The Part VII transfer of some of the long-term business of Phoenix Life Limited to ReAssure Limited

The Supplementary Report of the Independent Expert

Prepared by:

Oliver Gillespie, FIA

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1 INTRODUCTION

Background

1.1 I have been appointed by Phoenix Life Limited ("Phoenix") and ReAssure Limited ("ReAssure") to report, pursuant to Section 109 of Financial Services and Markets Act 2000 ("FSMA"), in the capacity of the Independent Expert, on the terms of the proposed scheme ("the Scheme" or "this Scheme") providing for the transfer of some of the business of Phoenix to ReAssure (the "Phoenix Annuity Scheme"). The Scheme will be presented to the High Court of Justice of England and Wales ("the Court") for sanction under Section 111 of FSMA.

1.2 I prepared a report dated 5 September 2016 ("my main report") in which I considered the proposed Scheme, and the purpose of this report (the "Supplementary Report") is to provide an updated assessment of the likely effects of the proposed transfer. This includes consideration of whether the conclusions reached in my main report remain valid in light of the updated financial information received, any other relevant significant events subsequent to the date of the finalisation of my main report, and any policyholder feedback or queries in relation to the Scheme.

1.3 My appointment as Independent Expert was approved by the Prudential Regulation Authority (the "PRA"), after consultation with the Financial Conduct Authority (the "FCA").

1.4 Details of the scope of my appointment, my qualifications, disclosures and reliances and limitations are provided in my main report. In preparing this Supplementary Report, I have received all the information requested from Phoenix and ReAssure, and Appendix 3 contains a list of the key documents which I have considered.

1.5 This Supplementary Report should be read in conjunction with my main report. The reliances and limitations set out in Section 1 of my main report apply equally to this Supplementary Report. Defined terms used in my main report have the same meaning in this Supplementary Report.

Regulatory and professional guidance

1.6 The Supplementary Report has been prepared subject to the terms of the Technical Actuarial Standard ("TAS") applicable to Transformations ("Transformations TAS") issued by the Financial Reporting Council. In my opinion, my Supplementary 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.

1.7 In the context of the TASs, my main report and this Supplementary Report are component reports which together form an aggregate report.

1.8 In accordance with the Actuarial Profession Standards ("APS") issued by the Institute and Faculty of Actuaries, APS X2 requires members to consider whether their work requires an independent peer review.

1.9 In my view this Supplementary 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 this Supplementary Report

1.10 In Section 2 of this Supplementary Report I consider the implications for my assessment of the Scheme of the changes in the solvency positions of Phoenix and ReAssure between 31 December 2015 and 30 June 2016.

1.11 In Section 3 of this Supplementary Report I describe developments since 30 June 2016 and any implications for my conclusions in respect of the proposed Scheme.

1.12 Section 4 of this Supplementary Report covers the implications of the proposed Scheme for policyholders' reasonable expectations.

1.13 Section 5 of this Supplementary Report covers correspondence between the companies and their policyholders, as well as the specific issues raised by policyholders of Phoenix and ReAssure.

1.14 Section 6 of this Supplementary Report covers other considerations arising from the Scheme.

1.15 Section 7 of this Supplementary Report contains my updated conclusions on the Scheme.

1.16 The appendices contain financial information as at 30 June 2016 in respect of Phoenix and ReAssure, a list of the key documents relied upon in the compilation of this report, and a glossary of key terms.

2 THE SOLVENCY POSITION AS AT 30 JUNE 2016 AND THE IMPACT ON MY CONCLUSIONS

The financial information as at 30 June 2016

2.1 The conclusions in my main report were based on financial information provided by ReAssure and Phoenix as at 31 December 2015.

2.2 I have been provided with Solvency II financial information as at 30 June 2016 (including pro-forma post-Scheme financial information) and I have reconsidered the conclusions set out in Section 12 of my main report in light of this new financial information.

2.3 In respect of the Phoenix Solvency II results as at 30 June 2016:

- The results have been subjected to the same level of internal review and oversight as applied to the valuation at 31 December 2015. In particular, the results were approved by the Phoenix Board in September and the valuation assumptions and methodology were considered by both the Phoenix Board Audit Committee and the Board itself.
- The Transitional Measure on Technical Provisions ("TMTP") has been reviewed internally and the chairman of the Board Audit Committee has confirmed to PRA that the results have been determined in accordance with the regulatory requirements and Phoenix's application.
- The Solvency Capital Requirement ("SCR") has been calculated using Phoenix's internal model, as approved by the PRA.
- Phoenix has provided an analysis of the movement of the Solvency II financial information as at 31 December 2015 to that as at 30 June 2016 and I have carried out a high level review of this analysis.

2.4 In respect of the ReAssure Solvency II results as at 30 June 2016:

- The results have been approved by the ReAssure Combined Technical Committee (which includes the CFO, CRO and Chief Actuary) and notified to the ReAssure Board.
- A separate team within the Actuarial Function is responsible for checking and reviewing these results, and the results are then approved by ReAssure's Technical Provisions Committee, which includes representation from ReAssure's Actuarial and Risk teams, and Swiss Re's group actuarial review team.
- A "Solvency II ISAE 3000 Reasonable Assurance Review" has been undertaken by Deloitte which resulted in a positive opinion in respect of the Solvency II returns of ReAssure as at 30 June 2016. The review raised a point in relation to judgement that had been applied in the valuation of reinsurance assets, as well as a few other points related to the ARUK Group balance sheet, but noted that there was no remediation required in these areas. The point in relation to reinsurance assets was highlighted as an area of potential prudence in ReAssure's valuation. A number of control findings were also set out in the Deloitte review, as well as a reporting classification issue; these do not affect the SCR or available own funds.

2.5 The results as at 30 June 2016 for both Phoenix and ReAssure have been submitted to the PRA as part of the standard quarterly Solvency II reporting process. Therefore, whilst the PRA has confirmed that it has not scrutinised these figures, and therefore no reliance can be placed upon this, both sets of figures have undergone robust internal review, as described above, in order for them to be reported to the PRA.

2.6 Given the level of scrutiny to which the financial information in respect of both companies has been subject, I consider it reasonable to rely upon it in the reconsideration of my conclusions for this Supplementary Report.

Changes in market conditions since 31 December 2015

2.7 A number of economic and political developments have taken place since 31 December 2015, and these have been reflected in the updated Solvency II financial information as at 30 June 2016. The main changes in the financial positions of Phoenix and ReAssure are described below.

2.8 There have been some significant changes in the financial markets between 31 December 2015 and 30 June 2016, in particular:

- The risk-free spot curve[1] published by EIOPA fell by an average (unweighted average of the first 20 years of spot rates) of 98 bps;
- Credit spreads[2] increased at most durations; and
- Equity markets exhibited high volatility.

2.9 In addition, in a referendum held on 23 June 2016, a majority voted for the UK to leave the European Union, which has led to considerable political upheaval in the UK and significant turbulence in both UK and global financial markets.

Other developments since 31 December 2015

2.10 In June 2016, ReAssure paid out a dividend of £336 million from the RNPF to its immediate parent, Admin Re UK Limited.

2.11 Phoenix has recalculated its TMTP as at 30 June 2016 following approval to do so from the PRA.

2.12 ReAssure has not recalculated its TMTP at 30 June 2016; its TMTP at 31 December 2015 was zero and ReAssure expected this to remain the case at 30 June 2016 following any recalculation.

2.13 The natural run-off of the in-force business has contributed to the own funds of Phoenix and ReAssure.

The solvency position of Phoenix as at 30 June 2016

2.14 Appendix 1 shows the financial position of Phoenix as at 30 June 2016. Appendix 2 shows the financial position of Phoenix as at 30 June 2016 assuming the proposed Scheme had been implemented at that point.

2.15 A comparison of this financial information with that provided in my main report shows that:

- The excess capital (after allowance for the SCR) of Phoenix has marginally decreased from £443 million as at 31 December 2015 to £428 million as at 30 June 2016.
- Based on 30 June 2016 financial information, it remains the case that the implementation of the Scheme is projected to improve the financial positions of the Alba With-Profits Fund ("WPF") and the SAL WPF and to have no material effect on the financial position of the other ring-fenced funds of Phoenix or on the financial position of the business outside of the ring-fenced funds.
- If the Scheme had been implemented on the relevant reporting date, the excess capital (after allowance for the SCR) of Phoenix is projected to have marginally decreased from £476 million as at 31 December 2015 to £453 million as at 30 June 2016.
- Based on 30 June 2016 financial information, it remains the case that the implementation of the proposed Scheme would not have a material effect on the overall Solvency II financial strength of Phoenix: the solvency coverage of the SCR is projected to increase from 115% to 116% upon the implementation of the Scheme, and the solvency ratio excluding the unsupported with-profits funds is projected to increase from 125% to 126%.

The solvency position of ReAssure as at 30 June 2016

2.16 Appendix 1 shows the financial position of ReAssure as at 30 June 2016. Appendix 2 shows the financial position of ReAssure as at 30 June 2016 assuming the proposed Scheme had been in force at that point.

2.17 A comparison of this financial information with that provided in my main report shows that:

[1] A risk-free spot curve provides annual risk-free rates of interest at various durations. The Solvency II Best Estimate Liabilities are calculated by discounting future expected cashflows according to risk-free spot curves published by EIOPA in different currencies. Changes to the EIOPA risk-free spot rates will change the Solvency II technical provisions and therefore the EIOPA risk-free spot curves have a direct impact on the solvency of the insurer. EIOPA publishes risk-free spot curves on a monthly basis for all major liability currencies within the EU insurance market.

[2] Credit spreads are the differences in yields between risk-free government bonds and corporate bonds, and vary according to credit rating and bond duration. The effect of an increase in credit spreads on solvency will depend on the effect on the assets held, the technical provisions and the SCR.

- The excess capital (after allowance for the SCR) of ReAssure has decreased in the period from 31 December 2015 (£873 million) to 30 June 2016 (£552 million).
- Based on 30 June 2016 financial information, it remains the case that the implementation of the proposed Scheme would not have a material effect on the overall strength of ReAssure. The solvency coverage of the SCR is projected to decrease from 139% to 138% upon the implementation of the Scheme, based on the 30 June 2016 financial information. The corresponding decrease based on the 31 December 2015 financial information is a fall from 165% to 164%.
- If the Scheme had been implemented on the relevant reporting date, the excess capital (after allowance for the SCR) of ReAssure is projected to have decreased from £866 million as at 31 December 2015 to £540 million as at 30 June 2016.

2.18 The fall in the excess capital of ReAssure from £873 million to £552 million, and in the ReAssure SCR coverage ratio from 165% to 139% between 31 December 2015 and 30 June 2016 is primarily due to the dividend of £336 million paid by ReAssure to ARUK in June 2016. The payment of this dividend is also a contributor to the change in the excess capital and solvency coverage ratio between 31 December 2015 and 30 June 2016 in the scenario where the Scheme was implemented on the relevant reporting date.

2.19 It should be noted that the solvency coverage ratio as at 30 June 2016 remains in excess of that required by the ReAssure capital policy.

2.20 All of these figures rely upon the existing Solvency II approvals in respect of the TMTP, matching adjustment ("MA") and volatility adjustment ("VA").

Conclusion based on the solvency position as at 30 June 2016

2.21 Based on the financial information provided as at 30 June 2016, it remains the case that, as discussed in detail in my main report in respect of the financial information as at 31 December 2015:

- Although there are differences in the way that Phoenix and ReAssure calculate their technical provisions and SCR under Solvency II, these differences will not lead to a material adverse impact upon the security of the benefits of the transferring policyholders should the Scheme be implemented.
- The financial strength of ReAssure as at 30 June 2016 is sufficient to meet the requirements of the ReAssure Capital Policy (the "RCP") and therefore, as discussed in my main report, provide a level of security for the transferring business after the implementation of the Scheme that is not materially different to that prior to the implementation of the Scheme.
- The implementation of the proposed Scheme is projected to have an immaterial effect on the financial strength of ReAssure.
- The implementation of the proposed Scheme is projected to have an immaterial effect on the financial strength of Phoenix.

2.22 Therefore, I am satisfied that the proposed Scheme will not have a material adverse effect on the security of:

- The transferring policies of Phoenix;
- The existing policies of ReAssure; and
- The non-transferring policies of Phoenix.

The RLL Scheme

2.23 As described in my main report, there is another Part VII transfer proposed to be implemented on the same day as the Phoenix Annuity Scheme. This is known as the RLL Scheme, under which it is proposed to transfer the business of ReAssure Life Limited ("RLL") to ReAssure, and to reallocate a block of business from one of ReAssure's with-profits funds to the RNPF. If the RLL Scheme is sanctioned by the Court then it will be implemented immediately after the Phoenix Annuity Scheme.

2.24 Upon the implementation of the RLL Scheme, the reinsurance of the transferring Phoenix annuities between ReAssure and RLL will terminate (under the assumption that the Phoenix Annuity Scheme has been implemented).

2.25 I have been appointed as the Independent Expert for the RLL Scheme and I have considered the potential effects of that scheme on the policies in ReAssure, including the policies transferred in from Phoenix under the Phoenix Annuity Scheme.

2.26 The RLL Scheme remains separate from this Scheme and the two Schemes are capable of approval independently of one another.

2.27 The implementation of the RLL Scheme would be likely to result in a significant TMTP in ReAssure. Prior to the implementation of the RLL Scheme, ReAssure's TMTP is expected to remain at zero. I have set out in my report on the RLL Scheme why I am comfortable that the introduction of a TMTP asset in ReAssure does not materially adversely affect policyholders of ReAssure, including those that would be transferred into ReAssure from Phoenix under the Phoenix Annuity Scheme.

2.28 The RLL Scheme and its interaction with this Scheme are described in more detail in my main report.

2.29 None of the events between 31 December 2015 and 30 June 2016, nor the changes in market conditions during that period, have changed my view that I am satisfied that my conclusions above hold whether or not the RLL Scheme is sanctioned by the Court and implemented immediately after the Phoenix Annuity Scheme.

3 THE SOLVENCY POSITION SINCE 30 JUNE 2016 AND THE IMPACT ON MY CONCLUSIONS

Introduction

3.1 My main report gave my conclusions regarding the proposed Scheme based on financial information for Phoenix and ReAssure as at 31 December 2015. Appendices 1 and 2 show financial information as at 30 June 2016, and Section 2 of this Supplementary Report updates my conclusions based on these results. In this section I consider events since 30 June 2016 and the possible effects of these on my conclusions in respect of the proposed Scheme.

Changes in financial market conditions since 30 June 2016

3.2 Financial markets have continued to be volatile since 30 June 2016:

- The risk-free spot curve yields published by EIOPA fell in July 2016 before rising through August and September to end the quarter lower by 20 bps at 30 September 2016;
- Sterling has continued to weaken against the Euro and the US Dollar;
- Credit spreads narrowed at most durations; and
- Equity markets performed well (for example the FTSE All Share index rose by nearly 7% from 30 June 2016 to 30 September 2016).

The effects of the changes in financial market conditions on Phoenix and ReAssure

Phoenix

3.3 Between 30 June 2016 and 30 September 2016:

- The Phoenix Own Funds have increased, largely due to the narrowing of credit spreads and decreases in the risk-free spot curve yields;
- The SCR has increased by approximately £9 million (to £2,828 million); and
- Overall the SCR coverage ratio for Phoenix has increased slightly to 116% as at 30 September 2016 (from 115% as at 30 June 2016).

ReAssure

3.4 ReAssure undertakes estimates of its Solvency II financial position on a monthly basis. These are not audited valuations and are not published but are used to provide estimates of the ongoing solvency position to the management of ReAssure and to the PRA between formal valuations.

3.5 Between 30 June 2016 and 30 September 2016, these Solvency II estimates show that:

- The ReAssure Own Funds have increased due to the narrowing of credit spreads and the rises in equity markets, offset to an extent by the falling risk-free yields;
- The SCR has increased due to the narrowing credit spreads and rises in equity markets; and
- Overall the SCR coverage ratio for ReAssure has increased slightly to 141% as at 30 September 2016.

Management actions and events since 30 June 2016 affecting Phoenix

The review of the Phoenix Capital Policy

3.6 In October 2016, the Phoenix Board approved an update to the Phoenix Capital Policy ("PCP") to reflect Phoenix's balance sheet as at 31 December 2015. Phoenix has received non-objection from the PRA of this PCP under which a capital buffer equal to 28% of the SCR should be held in addition to the SCR.

3.7 The updated PCP is unchanged from the PCP that was in force at the time of my main report.

The acquisition of Axa Wealth's pensions and protection business

3.8 On 27 May 2016 it was announced that the Phoenix Group has agreed terms to purchase the pensions and protection business of AXA Wealth Limited ("AWL") for consideration of £375 million. On 17 October 2016, both the PRA and FCA approved the acquisition and on 1 November 2016 the acquisition was completed, with the AWL business becoming a subsidiary of Pearl Life Holdings Limited (a member of the Phoenix group).

3.9 The majority of the acquired business has been reinsured into the Phoenix Non-Profit Fund ("PNPF") under two reinsurance agreements and is expected to be transferred into Phoenix by way of a Part VII transfer in 2017. This will be subject to due process at that time including a court process and a report by an independent expert.

3.10 In respect of this acquisition, at the same time as entering into the reinsurance agreements with AWL:

- Phoenix received approval from the PRA to recalculate its TMTP to reflect the reinsured business and economic movements up until 1 November 2016; and
- Phoenix received capital support from its parent company, Pearl Life Holdings Limited, such that there was no overall change to Phoenix's solvency position as a result of the reinsurance and TMTP recalculation.

Other events since 30 June 2016

3.11 Phoenix is pursuing a number of actions that it would like to take before the end of 2016 in order to increase its excess capital.

3.12 As part of Phoenix's asset and liability valuation process as at 30 September 2016, a review of the assumptions and methodologies used was conducted and the Board has approved a number of changes to these where necessary. These changes are reflected in Phoenix's financial position as at 30 September 2016.

3.13 The Phoenix Board is considering making a release of capital to Pearl Life Holdings Limited by way of a loan or dividend payment at some point before the end of 2016. Any such capital release will be subject to the PCP and Phoenix Board approval, and would take place after the scheduled Court hearing for this Scheme on 19 December 2016.

Management actions and events since 30 June 2016 affecting ReAssure

The RCP

3.14 The RCP has remained unchanged since the finalisation of my main report and provides for a capital buffer of 20% of the RNPF Solvency II SCR, with a further commitment to restrict dividend payments in the event that ReAssure is unable to cover its SCR in absence of the TMTP.

Other events since 30 June 2016

3.15 There have been no material new business transactions or transfers of business since the finalisation of my main report.

3.16 There have been no new reinsurance agreements for ReAssure or any changes to existing reinsurance agreements.

The RLL Scheme

3.17 As described in Section 2 of this report and in my main report, there is another Part VII transfer proposed to be implemented on the same day as the Phoenix Annuity Scheme: the RLL Scheme.

3.18 In anticipation of both the Phoenix Annuity Scheme and the RLL Scheme, ReAssure made applications to the PRA to:

- Recalculate its TMTP at 31 December 2016 following the implementation of the Scheme. This application also sought to revise the methodology for allocation of the TMTP between ring-fenced funds.
- Extend the use of its VA approval to include approximately £1.2 billion of transferring deferred annuity business.
- Create a MA portfolio in the RNPF to replicate the terms of RLL's MA portfolio.

- Vary its MA approval to include all of the asset and liability types covered by RLL's MA approval and to use the MA in relation to the transferring RLL MA portfolio. The application also seeks approval to apply the MA to index-linked annuity liabilities that are not covered by ReAssure's existing approval.

3.19 The PRA has given ReAssure oral confirmation that these approvals will be granted, however, at the time of this report written confirmation has not been received. I understand that the PRA will provide written confirmation to ReAssure prior to implementation of the Phoenix Annuity Scheme and the RLL Scheme.

3.20 Given these approvals it remains the case that ReAssure will continue to cover its SCR and the requirements of the RCP and therefore I see no reason to change my view that my conclusions in respect of the Phoenix Annuity Scheme hold whether or not the RLL Scheme is sanctioned by the Court and implemented immediately after this Scheme.

Conclusion in respect of solvency since 30 June 2016

3.21 I have considered the latest available management information provided to me by Phoenix and ReAssure in respect of the solvency positions of Phoenix and ReAssure at dates subsequent to 30 June 2016 and I have considered events up to 7 December 2016.

3.22 Taking into account the events in respect of both Phoenix and ReAssure since 30 June 2016, at the date of this report Phoenix covers its SCR and the requirements of the PCP and ReAssure remains in the position that it covers its SCR and the requirements of the RCP.

3.23 Therefore I am comfortable that the conclusions reached in Section 12 of my main report remain valid.

4 THE REASONABLE EXPECTATIONS OF POLICYHOLDERS

The transferring Phoenix policies

4.1 None of the events since my main report affect my conclusions regarding the effect of the Scheme on expected policyholder outcomes and expectations with respect to the transferring Phoenix policies. In my main report this is set out in Section 7.

4.2 In particular, following the implementation of the Scheme, the transferring Phoenix business will be subject to the governance of ReAssure. The ReAssure Board is experienced in the management and governance of non-profit annuity business and the ReAssure Fairness Committee will oversee the transferring business in relation to the fair treatment of customers.

4.3 The administration of the transferring Phoenix policies is currently outsourced by PGMS to Diligenta and Capita. ReAssure has put in place new outsourcing arrangements that provide for the same services and the same level of service as that currently received.

4.4 The implementation of the proposed Phoenix Annuity Scheme will not change the terms and conditions of the transferring Phoenix policies (except that the policies will become policies of ReAssure), or the level and frequency of income received under the policies.

4.5 I remain satisfied that the implementation of the Phoenix Annuity Scheme will not have a material adverse effect on the reasonable benefit expectations of the transferring Phoenix policyholders or on the governance, management and service standards that apply to the transferring business.

The existing ReAssure policies and non-transferring Phoenix policies

4.6 None of the events since my main report affect my conclusions regarding the effect of the Scheme on expected policyholder outcomes and expectations with respect to the existing ReAssure policies (the RNPF LT policies and the policies in the ring-fenced funds of ReAssure) and the non-transferring Phoenix policyholders. In my main report this is set out in Section 8 and Section 9 respectively.

4.7 In summary, it remains the case that, in respect of the ReAssure policies and the non-transferring Phoenix policies, the implementation of the proposed Phoenix Annuity Scheme will not change:

- The terms and conditions of the policies;
- The principles, practices and exercise of discretion used in the management of the policies;
- The methodology used to calculate asset shares and surrender values of the policies;
- The charges that apply to the policies;
- The outsourcing, policy administration, governance and asset management arrangements for the policies.

4.8 Therefore, I remain satisfied that, in respect of the ReAssure policies and the non-transferring policies of Phoenix the implementation of the Phoenix Annuity Scheme will not have a material adverse effect on the reasonable benefit expectations of the policyholders or on the governance, management and service standards that apply to the policies.

5 CORRESPONDENCE AND QUESTIONS RECEIVED FROM POLICYHOLDERS

The policyholder communications

5.1 As noted in Section 10 of my main report, both Phoenix and ReAssure sought waivers from the requirement to communicate directly with the non-transferring Phoenix policyholders and existing policyholders of ReAssure in respect of the Scheme. These waivers were granted by the Court at the Directions Hearing in September 2016.

5.2 In accordance with its communications proposal, Phoenix sent a communication pack to all transferring policyholders for whom Phoenix had a valid name and address on its computerised database. The communication pack included an explanatory letter, the formal notice of the transfer, a summary of my main report, a detailed guide to the Scheme and a Questions and Answers leaflet. The communication pack also included information on the options available to policyholders if they have any concerns about the transfer.

5.3 The non-transferring policyholders of Phoenix and existing policyholders of ReAssure were notified of the Scheme via newspaper advertisements and the Phoenix and ReAssure websites.

5.4 Phoenix and ReAssure published notices 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 Times, the Daily Telegraph, the Daily Mirror and the Daily Mail.

5.5 Additionally, Phoenix and ReAssure published notices in two national newspapers in other EEA countries with 150 or more transferring policies: Ireland, France and Spain.

5.6 Phoenix asked the PRA to notify the supervisory authorities in all EEA states of the proposed Scheme. I understand that the Greek supervisory authority raised an objection in relation to ReAssure's lack of passporting rights in Greece. ReAssure has subsequently obtained the relevant passporting rights, and the PRA has written to the Greek supervisory authority to notify it of this. I am therefore satisfied that there are no longer grounds for this objection. No other objections have been received from supervisory authorities at the time of this report. ReAssure plans to mail all transferring policyholders after completion of the Scheme. This mailing will meet the specific requirements of the regulators in Bulgaria, the Czech Republic and Malta with regard to additional publicity once the Scheme has been sanctioned.

5.7 Policyholders and other interested parties are able to obtain information from the Phoenix and ReAssure websites which contain documents regarding the Scheme including the full Scheme document, my main report, and the communications pack regarding the Scheme. This Supplementary Report will also be made available on the Phoenix and ReAssure websites.

Correspondence and questions received from policyholders

5.8 Phoenix has received comments on the Phoenix Annuity Scheme from policyholders via letter and telephone and I have been provided with copies of the correspondence (including where relevant transcripts of phone calls) up to 7 December 2016 in respect of objections and concerns received from Phoenix policyholders in respect of the Scheme.

5.9 I understand that ReAssure has not received any objections or comments from ReAssure policyholders in respect of the proposed Scheme.

5.10 I have not received any correspondence regarding the Scheme directly from Phoenix policyholders or ReAssure policyholders.

5.11 As at 7 December 2016, there have been 16 objections to the Scheme. These relate to:

- Policyholders wanting to stay with Phoenix (10 policyholders).
- Policyholders objecting to the legal process being followed, as defined by FSMA (8 policyholders).
- Policyholders objecting because they will not benefit from the transfer or may lose benefits as a result of the transfer (4 policyholders).
- Policyholders objecting for other miscellaneous reasons including concerns about the timings of the transfer, concerns about their policy or policies transferring for a second time and concerns that historical correspondence with Phoenix will not be passed on to ReAssure (5 policyholders).

5.12 As some policyholders raised objections in relation to multiple areas, the numbers in paragraph 5.11 add up to more than 16 objections. The sub-sections below address the principal areas of concern raised by policyholders.

The Part VII process under FSMA

5.13 It should be noted that, in accordance with FSMA:

- For the Court to approve a proposed Scheme, the Part VII does not need to provide a benefit to policyholders compared to what they would receive if the Scheme did not proceed, but provides a rigorous assessment of the transfer to ensure that affected policyholders are not materially disadvantaged, taking into account the security of their benefits and their reasonable benefit expectations. The scrutiny of the Scheme by the High Court ensures that the interests of the policyholders are given appropriate consideration and that the transferee has the ability and capacity to manage the transferring business.
- Transfers of business do not require policyholder approval and individual policyholders are not able to opt out of the Scheme. The transfer is subject to assessment by the High Court, taking into account the opinions of the Independent Expert, the PRA, the FCA and any representations from policyholders with the intention that there are no material adverse effects on policyholders in terms of their benefit security, reasonable benefit expectations and service standards.

5.14 These points address the first three areas of policyholder concern listed in paragraph 5.11.

Policies transferring for a second time

5.15 Whilst I understand that it can be frustrating when policies are subject to successive transfers, I remain satisfied that this Scheme will not have a material adverse effect on the benefit security or reasonable expectations of transferring policyholders.

Historical correspondence with Phoenix

5.16 A transferring policyholder raised an objection on the grounds that he was concerned that historical correspondence relating to his policy may not transfer to ReAssure. Phoenix has confirmed to the policyholder that ReAssure would be provided with access to all such correspondence, with the exception of details of the pension policy that was used to purchase the annuity.

The liability for mis-selling after the Scheme

5.17 If the Phoenix Annuity Scheme is implemented, the responsibility for any mis-selling in respect of the transferring annuities remains with Phoenix, and hence policyholders will be able to pursue any further mis-selling complaints with Phoenix.

The secondary annuity market

5.18 Some policyholders' objections to the Scheme were on the basis of their desire, after the implementation of the Scheme, to make use of the "Secondary Annuity Market" and, for example, to exchange their annuities for a cash sum.

5.19 HM Treasury announced on 18 October 2016 that plans to facilitate a secondary annuities market from April 2017 onwards had been cancelled due to concerns over consumer protection.

Conclusion

5.20 I am satisfied that Phoenix and ReAssure are dealing with any objections or complaints received in a reasonable way and are taking reasonable measures to ensure these are resolved prior to the final Court Hearing.

5.21 The policyholder enquiries received do not raise any issues that were not considered in the work leading up to my main report and therefore I am satisfied that the conclusions in Section 12 of my main report remain valid.

6 OTHER CONSIDERATIONS IN RESPECT OF THE SCHEME

Changes to the Scheme

6.1 There have been a small number of changes to the Scheme since I finalised my main report. These are:

- An amendment to the modification provision wording, such that any future amendments to the Scheme will now require:
  - Written notification to the regulators at least 28 days prior to making an application to the Court;
  - Compliance with the Court's publicity directions; and
  - A certificate from an independent actuary stating that, in his opinion, the proposed amendment will not materially adversely affect the security or reasonable benefit expectations of the policyholders of ReAssure (including those transferred under this Scheme and any residual Phoenix policies).
- Confirmation of the filenames for the electronic databases setting out the transferring policies; and
- Confirmation of the value of the initial expense reserve assets to be transferred to ReAssure.

6.2 I note that future amendments to the Scheme will require a process that has many similarities to the process involved in a Part VII transfer in relation to policyholder protection. Therefore, although it is not possible to be certain of the likely effects of any future Scheme amendments, I am satisfied that any such amendment will be duly scrutinised at the time and will only proceed when it is concluded that any such transfer should not have a material adverse effect on the security of benefits or on the reasonable benefit expectations of affected policyholders.

The secondary annuity market

6.3 In March 2015, the government announced its plans to remove the tax disincentives to annuity policyholders exchanging their future payments for a cash lump sum from April 2017 onwards.

6.4 However, on 18 October 2016, HM Treasury announced that plans to facilitate this secondary annuities market had been cancelled due to concerns over consumer protection, largely because of an expected lack of market competition, and I will not comment on the secondary annuities market any further.

The migration of the ReAssure policy administration systems

6.5 As noted in Section 10 of my main report, ReAssure intends to migrate the administration of the transferring business to ARUKSL following the transfer. This migration will only proceed if the ReAssure policies at the time (including the transferring policies if the Phoenix Annuity Scheme has been implemented) are expected to receive a comparable level of servicing and administration following the migration.

6.6 It should be noted that ARUKSL currently administers a large amount of business, including approximately 382,000 in-payment annuities, and has maintained service levels following recent migrations.

6.7 The migration will result in a change to payment dates for approximately 8% (4,500) of the transferring Phoenix annuities where annuity payments will be paid up to 3 days earlier than prior to the transfer. ReAssure is working to minimise the inconvenience from this and the affected policyholders have been notified. At the time of writing this report no policyholder objections in respect of this issue have been received.

6.8 I do not consider this to be a material adverse impact on the policyholders and I remain satisfied that the potential migration to ARUKSL will not affect the service standards provided to the transferring Phoenix policyholders or the existing ReAssure policyholders.

The acquisition of Abbey Life

6.9 On 28 September 2016, the Phoenix Group announced the proposed acquisition of Abbey Life. No decision has yet been made by the PRA or FCA in relation to the Change in Control application for this acquisition.

6.10 Abbey Life is being acquired by Phoenix Life Holdings Limited which is a separate company from Phoenix and there will be no immediate effect on Phoenix. This is different from the acquisition of AWL as described in Section 3 of this report as there is a reinsurance agreement between AWL and Phoenix.

6.11 I am satisfied that the acquisition of Abbey Life will not change the conclusions set out in Section 12 of my main report.

Tax clearances

6.12 Phoenix submitted an application to HMRC on 17 October 2016 for clearance under Section 132 of the Finance Act 2012 with regard to the transfers and ReAssure submitted its application on 1 November 2016. HMRC issued its clearances to Phoenix and ReAssure on 11 November 2016 and 1 December 2016 respectively.

6.13 The HMRC Pension Scheme Office and IOM Treasury, Income Tax Division have provided confirmations that the tax approval status of the pensions in payment is unaffected by the proposed Scheme.

The effect of the Scheme on the timing and frequency of annuity payments

6.14 There will be no change to the payment date or frequency of the benefit payments for the transferring annuities as a direct result of the Scheme.

6.15 As noted in my main report, after the transfer, ReAssure intends to migrate the administration of the transferring business to ARUKSL and this will result in a change to payment dates for some of the transferring Phoenix annuities. As discussed in paragraphs 6.5 to 6.8, ReAssure is working to minimise the inconvenience from this and I do not consider this to be a material adverse impact on the policyholders.

Policyholder PAYE tax codes

6.16 Both Phoenix and ReAssure have had discussions with HM Revenue & Customs ("HMRC") to mitigate any likelihood that policyholders suffer any short term tax adjustments to policyholder tax PAYE codes that may arise as a result of the transfer of their annuity from Phoenix to ReAssure.

6.17 At the time of writing this report, Phoenix are in the process of taking the actions agreed with HMRC, and revised PAYE tax codes for the transferring policyholders are expected from HMRC prior to the relevant payment cycles after the implementation of the Scheme. In particular, the revised tax codes for the first batch of policies has been received ahead of schedule from HMRC.

6.18 This could affect up to approximately 1,200 transferring policyholders and any incorrect deductions of income tax will be corrected by the end of the 2016-2017 tax year.

6.19 In the unlikely event that revised PAYE codes are not set up by the time the first post-Scheme annuity payments are made, then ReAssure has informed me that tax codes will be applied that will generally result in any incorrect deduction of tax being an underpayment, rather than an overpayment, of tax. The only potential exception to this is for the subset of transferring policyholders who have multiple annuity policies with Phoenix, but where one or more of their policies is not transferring under the Scheme. ReAssure has informed me that there is a chance that this subset of policyholders could have too much tax deducted from the income under their transferred policy or policies. However, ReAssure has stated that it will look sympathetically upon any such policyholders, in line with its obligations to treat customers fairly.

6.20 I do not consider this to be a material adverse effect on the transferring policyholders for the following reasons:

- It is unlikely that any policyholder will be affected by this issue as the work underway to address it is expected to be completed prior to the relevant payment cycles. In particular, the first batch of tax codes has already been received from HMRC ahead of schedule, which gives me comfort that the other batches will be completed within the relevant timescales;
- In the unlikely event that this issue does materialise, the maximum number of policyholders that could be affected is only around 2% of those transferring;
- The contingency tax codes described in paragraph 6.18 will have the result that any incorrect tax amount is likely to result in the policyholder temporarily underpaying, rather than overpaying, tax. For the subset of policyholders where this is potentially not the case, ReAssure has assured me that it will look sympathetically upon any such policyholders;
- The aggregate tax payable by transferring policyholders in respect of their transferring policies will not change as a result of the Scheme; and

- Any inaccuracy in the amount of tax deducted will be corrected by the end of the 2016-2017 tax year (5 April 2017), which means that any such issue will be remedied within a relatively short period of time.

Future transactions

6.21 Following the final Court Hearing, Phoenix and ReAssure may engage in subsequent transactions and Part VII transfers of long-term business.

6.22 Any material transactions will be subject to approval by the relevant Boards and to the usual governance and sign-off processes of Phoenix and ReAssure.

6.23 In addition, any future Part VII transfers of business in which Phoenix or ReAssure are involved will be subject to:

- FSMA;
- Approval by the Court;
- Scrutiny and non-objection by the PRA and FCA; and
- A report by an approved Independent Expert.

6.24 Therefore, although it is not possible to be certain of the likely effects of any future Part VII transfers, I am satisfied that any such Part VII transfer will be duly scrutinised at the time and will only proceed when it is concluded that any such transfer should not have a material adverse effect on the security of benefits or on the reasonable benefit expectations of affected policyholders.

The initial expense reserve amount

6.25 As noted in my main report, the majority of the assets backing the liabilities of the transferring Phoenix annuities were transferred to RLL as the premium under the reinsurance agreement between RLL and Phoenix. However, under the provisions of the Scheme, Phoenix is to transfer to ReAssure additional assets called the initial expense reserve amount (the “IERA”), which is the amount required to meet the charges of the third party administration providers.

6.26 The amount of the IERA forms part of the commercial arrangements between the companies as set out in the BTA. As such it is not within my scope of work as Independent Expert to review the amount of the IERA.

6.27 If the Scheme is implemented then ReAssure will need to hold reserves that cover its expected future liabilities in accordance with the Solvency II rules and the amount of the IERA is incidental to the reserves actually held.

6.28 I am satisfied that the amount of the IERA does not affect my conclusions on the Scheme.

7 CONCLUSIONS

7.1 I have reviewed the updated financial information as at 30 June 2016 and the projected pro-forma figures showing Phoenix and ReAssure if the Scheme had been implemented on 30 June 2016.

7.2 As set out in Section 2 of this report, I am satisfied that it is appropriate to rely upon the Solvency II financial information for the reconsideration of my conclusions for this Supplementary Report.

7.3 I have reviewed other business considerations that have developed since the finalisation of my main report.

7.4 I am satisfied that the conclusions in Section 12 of my main report remain valid: that is that the implementation of the Phoenix Annuity Scheme will not have a material adverse effect on:

- The security of benefits of the policyholders of Phoenix and ReAssure;
- The reasonable expectations of the policyholders of Phoenix and ReAssure with respect to their benefits; or
- The service standards and governance applicable to the ReAssure and Phoenix policies.

7.5 These conclusions hold whether or not the RLL Scheme is implemented.

Oliver Gillespie 9 December 2016

Fellow of the Institute and Faculty of Actuaries

APPENDIX 1: SOLVENCY II FINANCIAL INFORMATION PRIOR TO THE IMPLEMENTATION OF THE SCHEME AS AT 30 JUNE 2016

Phoenix

30 June 2016	Alba WPF	SAL WPF	Phoenix WPF	Other PLL WPFs	PNPF	Total
	£m	£m	£m	£m	£m	£m
Assets (net of current liabilities and including reinsurance assets)	1,159	4,783	3,899	9,948	18,297	38,086
Technical provisions (net of transitional measure)	(1,081)	(4,436)	(3,450)	(8,869)	(16,833)	(34,669)
Deduction to Own Funds	-	-	-	(170)	-	(170)
Available Own Funds	**78**	**347**	**449**	**909**	**1,465**	**3,247**
SCR	(78)	(461)	(391)	(712)	(1,177)	(2,819)
Excess capital	**-**	**(114)**	**58**	**197**	**288**	**428**
SCR coverage ratio	**100%**	**75%**	**115%**	**128%**	**124%**	**115%**
SCR coverage ratio (excl. unsupported WPFs)						**125%**
Capital policy buffer	(22)	(129)	-	-	(299)	(450)
Available capital above capital policy buffer	**(22)**	**(243)**	**58**	**197**	**(10)**	**(22)**

ReAssure

30 June 2016	RNPF	NMWPF	WLWPF	Total
	£m	£m	£m	£m
Assets (net of current liabilities and including reinsurance assets)	26,840	1,585	510	28,935
Technical provisions (net of transitional measure)	(24,937)	(1,481)	(474)	(26,891)
Deduction to Own Funds	-	(57)	(13)	(71)
Available Own Funds	**1,903**	**47**	**23**	**1,973**
SCR	(1,361)	(47)	(13)	(1,421)
Excess capital	**542**	**-**	**10**	**552**
SCR coverage ratio	**140%**	**N/A**	**N/A**	**139%**
Capital policy buffer	(272)	-	-	(272)
Available capital above capital policy buffer	**270**	**-**	**10**	**280**

APPENDIX 2: SOLVENCY II FINANCIAL INFORMATION AFTER THE IMPLEMENTATION OF THE SCHEME AS AT 30 JUNE 2016

Phoenix

30 June 2016	Alba WPF	SAL WPF	Phoenix WPF	Other PLL WPFs	PNPF	Total
	£m	£m	£m	£m	£m	£m
Assets (net of current liabilities and including reinsurance assets)	1,159	4,782	3,899	9,948	18,297	38,086
Technical provisions (net of transitional measure)	(1,065)	(4,419)	(3,436)	(8,869)	(16,833)	(34,622)
Deduction to Own Funds	-	-	-	(170)	-	(170)
Available Own Funds	**94**	**364**	**463**	**909**	**1,465**	**3,294**
SCR	(84)	(458)	(405)	(712)	(1,182)	(2,841)
Excess capital	**10**	**(94)**	**58**	**197**	**283**	**453**
SCR coverage ratio	**111%**	**79%**	**114%**	**128%**	**124%**	**116%**
SCR coverage ratio (excl. unsupported WPFs)						**126%**
Capital policy buffer	(14)	(128)	-	-	(300)	(442)
Available capital above capital policy buffer	**(4)**	**(223)**	**58**	**197**	**(17)**	**11**

ReAssure

30 June 2016	RNPF	NMWPF	WLWPF	Total
	£m	£m	£m	£m
Assets (net of current liabilities and including reinsurance assets)	28,685	1,585	510	30,780
Technical provisions (net of transitional measure)	(26,786)	(1,481)	(474)	(28,740)
Deduction to Own Funds	-	(57)	(13)	(71)
Available Own Funds	**1,899**	**47**	**23**	**1,969**
SCR	(1,369)	(47)	(13)	(1,429)
Excess capital	**530**	**-**	**10**	**540**
SCR coverage ratio	**139%**	**N/A**	**N/A**	**138%**
Capital policy buffer	(274)	-	-	(274)
Available capital above capital policy buffer	**256**	**-**	**10**	**266**

APPENDIX 3 – DATA RELIED UPON

Document	Date of document
The supplementary report of the Chief Actuary of Phoenix on the Scheme	9 December 2016
The supplementary report of the Chief Actuary of ReAssure on the Scheme	2 December 2016
Pre- and post-Scheme financials as at 30 June 2016 for Phoenix	29 November 2016
Pre- and post-Scheme financials as at 30 June 2016 for ReAssure	2 December 2016
ReAssure Solvency II estimates as at 30 September 2016	30 September 2016
Board papers on the Phoenix capital policy update	13 September 2016 & 4 October 2016
Policyholder objections – Correspondence and responses	7 December 2016
Explanation of the movement of the pre-Scheme Solvency II financials between 31 December 2016 and 31 March 2016 for Phoenix	29 June 2016
Explanation of the movement of the pre-Scheme Solvency II financials between 31 March 2016 and 30 June 2016 for Phoenix	13 September 2016
Explanation of the movement of the pre-Scheme Solvency II financials between 30 June 2016 and 30 September 2016 for Phoenix	6 December 2016
The Deloitte assurance review of the ReAssure pre-Scheme Solvency II financials as at 30 June 2016	1 December 2016