example risks arising from the particular mix of business written or from the company’s strategy, and some are common to various different groups of policyholders across the companies subject to the Scheme.

Exclusions from the role of Independent Expert

- 2.7 I am only required to comment on the effects of the implementation of the proposed Scheme on policyholders who enter into contracts with ReAssure and RLL prior to the Transfer Date of the Scheme. I am not required to consider the effects of the Scheme on new policyholders entering into contracts after this date.
- 2.8 I am not required to consider possible alternative schemes and I have therefore only considered the terms of the Scheme presented to me.

The security of policyholder benefits

- 2.9 As part of my role as Independent Expert for the Scheme, I need to consider the security of policyholder benefits, that is, the effect of the implementation of the Scheme on the likelihood that policyholders will receive their guaranteed benefits when these are due.
- 2.10 In considering and commenting upon policyholder security, I shall primarily consider policyholders' guaranteed benefits and, as appropriate, their reasonable benefit expectations.
- 2.11 The regulations require insurance companies to hold a minimum amount of capital in addition to the assets backing a realistic estimate of their liabilities to policyholders. Insurance companies must also demonstrate that they can fulfil their regulatory requirements and meet policyholder claims as they become due in adverse scenarios.
- 2.12 Therefore, the amount by which the assets available to support the long-term insurance business exceed the long-term liabilities provides security for the guaranteed benefits. Security is also provided by other capital resources in the insurance company.

Policyholders' reasonable expectations in respect of their benefits and the levels of service received

- 2.13 As Independent Expert, I also need to consider the proposals in the context of the FCA's regulatory objectives and, in particular, the effect of the implementation of the Scheme on policyholders' reasonable expectations in respect of their benefits and treatment in respect of their policies.
- 2.14 This includes considering the effect of the implementation of the Scheme on areas where discretion is involved on behalf of the relevant insurance company with regard to the charges applied to a policy and the benefits (including with-profits bonuses) granted to the policyholder, to confirm that the implementation of the Scheme will not have a material adverse impact on policyholders' reasonable expectations in respect of their policy benefits.
- 2.15 In addition, I need to consider the effect of the implementation of the Scheme on the management, service and governance standards of the company in question to ensure that policyholders' reasonable expectations in relation to these areas are not materially adversely affected.

The framework for the consideration of the proposed Scheme

- 2.16 The framework for my conclusions is a consequence of the Court's consideration of prior schemes. In particular, principles stated by Evans-Lombe J. in *Re Axa Equity & Law Life Assurance Society plc* and *AXA Sun Life plc* (2001) (based on principles outlined by Hoffman J. in *Re London Life Association Ltd* (1989)) are often used as the basis for the consideration of insurance business transfers by the Independent Expert and by the Court.
- 2.17 In particular, Evans-Lombe J. stated in *Re Axa Equity & Law* that "the court is concerned whether a policyholder, employee or other interested person or any group of them will be adversely affected by the scheme". He went on to state: "That individual policyholders or groups of policyholders may be adversely affected does not mean that the scheme has to be rejected by the court. The fundamental question is whether the scheme as a whole is fair as between the interests of the different classes of persons affected". The most common interpretation of these (and other relevant) statements has been that a conclusion that "no group of policyholders is materially adversely affected by the Scheme" provides a sufficient condition to conclude that the fairness of the Scheme as a whole has been demonstrated.
- 2.18 Therefore, as Independent Expert, my assessment of the impact of the implementation of the Scheme on the various affected policies is ultimately a matter of actuarial judgement regarding the likelihood and impact of future possible events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies.
- 2.19 A Scheme may have both positive and negative effects on a group of policies and the existence of detrimental effects should not necessarily imply that the Court should reject the Scheme as the positive effects may outweigh the negative effects or the negative effects may be very small.
- 2.20 In order to acknowledge this inherent uncertainty, the conclusions of the Independent Expert in relation to transfers of long-term insurance business are usually framed using a materiality threshold. If the potential impact under consideration is very unlikely to happen and does not have a significant impact, or is likely to happen but has a very small impact, then it is not considered to have a material effect on the policies.

2.21 The assessment of materiality will also take into account the nature of the potential impact so that, for example, the materiality threshold for a change that could have a direct financial impact on policyholders' guaranteed benefits is likely to be lower than the materiality threshold for a change that does not have a direct financial impact.

2.22 This is the framework in which I undertake my consideration of the proposed Scheme.

My Supplementary Report

2.23 I will prepare a further report (the "Supplementary Report") prior to the final Court Hearing to provide an update for the Court on my conclusions in respect of the effect of the proposed transfer on the different groups of policyholders in light of any significant events subsequent to the date of the finalisation of my main report.

2.24 My Supplementary Report will be available to policyholders on the ReAssure website.

3 THE UK LIFE INSURANCE MARKET AND REGULATORY ENVIRONMENT

Introduction

- 3.1 The regulatory regime to which UK insurers are subject, and the applicable solvency requirements, are relevant to my considerations as Independent Expert and the UK regulatory environment for insurance companies is summarised in this section.

The UK regulators

- 3.2 Prior to 1 April 2013, regulation of insurance companies was the responsibility of the Financial Services Authority ("FSA"). Since 1 April 2013, responsibility for the regulation of such companies has been split between the PRA and the FCA.
- 3.3 The PRA is a subsidiary of the Bank of England, and carries out the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
- 3.4 The PRA has statutory objectives to promote the safety and soundness of the insurers that it regulates, and to contribute to ensuring that policyholders are appropriately protected. More generally, these statutory objectives can be advanced by seeking to ensure that regulated insurers have resilience against failure and that disruption to the stability of the UK financial system from regulated insurers is minimised.
- 3.5 The FCA regulates the conduct of all financial services firms in relation to consumer protection, market integrity and the promotion of competition in the interests of consumers.

The Solvency II regulatory regime

Introduction

- 3.6 A new regulatory solvency framework for the European Economic Area ("EEA") insurance and reinsurance industry came into effect on 1 January 2016. This new regime is known as Solvency II and aims to introduce solvency requirements that better reflect the risks that insurers and reinsurers actually face and to introduce consistency across the EEA. All but the smallest EEA insurance companies are required to adhere to a set of new, risk-based capital requirements and the results will be shared with the public.
- 3.7 Solvency II is based on three pillars:
- Under Pillar 1, quantitative requirements define a market consistent¹ framework for valuing the company's assets and liabilities, the results of which will be publicly disclosed.
 - Under Pillar 2, insurers must meet minimum standards for their corporate governance and their risk and capital management. There is a requirement for permanent internal audit and actuarial functions. Insurers must regularly undertake a forward looking assessment of risks, solvency needs and adequacy of capital resources, called the Own Risk and Solvency Assessment ("ORSA"), and senior management must demonstrate that the ORSA actively informs business planning, management actions and risk mitigation.
 - Under Pillar 3, there are explicit requirements governing disclosures to supervisors and policyholders. Firms will produce private reports to supervisors and a public solvency and financial condition report.

The Pillar 1 requirements

- 3.8 The determination of a market consistent value of liabilities under Solvency II requires the insurer to calculate the best estimate liabilities ("BEL"). The expected future obligations of the insurer are projected over the lifetime of the contracts using the most up-to-date financial information and the best estimate actuarial assumptions, and the BEL represents the present value of these projected cash-flows.

¹ A market-consistent framework requires the values placed on assets and liabilities to be consistent with the market prices of listed securities and traded derivative instruments.

- 3.9 Under Solvency II, a company's Pillar 1 liabilities are called the "technical provisions" which consist of the sum of the BEL and the "risk margin". The risk margin is an adjustment designed to bring the technical provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm's length transaction.
- 3.10 The Pillar 1 assets are, broadly speaking, held at market value.
- 3.11 The Solvency Capital Requirement ("SCR") under Solvency II is the capital requirement under Pillar 1, and is intended to be the amount required to ensure that the firm's assets continue to exceed its technical provisions over a one year time frame with a probability of 99.5%.
- 3.12 The Minimum Capital Requirement ("MCR"), which is lower than the SCR, defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation.
- 3.13 In calculating the SCR, it is expected that most firms will use the "standard formula", as prescribed by the European Insurance and Occupational Pensions Authority ("EIOPA"). However, Solvency II also permits firms to use their own internal models (or a combination of a "partial internal model" and the standard formula) to derive the SCR. These internal models and partial internal models are subject to approval by the relevant regulator: in the UK this is the PRA.
- 3.14 On 9 March 2015, "The Solvency 2 Regulations 2015" were laid before the UK Parliament. These regulations implement, in part, the Solvency II Directive (as amended by the subsequent Omnibus II Directive) into UK law and came into force on 1 January 2016.
- 3.15 The remainder of the Solvency II Directive has been implemented by the FSMA, by rules and binding requirements imposed by the PRA and the FCA, and by directly applicable regulations made by the European Commission. The PRA has issued final statements on the transposition of Solvency II, as amended by the Omnibus II Directive, into the UK national framework. These set out its approach to the prudential regulation, and its expectations, of firms subject to Solvency II.
- 3.16 EIOPA has published the implementing technical standards ("ITS") and guidelines for the new regime and these have been endorsed by the European Commission, are legally binding and apply to all national regulators under the scope of Solvency II.
- 3.17 Any UK firms intending to use an internal model, transitional measures, a matching adjustment or a volatility adjustment (as described in the paragraphs below) must formally apply to the PRA for approval. Applications have been accepted by the PRA since 1 April 2015 and the PRA has issued a number of consultation papers and other communications which provide further clarity on the approval processes and set out the PRA's expectations of firms.
- 3.18 The outcome of firms' applications for measures to take effect from 1 January 2016 was communicated by the PRA in late 2015.

The matching adjustment

- 3.19 In calculating the BEL, the Solvency II rules permit firms to apply to their regulator to make use of the "matching adjustment". The matching adjustment is an increase to the discount rate used in the calculation of the BEL that allows firms to take credit for the additional investment return in excess of the risk-free rate (swap rates under Solvency II) that they expect to earn from a "hold to maturity" investment strategy for their less liquid assets, which are used to back their most stable and predictable liabilities, typically non-profit in payment annuity liabilities.
- 3.20 Firms using the matching adjustment are subject to various restrictions around the types of asset that are permitted to back the relevant liabilities, the circumstances in which the assets may be traded, and the extent to which mismatching of asset and liability cash flows is permitted.

The volatility adjustment

- 3.21 Where insurers have liabilities that are not eligible for use of the matching adjustment, the Solvency II rules permit firms to apply to their regulator to make use of the "volatility adjustment". The volatility adjustment is an increase to the discount rate used in the calculation of the BEL (other than for liabilities that are subject to the matching adjustment) which aims to prevent forced sales of assets in the event of extreme bond spread movements.

3.22 The volatility adjustment is based on the spreads on a representative portfolio of assets for each relevant currency and the risk-free discount curves, including the addition of the volatility adjustment, are published by EIOPA.

The transitional measures

3.23 Insurers are also permitted to apply to their regulator (the PRA in the UK) to make use of transitional measures. Transitional measures allow firms to phase in the balance sheet impact of moving from the former Solvency I regulatory regime to the Solvency II regulatory regime. The transitional measures can be applied in one of two ways:

- The Transitional Measure on Technical Provisions (“TMTP”) allows firms to phase in the increase in technical provisions under Solvency II Pillar 1 (in relation to business written prior to 1 January 2016) over a sixteen year period. In the UK, the increase is measured relative to the firm’s Solvency I Pillar II liabilities.
- The Transitional Measure on the Risk-Free Interest Rate allows firms to phase in any reduction in the discount rate used to calculate their liabilities under Solvency II relative to the previous regime over a sixteen year period.

3.24 In the UK, it is expected that most life insurers will benefit from the transitional measures.

3.25 For a given firm, the TMTP is calculated as at the implementation date of Solvency II, i.e. 1 January 2016. The TMTP is calculated as the difference, to the extent that this difference is a positive number, between the firm’s technical provisions under Solvency II and the firm’s insurance liabilities under the previous Pillar II regime.

3.26 A further test is then carried out to determine whether deducting the calculated TMTP from the firm’s Solvency II technical provisions at 31 December 2015 would result in a Financial Resources Requirement (“FRR”) under Solvency II that is lower than the firm’s FRR under the previous Pillar I and Pillar II regimes at the same valuation date.

3.27 The FRR for a given solvency regime is calculated as the total liabilities plus the firm’s capital requirement under that regime. If the Solvency II FRR after deduction of the TMTP is lower than the FRR under the Solvency I regime (Pillar I and Pillar II) then, the calculated TMTP must be reduced to a level that ensures that this is no longer the case. The purpose of the FRR test is to ensure that firms are not able to hold lower amounts of financial resources under Solvency II than under the Solvency I regime as a result of the use of the TMTP.

3.28 The final calculated TMTP is deducted from the firm’s technical provisions in its Solvency II balance sheet at 1 January 2016. For valuation dates after 1 January 2016, the TMTP that was calculated at 1 January 2016 is reduced linearly to zero over a sixteen year period.

3.29 The Solvency II Directive provides for firms’ TMTPs to be subject to recalculation every two years. The PRA published Supervisory Statement 6/16 (“SS6/16”) in May 2016 which set out the PRA’s expectations around more frequent recalculations. SS6/16 states that firms will be able to apply to the PRA to recalculate their TMTP every six months if they believe that their risk profile has changed materially since the previous recalculation. It is likely that a Part VII Scheme involving the transfer of the risks associated with material volume of insurance business written before 31 December 2015 would constitute such a material change.

Ring-fenced funds

3.30 Solvency II includes the concept of a ring-fenced fund. This refers to any arrangement where an identified set of assets and liabilities are managed as though they were a separate undertaking, meaning that there are restrictions on the extent to which surplus in the ring-fenced fund may be transferred to shareholders or used to cover losses outside the ring-fenced fund.

3.31 In the UK, many firms have set up ring-fenced funds in order to reflect the arrangements applicable to their with-profits funds (as defined under the previous regulatory regime) and the with-profits and non-profit business within the with-profits fund.

The long-term fund and shareholders’ fund

3.32 Prior to the implementation of Solvency II, proprietary firms writing long-term insurance business were required to identify the assets attributable to their long-term insurance business and keep those assets separate from shareholder funds in what was referred to as a long-term insurance fund (the “LTF”). The other assets of a

proprietary company were typically allocated to the shareholders' fund (the "SHF"). Under the PRA rules, the assets in the LTF were only available to be used to support the firm's long-term insurance business and firms were required to maintain assets in the LTF sufficient in value to cover the fund's mathematical reserves.

- 3.33 Following the implementation of Solvency II, the requirement to maintain a separate LTF has been removed and therefore a firm's "fund structure" now consists of the ring-fenced funds and the business outside of the ring-fenced funds. This business outside the ring-fenced funds is often called the "non-profit fund" or "shareholder backed fund" but whatever the name it is important to remember that it includes the assets and liabilities of what was, under the previous regime, called the non-profit fund (in the LTF) and the shareholders' fund (outside of the LTF).

The UK regulatory regime in force prior to Solvency II

- 3.34 Prior to 1 January 2016, companies were required to assess solvency under two regimes, commonly referred to as Pillar I and Pillar II.
- 3.35 Under Pillar I, liabilities were generally calculated using prudent assumptions, with additional rules applicable to firms with significant volumes of with-profits business.
- 3.36 The overall capital requirement under the Pillar I regime was called the Capital Resources Requirement ("CRR") which had a number of different components, many of which were calculated using formulae based on various balance sheet statistics, such as mathematical reserves, expense levels and sums insured. Although the CRR did contain some risk-based components, in contrast to the SCR it was not a fully risk-based measure.
- 3.37 Pillar II was intended to provide a more realistic and complete view of the risks to which the company was exposed.
- 3.38 The capital requirement under Pillar II was the Individual Capital Assessment ("ICA"), which was the company's own assessment of its risk exposures and the amount and type of capital required to mitigate those risks. The PRA set the capital requirement as being consistent with a 99.5% confidence level that the firm would have been able to meet its liabilities over a one year timeframe or, if appropriate to the firm's business, an equivalent lower confidence level over a longer timeframe.

The governance of UK long-term insurers

- 3.39 The Board of Directors of a long-term insurer is normally the firm's governing body, and is ultimately responsible for setting the strategic direction of the firm, overseeing the activities of the firm's day-to-day management and approving the firm's financial statements.
- 3.40 Under Solvency II, all insurers are required to establish an actuarial function, but it is not defined as being performed by an individual. The actuarial function is responsible for, amongst other things, coordinating the calculation of the technical provisions and expressing opinions on the firm's underwriting policy and the adequacy of the firm's reinsurance agreements. The person having responsibility for the actuarial function under Solvency II is known in the UK as the Chief Actuary.
- 3.41 The PRA has introduced a new governance regime for UK insurers called the Senior Insurance Managers Regime ("SIMR") which became effective on 7 March 2016, and which defines a set of senior insurance management functions ("SIMF"), including:
- SIMF1 - Chief Executive Officer ("CEO");
 - SIMF2 - Chief Financial Officer ("CFO");
 - SIMF4 - Chief Risk Officer ("CRO");
 - SIMF20 - Chief Actuary;
 - SIMF5 - Head of Internal Audit; and
 - SIMF22 - Chief Underwriting Officer (general insurance firms only).
- 3.42 The individuals responsible for these functions will be subject to PRA approval, although there are "grandfathering" arrangements under which individuals approved under the previous approved persons regime may take up approved roles under SIMR.

- 3.43 In addition to the roles listed above, those firms with with-profits business must appoint an actuary (or actuaries) to perform the “with-profits actuary function”. This individual is the WPA, and his responsibilities include advising the firm’s management on the key aspects of the discretion to be exercised affecting those classes of the with-profits business of the firm in respect of which he has been appointed. The WPA role is SIMF21 under SIMR.
- 3.44 Firms must appoint a With-Profits Committee (“WPC”) (or a “with-profits advisory arrangement” if appropriate given the size, nature and complexity of the fund in question) in respect of with-profits business. The WPC’s role is to advise and provide recommendations to the firm’s governing body on the management of the with-profits business, and to act as a means by which the interests of with-profits policyholders are appropriately considered within a firm’s governance structures.

A firm’s risk appetite and internal capital policy

- 3.45 The Board of a firm is responsible for the management of the company and for its exposure to risk. The Board will typically set out its appetite for risk in a form which references the probability that the Board is willing to accept of not being able to pay policyholder liabilities as they fall due and/or meet regulatory requirements.
- 3.46 In order to ensure that day-to-day fluctuations in markets and experience do not lead to a breach of their risk appetite and regulatory capital requirements firms usually aim to hold more capital than strictly required to meet the regulatory minimum. The details of the target level of capital buffer are typically set out in the firm’s internal capital policy.
- 3.47 The internal capital policy of a firm is set by and owned by the Board and describes the capital that the Board has determined should be held in the company. Changes to the internal capital policy usually require Board approval and appropriate consultation with the regulators (the PRA in the UK).
- 3.48 The capital policy is typically stated in terms of the capital requirements set down by the relevant regulations. The regulatory capital requirements typically target a particular probability of remaining solvent over a certain time horizon: for example for the Solvency II regulatory regime it is a 99.5% probability of remaining solvent over a one year time horizon. By requiring additional capital to be held on top of the regulatory requirements, the capital policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the benefits provided under the relevant policies subject to the capital policy.
- 3.49 The level of capital required may also be driven by the desire of the Board to maintain a certain credit rating with external credit rating agencies.

The products and long-term insurance business relevant to the proposed Scheme

- 3.50 Both companies concerned with the proposed Scheme (ReAssure and RLL) have a wide variety of in-force long-term insurance policies, covering both with-profits and non-profit life and pensions policies.
- 3.51 The proposed Scheme provides for the transfer of all of RLL’s business to ReAssure. The “transferring business” comprises approximately 550,000 policies (as at 31 December 2015) covering with-profits and non-profit business.
- 3.52 Non-profit business refers to insurance business where policyholders do not share in the profits of the insurer and all surplus is attributable to the insurer’s shareholders. Non-profit business typically refers to the following classes of insurance business:
- Conventional non-profit business;
 - Unit-linked business; and
 - Index-linked business.
- 3.53 Conventional non-profit business refers to insurance business where the benefits received by policyholders are fixed in terms of monetary amount, for example a life insurance policy that pays a fixed death benefit or a pension annuity that pays a fixed annuity amount each year whilst the policyholder is alive. Insurance companies make a profit from conventional non-profit business by setting premium amounts that, in conjunction with the investment returns earned on invested policyholder premiums, are more than sufficient to cover the benefits payable and any associated expenses.

- 3.54 Unit-linked business is principally a type of investment product where policyholders' premiums are used to buy units in investment funds. The value of the policyholder's units then moves in line with the performance of the investments in the fund. At maturity, policyholders receive the value of their units.
- 3.55 Charges are deducted from the policyholders' premiums or from their units, and insurance companies' profits are determined by the extent to which the income they receive from these charges exceed the expenses they incur in incepting and maintaining the business.
- 3.56 Index-linked business is an insurance product where the policyholder's benefits are determined by reference to an index, such as an inflation index, rather than being a fixed monetary amount. An annuity whose payments are linked to changes in the Retail Price Index ("RPI") is an example of an index-linked contract.
- 3.57 With-profits business refers to insurance business where policyholders are entitled to share in the profits of the insurer. It typically refers to both of the following:
- Conventional with-profits ("CWP") business; and
 - Unitised with-profits ("UWP") business.
- 3.58 CWP business typically refers to policies where policyholders' premiums are fixed and they have a maturity benefit that is guaranteed at the outset in monetary terms. This benefit can subsequently be increased by bonuses that are awarded at the discretion of the insurer, depending upon the surplus emerging in the insurance fund in which the policies are invested. Once they have been awarded, bonuses are typically guaranteed and insurers are not able to take them away. A final bonus may also be awarded at maturity.
- 3.59 UWP business typically refers to policies where policyholders' premiums are used to buy units whose value is then increased through bonuses that are awarded at the discretion of the insurer, again depending on the surplus emerging in the relevant insurance fund. At maturity, policyholders typically receive the value of their units, which again may include a final bonus amount.
- 3.60 It is typical for insurers to target policyholder pay-outs to be relatively close to the policy's "asset share", which is a measure of the true value of the policy based on actual investment returns and expenses incurred by the fund. Therefore, where final bonuses are paid, it is typical for these to be calibrated in order to target something close to asset share, subject often to a degree of smoothing of investment returns, as well as being subject to honouring any guaranteed benefits to which the policyholder is entitled.
- 3.61 Most with-profits business in the UK is written either in a "90:10" fund or in a "100:0" fund. In a 90:10 fund, policyholders are entitled to at least 90% of the surplus arising from the with-profits business, with shareholders of the insurer entitled to the remainder. The shareholders are typically only permitted to withdraw money from a 90:10 fund upon declaration of a bonus to with-profits policyholders, upon which they would receive 1/9th of the value of the declared bonus.
- 3.62 In a 100:0 fund, policyholders are typically entitled to 100% of the investment surplus emerging in the fund. It is sometimes the case that in 100:0 funds the shareholder is entitled to receive 100% of the non-investment surplus, principally any excess of charges made to policyholders over actual expenses incurred.

The financial information in this report

- 3.63 During 2015, the PRA granted approval to:
- RLL to use the matching adjustment, the volatility adjustment and the TMTP for Solvency II reporting; and
 - ReAssure to use the matching adjustment, the volatility adjustment and the TMTP for Solvency II reporting.
- 3.64 Appendices 1 and 2 show the Solvency II balance sheets as at 31 December 2015 for ReAssure and RLL which reflect:
- The use of the matching adjustment;
 - The use of the TMTP; and
 - The use of the volatility adjustment.

- 3.65 Neither RLL nor ReAssure applied to the PRA to use an internal model to calculate their SCR under Solvency II, and therefore both firms calculate their SCR using the Solvency II standard formula. The PRA gave explicit “non-objection” to RLL using the standard formula for its SCR calculations, and has not indicated to ReAssure that it has an objection to its use of the standard formula.
- 3.66 The financial information used in the analysis of the effects of the proposed Scheme as set out in Section 7 onwards is the Solvency II information shown in Appendices 1 and 2. I have not considered the effect of the implementation of the Scheme on the financial position of the relevant firms under the regulatory regime in force prior to Solvency II.
- 3.67 I have not carried out a detailed review of these Solvency II results as at 31 December 2015, but:
- The Solvency II results for both ReAssure and RLL as at 31 December 2015 have:
 - Had the BEL reconciled to the liabilities of other audited 31 December 2015 valuation bases, including the previous Pillar I regime (these reconciliations have not been externally audited); and
 - Had the movement of BEL from the externally reviewed 31 December 2014 Solvency II results explained and analysed. A two stage review of the ReAssure 31 December 2014 Solvency II results was carried out by ReAssure’s external auditors PWC LLP and the RLL 31 December 2014 Solvency II results were externally reviewed via a Skilled Person’s report under Section 166 of FSMA.
 - The pro-forma post-Scheme Solvency II numbers have been approved by the appropriate Board and Audit / Risk Committee.
 - For each of ReAssure and RLL, I have been provided with a reconciliation between the audited Pillar I mathematical reserves at 31 December 2015 and the Solvency II BEL at the same date, and I am satisfied that the components of this reconciliation are, in direction and quantum, in line with what I would expect given my experience of the insurance products involved.
 - For each of ReAssure and RLL, I have been provided with methodology documents in relation to the Solvency II financial information. I have reviewed these documents and have seen nothing that causes me to believe that the financial information in this report would be subject to material change following an audit.
- 3.68 I am satisfied that it is appropriate to rely upon these Solvency II results for the purpose of this report.
- 3.69 My Supplementary Report will contain Solvency II numbers as at 30 June 2016 and will provide an update on the effect of the implementation of the proposed Scheme based upon these figures.

Reliance on legal opinion

- 3.70 My report is prepared for the Court as part of the process of submission of the Scheme to the Court. I am not an expert in legal matters and hold no qualifications in UK law (insurance regulations or otherwise) and therefore rely on input from experts in UK insurance law in relation to a number of areas. In particular:
- I rely on a legal review of previous schemes to ensure that there are no provisions in previous schemes that could, in conjunction with the implementation of the proposed Scheme, result in a material adverse impact on policyholders; and
 - I rely on input from legal experts in order to ensure that my understanding of the proposed Scheme, and my description of its relevant features in my report, is accurate.
- 3.71 Once I have obtained the facts around the operation of the Scheme from the legal experts, I can then carry out my review and analysis using my actuarial expertise knowing that I am working from a sound basis.
- 3.72 In order to get a sound legal understanding of the Scheme the options available to me are to retain my own legal adviser to carry out the relevant legal review, or to rely upon the advice and input of the legal firm retained by ReAssure and RLL in respect of this Scheme, namely Linklaters LLP (“Linklaters”). In this case, I consider that it is not necessary for me to obtain independent legal advice, and that it is appropriate for me to rely upon the advice provided by Linklaters. My reasons for this are;

- Linklaters is a large international legal firm with a wide range of experience in UK insurance law and Part VII transfers and it is my view that they have the relevant and appropriate qualifications and knowledge of the laws and regulations governing insurance business transfers in the UK.
- The nature of the information and advice from Linklaters upon which I have relied is factual and in particular concerns how a particular aspect of RLL or ReAssure (pre or post the implementation of the proposed Scheme) works in accordance with UK law. As such, I am satisfied that the advice or information given by Linklaters would not be different if they were retained directly by me in respect of the proposed Scheme.
- For the same reason, I consider it unlikely that I would receive a different answer from a different (but similarly qualified) legal expert.

3.73 I am therefore comfortable that it is appropriate for me to rely on the conclusions of Linklaters in forming my view on the Scheme.

4 INFORMATION REGARDING REASSURE

Introduction

- 4.1 ReAssure is a proprietary company whose immediate parent is Admin Re UK Limited (“ARUK”).
- 4.2 ReAssure and ARUK are part of the Swiss Re Group: ARUK is a wholly-owned subsidiary of Swiss Re Life Capital Limited, which in turn is a wholly-owned subsidiary of Swiss Re Limited, the ultimate holding company of the Swiss Re group.
- 4.3 ARUK aims to grow its business through the acquisition of blocks of life insurance business and then integrating them with ReAssure by means of legal transfers of business, or by means of reinsurance agreements, administration contracts and swap deals. This objective has led to a number of transfers of business since 1982, some of which are listed below.
- 4.4 ReAssure is authorised under the terms of FSMA to undertake long-term insurance business in Classes I to IV, VI and VII and general insurance business in Classes 1 and 2.

The history of ReAssure

- 4.5 The Occidental Life Insurance Company Limited was founded in 1963 and changed its name to The Life Casualty & General Insurance Company in 1966 and then to Windsor Life Assurance Company Limited (“Windsor Life”) in 1972.
- 4.6 Swiss Re Group acquired Life Assurance Holding Company Limited (“LAHC”), the holding company of Windsor Life, in 2004.
- 4.7 LAHC was renamed ARUK in 2008 and Windsor Life was renamed ReAssure in 2011. ARUK remains the holding company of ReAssure.
- 4.8 In January 2016, ARUK acquired Guardian Financial Services Holdings UK Limited (“GFSHUKL”), the parent company of UK insurance company Guardian Assurance Limited (“GAL”) and its Irish insurance subsidiary Ark Life Assurance Company Limited (“Ark”).
- 4.9 On 23 June 2016, GAL was renamed RLL.

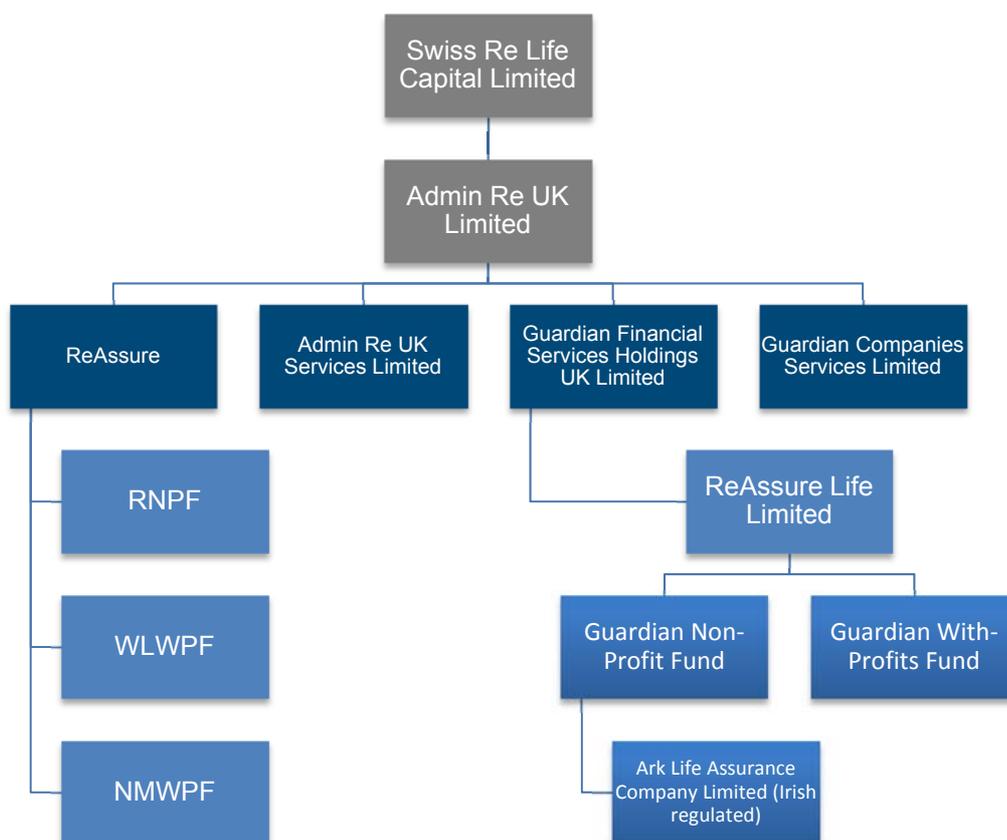
The transfers of long-term business into ReAssure

- 4.10 Over the years there have been a number of Part VII transfers (or equivalent under previous legislation) of long-term business into ReAssure from:
- Gresham Life Assurance Limited / Gresham Unit Assurance Limited in 1992;
 - Aetna Life Insurance Company Limited in 1993;
 - Crown Life Assurance Company Limited in 1995;
 - Lifetime Assurance (UK branch) in 1996;
 - Combined Life Assurance Company Limited (linked life and pensions business) in 1996;
 - RFSG (UK) plc in 1998;
 - GAN UK plc and subsidiaries in 1998;
 - Reassure UK Life Assurance Company Limited (formerly Zurich Life Assurance Company Limited) in 2005;
 - Virgin Money Life Limited in 2005;
 - National Mutual Life Limited (“NMLL”) and National Mutual Pensions Limited (“NMPL”) in 2007 (the “NM Scheme”);
 - Zurich Assurance Limited in 2008 (the “ZAL Scheme”);

- Barclays Life Assurance Company Limited in 2011 (the “Barclays Scheme”);
- American Life Insurance Company (UK Branch) (“ALICO”) in 2012 (the “ALICO Scheme”); and
- HSBC Life (UK) Limited in 2015 (the “HSBC Scheme”).

The current ReAssure structure

Figure 4.1: Simplified ARUK Structure (see text below for abbreviations)



4.11 ReAssure currently has two ring-fenced funds as defined under Solvency II. These are:

- The Windsor Life With-Profits Fund (the “WLWPF”); and
- The National Mutual With-Profits Fund (the “NMWPF”).

4.12 Under Solvency II, all assets not in a ring-fenced fund must be allocated to either the long-term insurance business or the general insurance business of the company.

4.13 ReAssure refers to the business outside the ring-fenced funds as the ReAssure Non-Profit Fund (the “RNPF”) business and I follow this convention in my report. For the avoidance of doubt, the RNPF includes the assets and liabilities of what were, prior to the implementation of Solvency II, the ReAssure NPF and the ReAssure SHF (as described in Section 3).

4.14 The business of the RNPF consists of:

- The long-term non-profit business (the “RNPF LT business”);
- The short-term non-profit business – i.e. the ReAssure general insurance business; and
- All other assets and liabilities of ReAssure outside the ReAssure ring-fenced funds, including the wholly owned subsidiaries of ReAssure:

- Admin Re Trustees Limited;
- Gresham Life Assurance Society Limited;
- National Mutual (“NM”) Life Assurance Society Limited; and
- Admin Re Pension Trustees Limited.

4.15 ReAssure’s long-term insurance business consists of with-profits business and non-profit business in the ring-fenced funds (the WLWPF and the NMWPF) and the RNPF LT business. The business consists of:

- Conventional with-profits (“CWP”) and unitised with-profits (“UWP”) life and pensions business;
- Unit-linked life and pensions business;
- Non-profit annuities;
- With-profits annuities;
- Other non-profit, non-linked, life and pensions business; and
- Pension scheme longevity swaps.

4.16 The long-term business written in each of the WLWPF, the NMWPF and the RNPF is described in turn below.

The WLWPF business

4.17 The WLWPF is a ring-fenced fund and consists of CWP and UWP business, some of which originated from an earlier transfer into ReAssure, and a significant amount of non-profit linked and non-linked business.

4.18 The WLWPF closed to new business in 2012 (apart from contractual increases to existing policies) and ReAssure aims to distribute the estate fairly and evenly over the lifetime of the remaining policies. It is a 90:10 ring-fenced fund, meaning that distributed surplus is shared with at least 90% being allocated to with-profits policyholders and the balance to the RNPF.

4.19 As at 31 December 2015, the WLWPF had Solvency II best estimate liabilities totalling £0.7 billion (excluding the unit reserves on unit-linked business but including the Defined Book – see below) and consisted of:

- UWP business;
- CWP business;
- Non-profit business; and
- The Defined Book (“DB”) which is an identifiable portfolio of non-profit annuity and hybrid unit-linked and UWP business mainly originating from transfers of other blocks of business into the WLWPF.

4.20 The table below summarises the in-force business of the WLWPF at 31 December 2015.

Table 4.1 – Breakdown of the business of the WLWPF at 31 December 2015

Product type	Number of policies	Gross BEL (£m)**	Reinsurance recoverables (£m)	Net BEL (£m)
UWP Life	1,845	27	-	27
UWP Pensions	1,410	63	-	63
CWP Life	950	16	-	16
CWP Pensions	905	64	-	64
With-Profits Annuities	7,604	253	-	253
Conventional Non-Profit	814	12	-	12
Defined Book (Unit-Linked/UWP Life)*	950	(1)	-	(1)
Defined Book (Unit-Linked/UWP Pensions)*	389,842	(356)	-	(356)
Defined Book (Non-Profit Annuities)*	28,862	541	-	541
Defined Book (Other Conventional Non-Profit)*	14,987	51	-	51
Total	448,169	671	-	671

*This table does not reflect the WLWPF's inter-fund arrangements described in paragraphs 4.21 and 4.22 below.

**This table does not include the unit reserves of the unit-linked policies.

- 4.21 The UWP parts of the hybrid DB policies are linked to the NMWPF to ensure that the return earned by the UWP parts of the hybrid policies is consistent with the returns earned in the NMWPF.
- 4.22 Until, 2012, under the terms of the 2007 National Mutual Scheme, the WLWPF received a 15.75% share of the profits from the DB, with the remainder being paid to the RNPF through an annual release amount. In 2012, the WLWPF sold (via an inter-fund arrangement) its share of the margins to the RNPF in exchange for a ceding commission which was paid into the WLWPF in 2012. As a result, the RNPF currently receives 100% of the surplus arising from the DB through a combination of the annual release amount and the settlement of the inter-fund reinsurance balance.
- 4.23 The WLWPF includes some liabilities that have approval to use the volatility adjustment, including the in-payment annuities within the DB and the cost of guarantees on with-profits business.

The NMWPF business

- 4.24 The NMWPF is a ring-fenced fund and was created in ReAssure under the terms of the NM Scheme in 2007. The majority of the NMWPF is pensions with-profits business (both conventional and unitised) and there is also a small amount of non-profit business, initially issued by the National Mutual Life Assurance Society. The non-profit business is mainly deferred annuity and endowment policies.
- 4.25 The NMWPF is a 100:0 with-profits fund with all of the assets of the fund being distributed over time to policyholders, whilst maintaining equity between policies maturing at different times.
- 4.26 The NMWPF is closed to new business, other than for a small number of increments to existing policies.
- 4.27 As at 31 December 2015, the NMWPF had Solvency II best estimate liabilities totalling £1.4 billion and consisted of:
- CWP business;
 - UWP pensions business; and
 - Non-profit business.
- 4.28 The table below summarises the in-force business of the NMWPF at 31 December 2015.

Table 4.2 – Breakdown of the business of the NMWPF at 31 December 2015

Product type	Number of policies	Gross best estimate liabilities (£m)	Reinsurance recoverables (£m)	Gross best estimate liabilities less reinsurance recoverables (£m)
UWP Life	-	-	-	-
UWP Pensions	21,385	625	-	625
CWP Life	661	31	-	31
CWP Pensions	22,059	703	-	703
GAR reserves (unit-linked)	-	2	-	2
Conventional non-profit	1,256	50	-	50
Total	45,361	1,411	-	1,411

4.29 The operation of the NMWPF is governed by the terms of the NM Scheme. Under this scheme, a Capital Support Facility was established to provide capital support in the event that the NMWPF became unable to meet its regulatory capital requirements at the end of any quarter. The support can be achieved by means of:

- An assignment to the NMWPF of a proportion of the surplus allocated to the RNPF projected to arise in the future under part of the business held elsewhere in ReAssure; and / or
- A contingent loan advanced to the NMWPF, repayable by reference to the surplus that emerges in the fund. Interest accrues on the loan at a rate equal to 2.5% p.a. above the 5 year FTSE gilt index yield as at the date the loan is advanced.

4.30 The maximum level of the Capital Support Facility was originally set at £200 million as at 8 April 2002 (the date on which National Mutual Life Assurance Society demutualised) and this amount reduces broadly in line with the size of the NMWPF. As at 31 December 2015, this maximum amount had reduced to approximately £150 million compared to a BEL for the NMWPF of £1.4 billion. At the date of this report, the support facility has never been drawn upon.

4.31 Once the admissible value of the assets in the NMWPF falls below £300 million (increased from 2008 in line with the Retail Price Index), the NM Scheme allows for the NMWPF to be merged with another ring-fenced (with-profits) fund, subject to certain conditions being met (including the approval of both the PRA and the ReAssure Fairness Committee). At the date of this report, the threshold is approximately £375 million after allowing for inflation.

4.32 If the admissible assets in the NMWPF fall below £60 million (increased from 2008 in line with the RPI), the NM Scheme requires the fund to be merged with one of ReAssure's other long term insurance business sub-funds and the benefits under any remaining with-profits policies converted to fixed non-profit benefits. At the date of this report, the threshold is approximately £75 million after allowing for inflation.

The RNPF LT business

4.33 The RNPF LT business had Solvency II technical provisions, as at 31 December 2015, of £25.6 billion. The RNPF LT business consists of:

- Unit-linked life business;
- Unit-linked pensions business;
- Non-profit annuity business;
- Other non-linked non-profit business including level and decreasing term assurance, critical illness, income protection, endowment and deposit administration products; and
- Pension scheme longevity swaps.

4.34 The non-profit annuities include a significant amount of annuities acquired from Zurich Assurance Limited in 2008. All of the longevity risk on these annuities (other than on the index-linked annuities) is reinsured to Swiss Reinsurance Company Limited ("SRZ").

- 4.35 In addition, the non-profit annuities include the annuities acquired from HSBC Life (UK) Limited in 2015, which are reinsured via a 100% quota share reinsurance agreement with Hannover Re.
- 4.36 The table below summarises the in-force RNPf LT business at 31 December 2015.

Table 4.3 – Breakdown of the RNPf LT business at 31 December 2015

Product type*	Number of policies	Gross BEL (£m)	Reinsurance recoverables (£m)	Net BEL (£m)
Unit-Linked Life**	142,746	(145)	3	(148)
Unit-Linked Pensions**	653,912	(445)	-	(445)
Non-Profit Annuities	345,134	6,367	504	5,864
Longevity Swaps	3	(324)	(249)	(75)
Other Conventional Non-Profit	288,402	464	8	456
Total	1,430,197	5,918	265	5,653

*This table does not reflect the inter-fund arrangements in relation to the DB described in paragraphs 4.21 and 4.22.

**This table does not include the unit reserves of the unit-linked policies.

- 4.37 The RNPf includes a Matching Adjustment Portfolio (“MAP”) and a Volatility Adjustment Portfolio (“VAP”). The matching adjustment portfolio consists of the in-payment annuities within the RNPf excluding those that are index-linked, of which the majority are included within the volatility adjustment portfolio.
- 4.38 The RNPf is open to new business, however, other than fulfilling obligations to existing policyholders, this only arises through transactions with third parties to acquire new books of risks, for example, portfolio reinsurance agreements.

The ReAssure general insurance business

- 4.39 The ReAssure general insurance business is maintained separately from the RNPf LT business but is part of the RNPf. These policies were originally written by ALICO.
- 4.40 The ReAssure general insurance business comprises approximately £500k of Incurred But Not Reported (“IBNR”) claims reserves and associated capital requirements in respect of general insurance business that is no longer in force. These reserves are held in relation to potential claim events under the expired policies that may not yet have been reported to ReAssure. They are not included in Table 4.3 as they do not relate to long-term business.

Solvency II for ReAssure

- 4.41 ReAssure has informed the PRA that it will use the standard formula for the purpose of calculating its capital requirements under Solvency II and has received no objection from the PRA to this approach. The PRA has not imposed any capital add-ons to the Standard Formula.
- 4.42 ReAssure has an approved MAP within the RNPf made up of the in-payment annuities within the fund with the exception of index-linked annuities and certain other minor product classes.
- 4.43 ReAssure has submitted an application to vary its Matching Adjustment approval in advance of the Phoenix Annuity Scheme (see below) in respect of:
- Inclusion of an additional asset type, specifically interest rate swaps;
 - Inclusion of an additional liability type, specifically index-linked annuities;
 - Additional liquidity requirements arising from the need to post collateral for derivative positions; and
 - Changes to the rules around trading in the MAP.

- 4.44 ReAssure is also applying for approval to create a MAP in the RNPF to replicate the terms of RLL's MAP, in order that the Matching Adjustment may continue to be applied to the relevant RLL business following the transfer into the RNPF.
- 4.45 ReAssure also has a block of business for which it has approval to apply a Volatility Adjustment. This business consists of:
- Most of the index-linked in-payment annuities within the RNPF;
 - In-payment annuities within the DB of the WLWPF.
 - The cost of guarantees associated with with-profits business in the ring-fenced funds
- 4.46 ReAssure has submitted an application to vary its Volatility Adjustment approval in advance of the Phoenix Annuity Scheme and the RLL Scheme to permit the inclusion of deferred annuity business in its VAP.
- 4.47 The PRA has approved ReAssure's application to apply a TMTP. As at 31 December 2015 ReAssure's Pillar 1 Financial Resources Requirement (FRR) exceeded its Solvency II FRR, resulting in the required amount of TMTP to be zero. It is likely that the implementation of the RLL Scheme will result in a material change in the risk profile of ReAssure such that a recalculation of the TMTP will be triggered.
- 4.48 As part of this recalculation, ReAssure intends to align aspects of its TMTP calculation methodology with RLL.

Recent relevant events

The acquisition of Guardian Financial Services

- 4.49 In January 2016, ARUK acquired Guardian Financial Services Holdings UK Limited ("GFSHUKL"), the parent company of Guardian Companies Services Ltd ("GCSL"), RLL (then called GAL) and RLL's subsidiary Ark.

The Part VII transfer of some of the business of Phoenix Life Limited into ReAssure

- 4.50 It is the intention of ReAssure to effect the Part VII transfer of a block of non-profit annuity business from three of the ring-fenced funds of Phoenix Life Limited ("Phoenix") into ReAssure ("the Phoenix Annuity Scheme") with a target Transfer Date of 31 December 2016, i.e. the same target Transfer Date as the RLL Scheme. Phoenix is one of the insurance companies within the Phoenix Group, which is not part of the Swiss Re or Admin Re group of companies.
- 4.51 I have been appointed as Independent Expert in respect of the Phoenix Annuity Scheme.
- 4.52 The current intention is that, although the two schemes have the same Transfer Date, the Phoenix Annuity Scheme will be effected first and will be followed immediately by the RLL Scheme.
- 4.53 The annuities to be transferred from Phoenix under the Phoenix Annuity Scheme are currently fully reinsured to RLL. Under the Phoenix Annuity Scheme, these annuities will become policies of ReAssure, with the reinsurance agreement with RLL continuing with ReAssure as the cedant unless and until the RLL Scheme is implemented. Once the RLL Scheme is implemented, the reinsurance agreement between ReAssure and RLL will terminate as the Phoenix annuities become direct policies of ReAssure.
- 4.54 A security agreement, under which investment restrictions are imposed, is in place for the assets transferred to RLL as part of the reinsurance agreement. This security agreement is to also terminate upon the implementation of the RLL Scheme.
- 4.55 I have considered the impact of the implementation of the Phoenix Annuity Scheme on the affected groups of policyholders in my report on that scheme, which is separate from this report. In this report, my working assumption is that the Phoenix Annuity Scheme goes ahead as planned, and therefore the starting position for my consideration of the RLL Scheme will be after the implementation of the Phoenix Annuity Scheme.
- 4.56 However, the two schemes are separate and could be implemented individually, and therefore there is a possibility that the Phoenix Annuity Scheme does not proceed. In this scenario the policies that were to transfer to ReAssure under the Phoenix Annuity Scheme would remain policies of Phoenix, and the RLL Scheme will result in the reinsurance of these policies being transferred to ReAssure so that ReAssure would become the reinsurer of the Phoenix policies.

- 4.57 In this report, whilst my working assumption is that the Phoenix Annuity Scheme goes ahead as planned, I also consider the impact that the non-implementation of the Phoenix Annuity Scheme would have on my conclusions in relation to the RLL Scheme.

The ReAssure Fairness Committee and the ReAssure Independent Governance Committee

- 4.58 The main purpose of the ReAssure Fairness Committee is to oversee the fair treatment of the policyholders within ReAssure, including both non-profit and with-profits policyholders. It acts as the ReAssure WPC (therefore fulfilling the requirement of COBS 20.5.1 from the FCA Handbook to appoint a WPC) and is therefore responsible for the oversight and challenge to the management of the WLWPF and the NMWPF, as well as monitoring the compliance with their respective PPFMs. The ReAssure Fairness Committee is also required to review ReAssure's unit-linked business practices, including the investment objectives and investment managers. As and when significant transactions arise within ReAssure, it is the duty of the ReAssure Fairness Committee to advise the ReAssure Board on the impact of such transactions and to monitor compliance with previous transfer schemes. The RLL Scheme would therefore fall within the remit of the ReAssure Fairness Committee.
- 4.59 The purpose of the ReAssure Independent Governance Committee is to review the value for money for policyholders of the ReAssure workplace personal pensions in relation to investment strategies, investment performance, fund charges and service standards.

ReAssure's internal linked funds

- 4.60 ReAssure maintains a range of internal linked funds for its unitised policies, although some external links to collective investment funds also exist to align with policy terms where necessary. Due to the large number of business transfers that have been made into ReAssure, it has a diverse range of policies, funds and unit types. In order to ease the consequent management challenges, ReAssure has adopted a layered approach to managing the linked funds.
- 4.61 At the lowest level, ReAssure maintains a series of internal asset pools, each of which is, in effect, a specialist fund holding a single asset class, for example, UK equities or UK gilts. These are referred to as the Base Funds. At the next level, ReAssure maintains internal funds that reflect the investment objectives set out for each of the investment links that ReAssure's linked policyholders may choose; these are invested in the Base Funds. At the final layer, a number of separate series of units are maintained reflecting different charging structures arising from the in-force policies, for example, different rates of management charge or bid / offer spread. Each policyholder unit series is assigned to a "Profile Fund" with an appropriate investment objective.
- 4.62 The practices adopted by ReAssure in relation to its unitised business are subject to review by its Fairness Committee, which considers the continuing suitability of the practices and their application. In addition, the ReAssure Independent Governance Committee reviews the value for money of the workplace personal pensions, including an assessment of the investment strategies, investment performance, fund charges and service standards.
- 4.63 Subject to policy terms and conditions being satisfied, ReAssure may close or combine existing internal linked funds from time to time if it is believed that doing so will be beneficial for policyholders, either due to reduced costs or by achieving investment objectives more effectively. New funds may also be introduced.

ReAssure's reinsurance agreements

- 4.64 ReAssure has external reinsurance agreements (where ReAssure is the cedant) with RGA, Generali Worldwide Insurance Company Limited, Munich Re, SCOR, Hannover Re, and PartnerRe. This includes the Hannover Re 100% quota share reinsurance agreement for the pension annuity contracts that transferred to ReAssure under the HSBC Scheme in 2015.
- 4.65 In addition, ReAssure has a number of intra-group reinsurance agreements in place with Swiss Reinsurance Europe S.A. ("SRE") and SRZ. These are all reinsurance agreements structured as longevity swaps and include the annuities (including index-linked) that were transferred into ReAssure under the ZAL Scheme in 2008. The arrangement for the ZAL annuities has been reinsured to SRZ.

- 4.66 Under the assumption that the Phoenix Annuity Scheme goes ahead as planned, prior to the implementation of the RLL Scheme, a portfolio of non-profit annuities will be transferred into ReAssure from Phoenix and will remain wholly reinsured to RLL in an intra-group reinsurance agreement.
- 4.67 The UWP elements of the hybrid DB business within the WLWPF are linked to the NMWPF under an inter-fund arrangement so that the investment risk on the UWP hybrid DB policies is passed to the NMWPF. All other surplus on the DB policies accrues to the RNPF under the terms of the 2007 National Mutual Scheme and under a subsequent inter-fund arrangement.
- 4.68 There is not currently any material business that is reinsured into ReAssure from another insurance company.

The capital policies relevant to ReAssure

The ARUK Group capital policy

- 4.69 The ARUK Group of companies are wholly owned subsidiaries of Swiss Re Group which is a listed company on the Swiss stock exchange. The Swiss Re Group ratings as at 31 December 2015 were:
- Standard & Poors: AA-
 - Moody's: Aa3
 - AM Best: A+
- 4.70 The Swiss Re Group rating is significant to ARUK for the following reasons:
- The exposure of Swiss Re Group to its subsidiaries should not impair its ability to achieve the desired credit rating. This has an impact on the amount of capital held in ARUK.
 - It is important in the context of the overall exposure of ARUK and the subsidiaries to the Swiss Re Group.
- 4.71 The primary capital management target of ARUK is to maintain a minimum excess Solvency II capital resource of 20% of the Solvency II SCR, subject to the discretion of the Board and on the interaction of the buffer with any specific capital margins required by the PRA.
- 4.72 The intent of the buffer is to ensure sufficient Own Funds are maintained to cover the SCR under the normal course of market volatility. Group policy is for legal entities to hold sufficient capital to cover 1 in 10 year event stresses.

The ReAssure capital policy

- 4.73 In March 2016, the Admin Re Group Boards approved a new capital policy (the "ReAssure Capital Policy" or "RCP") that is applicable to the regulated insurance companies overseen by ARUK, including ReAssure and RLL. The previous capital policy provided for a capital management buffer to be maintained over and above the capital required under the previous (Solvency I) regulatory regime.
- 4.74 The RCP specifies that capital resources should be sufficient to cover the ReAssure SCR and 20% of the RNPF SCR. ReAssure's analysis indicates that this capital buffer is broadly consistent with ReAssure being able to maintain 100% SCR coverage following a 1-in-10 year event. In other words, ReAssure believes that its capital policy buffer allows ReAssure to maintain 100% SCR coverage with 90% confidence over a one year period.
- 4.75 In addition to the capital buffer, the RCP includes a requirement in relation to the TMTP that, where ReAssure or RLL would be unable to cover its SCR in the absence of the TMTP, the RCP requires any dividends paid to be restricted to:
- Any separately identifiable undistributed surplus arising from a previous period; plus
 - Any surplus arising in the period; less
 - The amount of phasing-in set out in the relevant transitional plan for that period.
- 4.76 Any assets in excess of those required under the RCP may be used to finance other strategic initiatives or (subject to non-objection from the PRA) distributed to the shareholder.

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- 4.77 It should be noted that ReAssure's TMTP deduction is currently zero as the FRR under the previous Pillar I regime is higher than the FRR under Solvency II.
- 4.78 Should the RCP be breached, the management actions taken to restore solvency to the required level will depend upon the nature of the events causing the strain on the solvency position of ReAssure. Previous management actions have involved intra-group reinsurance agreements and monetisation of future unit-linked business profits, both of which aim to reduce the SCR and technical provisions.
- 4.79 If 'organic actions' are not projected to bring ReAssure into compliance with the RCP in the required timeframe, then a capital injection (usually in the form of a contingent loan) should be made. The ARUK group capital policy states that capital will be provided by the Swiss Re Group should management actions be unable to mitigate a breach in the RCP.

The administration and servicing of the ReAssure policies

- 4.80 The administration and servicing for the majority of ReAssure policies is carried out by Admin Re UK Services Limited ("ARUKSL"). This is subject to a Management Services Agreement and fees are agreed on a per-policy basis, increasing in line with an external inflation index.
- 4.81 In addition, ReAssure has a Management Services Agreement with HCL Insurance Services BPO Limited for the business transferred under the 2011 Barclays Scheme.
- 4.82 The administration for the annuity business transferred under the HSBC Scheme in 2015 is included under the terms of the reinsurance agreement with Hannover Re.
- 4.83 Swiss Re Asset Management manages the majority of ReAssure's non-profit, non-linked assets, however the management of credit assets have largely been sub-contracted to BlackRock Asset Management Limited. The remaining non-profit non-linked assets are managed by external asset managers.
- 4.84 The majority of ReAssure's unit-linked assets are managed by Aberdeen Asset Management Limited, however HSBC Asset Management Limited provides the asset management in respect of the pension business transferred under the HSBC Scheme in 2015. In addition, there are a number of direct unit-linked policyholder investment links into external collective schemes.
- 4.85 ReAssure's with-profits assets are managed by Aberdeen Asset Management Limited.

5 INFORMATION REGARDING RLL

Introduction

- 5.1 RLL is a proprietary company whose immediate parent is ARUK.
- 5.2 RLL is authorised under FSMA to write all classes of general insurance business with the exception of Class 18, as well as long-term insurance business falling in Classes I, II, III, IV, VI and VII.

The history of RLL

- 5.3 Guardian Fire & Life was founded in 1821 and renamed as Guardian Assurance in 1902. In 1968, it merged with Royal Exchange Assurance to form Guardian Royal Exchange Group ("GRE") and, in 1970, five life funds merged to form the Guardian With-Profits Fund (the "GWPF") within Guardian Assurance Limited ("GAL").
- 5.4 GAL closed to new with-profits business in 1998 and the life and pensions business of GRE, collectively known as Guardian Financial Services (GFS), was acquired by Aegon UK in 1999.
- 5.5 Guardian Financial Services stopped selling new policies in 2001, except in respect of increments and options under existing policies, and was acquired by Cinven in 2011.
- 5.6 In January 2016, GAL was acquired by ARUK and became part of the ARUK business unit of the Swiss Re Group. On 23 June 2016, GAL was renamed ReAssure Life Limited ("RLL").
- 5.7 There is a small amount of general insurance business in RLL, but this is expected to be transferred to R&Q Insurance (Malta) Limited ("R&Q") in September 2016, prior to the implementation of the RLL Scheme.
- 5.8 RLL has an Irish insurance subsidiary, Ark Life Assurance Company Limited ("Ark"). Ark was closed to new business in 2012 and is intended to provide a platform for closed fund consolidation and reinsurance in the Irish domestic market.
- 5.9 As at 31 December 2015 RLL had approximately £14.8 billion of assets under management and approximately 550,000 policies in-force. These figures include the general insurance business due to be transferred out to R&Q Insurance (Malta) Limited under a separate Part VII transfer (see paragraph 5.36).

The transfers of long-term business into RLL

- 5.10 Over the years there have been a number of restructures and Part VII transfers (or equivalent under previous legislation) of long-term business into RLL.
- 5.11 On 30 September 2013, the long-term business of Guardian Linked Life Assurance Limited ("GLLA") and Guardian Pensions Management Limited ("GPM"), subsidiaries of GAL, along with the majority of the SHF assets of these companies, was transferred to GAL under a Part VII transfer.
- 5.12 The GWPF was restructured from 1 January 2012 with some business moved from the GWPF to the newly created Guardian Non-Profit Fund ("GNPF").
- 5.13 With an effective date of 30 September 2013, RLL completed a Part VII transfer of over 300,000 in-payment pension annuities from various companies in the Phoenix Group. The policies in question had been fully reinsured to RLL since June 2012 and represented approximately £5 billion of liabilities.

The RLL current fund structure

- 5.14 RLL currently has one ring-fenced fund as defined under Solvency II: the GWPF.
- 5.15 Under Solvency II, all assets not in a ring-fenced fund must be allocated to either the long-term insurance business or the general insurance business of the company.
- 5.16 The business not in the ring-fenced fund of RLL is called the GNPF business. The business of the GNPF consists of:
- The GNPF long-term business (the "GNPF LT business");

- The GNPF short-term business (otherwise called the RLL general insurance business); as noted above, the general insurance business written in RLL is due to be transferred to R&Q on 1 September 2016; and
- All other assets and liabilities of RLL outside of the GWPF, including Ark.

5.17 The long-term business written in each of the GWPF and the GNPF is described in turn below.

The GWPF business

5.18 The business written in the GWPF includes both non-profit and with-profits business and some with-profits deferred annuities that are reinsured to the GNPF. In particular this business comprises:

- Life and pensions UWP business;
- CWP endowments and whole of life policies;
- With-profits group deposit administration, deferred annuities and residual in-payment annuities;
- Life and pensions unit-linked non-profit business; and
- Term assurance, critical illness and other non-profit non-linked business.

5.19 The business of the GWPF includes a portfolio of hybrid investment business under which policyholders can choose to invest their policies in both unit-linked funds and UWP funds. This business is referred to in this report as the Guardian Defined Unit-Linked Business (“GDUB”). The non-unit cash flows² of the GDUB are subject to an inter-fund arrangement with the GNPF, under which 100% of the surplus arising is passed to the GNPF in return for a ceding commission that was paid from the GNPF to the GWPF. The investment risk associated with the UWP elements of the policies in the GDUB is retained by the GWPF.

5.20 The assets of the GWPF are ring-fenced and the free estate is being distributed through regular additions to the asset shares in line with the PPFM. With-profits policyholders receive at least 90% of distributed profits through declared bonuses, with shareholders receiving the balance, normally 10%.

5.21 The table below summarises the in-force business of the GWPF at 31 December 2015.

Table 5.1 – Breakdown of the business of the GWPF at 31 December 2015

Product Type	Number of policies	Gross best estimate liabilities (£m)*	Reinsurance recoverables (£m)	Gross best estimate liabilities less reinsurance recoverables (£m)
Non-profit in-payment annuities	208	21	0	21
Deferred non-profit annuities	17,543	1,128	723	406
Unit-linked business	72,857	1,333	(63)	1,396
UWP business	14,270	928	(17)	945
CWP business	9,874	273	0	273
Other	16,268	54	5	49
Total	131,020	3,737	647	3,089

*Includes unit reserves on unit-linked business

² Non-unit cash flows relate to unit-linked and UWP business; they represent the cash in-flows and out-flows that are associated with the unitised business, **excluding** the premiums and benefits that involve the purchase or sale of policyholder units. Non-unit cash flows include income to the insurer from charges levied on policyholder premiums and unit funds, expense outgo that relates to unitised business, and claims paid to policyholders in excess of the value of their units.

The GNPf business

- 5.22 The GNPf (under the pre-Solvency II definition) was created as part of the with-profits restructuring described above. The business currently in this fund comprises:
- Non-profit deferred and in-payment annuities reallocated from the GWPF in 2012;
 - In payment annuities transferred to the GNPf under the 2013 Phoenix Part VII transfer;
 - Unit-linked business, transferred from GLLA and GPM under the Guardian Scheme in 2013;
 - The PHI business formerly in the Guardian PHI Fund that is closed to new business;
 - Reinsurance obligations in respect of certain unit-linked business and certain benefits of with-profits deferred annuities that are written in the GWPF; and
 - Reinsurance obligations in respect of the annuities reinsured from Phoenix to RLL; these annuities will be transferred from Phoenix into ReAssure under the Phoenix Annuity Scheme if approved by the Court.
- 5.23 The GNPf has two longevity reinsurance treaties in place where RLL is the cedant:
- A risk premium reinsurance agreement on a block of immediate annuities with Scottish Equitable plc; and
 - A reinsurance agreement structured as a longevity swap, in relation to some of the transferred annuities from Phoenix, with RGA Global Reinsurance Company Limited and RGA International Reinsurance Company Limited.
- 5.24 The GNPf contains a matching adjustment portfolio and a volatility adjustment portfolio. The GNPf's MAP includes the annuity liabilities reinsured in from Phoenix (that will be transferred to ReAssure in the event of the implementation of the Phoenix Annuity Scheme).
- 5.25 The table below summarises the in-force business of the GNPf at 31 December 2015.

Table 5.2 – Breakdown of the business of the GNPf at 31 December 2015

Product Type	Number of policies	Gross best estimate liabilities (£m)	Reinsurance recoverables (£m)	Gross best estimate liabilities less reinsurance recoverables (£m)
Non-profit in-payment annuities	387,814	8,481	809	7,672
Deferred non-profit annuities*	6,460	1,032	0	1,032
Unit-linked business	21,764	284	17	267
GPHIF business	278	12	6	6
Other non-profit business	2,297	17	7	10
Total	418,613	9,826	839	8,987

*Liabilities include business reinsured in from GWPF (not included in number of policies)

RLL reinsurance agreements

- 5.26 RLL has significant external reinsurance agreements (where RLL is the cedant) with Scottish Equitable plc, RGA Global Reinsurance Company Limited and RGA International Reinsurance Company Limited. RLL has a number of less significant external reinsurance agreements (where RLL is the cedant) with Swiss Re Europe SA and Munich Reinsurance Company, although the intent is to recapture these agreements either before or after the implementation of the proposed Scheme.
- 5.27 RLL also has a number of inter-fund arrangements in place, with the most significant arrangements involving the reinsurance of GWPF business to the GNPf. The business reinsured includes:
- Certain deferred with-profits annuities; and

- The non-unit liabilities of the Freedom, Choices and Group Money Purchase range of contracts.
- 5.28 There are a number of less significant reinsurance agreements between the GNPf and the GWPF, and between the GNPf and the GPHIF.
- 5.29 In addition, RLL has two significant external reinsurance agreements (where it acts as the reinsurer) with Countrywide Assured plc and Phoenix Life Limited, and less significant arrangements with Royal London and Connecticut National Life Insurance Company. The Phoenix arrangement involves the non-profit annuity business that is intended to transfer to ReAssure under the Phoenix Annuity Scheme prior to the implementation of this Scheme. The Countrywide agreement includes with-profits policies that are treated in the same way as other with-profits policies within the GWPF.
- 5.30 The surplus arising under the GDUB, with the exception of investment surplus on UWP elements of GDUB policies, accrues to the GNPf under the terms of an inter-fund arrangement.

Recent relevant events

The acquisition of Ark

- 5.31 On 17 December 2013, the Guardian Financial Services Group agreed to acquire 100% of the issued share capital of Ark, the Dublin-based bancassurance subsidiary of Allied Irish Banks plc which manages over €4 billion of assets and 330,000 policies. Ark was closed to new business in 2012 and is intended to provide a platform for closed fund consolidation and reinsurance in the Irish domestic market. Following this acquisition, which was completed in May 2014, Ark became a wholly owned subsidiary of the GNPf.

The sale of the Phoenix annuities

- 5.32 On 31 July 2014, Phoenix and RLL entered into an annuity business transfer agreement under which Phoenix and RLL agreed to transfer approximately 60,000 non-profit immediate annuity policies and associated assets and liabilities (the transferring business) from three Phoenix ring-fenced funds to the GNPf.
- 5.33 At the same time, in order to accelerate the transfer of the economic risk and reward associated with the transferring business, Phoenix and RLL entered into a reinsurance agreement in relation to the transferring business, together with certain other related agreements. These are collectively referred to in this report as “the reinsurance agreement”.
- 5.34 Following the acquisition of RLL by ARUK, the reinsured annuities will be subject to the Phoenix Annuity Scheme under which they will (subject to Court approval) be transferred from Phoenix to ReAssure.
- 5.35 As described in Section 4, I have undertaken my review of the Scheme under the working assumption that the Phoenix Annuity Scheme will have been implemented, so that the cedant in the reinsurance agreement will have changed from Phoenix to ReAssure prior to the implementation of the RLL Scheme. However, I also consider the scenario in which this change of cedant does not take place.

The transfer of the RLL general insurance business

- 5.36 RLL is currently in the process of undertaking a Part VII transfer of a small closed block of general insurance business to R&Q Insurance (Malta) Limited. The transferring portfolio accounted for less than 0.1% of the total insurance liabilities of RLL at 31 December 2015. The Transfer Date of this transfer is expected to be 1 September 2016, i.e. prior to the implementation of the RLL Scheme.

RLL's capital policy

- 5.37 RLL's capital policy was changed in March 2016 to update it for Solvency II and to align it with that of ReAssure.
- 5.38 The new capital policy specifies that RLL's capital resources should be sufficient to cover the RLL SCR and 20% of its GNPf SCR. RLL's analysis indicates that this capital buffer is broadly consistent with RLL being able to maintain 100% SCR coverage following a 1-in-10 year event. In other words, RLL believes that its capital policy buffer allows it to maintain 100% SCR coverage with 90% confidence over a one year period.

- 5.39 In addition to the capital buffer, the capital policy includes a requirement in relation to the Transitional Measure; in particular, where RLL would be unable to cover its SCR in the absence of the Transitional Measure, the capital policy requires that RLL restricts any dividends paid to:
- Any separately identifiable undistributed surplus arising from a previous period; plus
 - Any surplus arising in the period; less
 - The amount by which the balance sheet Transitional Measure is projected to decrease in RLL's transitional plan for that period.
- 5.40 Any assets in excess of the capital policy measures in the shareholder-backed business may be distributed to RLL's shareholder or used to finance other strategic initiatives.

The administration and servicing of the RLL policies

- 5.41 Investment management agreements are in place for existing RLL business with Kames Capital, BlackRock and Ignis Asset Management. These companies manage investments in exchange for an annual management fee.
- 5.42 GCSL provides all other administrative services to RLL under an expense management arrangement. The expense fees payable by RLL under this arrangement are fixed at an agreed level and increase with inflation each year.
- 5.43 GCSL outsources the administration of certain parts of RLL's business to outsource service providers including Diligenta and Capita.
- 5.44 The RLL Scheme will transfer the servicing arrangement with GCSL from RLL to ReAssure.

6 THE PROPOSED RLL SCHEME

Summary of the proposed RLL Scheme

- 6.1 The Scheme is expected to be presented to the Court for a Directions Hearing in September 2016 and for a Final Hearing in December 2016. If approved by the Court it will be implemented with a Transfer Date of 31 December 2016.
- 6.2 If the Scheme is approved by the Court, then on the Transfer Date:
- The long-term insurance policies of RLL, together with the associated assets and liabilities, will transfer from RLL to ReAssure:
 - The policies in the GNPF on the Transfer Date will be allocated to the RNPF;
 - The GDUB policies, currently allocated to the GWPF, will be allocated to the RNPF. The investment elements of the UWP components of the hybrid GDUB policies will be linked to the newly created Guardian Assurance With-Profits Fund ("GAWPF"); and
 - The remaining policies in the GWPF on the Transfer Date will be allocated to the GAWPF.
 - The DB business within ReAssure will be reallocated from the WLWPF to the RNPF. The investment elements of the UWP components of the hybrid DB business that was acquired through the NM Scheme will continue to be linked via an inter-fund agreement to the NMWPF.
- 6.3 The annuities in the GNPF's MAP will be transferred into a newly created MAP in ReAssure that is separate from ReAssure's existing MAP. Whilst this MAP will be identical in terms of asset eligibility and other criteria to that currently within RLL, the creation of a new MAP in the RNPF is subject to the outcome of a formal application to the PRA.
- 6.4 The business of RLL's VAP will be transferred to ReAssure's VAP, subject to approval by the PRA. RLL's VAP includes deferred annuity business, which is not within the current scope of ReAssure's volatility adjustment approval.
- 6.5 The results of both of these applications should be known prior to the Sanctions Hearing for the RLL Scheme.
- 6.6 The provisions of the Scheme will allow ReAssure to merge the GAWPF with another ring-fenced (with-profits) fund if the value of its assets fall below £375 million, adjusted in real terms by any change in the Retail Prices Index ("RPI") with effect from 31 December 2017.
- 6.7 The Scheme stipulates that the governance requirements around such an action would include:
- Approval by ReAssure's Fairness Committee;
 - Approval by the PRA and FCA following suitable notification;
 - A certificate from an independent expert (whose appointment would require non-objection from the PRA and FCA) confirming that:
 - The merger would not materially adversely affect the interests and reasonable expectations of GAWPF policyholders; and
 - It would not be in the collective interest of GAWPF policyholders to maintain the GAWPF as a separate with-profits fund.
- 6.8 Similarly, the Scheme provides for a threshold of £75 million, adjusted in real terms by any change in RPI with effect from 31 December 2017, below which the GAWPF is required to be converted to a non-profit basis. Any such change would also be subject to the following governance requirements:
- Approval by ReAssure's Fairness Committee, the Committee having considered other available alternative courses of action from the perspective of treating customers fairly, including the option to continue as with-profits policies;
 - Approval by the PRA and FCA following suitable notification; and

- A certificate from an independent expert (whose appointment would require non-objection from the PRA and FCA) that the merger would not materially adversely affect the interests and reasonable expectations of GAWPF policyholders or policyholders of the non-profit fund to which the GAWPF policies would be allocated.
- 6.9 The conversion to non-profit may be undertaken once the GAWPF reaches £375 million (adjusted in real terms by any change in RPI with effect from 31 December 2017) provided that the ReAssure Board, the ReAssure Fairness Committee (having considered other available alternative courses of action from the perspective of treating customers fairly, including the option to continue as with-profits policies) and an independent expert (whose appointment would require non-objection from the PRA and FCA) considers that it would be in the collective interest of GAWPF policyholders to do so.

The motivation for the implementation of the RLL Scheme

- 6.10 ARUK has described the rationale behind the Scheme as set out below:
- Merging the legal entities will result in a larger, well-diversified life company, providing capital and operational synergies to the shareholder;
 - By integrating operations, Admin Re can offer enhanced propositions to certain groups of policyholders, and be more able to adapt its administration systems in response to regulatory changes; and
 - The increased scale of the life company will extend the time period over which the business runs off to any given size threshold.
- 6.11 The rationale for the allocation of certain policies of the GWPF and the WLWPF to the RNPF has been described as set out below:
- As these policies are mostly non-profit policies whose risks are owned by the GNPf and RNPF, their allocation to the RNPF will simplify the structure and reporting of ReAssure as the policies will be allocated to the fund that owns the risks; and
 - The simplified structure of the business resulting from this allocation should reduce complexity of the accounting processes and reduce the operational risk associated with this.
- 6.12 It should be noted that the DB and GDUB business have UWP elements that are linked to the NMWPF and GWPF respectively through inter-fund arrangements. These arrangements will remain in place following the implementation of the Scheme, meaning that the UWP elements of these hybrid policies of the DB and GDUB will remain linked to the NMWPF and GAWPF respectively.
- 6.13 The introduction of the thresholds for merging the GAWPF with another ring-fenced fund is intended to be for the benefit of the affected with-profits policyholders as it will facilitate a more orderly run off of the remaining with-profits policies through better risk and liquidity management, and the avoidance of restrictions on investment freedom.

Transferring assets and liabilities

- 6.14 Under the proposed Scheme, the long-term business of RLL will be transferred to ReAssure.
- 6.15 Using figures as at 31 December 2015, the number of policies to be transferred is approximately 550,000, constituting approximately £13.6 billion of Solvency II technical provisions.
- 6.16 In terms of the Solvency II technical provisions as at 31 December 2015, the business of RLL represents approximately 49% of the business of ReAssure, and the RLL business that is to be allocated to the RNPF represents approximately 41% of the existing business of the RNPF.
- 6.17 All assets of RLL are to be transferred to ReAssure with the exception of the minimum capital required to be held by a regulated life insurance company. This minimum capital amount is currently €3.7 million and will be transferred to ARUK once RLL has been de-authorised and subsequently wound up.
- 6.18 All reinsurance agreements for which RLL is the cedant will transfer as part of the Scheme such that ReAssure becomes the cedant.

- 6.19 If the Phoenix Annuity Scheme has been implemented, the consequent reinsurance of the Phoenix annuities from ReAssure to RLL will terminate as a result of the RLL Scheme. If the Phoenix Annuity Scheme has not been implemented then ReAssure will become the reinsurer of the Phoenix annuities.

The TMTP

- 6.20 ReAssure currently has approval to use the TMTP but the FRR restriction described in paragraph 3.26 means that its TMTP is currently zero. However, ReAssure has applied to the PRA for the following in advance of the implementation of the RLL Scheme:
- A change to the approach used to allocate the TMTP between ReAssure's sub-funds; and
 - A recalculation of ReAssure's TMTP upon the implementation of the RLL Scheme, on the grounds that the implementation of the RLL Scheme would constitute a trigger event for a recalculation under SS6/16 (described in paragraph 3.29).
- 6.21 Therefore, subject to PRA approval, ReAssure's TMTP will be recalculated upon implementation of the RLL Scheme.

Administration and investment management

- 6.22 The implementation of the proposed Scheme will not change the administrative arrangements in respect of the policies of RLL or the existing ReAssure business.
- 6.23 ARUKSL currently provides services to ReAssure for the administration of the majority of its policies and related activities. ARUKSL also has third party administration contracts with Aviva, MetLife and Genworth.
- 6.24 GCSL provides services to RLL for the administration of its policies and related activities.
- 6.25 Whilst these administrative arrangements will not change as a consequence of the implementation of the Scheme, ReAssure has informed me that it may, at a future point, seek to align the administrative arrangements of the policies of ReAssure and RLL. I understand that any project to align the administrative arrangements will take place whether or not the Scheme is implemented.
- 6.26 The implementation of the Scheme will not change the investment management agreements in place for RLL or ReAssure, although I understand that, regardless of whether the Scheme is implemented, ReAssure may seek to change the investment manager of certain of its assets during 2017.

Costs of the Scheme

- 6.27 The costs of the implementation of the Scheme will be borne by the RNPF up to the level of an agreed cap of £80 million. This cap includes the costs incurred associated with the overall RLL integration programme. Costs incurred above this cap will be met by ARUK.

Residual Policies

- 6.28 A "Residual Policy" is defined as an RLL policy that:
- Was written by RLL in the course of carrying on insurance business in the UK or any other EEA state, in respect of which:
 - For the purpose of paragraph 1(2A) of Schedule 12 to FSMA, was concluded in an EEA State other than the United Kingdom; and
 - For which the PRA has not provided the certificate referred to in paragraph 3A of Part 1 of Schedule 12 to FSMA with respect to the relevant EEA state;
 - Was written by RLL in an establishment situated in an EEA State other than the United Kingdom, in respect of which the PRA has not, prior to the Court sanction date, provided the certificate referred to in paragraph 3 of Schedule 12 to FSMA with respect to the relevant EEA State, or

- Is not otherwise capable of being transferred pursuant to FSMA.
- 6.29 Any policy that is a Residual Policy, and as a result cannot be transferred as part of the proposed Scheme on the Transfer Date, will be reinsured under the Scheme into ReAssure through a Residual Policies reinsurance agreement from the Transfer Date on a basis intended to replicate the financial effects of a transfer of such policies to ReAssure. RLL and ReAssure may agree to terminate this residual arrangement (having first obtained the approval of the ReAssure Fairness Committee), at which point ReAssure will transfer back an agreed amount of assets to RLL in respect of any remaining residual policies.
- 6.30 The administration arrangements for residual policies will remain unchanged.

The structure after the implementation of the RLL Scheme

- 6.31 If approved by the Court, after the implementation of the Scheme, all of the long-term insurance business of RLL will have been transferred to ReAssure. The business of the GNPF, together with the GDUB in the GWPF, will be allocated to the RNPF. All other RLL business will be allocated to the newly created GAWPF in ReAssure.
- 6.32 Therefore, ReAssure will have three ring-fenced funds:
- The WLWPF;
 - The NMWPF; and
 - The GAWPF.
- 6.33 Under Solvency II, all assets not in a ring-fenced fund must be allocated to either the long-term insurance business or the general insurance business of the company and the rest of the business of ReAssure will be allocated to the RNPF, which will include:
- The existing RNPF LT business;
 - The transferring business from the GNPF;
 - The DB;
 - The GDUB;
 - The ReAssure general insurance business; and
 - All other assets and liabilities of ReAssure outside the ReAssure ring-fenced funds, including the wholly owned subsidiaries of ReAssure:
 - Ark;
 - GLLA;
 - GPM;
 - Admin Re Trustees Limited;
 - Gresham Life Assurance Society Limited;
 - National Mutual ("NM") Life Assurance Society Limited; and
 - Admin Re Pension Trustees Limited.

7 THE EFFECT OF THE SCHEME ON THE TRANSFERRING RLL POLICIES

Introduction

- 7.1 In this section I consider the effect of the implementation of the RLL Scheme on the transferring business which is the RLL business.
- 7.2 As described in Section 5, the RLL business is all long-term business with Solvency II technical provisions of £13.6 billion at 31 December 2015.
- 7.3 When a life insurance company is proposing a transfer of its business into another life insurance company in the same group, from the perspective of the transferring policyholders it is important to compare the financial strength of the transferring company pre-transfer with the financial strength of the combined company post-transfer. If the combined company were expected to be significantly financially weaker than the transferring company then this could be an indication that security for the transferring policyholders' guaranteed benefits or their benefit expectations might be materially adversely affected as a result of the transfer.
- 7.4 In addition to consideration of financial strength, it is important to compare the management, governance and service standards to which the transferring policies will be subject following the implementation of the Scheme to those to which they are currently subject.
- 7.5 For the purposes of this report the RLL policies have been subdivided into groups whose policyholders will be similarly affected by the implementation of the RLL Scheme as follows:
- The GNPf Business;
 - The GDUB; and
 - The other GWPF business.
- 7.6 In this section I also consider the impact of the implementation of the RLL Scheme on the policyholders of Ark, which is a subsidiary of the GNPf, as well as the reinsurers of RLL.
- 7.7 If the RLL Scheme is sanctioned by the Court, the transferring policies will transfer from RLL to ReAssure. Therefore, for each group of policies above, the key points to consider are:
- The financial strength available to provide security for the benefits under the transferring RLL policies after the implementation of the Scheme compared to that currently available;
 - Any change to the profile of risks to which the transferring RLL policies will be exposed as a result of the implementation of the Scheme; and
 - The effect of the implementation of the Scheme on the reasonable expectations of the transferring RLL policyholders, in respect of their benefits and the service standards, management and governance applied to the transferring RLL policies.
- 7.8 I consider each group of policies in turn below.

The GNPf business

The financial strength available to provide security of benefits

- 7.9 The policies of the GNPf currently achieve security for their guaranteed benefits from the assets attributed to the GNPf. The RLL assets attributed to the ring-fenced funds are not available to provide security to the GNPf business except in the extreme scenario where RLL is insolvent and barriers between the ring-fenced funds break down such that all the assets of the company are used to meet liabilities in the order set out in the relevant winding up regulations.
- 7.10 The financial strength available to provide support for guaranteed benefits must be considered in the context of the restrictions that are in place in respect of changing that financial strength. For both RLL and ReAssure, such

restrictions are set out in the RCP (as described in Section 4) and are expressed in terms of the capital required to be held under the current Solvency II regulatory regime.

- 7.11 Capital held in excess of that required by the regulatory minimum and the relevant capital policy should not be relied upon for the provision of security in the context of assessing the suitability or otherwise of a proposed Scheme because such capital could, subject to certain logistical hurdles (including notification of the PRA), be transferred out. Therefore, in my assessment of the RLL Scheme I shall not rely upon the capital in excess of the RCP.
- 7.12 In addition to the level of capital required under each relevant capital policy, consideration must also be given to the governance around changes to the policy and the response of the firm to breaches of the capital policy.
- 7.13 Hence, taking all this together, for the transferring GNPf policies, the security of the guaranteed benefits is currently provided by:
- The financial strength required by the Solvency II regulations for RLL and the GNPf;
 - The financial strength required by the RCP; and
 - The strength of the governance around the RCP and changes to it.
- 7.14 Clearly the Solvency II regime will not change as a result of the RLL Scheme and so the financial strength and security provided by the Solvency II regime for the transferring policies will be the same before and after the implementation of the Scheme.
- 7.15 Under Solvency II the assets held in respect of a policy or group of policies are represented by the technical provisions (consisting of the BEL and risk margin) and the SCR. This amount is then increased in accordance with the firm's capital policy: the RCP for both ReAssure and RLL.
- 7.16 As they are two companies in the same group, ReAssure and RLL are materially consistent in the way they calculate their Solvency II technical provisions and SCR and the RLL Scheme itself will not change this.
- 7.17 The implementation of the RLL Scheme will not change the RCP nor the strength of governance around the RCP.
- 7.18 Therefore, the potential changes in security of benefits for the transferring policies as a result of the RLL Scheme are limited to changes in the financial strength available that may arise when the RLL business is transferred into ReAssure.
- 7.19 Following the implementation of the Scheme and the subsequent winding-up of RLL, most of the assets and all of the liabilities of the GNPf will be transferred to the RNPF. There will be some residual assets left in RLL that are required to cover RLL's minimum capital requirements until RLL is de-authorised and wound-up. The exact amount of these assets is not yet known; however, these assets will be relatively small in value and therefore do not affect my conclusions in relation to the RLL Scheme.

Security provided by technical provisions

- 7.20 The technical provisions of the GNPf can be broken down into:
- The Solvency II BEL for the GNPf business;
 - The Solvency II risk margin for the GNPf business; and
 - The reduction arising from the GNPf's share of RLL's TMTP.
- 7.21 The financial information I have received as at 31 December 2015 shows that there is expected to be a reduction of approximately £3 million to the size of the total Solvency II BEL (net of reinsurance recoverables) following the implementation of the Scheme. This represents less than 0.1% of the total net BEL of ReAssure and RLL, and arises due to the release, upon the implementation of the RLL Scheme, of a counterparty default provision held by ReAssure in relation to the reinsurance of the annuities expected to be transferred into ReAssure under the Phoenix Annuity Scheme.
- 7.22 The expected small size of the change in BEL as a result of the RLL Scheme is predicated upon the matching adjustment being applied to annuity liabilities of the GNPf that are currently approved for use of a matching adjustment in RLL. This is not certain as it relies upon ReAssure applying for, and being granted, approval (from the PRA) for a matching adjustment in respect of these liabilities. The assets and liabilities will be put into a MAP

that is identical to that currently in RLL and the governance surrounding the MAP will not change. It therefore seems unlikely that approval for a matching adjustment in respect of these liabilities would be withheld however this is possible and I comment on the implications of non-approval for this MAP in respect of the current GNPf business in Section 11.

- 7.23 The Solvency II risk margin of the GNPf business is currently calculated for the GNPf business in isolation, without any allowance for diversification with any other blocks of business, inside or outside of RLL. Following the implementation of the Scheme, the risk margin in respect of the transferring GNPf business will be included in the calculation of the risk margin across the whole of the RNPf and will therefore in effect allow for any diversification of risks and other interactions between the transferring business and the existing RNPf business. As at 31 December 2015 the result would have been an £18 million reduction in the risk margin if the Scheme had been in place at that date. This reduction in risk margin reflects the increased level of diversification of risks that is likely to result when the GNPf business is brought together with the RNPf, and the increased resilience to risk events that such diversification brings.
- 7.24 As at 31 December 2015, RLL's TMTP was £820 million and ReAssure's TMTP was zero. Of the £820 million, £730 million was allocated to the GNPf. The regulatory guidance around any recalculation of ReAssure's TMTP following a Part VII transfer is not final but it has been assumed that the ReAssure TMTP would be recalculated following the implementation of the RLL Scheme based on the TMTP that would have been calculated at 31 December 2015 had the Scheme been in place on that date. Under this working assumption, ReAssure would have had a TMTP at 31 December 2015 of £800 million, of which £717 million would have been attributed to the RNPf.
- 7.25 Therefore, it is expected that the RLL Scheme would result in a modest reduction (£13 million) in the size of the TMTP applicable to the transferring GNPf business. This would impose a greater Solvency II financial resources requirement on ReAssure than would have been the case with a larger TMTP, with no appreciable change to the aggregate risk profile of the business of ReAssure and RLL. Thus there is an increase in the assets that must be held against the liabilities and risks of the GNPf business and a modest improvement to the security of benefits of the GNPf policyholders. I understand that the outcome of the application to the PRA to recalculate the TMTP will be known by the time of the Sanctions Hearing.

Security provided by the SCR

- 7.26 The Solvency II SCR of the GNPf business is currently calculated at the RLL entity level and, if the RLL Scheme is implemented, the Solvency II SCR applicable to the GNPf business will be calculated at the ReAssure entity level. This will allow for any diversification between the risks of the transferred business and the existing business of ReAssure.
- 7.27 Using the Solvency II financial information as at 31 December 2015 shows that this would have resulted in a 5% (£129 million) reduction in the SCR relative to the sum of the SCRs of ReAssure and RLL prior to the implementation of the Scheme. As is the case for the risk margin, this SCR reduction does not represent a reduction in security, but is a consequence of improved risk diversification once the GNPf business is in the same fund as the RNPf business.

Security provided by the RCP capital buffer

- 7.28 The capital policy of RLL is the same as that of ReAssure: the RCP.
- 7.29 There will be no change to the parameters of the RCP as a result of the implementation of the RLL Scheme and therefore no change to the capital policy applicable to the transferring policies. The Solvency II financial information provided in Appendix 2 shows that ReAssure is projected to exceed the requirements of the RCP after the implementation of the Scheme.
- 7.30 As discussed above, the SCR in ReAssure is projected to be lower following the implementation of the Scheme than the sum of the pre-Scheme SCRs of ReAssure and RLL due to increased diversification of risk. This will result in a reduction in the absolute amount of the capital policy buffer relative to the pre-Scheme buffers of ReAssure and RLL, but, as stated above, this is due to improved risk diversification, and I am satisfied that this does not represent a reduction in policyholder security.

Conclusions regarding financial strength for the GNPf policies

- 7.31 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the financial strength available to support the security of the guaranteed benefits under the GNPf policies.

The profile of risks to which the GNPf policies are exposed

- 7.32 Currently, the policies in the GNPf are principally exposed to the risks associated with:
- The business of the GNPf, including the reinsurance into the GNPf of the Phoenix annuities;
 - The GDUB, through the inter-fund reinsurance of the GDUB from the GWPF to the GNPf; and
 - The risks of the GWPF to the extent that these affect the value of future transfers from the GWPF to the GNPf and to the extent there is a possibility that the GWPF may require financial support.
- 7.33 After the implementation of the Scheme, the GNPf policies will be part of the RNPF and will be exposed directly to the risks associated with:
- The transferred business of the GNPf (as set out above);
 - The current business of the RNPF, including the annuities that are assumed to have been transferred into the RNPF under the Phoenix Annuity Scheme (or if the Phoenix Annuity Scheme has not been implemented the reinsurance of those annuities from Phoenix);
 - The GDUB, which will be allocated to the RNPF under the terms of the Scheme;
 - The DB business, which will be reallocated to the RNPF under the terms of the Scheme ;
 - The risks of the newly created GAWPF (containing the transferred GWPF business) to the extent that these affect the value of future transfers from the GAWPF to the RNPF and in the extreme scenario that the GAWPF requires financial support in the future;
 - The risks of the WLWPF to the extent that these affect the value of future transfers from the WLWPF to the RNPF and in the extreme scenario that the WLWPF requires financial support in the future; and
 - The risks of the NMWPF in the extreme scenario that the NMWPF requires financial support in the future.
- 7.34 Following the implementation of the Scheme, the transferring GNPf policies will be exposed to the risks of the existing RNPF business and whilst the range of products in the RNPF is comparable to that of the GNPf, there are some similarities and some differences in risk exposures of the GNPf and the RNPF:
- Both the GNPf and the RNPF are significantly exposed to longevity risk on non-profit annuity business;
 - Both the GNPf and the RNPF are exposed to the risk that credit spreads widen on corporate bond assets but the risk of credit spread widening contributes significantly more to the SCR of the GNPf than to the SCR of the RNPF; and
 - The RNPF is significantly more exposed than the GNPf to the risk posed by policyholders choosing to lapse their unit-linked policies before maturity.
 - The RNPF is more exposed than the GNPf to equity market risks.
- 7.35 Whilst there are some changes in the profile of risk exposure of the transferring GNPf policies, in aggregate the change to the risk profile of the GNPf policies may result in some degree of increased risk diversification and the RNPF will be required to hold capital in accordance with this changed risk profile and will still be required to adhere to the RCP.
- 7.36 I am satisfied that although the implementation of the Scheme will change the profile of risks to which the GNPf business is exposed there will not be a material adverse effect on the security of the benefits under the existing GNPf policies.

The governance and management of the GNPf policies

- 7.37 The transferring GNPf business is currently managed by, and subject to the governance of, the Board of RLL.

- 7.38 Following the implementation of the RLL Scheme, the transferring GNPf business will be subject to the governance of the ReAssure Board.
- 7.39 ReAssure and RLL are part of the same business unit of the Swiss Re Group, and the Boards and senior management of ReAssure and RLL have a number of individuals in common. The business of the RNPF is similar to that of the GNPf, and therefore I am satisfied that the ReAssure Board and senior management have the appropriate experience and expertise in the management of relevant insurance business to provide a comparable level of appropriate and skilled oversight, governance and management to the transferring GNPf policies as is currently provided by the RLL Board and senior management.
- 7.40 The remit of RLL's WPC extends to TCF considerations in relation to non-profit business in all funds. Following the implementation of the Scheme, it will be ReAssure's Fairness Committee that performs this function in relation to the GNPf business and the remit of ReAssure's Fairness Committee is similar to that of RLL's WPC.
- 7.41 ReAssure has shared with me its SIMR Governance Map and this was approved by the ReAssure Board in MM YY. This Governance Map also covers RLL, and therefore there will be no change to the governance structure applicable to the business of the GNPf as a result of the implementation of the RLL Scheme.
- 7.42 I am satisfied that the implementation of the RLL Scheme will not have a material adverse effect on the standards of governance and management applicable to the transferring GNPf business.

The administration and service standards applied to the GNPf policies

- 7.43 The GNPf policies are all currently administered and serviced by GCSL, with some outsourcing to third party administration firms. After the implementation of the RLL Scheme these policies will continue to be serviced from the same systems and by the same administration teams.
- 7.44 I understand that ReAssure wishes to align the administrative arrangements of the ReAssure and RLL policies at a future date, regardless of whether or not the Scheme is implemented. As any such change is independent of the Scheme, it is not strictly relevant to my considerations, but I have nevertheless considered this in Section 10.
- 7.45 I am satisfied that the implementation of the Scheme will not have a material effect on the administration and service standards of the transferring GNPf policies.

The benefit expectations of the GNPf policyholders

- 7.46 The GNPf business consists of non-profit unit-linked and non-linked business. For this type of business, policyholders' expectations in respect of their benefits are that:
- They receive their benefits as guaranteed under the policy, on the dates and in the contingencies specified in the terms and conditions;
 - For unit-linked policies, the benefits they receive reflect the investment performance of the assets in which their units are invested, net of contractual charges payable under the policies;
 - The administration, servicing, management, and governance of the policies are in line with the contractual terms under the policies; and
 - The standards of service are at least as good as those they currently receive.
- 7.47 Unit-linked policies transferring from the GNPf to the RNPF will have equivalent linked funds set up in ReAssure such that:
- The investment objectives of the equivalent funds are the same or as closely aligned as practicable to the RLL linked fund in question immediately prior to the Transfer Date;
 - There are no changes to the charges when compared with the charges in the RLL fund in question immediately prior the Transfer Date; and
 - There will be no change to the methodology used to determine unit prices when compared to the methodology used in the RLL fund in question immediately prior to the Transfer Date.
- 7.48 Further, any changes to linked funds, such as closure, merger, wind-up or division, would only be undertaken if it is made under the terms and conditions of the relevant policies (as interpreted in accordance with general law

contractual principles), and if the ReAssure Board and Fairness Committee do not consider that it would be reasonably foreseeable that the relevant action would materially adversely affect the fair treatment of policyholders. Where the relevant policy terms do not specify whether these changes can be made, ReAssure would follow the usual procedure (including to comply with the law applicable to the relevant policy) before making any changes including referring the matter to the Fairness Committee to ensure that policyholder interests are protected.

7.49 The implementation of the proposed RLL Scheme will not change:

- The terms and conditions of the GNPf policies (except that the policies will become policies of ReAssure);
- The charges that apply to the GNPf policies; or
- The outsourcing and asset management arrangements for the GNPf policies.

7.50 In addition, as discussed above, I am satisfied that:

- The implementation of the Scheme will not have a material adverse effect on the security of the guaranteed benefits of the GNPf policies;
- The implementation of the Scheme will not affect the administration and service standards applicable to the holders of the GNPf policies; and
- The implementation of the Scheme will not have a material adverse effect on the management or the governance of the GNPf policies.

7.51 Therefore, I am satisfied that the implementation of the RLL Scheme will not have a material adverse effect on the reasonable benefit expectations of the GNPf policyholders or on the governance, management and service standards that apply to the transferring GNPf business.

7.52 In my Supplementary Report I shall review any proposed changes in relation to unit-linked funds and related investment objectives that will occur as a result of the implementation of the Scheme (including as at the Transfer Date).

Conclusions for the GNPf policies

7.53 I am satisfied that the implementation of the Scheme will not have a material adverse effect on:

- The security of benefits under the GNPf policies;
- The reasonable expectations of the GNPf policyholders in respect of their benefits; or
- The service standards, governance and management applicable to the GNPf policies.

The GDUB policies

Introduction

7.54 The GDUB is a block of hybrid investment business, currently within the GWPF. Under the GDUB policies, policyholders can choose to invest their policies in both unit-linked funds and UWP funds.

7.55 The non-unit cash flows of the GDUB accrue to the GNPf under an inter-fund arrangement with the GNPf, under which a ceding commission was paid from the GNPf to the GWPF.

7.56 If the RLL Scheme is implemented then all of the GDUB (unit-linked and UWP elements) will be transferred to the RNPF and the UWP element of the GDUB policies will be linked to the GAWPF.

7.57 Therefore the potential issues for the GDUB policies from the implementation of the RLL Scheme are:

- The effect on the security of benefits of under the GDUB policies of being transferred to the RNPF;
- The effect on the reasonable expectations of policyholders of the GDUB policies of transferring to ReAssure:
 - The returns received under the GDUB policies;
 - The governance and management of the GDUB policies;

- The administration and service standards applied to the GDUB policies; and
- The impact of the introduction of the “Fund Merger Threshold” and the “Non-Profit Threshold” on the UWP elements of the GDUB policies.

The financial strength available to provide security of benefits

- 7.58 Currently, in the event of a claim, the benefits due on the GDUB would be paid from the assets of the GWPF. If the claim were to lead to a negative surplus for the GWPF then a payment would be made from the GNPf to the GWPF to reimburse the GWPF for the claim, in accordance with the inter-fund arrangement.
- 7.59 In the extreme scenario where the GNPf cannot meet its obligations under the inter-fund arrangement, and the parent company was unable or unwilling to provide additional capital to remedy the position, RLL would be declared insolvent and the barriers between the GWPF and the GNPf would break down. In this extreme scenario, the benefits under the claim would be paid by the GWPF.
- 7.60 Therefore, the financial strength supporting the security of the guaranteed benefits under the GDUB policies is currently provided by:
- Assets in the GWPF; and
 - Assets in the GNPf.
- 7.61 The financial strength available to provide support for guaranteed benefits must be considered in the context of the restrictions that are in place in respect of changing that financial strength. For both RLL and ReAssure, such restrictions are set out in the RCP and are expressed in terms of the capital required to be held under the current Solvency II regulatory regime.
- 7.62 Capital held in excess of that required by the regulatory minimum and the relevant capital policy should not be relied upon for the provision of security in the context of assessing the suitability or otherwise of a proposed Scheme because such the capital could be reduced or used for other purposes. In my assessment of the RLL Scheme I do not rely upon the capital in excess of the RCP.
- 7.63 In addition to the level of capital required under the relevant capital policy, consideration must also be given to the governance around changes to the policy and the response of the firm to breaches of the capital policy.
- 7.64 If the RLL Scheme is implemented, the GDUB will be part of the RNPF and, in the event of a claim, the guaranteed benefits would be paid from the RNPF. If the claim had an element that was UWP there would be a subsequent claim in accordance with the inter-fund arrangement such that the RNPF would be reimbursed from the GAWPF.
- 7.65 If the RNPF were unable to meet the guaranteed benefits and the parent company was unable or unwilling to provide additional capital to remedy the position, then ReAssure would be insolvent and the barriers between the RNPF and the ring-fenced funds in ReAssure would break down.
- 7.66 Therefore, after the implementation of the RLL Scheme the financial strength backing the security of the guaranteed benefits under the GDUB policies is provided by the assets of the RNPF, the inter-fund arrangement with the GAWPF and, in extreme scenarios, the assets in the ring-fenced funds of ReAssure.
- 7.67 In respect of the assets held in the RNPF in respect of the Solvency II BEL, risk margin and SCR of the RNPF business:
- The Solvency II regime will not change as a result of the RLL Scheme;
 - As they are two companies in the same group, ReAssure and RLL are materially consistent in the way they calculate their Solvency II BEL, risk margin and SCR; and
 - The implementation of the RLL Scheme will not change the BEL in respect of the GDUB, and will only lead to a change in the risk margin and SCR to the extent that there is extra diversification available with the other business in the RNPF, i.e. where there is a corresponding reduction in the overall risk profile
- 7.68 Therefore, the BEL, risk margin and SCR backing the RNPF business will not be materially weaker than those currently providing support for the GDUB policies in the GWPF and the GNPf.
- 7.69 In respect of the extra security provided by the capital buffer under the RCP, after the implementation of the RLL Scheme:

- The RCP applies to the RNPF after the implementation of the RLL Scheme in a similar way as it did to the GNPF prior to the Scheme;
 - The implementation of the RLL Scheme will not change the RCP nor the strength of governance around the RCP; and
 - The RNPF is projected to meet the requirements of the RCP after the implementation of the RLL Scheme.
- 7.70 The implementation of the RLL Scheme is likely, subject to PRA approval, to result in an increase to the TMTP attributable to the RNPF where currently the TMTP is zero. This could imply a weakening of the security of the guaranteed benefits of the RNPF policies as there is no corresponding reduction in risks. However:
- The TMTP that will apply in the RNPF after the implementation of the RLL Scheme has been estimated to be only very slightly smaller than that which currently applies in the GNPF; and
 - By construction and in accordance with the Solvency II rules the TMTP can only reduce the technical provisions to such a level that required financial resources are at least at the level as those that would have been required under the previous solvency regime (Solvency I). As stated in Section 3 of this report, the protection granted to policyholders by the requirements of the Solvency I regime was to ensure that the company had capital resources sufficient to remain solvent over a one year time horizon with a likelihood of at least 99.5%.
- 7.71 Considering all of these points together, I am satisfied that the implementation of the RLL Scheme will not have a material adverse effect on the financial strength that will provide security of the guaranteed benefits under the GDUB policies.

The profile of risks to which the GDUB policies are exposed

- 7.72 The GDUB is currently exposed to the risks of the GWPF in relation to the liabilities which are linked to UWP funds and to the risks of the GNPF through the inter-fund arrangement between the GWPF and the GNPF.
- 7.73 After the implementation of the Scheme, the GDUB will be part of the RNPF and will be exposed directly to the risks of the business in the RNPF, including the business transferred in from the GNPF. The risks of the GAWPF (into which the other business of the GWPF will be transferred) will continue to affect some of the GDUB policies through the reinsurance of the UWP elements of the GDUB policies and in extreme scenarios where the RNPF cannot meet its obligations and the GAWPF could be called upon to support the RNPF policies.
- 7.74 Once in the RNPF, the transferring GDUB policies will be exposed to the risk profile of a different company (ReAssure) that has written different business, through different distribution channels, and to policyholders with different demographic profiles.
- 7.75 However, the ReAssure Solvency II technical provisions and SCR will reflect the risk profile of the company, its business and its risk concentrations, and this will feed through into the capital that will be held in accordance with the RCP.
- 7.76 I am satisfied that although the implementation of the Scheme will change the profile of risks to which the GDUB is exposed there will not be a material adverse effect on the security of the benefits under the GDUB policies.

The governance and management of the transferring GDUB policies

- 7.77 The transferring GDUB is currently managed by, and subject to the governance of, the Board of RLL and, as it is in the GWPF, the transferring business also comes under the remit of the RLL WPC.
- 7.78 Following the implementation of the Scheme, the transferring business will be subject to the governance of the ReAssure Board and will no longer fall under the remit of the RLL WPC but will instead fall under the remit of the ReAssure Fairness Committee.
- 7.79 ReAssure and RLL are part of the same business unit of the Swiss Re Group, and the Boards and senior management of ReAssure and RLL have a number of individuals in common and I am satisfied that the ReAssure Board and senior management have the appropriate experience and expertise in the management of relevant insurance business to provide a comparable level of appropriate and skilled oversight, governance and management to the transferring GDUB policies as is currently provided by the RLL Board and senior management.

- 7.80 The RLL WPC and the ReAssure Fairness Committee both have terms of reference that go further than is strictly required for a WPC in that they must also consider the discretion and fair treatment of non-profit policyholders. I am satisfied that there will be no material change for the GDUB policyholders as a result of moving from the remit of the RLL WPC to the remit of the ReAssure Fairness Committee.
- 7.81 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the standards of governance and management applicable to the transferring business.

The administration and service standards applied to the GDUB policies

- 7.82 The GDUB policies are all currently administered and serviced by GCSL, with some outsourcing to third party administration firms and, after the implementation of the RLL Scheme, these policies will continue to be serviced from the same systems and by the same administration teams.
- 7.83 I understand that ReAssure wishes to align the administrative arrangements of the ReAssure and RLL policies at a future date, regardless of whether or not the Scheme is implemented. As any such change is independent of the Scheme, it is not strictly relevant to my considerations, but I have considered this in Section 10.
- 7.84 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the administration and service standards of the transferring policies.

The impact of the Fund Merger threshold and the Non-Profit threshold on the GDUB policies

- 7.85 The RLL Scheme introduces two new policy conditions for the GAWPF which will affect the UWP elements of the GDUB policies:
- The “Fund Merger Threshold”: This provides for the GAWPF to be merged with another ring-fenced (with-profits) fund in ReAssure once the value of its assets falls below the Fund Merger Threshold, subject to certain governance requirements, described in paragraph 6.6. The threshold is currently £375 million, which will be increased by inflation each year.
 - The “Non-Profit Threshold”: This requires the GAWPF to be converted to a non-profit basis once the value of its assets falls below a particular threshold (“the Non-Profit Threshold”), subject to certain governance requirements, described in paragraph 6.8. The threshold is currently £75 million, which is adjusted for inflation each year. A conversion to non-profit could take place at the Fund Merger Threshold of £375 million (adjusted by inflation) provided that the ReAssure Board and an independent expert consider that it is in the collective interest of GAWPF policyholders to do so.
- 7.86 Currently no such formal thresholds apply to the GWPF policies (including the UWP elements of the GDUB). However, the 2015 run-off plan for the GWPF states that, as the GWPF business runs off it may be necessary to consider changes to ensure the fair treatment of the remaining policyholders if the fund falls below a certain level. Potential options include conversion of the with-profits policies to a non-profit basis, or the transfer of the remaining policies to another fund inside or outside of the company.
- 7.87 The transfer of the GWPF into the GAWPF will result in a more formal framework around fund mergers and conversion to non-profit being introduced relative to the framework currently in place for the GWPF. However, in practice, I would expect fund merger options and non-profit conversion to be considered when the GWPF reaches an appropriate size whether or not the RLL Scheme is implemented.
- 7.88 By introducing the Non-Profit Threshold, the implementation of the proposed Scheme may enable ReAssure to effect a conversion of GWPF policies to a non-profit basis without the need for a scheme of arrangement and a policyholder vote on the terms of the conversion, provided that the Non-Profit Threshold and associated governance requirements described above are met.
- 7.89 The governance requirements around the Fund Merger Threshold and the Non-Profit Threshold include a requirement for approval by the ReAssure Fairness Committee as well as a certificate from an independent expert that the proposed course of action will not materially adversely affect the policyholders of the GAWPF.
- 7.90 I am satisfied that these governance requirements will provide significant protection for UWP elements of the GDUB policies against actions that would put the interests of these policyholders at risk and I am satisfied that the introduction of the Fund Merger and Non-Profit thresholds will not have a material adverse effect on the GDUB policies.

The reasonable expectations of the GDUB policyholders

- 7.91 The GDUB consists of hybrid investment business under which policyholders can choose to invest their policies in both unit-linked funds and UWP funds.
- 7.92 For these types of business, policyholders' expectations in respect of their benefits are that:
- They receive their benefits as guaranteed under the policy, on the dates and in the contingencies specified in the terms and conditions.
 - The benefits they receive reflect:
 - For the unit-linked elements, the investment performance of the assets in which their units are invested, net of contractual charges payable under the policies; and
 - For the UWP elements, the bonuses and charges derived in accordance with the PPFM and relevant with-profits guidance and regulation.
 - The administration, servicing, management, and governance of the policies are in line with the contractual terms under the policies.
 - There is no material deterioration in the standards of service that they receive.
- 7.93 Equivalent linked funds will be set up in ReAssure with the same investment objectives and charges to the existing range of RLL funds in which the GDUB policies are invested. There will be no change to the methodology used to determine unit prices for internal linked funds as a result of the implementation of the Scheme.
- 7.94 Further, any subsequent changes to linked funds, such as closure, merger, wind-up or division, would only be undertaken if they are made under the terms and conditions of the relevant policies (as interpreted in accordance with general law contractual principles), and if the ReAssure Board and Fairness Committee do not consider that it would be reasonably foreseeable that the relevant action would materially adversely affect the fair treatment of policyholders. Where the relevant policy terms do not specify whether these changes can be made, ReAssure would follow the usual procedure (including to comply with the law applicable to the relevant policy) before making any changes including referring the matter to the Fairness Committee to ensure that policyholder interests are protected.
- 7.95 The implementation of the proposed Scheme will lead to the following changes to the terms and conditions of the GDUB policies:
- The policies will become policies of ReAssure; and
 - For those GDUB policies with a UWP element a change will result from the introduction of the clauses in relation to the GAWPF regarding the "Fund Merger Threshold" and the "Non-Profit Threshold" as described in paragraph 7.85 above.
- 7.96 The implementation of the proposed RLL Scheme will not change:
- The terms and conditions of the GDUB policies (except for as mentioned above);
 - The principles and practices used in the management of the UWP elements of the GDUB with the exception of the clauses introduced in relation to the GAWPF in relation to the introduction of a "Fund-Merger Threshold" and a "Non-Profit Threshold" as described in paragraph 7.85 above;
 - The rights of the GDUB policies to any future inherited estate distributions of the UWP funds to which they are linked;
 - The methodology used to calculate the asset shares and surrender values of the UWP funds to which the GDUB policies are linked;
 - The bonus and pay-out policies applied to the UWP funds under the GDUB policies;
 - The investment strategy applicable to the UWP funds under the GDUB policies;
 - The charges that apply to the GDUB policies; or

- The outsourcing and asset management arrangements for the GDUB policies.

7.97 In addition, as discussed above, I am satisfied that:

- The implementation of the Scheme will not have a material adverse effect on the security of the guaranteed benefits of the GDUB policies;
- The implementation of the Scheme will not affect the administration and service standards applicable to the holders of the GDUB policies; and
- The implementation of the Scheme will not have a material adverse effect on the management or the governance of the GDUB policies.

7.98 Therefore, I am satisfied that the implementation of the RLL Scheme will not have a material adverse effect on the reasonable benefit expectations of the GDUB policyholders or on the governance, management and service standards that apply to the transferring business.

7.99 In my Supplementary Report I shall review any proposed changes in relation to unit-linked funds and related investment objectives that will occur as a result of the implementation of the Scheme (including as at the Transfer Date).

Conclusions for the GDUB policies

7.100 I am satisfied that the implementation of the Scheme will not have a material adverse effect on:

- The security of benefits under the GDUB policies;
- The reasonable expectations of the GDUB policyholders in respect of their benefits; or
- The service standards, governance and management applicable to the GDUB.

The GWPF policies (excluding the GDUB policies)

Introduction

7.101 The GWPF policies (other than the GDUB) comprise a range of CWP and UWP business, as well as some non-profit non-linked and linked business.

7.102 The GWPF policies are currently in a ring-fenced fund in RLL and, if the RLL Scheme is implemented, will be transferred to ReAssure, where the GDUB policies will be allocated to the RNPF and the rest of the GWPF policies will be allocated to another ring-fenced fund called the GAWPF. The GAWPF will have all the business that is currently in the GWPF except the GDUB and no other business currently written in ReAssure or RLL will be transferred in to the GAWPF.

7.103 Therefore the potential issues for the GWPF policies (other than the GDUB policies) from the implementation of the RLL Scheme are:

- The effect on the security of benefits of removing the GDUB;
- The effect on security of benefits of being a ring-fenced fund in ReAssure rather than RLL;
- The effect on the reasonable expectations of policyholders of the GWPF of moving to ReAssure:
 - The returns received under the policies of the GWPF;
 - The governance and management of the GWPF policies;
 - The administration and service standards applied to the GWPF policies; and
 - The impact of the introduction of the “Fund Merger Threshold” and the “Non-Profit Threshold” on the GWPF policies.

The security of benefits of the GWPF policies (excluding the GDUB policies)

- 7.104 Removing the GDUB policies when the GWPF business is transferred to the GAWPF in ReAssure reflects the economic reality of the current situation due to the existing inter-fund arrangement with the GNPF.
- 7.105 If the GDUB were transferred into the GAWPF with the rest of the GWPF business and an inter-fund arrangement set up with the RNPF to replicate that currently with the GNPF, then the GAWPF would have a counterparty exposure through the inter-fund arrangement with the RNPF, since the RNPF would be required to fund any losses that arise in relation to the non-unit cash flows of the GDUB. If the GDUB is transferred to the RNPF directly then this removes a potential counterparty risk exposure from the GAWPF which should be a small advantage for the GAWPF.
- 7.106 In respect of being part of a ring-fenced fund in ReAssure rather than in RLL, since all the assets and liabilities (except those in respect of the GDUB) are being transferred into the GAWPF, this could only be detrimental if ReAssure's ring-fenced funds and the RNPF expose the GAWPF to more contagion risk than is currently the case in RLL.
- 7.107 The RNPF is projected to meet the RCP after the implementation of the RLL Scheme and there is no reason to believe that the BEL, risk margin or SCR are materially weaker under ReAssure than under RLL because of the following:
- The Solvency II regime will not change as a result of the RLL Scheme and so the financial strength and security provided by the Solvency II regime will be the same before and after the implementation of the Scheme.
 - As they are two companies in the same group, ReAssure and RLL are materially consistent in the way they calculate their Solvency II technical provisions and SCR.
- 7.108 The implementation of the RLL Scheme will not change the RCP nor the strength of governance around the RCP.
- 7.109 Following the implementation of the RLL Scheme, the GAWPF will contain the business transferred from the GWPF (except the GDUB) and the financial information at 31 December 2015 as shown in Appendices 1 and 2 shows that the GAWPF is projected to be strong and that the financial strength of the GAWPF after the implementation of the RLL Scheme is projected to be the same as that of the GWPF prior to the Scheme.
- 7.110 In the extreme scenario where either or both of the other ring-fenced funds in ReAssure were unable to meet their liabilities to policyholders as they fell due, the first call for those ring-fenced funds would be the RNPF, which, as stated above is strong and adheres to the RCP, and therefore the contagion risk from the other ring-fenced funds is only likely to manifest itself in the context of the GAWPF in an extremely unlikely scenario.
- 7.111 Following the implementation of the RLL Scheme, capital resources in the RNPF, the WLWPF and the NMWPF could be used to support the GAWPF in a similarly extreme scenario.
- 7.112 I am satisfied that the implementation of the proposed Scheme will not have a material adverse effect on the financial strength available to support the security of the guaranteed benefits of the GWPF policies (not including the GDUB).

The profile of risks to which the GWPF policies (excluding the GDUB policies) are exposed

- 7.113 As the GWPF is a ring-fenced fund, the policies of the GWPF are insulated to a degree from the risks of the business outside of the GWPF and have only a small exposure to the risks of the business outside the ring-fenced fund in RLL to the extent that the capital resources of the GWPF could be used to support the guaranteed benefits of the GNPF policies in an extreme scenario.
- 7.114 Following the implementation of the Scheme, the GWPF policies (excluding the GDUB) will be allocated to the newly created GAWPF and the GDUB will have been allocated to the RNPF. Therefore the other GWPF policies will no longer be exposed to the risks associated with the GDUB, with the exception of the UWP elements of the GDUB, which will be reinsured to the GAWPF.
- 7.115 However, 100% of the non-unit cash flows in the GDUB have already been reinsured to the GNPF and therefore the risk exposure of the GWPF to the GDUB is currently limited to the extreme scenario where the GNPF cannot meet its obligations under the inter-fund arrangement and the parent company was unable or unwilling to provide additional capital to remedy the position.

- 7.116 There will therefore be no material change in the profile of risks to which the GWPF policies are directly exposed after they have been transferred to the GAWPF.
- 7.117 Following the implementation of the Scheme, the newly created GAWPF could be called upon to provide support to the RNPF, the WLWPF and the NMWPF in an extreme scenario, rather than the current situation where the GWPF could only be called upon to provide support to the GNPf in such a scenario. There is therefore a change as a result of the implementation of the Scheme as the GAWPF will be exposed to the risks of the RNPF, the WLWPF and the NMWPF, rather than just to the risks of the GNPf.
- 7.118 However, the capital required by the Solvency II regulations and by the RCP will be the same for the WLWPF, the NMWPF, the RNPF and the GAWPF and will reflect the risk profile of those funds, the business within those funds and the likelihood of requiring support.
- 7.119 I am satisfied that although the implementation of the Scheme will change the profile of risks to which the GWPF business (excluding the GDUB) is exposed there will not be a material adverse effect on the security of the benefits under the GWPF policies (excluding the GDUB).

The governance and management of the GWPF policies (excluding the GDUB policies)

- 7.120 The GWPF business is currently managed by, and subject to the governance of, the Board of RLL and comes under the remit of the RLL WPC.
- 7.121 Following the implementation of the RLL Scheme, the GWPF business (excluding the GDUB) will be subject to the governance of the ReAssure Board and the remit of the ReAssure Fairness Committee.
- 7.122 I am satisfied that:
- Governance and management by the ReAssure Board and senior management will not lead to a material effect on the GWPF policies (excluding the GDUB); and
 - There will be no material change for the GWPF policyholders (excluding the GDUB) as a result of moving from the remit of the RLL WPC to the remit of the ReAssure Fairness Committee.
- 7.123 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the standards of governance and management applicable to the other GWPF policies (excluding the GDUB).

The administration and service standards applied to the GWPF policies (excluding the GDUB policies)

- 7.124 The GWPF policies are all currently administered and serviced by GCSL, with some outsourcing to third party administration firms and, after the implementation of the RLL Scheme, these policies will continue to be serviced from the same systems and by the same administration teams.
- 7.125 I understand that ReAssure wishes to align the administrative arrangements of the ReAssure and RLL policies at a future date, regardless of whether or not the Scheme is implemented. As any such change is independent of the Scheme, it is not strictly relevant to my considerations, but I have considered this in Section 10.
- 7.126 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the administration and service standards of the GWPF policies (excluding the GDUB).

The impact of the Fund Merger threshold and the Non-Profit threshold on the GWPF policies (excluding the GDUB policies)

- 7.127 The RLL Scheme introduces two new policy conditions for the GAWPF: The "Fund Merger Threshold" and the "Non-Profit Threshold". These are described above in paragraph 7.85.
- 7.128 Currently no such formal thresholds apply to the GWPF. However, the 2015 run-off plan for the GWPF states that, as the GWPF business runs off it may be necessary to consider changes to ensure the fair treatment of the remaining policyholders if the fund falls below a certain level. Potential options include conversion of the with-profits policies to a non-profit basis, or the transfer of the remaining policies to another fund inside or outside of the company.

- 7.129 The transfer of the GWPF into the GAWPF will result in a more formal framework around fund mergers and conversion to non-profit being introduced relative to the framework currently in place for the GWPF. However, in practice, I would expect fund merger options and non-profit conversion to be considered when the GWPF reaches an appropriate size whether or not the RLL Scheme is implemented.
- 7.130 By introducing the Non-Profit Threshold, the implementation of the proposed Scheme may enable ReAssure to effect a conversion of GWPF policies to a non-profit basis without the need for a scheme of arrangement and a policyholder vote on the terms of the conversion, provided that the Non-Profit Threshold and associated governance requirements described above are met.
- 7.131 The governance requirements around the Fund Merger Threshold and the Non-Profit Threshold include a requirement for approval by the ReAssure Fairness Committee as well as a certificate from an independent expert that the proposed course of action will not materially adversely affect the policyholders of the GAWPF.
- 7.132 I am satisfied that these governance requirements will provide significant protection for GAWPF policyholders against actions that would put their interests at risk and I am satisfied that the introduction of the Fund Merger and Non-Profit thresholds will not have a material adverse effect on the policies of the GWPF (excluding the GDUB).

The reasonable expectations of the policyholders of the GWPF policies (excluding the GDUB policies)

- 7.133 The implementation of the proposed Scheme will lead to the following changes to the terms and conditions of the other GWPF policies:
- The policies will become policies of ReAssure; and
 - The introduction of the “Fund Merger Threshold” and the “Non-Profit Threshold” as described in paragraph 7.85 above.
- 7.134 The implementation of the proposed RLL Scheme will not change:
- The terms and conditions of the other GWPF policies (except for as mentioned above);
 - The principles and practices used in the management of the GWPF when it becomes the GAWPF, with the exception of the introduction of a “Fund-Merger Threshold” and a “Non-Profit Threshold” as described in paragraph 7.85 above;
 - The rights of the GWPF policies to any future distributions from the GWPF estate;
 - The methodology used to calculate asset shares and surrender values of the GWPF policies;
 - The bonus and pay-out policies applied to the GWPF with-profits policies;
 - The investment strategy applicable to the GWPF with-profits policies;
 - The charges that apply to the existing policies of the GWPF;
 - The operation of the GWPF;
 - The internal arrangement of vesting annuities in the GAWPF being written in the RNPF; and
 - The capital policy and risk appetite to which the RNPF is managed.
- 7.135 In addition, as discussed above, I am satisfied that:
- The implementation of the Scheme will not have a material adverse effect on the security of the guaranteed benefits of the GWPF policies;
 - The implementation of the Scheme will not affect the administration and service standards applicable to the holders of the GWPF policies; and
 - The implementation of the Scheme will not have a material adverse effect on the management or the governance of the GWPF policies.

- 7.136 The WPA of RLL has confirmed that in his view the with-profits policyholders of the GWPF would not suffer a reduction in the security of their benefits or any impact on their reasonable benefit expectations if the RLL Scheme were to be implemented
- 7.137 I am satisfied that the implementation of the RLL Scheme will not have a material adverse effect on the reasonable benefit expectations of the policyholders of the GWPF or on the governance, management and service standards that apply to the policies of the GWPF.

Conclusions for the GWPF (excluding the GDUB) policies

- 7.138 I am satisfied that the implementation of the Scheme will not have a material adverse effect on:
- The security of benefits under the other GWPF policies;
 - The reasonable expectations of the other GWPF policyholders in respect of their benefits; or
 - The service standards, governance and management applicable to the other GWPF policies.

The policies of Ark

- 7.139 Ark is an asset of RLL that will transfer to become an asset of ReAssure, and in particular the RNPF, following the implementation of the RLL Scheme.
- 7.140 As Ark is an insurance company that is regulated in the Republic of Ireland, the change in ownership of Ark will be subject to the Central Bank of Ireland's change of control process, which will, amongst other things, consider any effects of the change of control on Ark's policyholders.
- 7.141 It should be noted that the implementation of the proposed RLL Scheme will not involve:
- The transfer in or out of Ark of any assets;
 - The transfer in to or out of Ark of any policies or business; or
 - Any change to the regulatory capital requirements or capital policy to which Ark is subject as a result.
- 7.142 The financial strength of Ark's new parent (ReAssure) following the implementation of the Scheme is expected to be greater than the financial strength of Ark's current parent (RLL), based on Solvency II financial information at 31 December 2015.
- 7.143 I am therefore satisfied that the implementation of the Scheme will not have a material adverse effect on:
- The security of benefits under the Ark policies;
 - The reasonable expectations of the Ark policyholders in respect of their benefits; or

The reinsurers of RLL

- 7.144 As described in paragraph 5.26, RLL has a number of external reinsurance agreements in which RLL is the cedant. Whilst it is possible that some or all of these agreements are to be recaptured prior to the implementation of the Scheme, I have considered the impact of the Scheme on these reinsurers under the assumption that the reinsurance agreements will transfer under the Scheme such that ReAssure becomes the cedant.
- 7.145 I have concluded earlier in this section that the implementation of the Scheme will not have a material adverse effect on the security of policyholder benefits under the RLL policies. The arguments and analysis undertaken to reach this conclusion apply equally in relation to the ability of ReAssure to meet its obligations in relation to any reinsurance agreements, including the payment of reinsurance premiums.
- 7.146 I am therefore satisfied that the implementation of the Scheme will not have a material adverse effect on the reinsurers whose contracts of reinsurance are to be transferred under the Scheme.

8 THE EFFECT OF THE SCHEME ON THE REASSURE POLICIES

Introduction

- 8.1 In this section I consider the effect of the implementation of the RLL Scheme on the ReAssure policies which, as described in Section 4, can be divided into the following groups:
- The RNPF LT business;
 - The DB business;
 - The policies in the ReAssure ring-fenced funds: the WLWPF and the NMWPF;
 - The ReAssure general insurance business within the RNPF; and
 - The policies of the subsidiaries within the RNPF.
- 8.2 ReAssure had Solvency II technical provisions of approximately £27.5 billion at 31 December 2015, including the annuities expected to be transferred into ReAssure from Phoenix on 31 December 2016 under the Phoenix Annuity Scheme.
- 8.3 If the RLL Scheme is approved by the Court, the RLL policies in the GWPF and the GNPF will transfer out of RLL and into ReAssure. Therefore the key points to consider in respect of the ReAssure policies are:
- The financial strength available to provide security for the benefits under the ReAssure policies after the implementation of the Scheme compared to that currently available;
 - Any change to the profile of risks to which the ReAssure policies will be exposed as a result of the implementation of the Scheme; and
 - The effect of the implementation of the Scheme on the reasonable expectations of the ReAssure policyholders in respect of their benefits and the service standards, management and governance applied to the ReAssure policies.
- 8.4 These are considered in turn below for each group of ReAssure policies.

The RNPF LT business

The financial strength available to provide security of benefits

- 8.5 Currently, the security of the guaranteed benefits of the RNPF LT business is provided by a combination of:
- The assets backing the technical provisions held in respect of the guaranteed benefits of the RNPF LT business;
 - The assets backing the SCR of the RNPF; and
 - The assets held to adhere to the RCP in excess of those required under Solvency II.
- 8.6 The financial strength available to provide security for guaranteed benefits must be considered in the context of the restrictions that are in place in respect of changing that financial strength. For both RLL and ReAssure, such restrictions are set out in the RCP and are expressed in terms of the capital required to be held under the current Solvency II regulatory regime.
- 8.7 Capital held in excess of that required by the regulatory minimum and the relevant capital policy should not be relied upon for the provision of security in the context of assessing the suitability or otherwise of a proposed Scheme because such the capital could be reduced or used for other purposes. In my assessment of the RLL Scheme I do not rely upon the capital in excess of the RCP.
- 8.8 In addition to the level of capital required under the relevant capital policy, consideration must also be given to the governance around changes to the policy and the response of the firm to breaches of the capital policy.

8.9 After the implementation of the RLL Scheme, the security of the guaranteed benefits of the RNPF LT business will continue to be provided by the same elements listed above and I consider below how each of these elements is affected by the Scheme and the likely impact on the security of the benefits of the RNPF LT policies.

Security provided by assets backing the technical provisions

8.10 The technical provisions consist of the BEL and the risk margin, with a further adjustment due to transitional measures (the TMTP). In respect of these the RLL Scheme will:

- Have no effect on the BEL held in relation to the current RNPF LT business or the business being transferred in from RLL.
- Change the risk margin held in respect of the existing RNPF LT business and the business being transferred in from RLL.

The risk margin of the existing RNPF LT business will, post Scheme, be calculated allowing for any diversification of risks and other interactions between the existing RNPF LT business and the business transferring in from RLL. Based on financial information as at 31 December 2015, the post-Scheme risk margin of the RNPF would have been £1,122 million, compared to a total risk margin of £1,140 million in the RNPF and the GNPf prior to the implementation of the Scheme. This reduction represents the increased level of diversification of risks that is likely to result when the transferring in business is brought together with the existing RNPF business, and the increased resilience to risk events that such diversification brings.

- Increase the TMTP that can be used in the RNPF.

RLL's TMTP was £820 million at 31 December 2015 with £730 million allocated to the GNPf. There is no TMTP applicable to the existing RNPF business. Although regulatory guidance around any recalculation of ReAssure's TMTP following a Part VII transfer is currently being formulated it is not unreasonable to assume that the TMTP would be subject to a full recalculation at the Transfer Date. If the Scheme were to be implemented and based on the financial information as at 31 December 2015 ReAssure would have had a TMTP of £800 million of which £717 million would have been attributable to the RNPF.

8.11 The decrease in the risk margin and the increase in the TMTP both reduce the overall level of assets that must be held under Solvency II in respect of the existing RNPF LT business.

8.12 The change in the risk margin is a result of a reduction in overall risk due to the diversification that can be attained.

8.13 In contrast, the increase in TMTP is a feature of the Solvency II rules, and in particular the phasing in of the new regime, and in effect allows the firm to reduce the level of assets held in respect of the existing RNPF LT business although there has been no material change in its risk profile.

8.14 However, based on the Solvency II results as at 31 December 2015, ReAssure would have been able to cover the capital buffer required by the RCP even without allowance for the TMTP and with allowance for the ReAssure and RLL dividends (£336 million and £70 million respectively) both paid in June 2016.

8.15 Further, in respect of the TMTP, it should be noted that:

- The TMTP is restricted to ensure that its use does not result in lower technical provisions and capital requirements being held under Solvency II than would have been held under the previous regulatory regime; and
- The PRA has stated publicly³ that it regards the financial benefit conferred by the TMTP as Tier 1 capital and that it will allow full use of the TMTP by firms that qualify to use it, including in relation to firms' assessments of their ability to pay dividends.

8.16 Under Pillar II of the previous regulatory regime, insurers were required to maintain sufficient capital such that they could withstand a 1-in-200 year event and remain able to meet their best estimate liabilities. In the case where Pillar I was more onerous than Pillar II, insurers were required to hold more than this.

8.17 Therefore, the introduction of a non-zero TMTP for ReAssure would not result in lower technical provisions and capital requirements than were required under the previous regulatory regime, which means that ReAssure would

³ <http://www.bankofengland.co.uk/publications/Pages/speeches/2015/829.aspx>

remain able to withstand at least a 1-in-200 year event and meet its best estimate liabilities, even before the additional protection conferred by the RCP.

Security provided by the assets backing the SCR

- 8.18 The Solvency II SCR of the RNPF business is calculated at the ReAssure entity level, allowing for any diversification or interaction between the RNPF and the ring-fenced funds of ReAssure. Following the implementation of the Scheme, the Solvency II SCR applicable to the RNPF business will be calculated at the ReAssure entity level, allowing additionally for any diversification between the risks of the transferred business and the existing business of ReAssure.
- 8.19 Using the financial information as at 31 December 2015, this would have resulted in a 5% reduction in the SCR (£129 million) relative to the sum of the SCRs of ReAssure and RLL prior to the implementation of the Scheme. This is a consequence of improved risk diversification once the GNPF business is in the same fund as the existing RNPF business.

Security provided by the RCP capital buffer

- 8.20 The RLL Scheme will not change the risk appetite or capital policy in accordance with which the RNPF is managed and the RNPF's compliance with the RCP will not be changed as a result of the implementation of the Scheme.
- 8.21 I also note that capital is still required to be held at a level sufficient to withstand a 1-in-200 year event following a 1-in-10 year event (as per the RCP).
- 8.22 As the RCP requires ReAssure to ensure that the RNPF holds capital in excess of regulatory capital requirements, policyholders in the RNPF will continue to be afforded a greater level of security than that required under the PRA's rules.
- 8.23 The tables in Appendices 1 and 2 show the current and the projected post-Scheme financial strength of ReAssure as at 31 December 2015 under Solvency II Pillar 1 and show that based on financial information as at 31 December 2015:
- Prior to the implementation of the Scheme:
 - The capital resources of the RNPF covered its SCR with a ratio of 165%; and
 - The excess capital (after capital requirements and PRA approvals) of the RNPF was £0.9 billion.
 - If the Scheme had been implemented on 31 December 2015:
 - The capital resources of the RNPF would have covered its SCR with a ratio of 164%; and
 - The excess capital (after capital requirements and PRA approvals) of the RNPF would have been £1.5 billion.

- 8.24 The Solvency II financial information therefore shows that the implementation of the Scheme is expected to keep the SCR coverage broadly similar and to improve the Solvency II position of the RNPF in terms of the absolute amount of excess capital.
- 8.25 The implementation of the RLL Scheme will have no direct effect on the with-profits business of ReAssure and therefore no effect on the potential support that could be provided by the existing with-profits business to the RNPF LT business in the extreme scenario where the resources of the RNPF are insufficient to meet its liabilities.
- 8.26 The implementation of the RLL Scheme will introduce a new ring-fenced fund to ReAssure (the GAWPF) but the GAWPF is projected to be strong (163% SCR coverage as at 31 December 2015) and have financial strength well in excess of that required by the RCP and therefore the likelihood of this ring-fenced fund requiring support from the RNPF is extremely low.

Conclusions regarding financial strength

- 8.27 I am satisfied that the implementation of the RLL Scheme will not have a material adverse effect on the financial strength available to support the security of the RNPF LT business' benefits.

The profile of risks to which the RNPf LT business is exposed

- 8.28 The transfer of a significant volume of long-term business from RLL into the RNPf will change the risk profile of the RNPf due to the different products and the different characteristics of the business relative to the existing RNPf business. In addition, the business transferred in may have arisen from different sources, through different sales channels and the underlying policyholder group may have different demographic characteristics from the existing policyholder group.
- 8.29 Under the RLL Scheme, assets will be transferred into the RNPf to reflect the increased volume of business and the associated risks. The RNPf is projected to comfortably meet the capital requirements of the RCP immediately after the implementation of the Scheme.
- 8.30 I am satisfied that although the implementation of the Scheme will change the profile of risks to which the RNPf LT business is exposed, there will not be a material adverse effect on the security of the benefits under the existing RNPf LT policies.

The reasonable expectations of the RNPf LT policyholders

- 8.31 The RNPf LT business is non-profit or unit-linked in nature and, as such, policyholders' expectations in respect of their benefits are that:
- They receive their benefits as guaranteed under the policy, on the dates and in the contingencies specified in the terms and conditions;
 - The benefits they receive reflect the investment performance of the assets in which their units are invested, net of contractual charges payable under the policies;
 - The administration, servicing, management, and governance of the policies are in line with the contractual terms under the policies; and
 - The standards of service are at least as good as those they currently receive.
- 8.32 The implementation of the proposed RLL Scheme will not change:
- The terms and conditions of the existing RNPf LT policies;
 - The methodology used to calculate the surrender values of the transferring RNPf LT business;
 - The charges that apply to the RNPf LT business;
 - The exercise of discretion in respect of the management of the unit-linked funds;
 - The operation of ReAssure, the ReAssure ring-fenced funds or the RNPf;
 - The outsourcing and asset management arrangements for the policies of ReAssure and the governance around these including the performance standards of ReAssure to which these outsourcing and asset management arrangements are held;
 - The governance and management of the RNPf LT policies which will continue to be the responsibility of the ReAssure Board; or
 - The risk appetite to which ReAssure is managed.
- 8.33 ReAssure management has discretion with regard to the level of charges on existing unit-linked RNPf LT business. The extent of this discretion will not be affected by the Scheme.
- 8.34 ARUKSL provides the administration and servicing for the majority of existing ReAssure policies and there are plans for a migration of systems which are independent of the RLL Scheme but upon which I comment in Section 10.
- 8.35 I am therefore satisfied that the implementation of the RLL Scheme will not have a material adverse effect on the reasonable benefit expectations of the policyholders of the RNPf LT business or on the governance, management and service standards that apply to the RNPf LT business.

8.36 In my Supplementary Report I shall review any proposed changes in relation to unit-linked funds and related investment objectives that will occur as a result of the implementation of the Scheme (including as at the Transfer Date).

The security agreement for the Phoenix annuities

8.37 As discussed in Section 4, the security agreement relating to the reinsurance of the Phoenix annuities between ReAssure and RLL is to terminate upon the implementation of the RLL Scheme (under the assumption that the Phoenix Annuity Scheme has been implemented). This security agreement currently restricts the investments permitted to be held in RLL to back the reinsured annuities to certain asset classes, such as cash and other listed assets, with rules also set in relation to matching, currencies, credit ratings and maximum exposures. Following the implementation of the Scheme, the reinsurance of the annuities from ReAssure to RLL will cease and the investment restrictions will no longer apply.

8.38 If the Phoenix Annuity Scheme and the RLL Scheme are implemented, the transferring Phoenix annuities are to be allocated to a MAP within the RNPF and therefore investment restrictions arising from the matching adjustment eligibility criteria will apply. The matching adjustment asset eligibility criteria require that:

- The insurer must be able to hold the assets to maturity;
- The cash flows of the assets and liabilities must be matched, where any residual mismatching (in relation to interest rates, inflation, and currency) must not give rise to material risk on the insurer's balance sheet; and
- The assets should only be traded in order to retain matching in the event of a material change in expected cash flows.

8.39 In contrast to the security agreement, there is no prescribed list of acceptable asset types for the matching adjustment portfolio but firms must demonstrate to the PRA that the MAP asset portfolio complies with the Solvency II risk management requirements and the Prudent Person Principle, which state that the assets should be invested to ensure the security, quality, liquidity and profitability of the portfolio.

8.40 There are no credit rating or maximum exposure restrictions under the matching adjustment asset eligibility criteria; however, any subsequent changes to the risk profile of the asset portfolio after the termination of the security agreement will be reflected within the SCR and the capital buffer required under ReAssure's capital policy. These requirements will help to ensure that any change to the nature of the backing assets will not materially weaken the security provided to policyholders.

8.41 Under the terms of the security agreement, the assets are ring-fenced and cannot cover losses elsewhere in RLL. Whilst this will no longer be the case following the implementation of the Scheme, the matching adjustment asset eligibility criteria state that the assets allocated to the matching adjustment portfolio cannot be used to cover losses elsewhere within the business and, as a result, the assets currently in the security account will remain ring-fenced to some extent after the implementation of the Scheme, albeit in conjunction with the other assets of the matching adjustment portfolio.

8.42 I am therefore satisfied that the termination of the security agreement will not have a material adverse effect on the security of the benefits of the existing RNPF policies.

Conclusions for the RNPF LT business

8.43 I am satisfied that the implementation of the RLL Scheme will not have a material adverse effect on:

- The security of benefits of the RNPF LT business policyholders;
- The reasonable expectations of the RNPF LT policyholders in respect of their benefits; or
- The service standards and governance applicable to the RNPF LT business policyholders.

The DB business

Introduction

8.44 The DB business is currently allocated to the WLWPF and consists of:

- The majority of non-profit policies in the WLWPF prior to the 2007 NM Scheme, including a portfolio of unit-linked pensions acquired from GAN Life and Pensions plc and subsidiaries in 1998;
- The majority of the non-profit and hybrid policies that were in the NMWPF; and
- Increases to policies in the NMWPF.

- 8.45 84.25% of the non-unit cash flows of the DB business are allocated to the RNPF under the terms of the 2007 NM Scheme, and the remaining 15.75% of non-unit cash flows accrue to the RNPF under an inter-fund arrangement under which a ceding commission was paid from the RNPF to the WLWPF. As mentioned above, the UWP elements of the hybrid DB business are linked to the NMWPF from the WLWPF.
- 8.46 If the RLL Scheme is implemented then all of the DB business will be transferred to the RNPF and the UWP elements of the hybrid DB policies will then be linked from the RNPF into the NMWPF.

The financial strength available to provide security of benefits

- 8.47 Currently, in the event of a claim, the benefits due on the DB business would be paid from the assets of the WLWPF. If the claim were to cause a negative surplus then a payment would be made from the RNPF to the WLWPF to reimburse the WLWPF for the claim. In addition any benefits relating to the UWP elements of the hybrid DB business would be claimed in accordance with the inter-fund arrangement with the NMWPF.
- 8.48 In the extreme scenario where the RNPF was unable to meet its obligations under the inter-fund arrangement, and the parent company was unable or unwilling to provide additional capital to remedy the position, ReAssure would be declared insolvent and the barriers between the RNPF and the ring-fenced funds of ReAssure (the NMWPF and the WLWPF) would break down. In this extreme scenario, the benefits of the DB could be met from the assets of the WLWPF or the NMWPF subject to the relevant winding up regulations.
- 8.49 Therefore, the financial strength supporting the security of the guaranteed benefits under the DB policies is currently provided by:
- Assets in the WLWPF;
 - Assets in the RNPF and NMWPF that could be used to cover losses in the DB under the NM Scheme provisions and the inter-fund arrangements; and
 - Other assets in the RNPF; and
 - In an extreme scenario, the assets of the NMWPF.
- 8.50 The financial strength available to provide support for guaranteed benefits must be considered in the context of the restrictions that are in place in respect of changing that financial strength. For ReAssure, such restrictions are set out in the RCP and are expressed in terms of the capital required to be held under the current Solvency II regulatory regime.
- 8.51 Capital held in excess of that required by the regulatory minimum and the relevant capital policy should not be relied upon for the provision of security in the context of assessing the suitability or otherwise of a proposed Scheme because such the capital could be reduced or used for other purposes. In my assessment of the RLL Scheme I do not rely upon the capital in excess of the RCP.
- 8.52 In addition to the level of capital required under the relevant capital policy, consideration must also be given to the governance around changes to the policy and the response of the firm to breaches of the capital policy.
- 8.53 If the RLL Scheme is implemented, the DB policies will be transferred into the RNPF and so any claim would be paid from the RNPF. If the claim has an element that relates to UWP units or final UWP bonus of the hybrid DB business, there would be a subsequent claim in accordance with the inter-fund arrangement such that the RNPF would be reimbursed from the NMWPF.
- 8.54 If the RNPF was unable to meet the guaranteed benefits and the parent company was unable or unwilling to provide additional capital to remedy the position, then the barriers between the RNPF and the ring-fenced funds in ReAssure would break down.

- 8.55 Therefore, after the implementation of the RLL Scheme the financial strength backing the security of the guaranteed benefits under the DB policies is provided by the assets of the RNPF and the inter-fund arrangement with the NMWPF, and in extreme circumstances from the assets in the other ring-fenced funds of ReAssure.
- 8.56 In respect of the RNPF Solvency II BEL, risk margin and SCR, the implementation of the Scheme will not change:
- The Solvency II regime nor the way that ReAssure calculates their Solvency II BEL, risk margin and SCR; or
 - The BEL in respect of the DB business; and
 - Will only lead to a change in the risk margin and SCR to the extent that there is extra diversification available with the other business in the RNPF as a result of the transfer into the RNPF of the business of the GNPF and the GDUB; i.e. where there is a corresponding reduction in the overall risk profile.
- 8.57 In respect of the extra security provided by the capital buffer under the RCP:
- The implementation of the RLL Scheme will not change the RCP nor the strength of governance around the RCP; and
 - The RNPF is projected to meet the requirements of the RCP after the implementation of the RLL Scheme.
- 8.58 The implementation of the RLL Scheme is likely, subject to PRA approval, to result in an increase to the TMTP applicable in the RNPF where currently the TMTP is zero. This could imply a weakening of the security of the guaranteed benefits of the RNPF policies as there is no corresponding reduction in risks. However, by construction and in accordance with the Solvency II rules the TMTP can only reduce the technical provisions to such a level that required financial resources are at least at the level as those that would have been required under the previous solvency regime (Solvency I). As stated in Section 3 of this report, the protection granted to policyholders by the requirements of the Solvency I regime was to ensure that the company had capital resources sufficient to remain solvent over a one year time horizon with a likelihood of at least 99.5%.
- 8.59 Considering all this together, I am satisfied that the implementation of the proposed Scheme will not have a material adverse effect on the financial strength available to support the security of the guaranteed benefits under the existing DB policies.

The profile of risks to which the DB business is exposed

- 8.60 The DB is currently exposed to the risks of the RNPF business through the fact that non-unit losses accrue to the RNPF. It is also exposed to the risks of the NMWPF as the UWP elements of the hybrid DB business are linked to the NMWPF.
- 8.61 After the implementation of the Scheme, the DB will be part of the RNPF and will be exposed directly to the risks of the business in the RNPF, including the business transferred in from RLL. The investment risk on the UWP elements of the DB hybrid business will continue to be linked to the NMWPF.
- 8.62 The ReAssure Solvency II technical provisions and SCR will reflect the risk profile of the company, its business and its risk concentrations, and this will feed through into the capital that will be held in accordance with the RCP.
- 8.63 I am satisfied that although the implementation of the Scheme will change the profile of risks to which the DB business is exposed there will not be a material adverse effect on the security of the benefits under the existing DB policies.

The management and governance of the DB policies

- 8.64 The DB business is currently managed by, and subject to the governance of, the Board of ReAssure and, as it is in the WLWPF, the DB business also comes under the remit of the ReAssure Fairness Committee. This will not change as a result of the RLL Scheme.
- 8.65 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the standards of governance and management applicable to the DB business.

The administration and service standards applied to the DB policies

- 8.66 The DB policies are all currently administered and serviced by ARUKSL and this will remain the case after the implementation of the RLL Scheme.
- 8.67 I understand that ReAssure wishes to align the administrative arrangements of the ReAssure and RLL policies at a future date, regardless of whether or not the Scheme is implemented. As any such change is independent of the Scheme, it is not strictly relevant to my considerations, but I have considered this in Section 10.
- 8.68 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the administration and service standards of the DB policies.

The reasonable expectations of the DB policyholders

- 8.69 The DB business consists of non-profit annuities and hybrid investment business under which policyholders can choose to invest their policies in both unit-linked funds and UWP funds.
- 8.70 For these types of business, policyholders' expectations in respect of their benefits are that:
- They receive their benefits as guaranteed under the policy, on the dates and in the contingencies specified in the terms and conditions;
 - The benefits they receive reflect:
 - For the unit-linked elements, the investment performance of the assets in which their units are invested, net of contractual charges payable under the policies; and
 - For the UWP elements, the bonuses and charges derived in accordance with the PPFM and relevant with-profits guidance and regulation.
 - The administration, servicing, management, and governance of the policies are in line with the contractual terms under the policies; and
 - There is no material deterioration in the standards of service that they receive.
- 8.71 The investment return attributed to the UWP elements of the hybrid DB policies will remain linked to the NMWPF.
- 8.72 The implementation of the proposed RLL Scheme will not change:
- The terms and conditions of the DB policies;
 - The principles and practices used in the management of the UWP funds to which the hybrid DB policies are linked;
 - The rights of the hybrid DB policies to any future inherited estate distributions of the UWP funds to which they are linked;
 - The methodology used to calculate the asset shares and surrender values of the UWP funds to which the hybrid DB policies are linked;
 - The bonus and pay-out policies applied to the UWP funds under the hybrid DB policies;
 - The investment strategy applicable to the UWP funds under the hybrid DB policies ;
 - The charges that apply to the DB policies; or
 - The outsourcing and asset management arrangements for the DB policies.
- 8.73 In addition, as discussed above, I am satisfied that:
- The implementation of the Scheme will not have a material adverse effect on the security of the guaranteed benefits of the DB policies;
 - The implementation of the Scheme will not have a material adverse effect on the management or the governance of the DB policies; and

- The implementation of the Scheme will not have a material adverse effect on the administration and service standards applicable to the holders of the DB policies.

8.74 Therefore, I am satisfied that the implementation of the RLL Scheme, including the reallocation of the DB to the RNPF, will not have a material adverse effect on the reasonable benefit expectations of the DB policyholders or on the governance, management and service standards that apply to the DB business.

8.75 In my Supplementary Report I shall review any proposed changes in relation to unit-linked funds and related investment objectives that will occur as a result of the implementation of the Scheme (including as at the Transfer Date).

Conclusions for the DB policies

8.76 I am satisfied that the implementation of the Scheme will not have a material adverse effect on:

- The security of benefits under the DB policies;
- The reasonable expectations of the DB policyholders in respect of their benefits; or
- The service standards, governance and management applicable to the DB business.

The policies of the ReAssure ring-fenced funds (the WLWPF and the NMWPF)

The security of benefits of the policies of the ReAssure ring-fenced funds

8.77 Under the RLL Scheme, there will be no business transferred into the WLWPF or the NMWPF. The DB business will be transferred out of the WLWPF but, under the terms of the NM Scheme and the subsequent inter-fund arrangement, the future non-unit surpluses have been allocated to the RNPF and so the transfer out of the DB business would have an immaterial economic effect, and in particular there will be no change to the financial strength of these ring-fenced funds as a result of the implementation of the RLL Scheme.

8.78 The potential changes due to the implementation of the RLL Scheme stem from the possibility that, as a result of the transfer of the RLL business into ReAssure:

- The contagion risk to the existing ring-fenced funds of ReAssure would increase due to an increase in the probability of the claims-paying insolvency of the RNPF (at which point the restrictions on the use of the assets in the ring-fenced funds would break down) due to the transfer into ReAssure of:
 - The business from the GNPf; and
 - The business from the GWPF that necessitates the creation of a new ring-fenced fund: the GAWPF.
- There may be extra calls on the capital in ReAssure such that there is a restriction of the capital available to support the ring-fenced funds if and when required.
- The reallocation of the DB from the WLWPF to the RNPF will result in the following changes to the inter-fund arrangements:
 - The allocation of the WLWPF share of the DB margins to the RNPF will cease; and
 - The linking of the UWP elements of the hybrid DB business to the NMWPF will transfer to the RNPF so that when the DB business is allocated to the RNPF, the hybrid DB UWP elements will remain linked to the NMWPF.

8.79 In consideration of these potential effects of the RLL Scheme on the policies of the ring-fenced funds of ReAssure, it should be noted that:

- The RNPF remains subject to the RCP after the implementation of the Scheme.
- The tables in Appendices 1 and 2 show that the RNPF is expected to be financially strong before and after the implementation of the proposed RLL Scheme with the SCR coverage changing slightly from 165% to 164% and the excess capital increasing as a result of the RLL Scheme from £0.9 billion to £1.5 billion. Therefore the implementation of the RLL Scheme is not expected to have a material adverse effect on the financial

strength of the RNPF and therefore no material impact on the likelihood of extra calls on the capital in ReAssure or on the likelihood of the RNPF becoming insolvent on a claims paying basis.

- The tables in Appendices 1 and 2 also show that the GAWPF is strong after the implementation of the Scheme and therefore unlikely to require support.
- The loss of the negative non-unit reserves (i.e. an asset of the WLWPF) in relation to the DB is accompanied by the removal of the corresponding obligation to pay any non-unit surplus to the RNPF under the existing inter-fund arrangement. There remains a diversified portfolio of other assets in the WLWPF and therefore the loss of the negative non-unit reserves should not result in a material change to the security of WLWPF policyholders' guaranteed benefits.

8.80 I am satisfied that the implementation of the RLL Scheme will not have a material adverse effect on the security of the benefits of the policyholders within the WLWPF or the NMWPF.

The reasonable expectations of the policyholders of the ring-fenced funds

8.81 The implementation of the proposed RLL Scheme will not change:

- The terms and conditions of the existing policies of the ReAssure ring-fenced funds;
- The principles and practices used in the management of the ReAssure ring-fenced funds;
- The rights of the ReAssure policies to any future distributions from the inherited estates;
- The methodology used to calculate asset shares and surrender values of ReAssure with-profits policies;
- The bonus and pay-out policies applied to ReAssure with-profits policies;
- The charges that apply to the existing policies of the ReAssure ring-fenced funds;
- The operation of ReAssure, the ring-fenced funds or the RNPF;
- The outsourcing and asset management arrangements for the policies of ReAssure and the governance around these including the performance standards of ReAssure to which these outsourcing and asset management arrangements are held;
- The likelihood of the NMWPF capital support facility being required;
- The governance and management of the existing policies of the ReAssure ring-fenced funds which will continue to be the responsibility of the ReAssure Board and subject to the oversight of the ReAssure Fairness Committee; or
- The capital policy and risk appetite to which ReAssure is managed.

8.82 The WPA of ReAssure has confirmed that in his view the with-profits policyholders of ReAssure would not suffer a reduction in the security of their benefits or any impact on their reasonable benefit expectations if the RLL Scheme were to be implemented.

8.83 Under the terms of the NM scheme, the NMWPF may be merged with another ring-fenced fund in ReAssure once the value of its assets falls below a specified threshold. This will not change as a result of the implementation of the RLL Scheme. However, the creation of the GAWPF and the analogous provision around fund mergers for the GAWPF means that it is possible that the NMWPF could be merged with the GAWPF at a future point. The RLL Scheme stipulates that any such merger should be subject to approval by the PRA, the FCA and the ReAssure Fairness Committee and that an independent expert would be required to provide a certificate stating that any such merger would not materially adversely affect the interests and reasonable expectations of policyholders of the merging funds.

8.84 I am satisfied that the implementation of the RLL Scheme will not have a material adverse effect on the reasonable benefit expectations of the policyholders of the ReAssure ring-fenced funds or on the governance, management and service standards that apply to the policies of the ReAssure ring-fenced funds.

The hybrid policies in the WLWPF invested in the linked funds of the DB

- 8.85 The WLWPF contains some hybrid policies in the WLWPF whose unit-linked elements are invested in linked funds within the DB. Following the implementation of the Scheme, the unit-linked elements of these hybrid policies will be invested in the equivalent linked funds that are to be established in the RNPF. This link will be via a notional inter-fund reinsurance arrangement. These new linked funds will be such that:
- The investment objectives of the equivalent funds are materially the same;
 - There are no changes to the charges when compared with the existing range of RLL funds; and
 - There will be no change to the methodology used to determine unit prices for the internal linked funds.
- 8.86 I am therefore satisfied that the implementation of the Scheme will not have a material adverse effect on these hybrid policies in the WLWPF.

Conclusions for the policies of the ReAssure ring-fenced funds

- 8.87 I am satisfied that the implementation of the Scheme will not have a material adverse effect on:
- The security of benefits under the policies of the ReAssure ring-fenced funds;
 - The reasonable expectations of the policyholders of the ReAssure ring-fenced funds in respect of their benefits; or
 - The service standards, governance and management applicable to the ReAssure ring-fenced funds.
- 8.88 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the security of the benefits under the policies of the ReAssure ring-fenced funds or on the reasonable benefit expectations of the policyholders of the ReAssure ring-fenced funds.

The ReAssure general insurance business

- 8.89 The ReAssure general insurance business is maintained separately from the RNPF LT business although it is part of the RNPF.
- 8.90 ReAssure does not currently write or sell general insurance policies and does not have any current in-force general insurance policies. As noted in Section 4, ReAssure holds a small amount of Incurred But Not Reported ("IBNR") reserves and solvency capital in respect of the expired general insurance business.
- 8.91 As stated above, I do not expect the implementation of the RLL Scheme to have a material impact on the likelihood of extra calls on the capital in ReAssure or on the likelihood of claims paying insolvency. I am therefore satisfied that the implementation of the RLL Scheme will not have a material adverse effect on the security of the benefits of the expired general insurance policyholders.
- 8.92 The policy servicing arrangements, management and governance for the expired general insurance policies will not change as a result of the implementation of the Scheme.
- 8.93 I am therefore satisfied that the implementation of the RLL Scheme will not have a material adverse effect on the reasonable benefit expectations of the expired general insurance policyholders.

The policies of the subsidiaries of the RNPF

- 8.94 The current subsidiaries of the RNPF are:
- Admin Re Trustees Limited;
 - Gresham Life Assurance Society Limited;
 - National Mutual Life Assurance Society Limited; and
 - Admin Re Pension Trustees Limited.

- 8.95 After the implementation of the proposed Scheme these companies will remain as subsidiaries of the RNPF and there will be no business transferred into or out of them.
- 8.96 None of these subsidiaries contain any insurance business with the exception of National Mutual Life Assurance Society Limited, which contains two policies written on the lives of directors of National Mutual Pensions Limited. The policies would pay out a nominal benefit to ReAssure, and are owned by ReAssure.
- 8.97 There will be no changes to the terms and conditions of the policies of the subsidiaries of the RNPF and the policy servicing arrangements, investment management, management and governance for these policies will not change as a result of the implementation of the Scheme.
- 8.98 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the security of benefits or on the reasonable benefit expectations of the policyholders of the subsidiaries of the RNPF.

9 THE EFFECT OF THE RLL SCHEME IF THE PHOENIX ANNUITY SCHEME DOES NOT PROCEED

Introduction

- 9.1 My considerations in the Sections 7 and 8 of this report have been of the effects of the RLL Scheme on the RLL and ReAssure policies respectively under the working assumption that the Phoenix Annuity Scheme will be sanctioned by the Court and implemented immediately prior to the implementation of the RLL Scheme.
- 9.2 However, the outcome of the Phoenix Annuity Scheme is at the discretion of the Court and therefore its sanction and implementation are uncertain and, as it is scheduled to be implemented immediately prior to the RLL Scheme, I need to consider the possibility that the Phoenix Annuity Scheme is not implemented.

A brief summary of the Phoenix Annuity Scheme

- 9.3 Under The Phoenix Annuity Scheme blocks of in-payment annuities from three ring-fenced funds in Phoenix (the Alba WPF, the Phoenix WPF and the SAL WPF) will be transferred into the RNPF. These blocks of annuities will be referred to as the "Phoenix annuities".
- 9.4 The Phoenix Annuity Scheme is expected to be presented to the Court for a Directions Hearing in September 2016 and for a Final Hearing in December 2016. If approved by the Court it will be implemented with a Transfer Date of 31 December 2016.
- 9.5 If the Phoenix Annuity Scheme is approved by the Court, then on the Transfer Date the transferring business will transfer from the Phoenix WPF, the Alba WPF and the SAL WPF to ReAssure and be allocated to the RNPF.
- 9.6 The non-profit in-payment annuity policies of the transferring business are currently reinsured to RLL under the terms of the reinsurance agreement. Following the implementation of the Phoenix Annuity Scheme, the reinsurance agreement will remain in place, and the cedant will change from Phoenix to ReAssure.
- 9.7 The majority of the assets backing the reserves in respect of the transferring business have already been transferred to RLL under the reinsurance agreement. Under the Phoenix Annuity Scheme, Phoenix's rights and obligations in respect of the transferring policies will transfer to ReAssure, together with certain additional assets.
- 9.8 The implementation of the Phoenix Annuity Scheme will not change the terms and conditions under the transferring policies.

The scenario where the Phoenix Annuity Scheme is not implemented

- 9.9 In this scenario, the starting point for the RLL Scheme will be that the Phoenix annuities will not have been transferred into ReAssure and will remain policies of Phoenix in the relevant ring-fenced fund.
- 9.10 In this section I will consider, for each group of policyholders considered in Sections 7, and 8, whether the non-implementation of the Phoenix Annuity Scheme would change my conclusions in relation to the RLL Scheme.
- 9.11 Additionally, I will consider the impact of the implementation of the RLL Scheme on the policies of Phoenix.

The GNPf policies

- 9.12 The GNPf policies are currently exposed to the risks associated with the Phoenix annuities due to the reinsurance agreement in place whereby the Phoenix annuities are reinsured into the GNPf.
- 9.13 If the Phoenix Annuity Scheme is not implemented:
- Prior to the RLL Scheme the Phoenix annuities are reinsured into the GNPf in RLL and so the GNPf policies are directly exposed to these risks.
 - After the implementation of the RLL Scheme:
 - The GNPf policies will be allocated to the RNPF; and

- The reinsurance of the Phoenix annuities will have transferred to ReAssure such that the Phoenix annuities are reinsured from Phoenix into the RNPF.
- 9.14 As a result of the RLL Scheme the GNPf policies will be exposed to the risks from the other business that will be in the RNPF after the Scheme and, in extreme circumstances, to the risks from the ring-fenced funds.
- 9.15 The risks from the RNPF include those from the Phoenix annuities that will be reinsured into the RNPF from Phoenix. This is a similar exposure to that which currently exists where the Phoenix annuities are reinsured into the GNPf.
- 9.16 The changes for the policies of the GNPf in respect of the risks from the rest of the RNPF were covered in Section 7 of this report.
- 9.17 Therefore, I am satisfied that, in the scenario where the Phoenix Annuity Scheme does not go ahead, the conclusions in Section 7 in respect of the effect of the RLL Scheme on the GNPf policies hold.

The GDUB policies

- 9.18 If the Phoenix Annuity Scheme is not implemented:
- Prior to the RLL Scheme the Phoenix annuities are reinsured into GNPf in RLL and so the GDUB policies are exposed to the risks of the Phoenix annuities through their exposure to the GNPf under the inter-fund arrangement and, in extreme circumstances, through their membership of the GWPF.
 - After the implementation of the RLL Scheme:
 - The GDUB policies will be allocated to the RNPF;
 - The remaining GWPF policies will have been transferred to a new ring-fenced fund called the GAWPF; and
 - The reinsurance of the Phoenix annuities will have been transferred to ReAssure such that the Phoenix annuities are reinsured from Phoenix into the RNPF.
- 9.19 As a result of the RLL Scheme the GDUB policies will be exposed to the risks from the other business that will be in the RNPF after the Scheme and, in extreme circumstances, to the risks from the ring-fenced funds.
- 9.20 The risks from the RNPF include those from the Phoenix annuities that are reinsured into the RNPF from Phoenix. This is a similar exposure to that which currently exists where the Phoenix annuities are reinsured into the GNPf and the GDUB is exposed to the risks from the GNPf through the inter-fund arrangement.
- 9.21 The changes for the GDUB policies in respect of the RLL Scheme are therefore the same as those covered in Section 7 of this report.
- 9.22 Therefore, I am satisfied that, in the scenario where the Phoenix Annuity Scheme does not go ahead, the conclusions in Section 7 in respect of the effect of the RLL Scheme on the GDUB policies hold.

The GWPF policies other than the GDUB policies

- 9.23 If the Phoenix Annuity Scheme is not implemented:
- Prior to the RLL Scheme the Phoenix annuities are reinsured into the GNPf in RLL and so the GWPF policies are exposed to the risks from these policies due to the exposure of the ring-fenced fund to the GNPf.
 - After the implementation of the RLL Scheme
 - The GDUB policies will be allocated to the RNPF;
 - The remaining GWPF policies will have been transferred to new ring-fenced fund called the GAWPF; and
 - The reinsurance will have been transferred to ReAssure such that the Phoenix annuities are reinsured from Phoenix into the RNPF.

- 9.24 After the implementation of the RLL Scheme, the GWPF policies will be in a ring-fenced fund in ReAssure. The GAWPF only has the business from the GWPF (not including the GDUB) and is projected to be of similar strength to the GWPF prior to the RLL Scheme.
- 9.25 The changes for the GWPF policies will therefore be any additional risks from the extraction of the GDUB, and from the exposure in extreme scenarios to the RNPF and the other ring-fenced funds in ReAssure (the NMWPF and the WLWPF). These changes are discussed in Section 7 of this report. The changes due to the Phoenix Annuity Scheme not being implemented do not have a material impact on the GWPF business.
- 9.26 Therefore, I am satisfied that, in the scenario where the Phoenix Annuity Scheme does not go ahead, the conclusions in Section 7 in respect of the effect of the RLL Scheme on the GWPF policies hold.

The RNPF LT policies

- 9.27 If the Phoenix Annuity Scheme is not implemented:
- Prior to the RLL Scheme:
 - The Phoenix annuities are reinsured into the GNPf in RLL and so the RNPF LT policies are not exposed to the risks from the Phoenix annuities.
 - Under the reinsurance agreement, assets in respect of the majority of the reserves under the Phoenix annuities have been transferred across to the GNPf and are held under the associated security agreement which restricts the market risks associated with them.
 - After the implementation of the RLL Scheme:
 - The reinsurance agreement will transfer to ReAssure such that the Phoenix annuities are reinsured from Phoenix into the RNPF.
 - The security agreement will transfer into the RNPF and the investment restrictions will remain in place.
- 9.28 Hence, after the implementation of the RLL Scheme, the RNPF LT policies will have an exposure to the Phoenix annuities through the reinsurance agreement. However, the security agreement, and the associated assets, will have been transferred into the RNPF which should largely mitigate the risks from the Phoenix annuities.
- 9.29 In this scenario the RNPF is projected to be in excess of the requirements of the RCP.
- 9.30 Therefore, I am satisfied that, in the scenario where the Phoenix Annuity Scheme does not go ahead, the conclusions in Section 8 in respect of the effect of the RLL Scheme on the RNPF LT policies hold.

The DB policies

- 9.31 If the Phoenix Annuity Scheme is not implemented:
- Prior to the RLL Scheme:
 - The Phoenix annuities are reinsured into the GNPf in RLL and so the DB policies are not exposed to the risks from the Phoenix annuities.
 - Under the reinsurance agreement, assets in respect of the majority of the reserves under the Phoenix annuities have been transferred across to the GNPf and are held under the associated security agreement which restricts the investment risks associated with them.
 - If the RLL Scheme is implemented then:
 - The DB policies will be transferred from the WLWPF to the RNPF.
 - The reinsurance agreement will transfer to ReAssure such that the Phoenix annuities are reinsured from Phoenix into the RNPF.
 - The security agreement will transfer into the RNPF and the investment restrictions will remain in place.

9.32 Hence, after the implementation of the RLL Scheme, as direct policies of the RNPF the DB policies will have an exposure to the Phoenix annuities through the reinsurance agreement. However, the security agreement, and the associated assets, will have been transferred into the RNPF which should largely mitigate the risks from the Phoenix annuities.

9.33 In this scenario the RNPF is projected to be in excess of the requirements of the RCP.

9.34 Therefore, I am satisfied that, in the scenario where the Phoenix Annuity Scheme does not go ahead, the conclusions in Section 8 in respect of the effect of the RLL Scheme on the DB policies hold.

The policies of the ReAssure ring-fenced funds (excluding the DB policies)

9.35 If the Phoenix Annuity Scheme is not implemented:

- Prior to the RLL Scheme:
 - The Phoenix annuities are reinsured into the GNPF in RLL and so the policies of the ReAssure ring-fenced funds are not exposed to the risks from the Phoenix annuities.
 - Under the reinsurance agreement, assets in respect of the majority of the reserves under the Phoenix annuities have been transferred across to the GNPF and are held under the associated security agreement which restricts the investment risks associated with them.
- If the RLL Scheme is implemented then:
 - The policies of the ReAssure ring-fenced funds will remain in the ReAssure ring-fenced funds.
 - The reinsurance agreement will transfer to ReAssure such that the Phoenix annuities are reinsured from Phoenix into the RNPF.
 - The security agreement will transfer into the RNPF and the investment restrictions will remain in place.

9.36 Hence, after the implementation of the RLL Scheme, the policies of the ReAssure ring-fenced funds will have an exposure to the Phoenix annuities only through their reliance on the RNPF for support and their exposure to contagion risk from the RNPF. However, the security agreement, and the associated assets, will have been transferred into the RNPF in order to meet the relevant capital requirements and RCP, which should largely mitigate the risks from the Phoenix annuities.

9.37 In this scenario the RNPF is projected to be in excess of the requirements of the RCP.

9.38 Therefore, I am satisfied that, in the scenario where the Phoenix Annuity Scheme does not go ahead, the conclusions in Section 8 in respect of the effect of the RLL Scheme on the policies of the ReAssure ring-fenced funds hold.

The Phoenix policyholders

9.39 In this sub-section I consider the impact of the implementation of the RLL Scheme on the policyholders of Phoenix if the Phoenix Annuity Scheme has not been implemented.

9.40 My focus is on the policyholders of the three ring-fenced funds (the Alba WPF, the Phoenix WPF and the SAL WPF) (the “relevant ring-fenced funds”) within Phoenix containing the annuities currently reinsured to RLL. I have not differentiated between the annuities covered by the reinsurance agreement and other policies of the relevant ring-fenced funds because, whilst the recoverables under the reinsurance contract are based on the annuity outgo of the reinsured annuities, the reinsurance contract is an asset of Phoenix rather than a particular fund. Therefore, whilst the proceeds should be directed to the relevant ring-fenced funds this does not provide any more security to the reinsured annuities than to the other business of the relevant ring-fenced funds.

9.41 From the perspective of policyholders of Phoenix, the only change brought about by the RLL Scheme will be the transfer of the reinsurance agreement such that the reinsurer of the Phoenix annuities, and holder of the assets covered by the security agreement, becomes ReAssure in place of RLL. This change to the identity of the reinsurer constitutes a change to the nature of the reinsurance asset, and in particular could change the likelihood of the reinsurer defaulting on its obligations under the reinsurance agreement.

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- 9.42 The security afforded to the relevant ring-fenced funds by the reinsurance agreement and security agreement is principally determined by the financial strength of the reinsurer and its ability to withstand adverse scenarios. The implementation of the RLL Scheme will result in a change whereby the financial strength of ReAssure (including the transferring RLL assets and liabilities) will provide security to the relevant Phoenix ring-fenced funds rather than the financial strength of RLL as is currently the case.
- 9.43 As the reinsurance liabilities are currently allocated to the GNPf and, following the implementation of the RLL Scheme, will be allocated to the RNPF, it is the comparative financial strength of the GNPf and the RNPF that will determine the impact of the RLL Scheme on the relevant Phoenix ring-fenced funds.
- 9.44 However, it should be noted that:
- The RNPF and the GNPf are currently subject to the same capital policy (the RCP), which will not be affected by the implementation of the RLL Scheme; and
 - As shown in Appendices 1 and 2, the pre-Scheme financial position of the GNPf and the post-Scheme financial position of the RNPF, at 31 December 2015, are broadly similar.
- 9.45 As I concluded in Section 7 of this report, the implementation of the RLL Scheme will not have a material adverse effect on the security of the benefits of the policies of the GNPf and I am satisfied that this conclusion applies equally to insurers who cede reinsurance to the GNPf.
- 9.46 Similarly, the arguments in Section 7 in respect of reasonable expectations in respect of the benefits, governance, management and service standards applicable to the GNPf business apply equally to insurers who cede insurance business to the GNPf.
- 9.47 I am therefore satisfied that, in the event that the Phoenix Annuity Scheme does not proceed, the implementation of the RLL Scheme will not have a material adverse effect on:
- The security of benefits under the Phoenix policies;
 - The reasonable expectations of the Phoenix policyholders in respect of their benefits; or
 - The service standards, governance and management applicable to the Phoenix policies.

10 CONSIDERATIONS IN RESPECT OF THE FAIR TREATMENT OF CUSTOMERS

Introduction

- 10.1 In this section I consider any aspects of the proposed Scheme that may directly affect customers' fair treatment by ReAssure or RLL.
- 10.2 In sections 7, 8 and 9 I have concluded that the implementation of the Scheme will not have a material adverse effect on the benefit expectations, service standards and governance applicable to policyholders of ReAssure and RLL. These are important conclusions in relation to the fair treatment of policyholders.
- 10.3 The rest of this section considers other areas that could have an impact on customers' fair treatment.

Future changes to the administration and servicing arrangements

- 10.4 Whilst these administrative arrangements will not change as a consequence of the implementation of the RLL Scheme, ReAssure currently has plans to align the administrative arrangements of the policies of ReAssure and RLL.
- 10.5 This is likely to involve the migration of administration of the RLL policies (with the exception of JLT and ITM administered policies) onto ARUK's ALPHA platform and will only proceed if the ReAssure and RLL policies at the time are not materially adversely affected by the migration.
- 10.6 Any such change is independent of the RLL Scheme and planned to take place whether or not the RLL Scheme is implemented and therefore it is not strictly relevant to my considerations as Independent Expert.
- 10.7 However, I have had discussions with the management of ReAssure and RLL on this matter, and have been assured that appropriate and robust governance will be put in place within the companies to ensure that this migration is likely to be successful and in particular to ensure that it will not adversely affect service standards applicable to ReAssure and RLL policies. I note also that ReAssure has undertaken similar migration projects in the past with no adverse impact on policyholders.
- 10.8 In addition, the FCA will be kept informed of developments around this migration and is able to intervene where necessary to protect policyholders.

The approach to communication with policyholders

- 10.9 Regulations made under FSMA require a communication regarding the proposed transfer to be sent to every policyholder of the parties to the Scheme. However, this requirement may be waived at the discretion of the Court, which will give consideration to issues such as the practicality and costs of sending notices against the likely benefits for policyholders of receiving such communications. In order to comply with paragraph 2.53 of the PRA's policy statement on insurance business transfers, the companies are expected to notify the policyholders, or interested persons, at least six weeks before the date of the Court hearing at which the application to sanction the Scheme will be heard.
- 10.10 RLL and ReAssure will publish a notice in a form approved by the PRA in the London Gazette, the Edinburgh Gazette, the Belfast Gazette and the following national newspapers in the UK: The Daily Telegraph, The Times, The Guardian, The Financial Times, The Daily Mail, The Daily Express, The Sun, The Mirror and The Daily Star. RLL and ReAssure will also publish a notice in the international edition of The Financial Times.
- 10.11 In respect of the Guernsey scheme, RLL and ReAssure will publish a notice in La Gazette Officielle, the Alderney Gazette and the Sark Publish Notice Box in Sark. In addition, as required by the laws of Jersey, notice of the Jersey scheme shall be published within the Jersey Gazette.
- 10.12 ReAssure and RLL intend to ask the PRA to notify all EEA states of the proposed Scheme and ReAssure and RLL will take out notices in UK newspapers with circulation in those EEA states where a material number of ARUK policyholders are currently resident, as well as the International Financial Times.
- 10.13 ReAssure and RLL propose to send a communication pack to all the transferring policyholders of RLL for whom RLL has a valid name and address on its computerised database. The communication pack will include an

explanatory letter, the formal notice of the transfer, and a summary of my report. The communication pack will also include information on the options available to the policyholder if they have any concerns about the transfer.

- 10.14 I have reviewed the communications pack that RLL intends to send to its policyholders and am satisfied that it is appropriate.
- 10.15 Policyholders and other interested parties will be able to obtain information from the ReAssure / RLL website, which will contain documents regarding the Scheme including the full Scheme document, this report, a summary of this report, and the communications pack regarding the Scheme.
- 10.16 ReAssure intends to seek a waiver from the requirement to send a written notice to existing ReAssure policyholders as they believe it would be disproportionate to do so and in particular:
- The ReAssure policies will remain as ReAssure policies as they are not being transferred under the proposed Scheme;
 - There will be no change to the terms and conditions of any such policy;
 - There will be no change to the governance arrangements applicable to such policies; and
 - There will be no material adverse effect on the security of benefits or to the benefit expectations under any such policy.
- 10.17 The waiver would include dispensation not to send a written notice to DB policyholders, whose policies are to be reallocated from the WLWPF to the RNPF. I am satisfied that this is reasonable as the profits and losses on these policies already accrue to the RNPF and the NMWPF, and will continue to do so following the implementation of the Scheme. As outlined in Section 8, I am satisfied that the implementation of the Scheme will not have a material adverse effect on the security of benefits or the reasonable expectations under the DB policies, nor on the administration or service standards experienced by DB policies. I am therefore satisfied that ReAssure's intention to include the DB in the scope of the waiver is reasonable.
- 10.18 I am satisfied that the proposed approach to communication with policyholders, including the application for the waiver from mailing ReAssure policyholders, is reasonable.

The Financial Services Compensation Scheme and Financial Ombudsman Service

- 10.19 The Financial Services Compensation Scheme ("FSCS") provides compensation to individual holders of long-term insurance policies issued by UK insurers in the UK or another EEA state in the event of the insurer's default. Compensation to holders of in-payment annuities is the full amount of the annuity, without limit. The implementation of the RLL Scheme will not affect eligibility for compensation from the FSCS for either transferring or non-transferring policyholders.
- 10.20 The Financial Ombudsman Service ("FOS") is an independent public body that aims to resolve disputes between individuals and UK financial services companies, and may make compensation awards in favour of policyholders. Only holders of policies that constitute business carried on in the UK are permitted to bring complaints to the FOS. In circumstances where RLL currently refers policyholders to the FOS, ReAssure will continue to do so following implementation of the Scheme.
- 10.21 The implementation of the Scheme will have no impact on the rights of the policyholders of RLL or ReAssure in relation to the FSCS or FOS.

Other creditors

- 10.22 ReAssure have confirmed that there are no bondholders or third parties to securitisation arrangements or any other creditors of either company who would be affected by the proposed Scheme.

The costs of the Scheme

- 10.23 As described in Section 6 the costs of the implementation of the Scheme will be borne by the RNPF up to the level of an agreed cap of £80 million. This cap includes the costs incurred by ARUKSL in respect of the transitional and

migration activities associated with the purchase of RLL by ARUK, such as policy administration and investment accounting. Costs incurred above this cap will be met by ARUK.

- 10.24 I am satisfied that, in the context of the size and financial strength of the RNPF, the allocation of up to £80 million of costs will not have a material adverse impact on RNPF policyholders, and therefore I am satisfied that the arrangement in relation to costs is reasonable.

11 OTHER CONSIDERATIONS ARISING FROM THE SCHEME

Future corporate transactions

- 11.1 ARUK's strategy is to play an active role as a closed-book consolidation vehicle, and therefore it is likely that ARUK will make new acquisitions in the future. Furthermore it is possible that ARUK will make new acquisitions prior to the implementation of the RLL Scheme.
- 11.2 It is likely that any new acquisition would either involve the purchase of a regulated insurance entity, separate from ReAssure and RLL, or the reinsurance of a block of insurance business into ReAssure or RLL.
- 11.3 I note that:
- Any acquisition of another insurance entity would be subject to the PRA's change of control process and the associated level of due process and scrutiny, and such new acquisitions would not necessarily directly involve the balance sheets of ReAssure and/or RLL;
 - Any transfer of acquired business into ReAssure and/or RLL would require a Part VII transfer and the associated scrutiny from an independent expert; and
 - Any reinsurance transaction that involved ReAssure or RLL taking on a material amount of risk would also require non-objection from the PRA. I would also expect to be informed and given the opportunity to scrutinise any such transactions from the perspective of any impact on the RLL Scheme to the extent that they are known about prior to the implementation of the RLL Scheme.
- 11.4 I am therefore satisfied that any acquisitions that are made by ARUK would be subject to an appropriate level of due process and scrutiny to ensure that they do not have a material adverse effect on the policies of ReAssure and RLL.

Developments for ReAssure and RLL since 31 December 2015

- 11.5 There have been a number of developments since the date of the financial figures in this report (31 December 2015) that could have a significant effect on the financial position of RLL and ReAssure. These include:
- The Boards of ReAssure and RLL approved dividends of £336 million and £70 million respectively. These dividends were paid in June 2016.
 - As described in paragraph 11.36, ReAssure has submitted an application to the PRA to vary the terms of its matching adjustment approval. The difference between approval and non-approval of this variation on the financial position of ReAssure is not material.
 - RLL's management has transferred a block of immediate annuity business from its volatility adjustment portfolio into its MAP. Any immediate capital benefit to RLL of this transfer would be likely to be offset by the impact of market movements.
 - At 31 December 2015, RLL had two MAPs. As a result of the identification of an issue with the configuration of its business that is subject to the matching adjustment, RLL has undertaken a remediation exercise that resulted in a merger of RLL's two MAPs into a single MAP. This remediation required a re-application to the PRA, which was approved on 26 August 2016.
 - Financial market conditions in the UK have changed since 31 December 2015, and in particular, during the first two quarters of 2016:
 - The risk-free spot curve published by EIOPA fell by an average (unweighted average of the first 20 years of spot rates) of 98 bps;
 - Credit spreads widened at most durations; and
 - Equity markets exhibited relatively high volatility.
 - Some additional management actions were taken in RLL in relation to asset restructuring and an asset sale that brought about a reduction in RLL's credit risk exposure.

- 11.6 None of the items listed above are currently reflected in the financial information shown in this report. However, I will comment on all relevant developments since 31 December 2015 in my supplementary report, and this report will include financial information at 30 June 2016.
- 11.7 It should be noted that, after allowance for the dividend payments and changes in financial market conditions, both ReAssure and RLL remained comfortably in excess of their capital policy buffers at 30 June 2016.
- 11.8 Therefore, based on the information available at this time, I am satisfied that it is unlikely that these transactions will have a material effect on my conclusions.
- 11.9 I shall present figures including the effect of the transactions listed above, and any other subsequent transactions, and re-evaluate the effect of the implementation of the proposed Scheme on the different groups of affected policyholders in my Supplementary Report.
- 11.10 If there are any further developments with respect to other Part VII transfers I will deal with the implications for this Scheme, and the policyholders concerned in this Scheme, in my Supplementary Report.

The future operation of the Scheme

- 11.11 If the Scheme is approved by the Court (and subject to any subsequent amendment of the Scheme, as considered below), the Directors of ReAssure and RLL are committed to implementing the Scheme as set out in the Scheme document in accordance with their fiduciary responsibilities under UK company law. Failure to do so may result in the Directors, ReAssure and RLL being in breach of a Court Order if such Court Order were not amended.
- 11.12 At any time after the Court's sanction of the Scheme, ReAssure and RLL must apply to the Court for sanction of any amendments to it, except where the amendment is considered to be minor or technical, in which case ReAssure and RLL are only required to notify the PRA and FCA.
- 11.13 The various balance sheet figures for technical provisions and asset values will be calculated by the firm's actuaries and accountants and will be subject to external audit.
- 11.14 In my opinion there are reasonable safeguards in place to ensure that, if approved by the Court, the Scheme will be operated as presented to the Court.

Compliance with paragraph 44.2 of the NM Scheme

- 11.15 The RLL Scheme has certain provisions, principally dealing with the reallocation of the DB policies which may be considered to give rise to an amendment to the NM Scheme under the terms of which the DB was comprised and allocated to the WLWPF.
- 11.16 Paragraph 44.2 of the National Mutual Scheme states as follows:
- *Any amendment to this Scheme after the Effective Time must:*
 - *be approved by the Fairness Committee and, if applicable, by the Court (such Court approval not being necessary in the event of immaterial amendments or in the event of manifest error);*
 - *be notified to the FSA who shall have the right to be heard at any hearing of the Court (if applicable) at which such application is considered; and*
 - *be accompanied by a certificate from an independent expert to the effect that in his opinion the proposed amendment will not materially adversely affect the reasonable expectations (including taking account of appropriate obligations to treat customers fairly) of, or reduce overall the protections conferred by the Scheme on, the holders of NMPL NMF Transferred Policies and NMPL NMF Excluded Policies in any material respect.*
- 11.17 NMPL NMF Transferred Policies and NMPL NMF Excluded Policies are defined in the NM Scheme to be policies transferred under that scheme to Windsor Life (now ReAssure) from the NMPL (NM Pensions Limited) National Mutual Fund or, in the case of the Excluded Policies (of which I understand there were none), allocated to the NMPL National Mutual Fund immediately prior to the effective date of that scheme.
- 11.18 As well as acting as Independent Expert for the RLL Scheme, I have been asked to provide the independent expert opinion required by paragraph 44.2 of the National Mutual Scheme.

- 11.19 I have set out, in Section 8, my conclusions in relation to the reallocation of the DB policies, and in particular have concluded that the reallocation of the DB policies will not have a material adverse effect on:
- The security of benefits under the DB policies;
 - The reasonable expectations of the DB policyholders in respect of their benefits;
 - The service standards, governance and management applicable to the DB business.
 - The security of benefits under the NMWPF policies;
 - The reasonable expectations of the NMWPF policyholders in respect of their benefits; or
 - The service standards, governance and management applicable to the NMWPF business.
- 11.20 On the basis of the information provided to me and my review, in my opinion the RLL Scheme will not have a material adverse effect on the reasonable expectations (including taking account of appropriate obligations to treat customers fairly) of, or reduce overall the protections conferred by the NM Scheme on, the holders of NMPL NMF Transferred Policies and NMPL NMF Excluded Policies, as defined in the National Mutual Scheme.

The effect of the proposed Scheme on other previous schemes

- 11.21 In addition to the NM Scheme, Linklaters has reviewed previous Part VII schemes of transfer concerning the business of ReAssure and RLL where material business concerned in those Schemes remains and has confirmed that there were no enduring provisions in those Schemes that would be affected by this Scheme and that I would therefore need to consider in the context of the proposed transfer. As discussed in Section 3, I am satisfied that it is appropriate for me to rely on the conclusions of Linklaters in relation to the Scheme.

The scenario where the RLL Scheme is not implemented

- 11.22 If the Scheme does not proceed for any reason, then the RLL policies will not become policies of ReAssure and RLL will remain a separate legal entity within the ARUK group of companies.
- 11.23 In the event that the Phoenix Annuity Scheme has gone ahead, then the non-implementation of the RLL Scheme will result in the Phoenix annuities being direct policies of ReAssure, with 100% of the risks reinsured to RLL.

The ORSA

- 11.24 Whilst the implementation of the Scheme will result in a change to ARUK's structure, the economic effect of the Scheme will not be significant for ARUK as a whole. Therefore, whilst the risk profile of ReAssure in isolation will change as a result of the implementation of the Scheme, I do not expect the Scheme to materially affect the overall assessment of the risk profile of the business of ARUK.
- 11.25 ReAssure's 2015 year-end ORSA report includes forward looking analysis on the basis that the RLL Scheme has been implemented, and therefore analysis of the post-Scheme risk profile of ReAssure has taken place.

Recalculation of the TMTP

- 11.26 The financial information in this report assumes that ReAssure will be permitted to undertake a recalculation of its TMTP to reflect the implementation of the Scheme.
- 11.27 The regulatory provisions around recalculation of the TMTP are not yet final. In particular, the PRA has proposed to allow insurers to apply to recalculate their TMTP every six months if there has been a material change in the firm's risk profile since the previous recalculation. In my view, a Part VII transfer of a significant volume of business into a firm, such as the RLL Scheme, would be highly likely to meet the conditions required to be considered a material change in the firm's risk profile, and therefore I would expect ReAssure to be able to recalculate its TMTP at 31 December 2016 if the RLL Scheme is implemented at that date. However, the final position in this regard is uncertain as the PRA has yet to reach a decision on whether to approve ReAssure's application to undertake such a recalculation.

- 11.28 The methodology that insurers will be permitted to use in any TMTP recalculation is not yet known. In this report it has been assumed that ReAssure would calculate what its TMTP would have been at 31 December 2015 had the RLL Scheme been implemented by that point, including a full recalculation of the FRR constraints imposed by the previous Pillar I and Pillar II regimes.
- 11.29 I have reviewed ReAssure's proposed approach to the TMTP recalculation and am satisfied that the approach taken is reasonable, whilst acknowledging that different approaches may be equally valid. I am therefore satisfied that it is suitable for me to rely on ReAssure's recalculated TMTP for the purposes of reaching my conclusions in this report in relation to the proposed Scheme.
- 11.30 It is likely that the PRA will not have reached a decision in relation to the TMTP recalculation application in advance of the Directions Hearing, and therefore I have considered the possibility that approval for the application is not granted: in practice, the most extreme scenario would be that ReAssure's TMTP remains restricted to zero.
- 11.31 In this scenario, ReAssure's capital position would be more constrained which would have the impact of restricting ReAssure's ability to pay dividends or to undertake any strategic initiatives that required capital.
- 11.32 However, it would not, in my view, result in a deterioration to policyholder security because
- 11.33 A reduction in the TMTP would increase the amount of assets that the company must hold against its liabilities and risks and therefore, in this scenario of a zero TMTP, the financial resources requirements to which ReAssure would be subject following the implementation of the Scheme would increase (relative to the post-Scheme position shown in Appendix 2) and there would be no adverse effect on policyholder security.
- 11.34 I am therefore satisfied that my conclusions in relation to this Scheme would not be affected in the event that ReAssure's TMTP recalculation application is not approved by the PRA.
- 11.35 It is also likely that there will be more clarity in relation to the processes and methodology permitted around the recalculation of the TMTP by the time of my Supplementary Report, and I shall comment on any developments in that report.

Matching adjustment considerations

- 11.36 Both ReAssure and RLL have a MAP in the RNPF and the GNPf respectively. ReAssure has submitted an application to the PRA to vary the terms of its matching adjustment approval in order to better align the operation of its MAP with that of RLL. ReAssure's application seeks permission to:
- Include additional asset types, specifically interest rate swaps, floating rate notes and inflation swaps;
 - Include an additional liability type, specifically index-linked annuities;
 - Introduce additional liquidity requirements arising from the need to post collateral for derivative positions; and
 - Make changes to the rules around trading in the MAP.
- 11.37 It is the intention of ReAssure's management that the implementation of the RLL Scheme will enable the creation of a new MAP within the RNPF into which the liabilities that are currently within RLL's MAP will be transferred. ReAssure will be required to submit a formal application to the PRA to seek permission for the creation of this MAP. However, the new MAP will be identical in all material respects to the existing MAP within RLL.
- 11.38 In the event that ReAssure is unable to apply the matching adjustment to the relevant transferring RLL policies for whatever reason, this will result in an increase in the BEL held within ReAssure in relation to the transferring RLL business. However, in this scenario, I anticipate that:
- Any increase in the BEL would be offset by a larger post-Scheme TMTP in ReAssure, assuming a full TMTP recalculation is permitted; and
 - Any increase in the SCR would be small.
- 11.39 Overall I am satisfied that there would be no material impact of matching adjustment non-approval on the financial resources requirement of ReAssure.
- 11.40 In the event that a TMTP recalculation was not permitted, the required BEL of the transferring RLL business would be higher in ReAssure than otherwise expected and would result in a higher financial resources requirement being

held in ReAssure. If the Scheme were to go ahead in this scenario, this should improve policyholder security as it would require more assets to be held against the same liabilities and risks.

- 11.41 I am therefore satisfied that non-approval of ReAssure's matching adjustment applications would not affect my conclusions in relation to the proposed Scheme.
- 11.42 It is the intention of the management of RLL and ReAssure that, at a future date after the implementation of the RLL Scheme, the MAPs within ReAssure will be merged into a single MAP. The financial information given in this report does not make allowance for this. However, I note that:
- Any merger of MAPs will be subject to due process, including PRA approval, which will consider any adverse impact on policyholders' security;
 - The merger of the MAPs within ReAssure would not be expected have a material impact on the financial position of ReAssure, and therefore I would not expect there to be a material adverse impact on policyholders whose policies are within or outside of the MAPs.
- 11.43 The outcome of the matching adjustment approvals are expected to be known by the time of my supplementary report; I shall therefore address any developments in that report.

Volatility adjustment considerations

- 11.44 Both ReAssure and RLL have blocks of business to which the volatility adjustment, as described in paragraph 3.21, is applied. ReAssure's volatility adjustment portfolio includes a block of index-linked annuities that, as described in paragraph 11.36, are subject to an application that seeks to include them in ReAssure's MAP.
- 11.45 Following the implementation of the Scheme, it is intended that the RLL business that is currently subject to the volatility adjustment will be subject to the volatility adjustment within ReAssure. This will require an application to the PRA, in particular in relation to deferred annuities not covered by the existing ReAssure volatility adjustment approval.
- 11.46 Whilst the final position in this regard is uncertain until the PRA has reached a decision in relation to the application described above, I do not consider that there is a material risk of regulatory objection to the use of the volatility adjustment post-Scheme but, as for the matching adjustment, in this event I would anticipate that any increase in BEL would be offset by a larger TMTP, and therefore there would be little or no financial impact.

Quality of own funds capital

- 11.47 Both ReAssure and RLL have own funds that are entirely comprised of Tier 1 items, i.e. the highest quality in terms of loss absorbency, with the exception of an immaterial amount of Tier 3 capital. RLL's own funds include the TMTP, which was £820 million at 31 December 2015, whereas ReAssure had a zero TMTP at 31 December 2015. The remainder of ReAssure's and RLL's own funds comprises paid-up ordinary share capital and retained profits, together with a small Tier 3 deferred tax asset.
- 11.48 Following the implementation of the Scheme, ReAssure's own funds will continue to be comprised principally of Tier 1 items (together with an immaterial Tier 3 deferred tax asset), and it is expected that one of these items will be a recalculated TMTP. I note that:
- I have considered the impact of the introduction of a non-zero TMTP on the security of benefits of ReAssure's policyholders in Section 8; and
 - The other items that will become part of ReAssure's own funds items as a result of the implementation of the Scheme are identical in nature to those already included in ReAssure's existing own funds items.
- 11.49 Therefore I am satisfied that any changes in own funds capital items will not have a material adverse effect on the policyholders of ReAssure or RLL.

The development of a Solvency II internal model

- 11.50 Both ReAssure and RLL currently use the Solvency II standard formula. However, I understand that it is the intention of ReAssure to submit an application to the PRA for approval for the use of an internal model at some point in the future.
- 11.51 I understand that no firm timescales are yet in place around such an application, but that any such application would take place after the proposed Transfer Date of the RLL Scheme.
- 11.52 It is likely that an application to use an internal model would change the size of ReAssure's SCR and risk margin, and could therefore be perceived as affecting policyholder protection. However, I note that:
- The application to the PRA for the use of an internal model is not conditional on the implementation of the RLL Scheme; and
 - Any internal model application will be subject to the PRA's internal model application process, which involves detailed scrutiny and challenge of the technical and non-technical aspects of the proposed internal model to ensure that the SCR meets the requirement to be consistent with a 1-in-200 probability of ruin over one year.

Capital policy changes

- 11.53 My conclusions in relation to the proposed Scheme rely on my analysis of the strength of the capital policies of RLL and ReAssure: the RCP. However, the RCP may be subject to change and therefore it is possible that such changes could affect the security of policyholders' guaranteed benefits.
- 11.54 Changes to the RCP would be subject to Board approval and there is no requirement to seek non-objection from the PRA, nor is there a requirement to seek external, independent review of any proposed changes.
- 11.55 However, in relation to capital policy changes, I note that:
- The processes involved in changing the RCP will not be affected by the implementation of the Scheme; and
 - Whilst there is no formal requirement in the RCP to seek non-objection from the PRA, management have undertaken to notify the PRA of any changes and the PRA would have the opportunity to scrutinise and challenge any proposals to weaken the capital policies. I consider it very unlikely that any alterations would be processed if the PRA was unhappy with them.

The reinsurance where ReAssure or RLL is the cedant

- 11.56 Under the terms of the Scheme, there will be no change to the reinsurance contracts for which ReAssure is the cedant, other than the reinsurance of the Phoenix annuities from ReAssure to RLL (assuming the Phoenix Annuity Scheme has been implemented), which will terminate as a result of the RLL Scheme.
- 11.57 The reinsurance agreements in respect of which RLL is the cedant will transfer to ReAssure.
- 11.58 I am satisfied that the implementation of the Scheme will not have a material adverse effect on any reinsurers of ReAssure and RLL policies.

Other creditors

- 11.59 My conclusions in sections 7, 8, 9 and 10 in relation to the impact of the implementation of the Scheme on policyholders, and in particular my conclusions in relation to the ability of the companies to maintain security for policyholder benefits, may be carried over to conclude that there would additionally be no material adverse effect on bondholders or other creditors of RLL or ReAssure as a result of the implementation of the Scheme.

Tax

- 11.60 The management of ReAssure and RLL have informed me that the Scheme should have no material impact on the corporation tax position of either RLL or ReAssure. No incremental tax will become due on the date of the transfer

and the normal corporation tax position will apply to both companies: RLL will be taxed on any profits that emerge prior to the transfer and ReAssure will be taxed on subsequent profits.

- 11.61 Similarly, ReAssure and RLL do not expect there to be any changes to the tax position of the transferring RLL policies or of the existing ReAssure policies as a result of the implementation of the Scheme, and it is expected that they will continue to be subject to the same tax regime.
- 11.62 Therefore, the transfer of RLL's liabilities to ReAssure is not expected to have a material impact on the tax position of RLL or ReAssure or on the taxation of any policyholders within RLL or ReAssure.

12 CONCLUSIONS

- 12.1 I confirm that I have considered the issues affecting the policyholders of RLL, and of ReAssure separately (as set out in Sections 7, 8, 9, 10 and 11) and that I do not consider further subdivisions (other than those in this report) to be necessary.
- 12.2 I am satisfied that the implementation of the Scheme will not have a material adverse effect on:
- The security of benefits of the policyholders of RLL and ReAssure;
 - The reasonable expectations of the policyholders of RLL and ReAssure with respect to their benefits; or
 - The service standards and governance applicable to the RLL and ReAssure policies.
- 12.3 My conclusions also hold in the scenario in which the Phoenix Annuity Scheme is not implemented.

A handwritten signature in black ink, appearing to read 'Oliver Gillespie', is written across the page.

Oliver Gillespie

9 September 2016

Fellow of the Institute and Faculty of Actuaries

APPENDIX 1 – FINANCIAL INFORMATION BEFORE THE IMPLEMENTATION OF THE SCHEME

Solvency II financial information for ReAssure at 31 December 2015

31 December 2015	RNPF	NMWPF	WLWPF	Total
	£m	£m	£m	£m
Assets (net of current liabilities and including reinsurance assets)	27,811	1,538	482	29,831
Technical provisions	(25,647)	(1,426)	(441)	(27,513)
Transitional deduction to technical provisions	-	-	-	-
Deduction to Own Funds	-	(77)	(19)	(96)
Available Own Funds	2,164	35	23	2,222
SCR	(1,309)	(35)	(12)	(1,356)
Excess capital	855	-	11	866
SCR coverage ratio	165%	N/A	N/A	164%
Capital policy buffer	(262)	-	-	(262)
Available capital above capital policy buffer	593	-	11	604

The figures in this table are presented assuming the Phoenix Annuity Scheme has been implemented, but before allowance for a £336 million dividend that was paid out of ReAssure in June 2016

Solvency II financial information for RLL at 31 December 2015

31 December 2015	GNPF	GWPF	Total
	£m	£m	£m
Assets (net of current liabilities and including reinsurance assets)	11,401	4,103	14,839
Technical provisions	(10,455)	(3,786)	(13,576)
Transitional deduction to technical provisions	730	90	820
Deduction to Own Funds	0	(171)	(171)
Available Own Funds	1,676	237	1,913
SCR	(1,154)	(151)	(1,304)
Excess capital	522	86	609
SCR coverage ratio	145%	157%	147%
Capital policy buffer	(231)	0	(231)
Available capital above capital policy buffer	292	86	378

The figures in this table are presented before allowance for a £70 million dividend that was paid out of RLL in June 2016. Ark is included in the assets of RLL rather than on a look-through basis.

Internal agreements between the GWPF and the GNPF are presented with the BEL accounted for in the fund where the underlying policies are written. The internal arrangements are accounted for by reflecting liabilities ceded to another fund within the reinsurance recoverables in the fund where the underlying policies are written, and reflecting liabilities accepted from another fund in the BEL of the receiving fund.

APPENDIX 2 – SELECTED FINANCIAL INFORMATION AFTER THE IMPLEMENTATION OF THE SCHEME

Pro forma Solvency II financial information for ReAssure assuming the Scheme had been implemented at 31 December 2015

31 December 2015	RNPF	NMWPF	WLWPF	GAWPF	Total
	£m	£m	£m		£m
Assets (net of current liabilities and including reinsurance assets)	38,787	1,538	482	2,949	43,010
Technical provisions	(35,656)	(1,425)	(441)	(2,631)	(39,408)
Transitional deduction to technical provisions	717	-	-	83	800
Deduction to Own Funds	-	(77)	(19)	(177)	(273)
Available Own Funds	3,848	35	23	223	4,129
SCR	(2,347)	(35)	(12)	(137)	(2,531)
Excess capital	1,501	-	11	86	1,598
SCR coverage ratio	164%	N/A	N/A	N/A	163%
Capital policy buffer	(469)	-	-	-	(469)
Available capital above capital policy buffer	1,032	-	11	86	1,129

The figures in this table assume that the Phoenix Annuity Scheme has been implemented, and are presented before allowance for the £336 million and £70 million dividends that were paid out of ReAssure and RLL respectively in June 2016.

Ark is included in the assets of ReAssure.

APPENDIX 3 – CERTIFICATE OF COMPLIANCE

I understand that my duty in preparing my report is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and / or paying my fee. I confirm that I have complied with this duty.

I confirm that I am aware of, and have complied with, the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules, Practice Direction 35 and Guidance for the instruction of Experts in Civil Claims 2014. As required by rule 35.10(2) of Part 35 of the Civil Procedure Rules and by paragraph 3.2(9)(b) of Practice Direction 35, I hereby confirm that I have understood, and have complied with, my duty to the Court.

I confirm that I have made clear which facts and matters referred to in my report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.



Oliver Gillespie

9 September 2016

Fellow of the Institute and Faculty of Actuaries

APPENDIX 4 – DATA RELIED UPON

In addition to discussions (both orally and electronically) with ReAssure and RLL staff, I have relied upon the public and non-public information shown in the table below in formulating my conclusions:

Document	Date of document
Scheme of transfer	5 September 2016
Capital policies of RLL and ReAssure	30 March 2016
Report of the Chief Actuary of ReAssure and RLL on the Scheme	5 September 2016
Report of the WPA of ReAssure and RLL on the Scheme	5 September 2016
End-2015 Returns to the PRA of RLL and ReAssure	30 March 2016
End-2015 Report and Accounts of RLL and ReAssure	30 March 2016
Pre- and post-Scheme financials as at Q4 2015 for RLL and ReAssure, pre- and post-Phoenix Scheme	5 September 2016
ReAssure and RLL Q4 2015 ORSA	29 June 2016
The Independent Expert Report for the R&Q Scheme	17 May 2016
The Solvency II YE2015 SCR methodology for ReAssure	27 May 2015
The ReAssure Solvency II basis of preparation	6 August 2015
The YE15 RLL Solvency II BEL methodology	2 November 2015
The YE15 RLL Solvency II SCR methodology	2 November 2015
TMTTP recalculation reapplication document for ReAssure	29 June 2016
The liability bridge between Solvency I Pillar I and ICA for ReAssure	17 May 2016
The liability bridge between ICA and Solvency II for ReAssure	17 May 2016
First witness statement of Matthew Hilmar Cuhls	5 September 2016
ReAssure and RLL pre and post-Scheme estimated financial position at 30 June 2016	31 August 2016
ReAssure/RLL Capital Management Policy - March 2016 risk management review	30 March 2016
Legal advice to ReAssure and RLL from Linklaters re past schemes	26 August 2016

APPENDIX 5 – GLOSSARY OF TERMS

A glossary of abbreviations used throughout the report is given below.

A

ALICO	American Life Insurance Company (UK Branch)
APS	Actuarial Profession Standards
Ark	Ark Life Assurance Company Limited
ARUK	Admin Re UK Limited
ARUKSL	Admin Re UK Services Limited
Asset share	A measure of a policy's value in the absence of guarantees, defined to be the total premiums paid by policyholders, accumulated by actual investment returns, less benefits paid, charges, attributable expenses, and other relevant deductions.

B

BEL	The best estimate liability under Solvency II
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C

CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRO	Chief Risk Officer
Credit spreads	Credit spreads are the differences between corporate bond yields and risk-free (government bond) yields at various bond quality ratings and durations.
CWP	Conventional With-Profits

D

DB	The ReAssure Defined Book
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E

EEA	European Economic Area
Transfer Date	The date on which the transfer is effected (expected to be 31 December 2016)
EIOPA	European Insurance and Occupational Pensions Authority

F

FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FRR	Financial Resources Requirement
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000

G

GAL	Guardian Assurance Limited
GAWPF	Guardian Assurance With-Profits Fund
GCSL	Guardian Companies Services Limited
GDUB	Guardian Defined Unit-Linked Business
GFSHUKL	Guardian Financial Services Holdings UK Limited
GLLA	Guardian Linked Life Assurance Limited
GNPF	Guardian Non-Profit Fund
GNPF LT	Guardian Non-Profit Fund Long-Term business
GPHIF	Guardian PHI Fund
GPM	Guardian Pensions Management Limited
GRE	Guardian Royal Exchange Group
GWPF	Guardian With-Profits Fund

H

Hogan Lovells	Hogan Lovells International LLP
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I

IBNR	Incurred But Not Reported
ITS	Implementing Technical Standards

L

LAHC	Life Assurance Holding Company
Linklaters	Linklaters LLP
LTF	The long-term insurance fund

M

MAP	Matching Adjustment Portfolio
MCR	Minimum Capital Requirement

N

NM	National Mutual
NMLL	National Mutual Life Limited
NMPL	National Mutual Pensions Limited
NMWPF	National Mutual With-Profits Fund

O

ORSA Own Risk and Solvency Assessment

P

Phoenix Phoenix Life Limited

PPFM Principles and Practices of Financial Management

PRA Prudential Regulation Authority

R

ReAssure ReAssure Limited

RLL ReAssure Life Limited

RNPF ReAssure Non-Profit Fund

RNPF LT ReAssure Long-Term Non-Profit Business

RPI Retail Price Index

R&Q R&Q Insurance (Malta) Limited

S

SCR Solvency Capital Requirement

SHF Shareholders' Fund

SIMR The PRA's Senior Insurance Managers Regime

SRZ Swiss Reinsurance Company Limited

T

TAS Technical Actuarial Standards

TCF Treating Customers Fairly

TMTTP Transitional Measure on Technical Provisions

U

UL Unit-Linked

UWP Unitised With-Profits

W

WLWPF Windsor Life With-Profits Fund

WPA With-Profits Actuary

WPC With-Profits Committee

WPF With-Profits Fund

Z

ZAL Zurich Assurance Limited

APPENDIX 6 – COMPLIANCE WITH PRA POLICY STATEMENT

The table below indicates how I have complied with the provisions of the PRA Policy Statement (“The Prudential Regulation Authority’s approach to insurance business transfers”, dated April 2015) that pertain to the form of the Scheme Report.

PRA Policy Statement reference	Requirement	Scheme Report paragraph reference
2.30 (1)	Who appointed the Independent Expert and who is bearing the costs of that appointment	1.2, 1.3
2.30 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator.	1.21
2.30 (3)	A statement of the independent expert’s professional qualifications and (where appropriate) descriptions of the experience that fits him for the role	1.19, 1.20
2.30 (4)	Whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest	1.22
2.30 (5)	The scope of the report	1.9 - 1.18
2.30 (6)	The purpose of the scheme	1.2, 1.7
2.30 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	6.1 - 6.8, 6.14 - 6.19, 6.28 - 6.30
2.30 (8)	What documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided	1.16, Appendix 3
2.30 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others	1.16, 1.29, 3.67, 3.68, 3.70 - 3.73, Appendix 3
2.30 (10)	The people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable	1.16, 1.29, 3.70 - 3.73
2.30 (11)	His opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee	7.53, 7.100, 7.138 Not applicable 8.43, 8.76, 8.87, 8.93
2.30 (12)	His opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme	7.144 - 7.146
2.30 (13)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to policyholders’ consideration of the scheme	1.18
2.30 (14)	For each opinion that the independent expert expresses in the report, an outline of his reasons.	7.1 - 11.62

2.32 (1)	The summary of the terms of the scheme should include a description of any reinsurance agreements that it is proposed should pass to the transferee under the scheme	6.18
2.32 (2)	The summary of the terms of the scheme should include a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	Not applicable
2.33 (1)	The independent expert's opinion of the likely effects of the scheme on policyholders should include a comparison of the likely effects if it is or is not implemented	7.1 - 11.62
2.33 (2)	The independent expert's opinion of the likely effects of the scheme on policyholders should state whether he considered alternative arrangements and, if so, what	2.7 - 2.8
2.33 (3)	The independent expert's opinion of the likely effects of the scheme on policyholders should, where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences he considers may be material to the policyholders	7.1 - 11.62
2.33 (4)	<p>The independent expert's opinion of the likely effects of the scheme on policyholders should include his views on:</p> <p>(a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;</p> <p>(b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect:</p> <p>(i) the security of policyholders' contractual rights;</p> <p>(ii) levels of service provided to policyholders; or</p> <p>(iii) for long-term insurance business, the reasonable expectations of policyholders; and</p> <p>(c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations</p>	7.1 - 11.62
2.35 (1)	For any mutual company involved in the scheme, the report should describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders	Not applicable
2.35 (2)	For any mutual company involved in the scheme, the report should state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights	Not applicable
2.35 (3)	For any mutual company involved in the scheme, the report should comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	Not applicable
2.36 (1)	For a scheme involving long-term insurance business, the report should describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits	7.96, 7.134, 7.133, 8.72, 8.81
2.36 (2)	For a scheme involving long-term insurance business, the report should, if any such rights will be diluted by the scheme, how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent	Not applicable

	and method of its proposed division is equitable as between different classes and generations of policyholders;	
	For a scheme involving long-term insurance business, the report should describe the likely effect of the scheme on the approach used to determine:	7.96, 7.134, 7.133, 8.72, 8.81
2.36 (3)	(a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and (b) the levels of any discretionary charges	
2.36 (4)	For a scheme involving long-term insurance business, the report should describe what safeguards are provided by the scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm	11.11 - 11.14
2.36 (5)	For a scheme involving long-term insurance business, the report should include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders	7.51, 7.98, 7.137, 7.143, 8.35, 8.74, 8.93, 8.98
2.36 (6)	For a scheme involving long-term insurance business, the report should state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders	12.2 - 12.3
2.36 (7)	For a scheme involving long-term insurance business, the report should state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented.	11.11 - 11.14