

MILLIMAN REPORT

The Part VII transfer of part of the business of Legal and General Assurance Society Limited to ReAssure Limited

The summary report of the Independent Expert – ReAssure policyholders

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1. The companies involved in the Transfer

- 1.1 LGAS is a proprietary composite insurance company that was founded in 1836. LGAS is the principal operating subsidiary for the Legal & General Group (the “L&G Group”) and is one of the largest providers of insurance products in the UK.
- 1.2 LGAS currently has approximately £143 billion of assets under management (as at 31 December 2018).
- 1.3 On 31 May 2019, the L&G Group announced that it had sold its general insurance business to Allianz and that the transaction was expected to complete in the second half of 2019 subject to regulatory approvals.
- 1.4 ReAssure is a proprietary insurance company that is part of the Swiss Re Group. Since February 2018, the Japanese insurance group MS&AD Insurance Group (“MS&AD”) has owned a minority stake in ReAssure and in February 2019 this increased from 15% to 25%.
- 1.5 ReAssure currently has approximately £39 billion of assets under management (as at 31 December 2018).

2. The proposed Transfer

INTRODUCTION

- 2.1 On 6 December 2017, the L&G Group announced that it intended to sell part of its long-term insurance business to ReAssure in order to allow it to focus on growth in other areas such as writing and acquiring blocks of annuities and investment management.
- 2.2 It is this block of business that is proposed to be transferred from LGAS to ReAssure under the proposed Transfer that is the reason for this report.

THE TRANSFERRING BUSINESS

- 2.3 The transferring business consists of approximately 1.0 million policies and assets of approximately £28 billion (as at 31 December 2018). This business includes the ‘Mature Savings’ block of business and smaller volumes of other long-term insurance business of LGAS and has been largely closed to new business and in run-off since 2015.
- 2.4 The transferring business consists of with-profits business, unit-linked business and non-profit business. These are all types of long-term insurance products that are common across the UK industry and I explain these in more detail in Section 3 of my main report. A summary of the transferring business is provided in Section 5 of my main report.
- 2.5 If the Transfer were to go ahead then the assets and liabilities associated with the transferring business would be transferred from LGAS to ReAssure. The proposed date of Transfer is currently set to be 4 November 2019.

3. My considerations with respect to the proposed Transfer

- 3.1 My key considerations in respect of each group of policyholders affected by the proposed Transfer are whether the proposed Transfer would have an effect on the following:

- **The security of benefits under the policies.**

The security of benefits for the transferring business is derived from the financial strength of the firm itself which depends on the assets held to back the policies, any assets held in excess of this, and any external support provided by the parent of the firm.

The level of assets held by a firm in relation to a particular block of business is determined by the appropriate regulatory regime and any extra assets required as typically set out in that firm’s risk appetite statement (the “RA Statement”).

- **The profile of risks to which the policies are exposed.**
- **The reasonable expectations of the policyholders in respect of their benefits.**
- **The standards of administration, service, management and governance applied to each group of policies.**

- 3.2 In this report I have considered the effects of the proposed Transfer on the following groups of policies:

- The transferring LGAS policies in Section 8 and Section 9 of my main report;
- The existing ReAssure policies in Section 10 of my main report; and
- The non-transferring LGAS policies in Section 11 of my main report.

3.3 In this summary report I have summarised only effects of the Transfer on the existing ReAssure policyholders. Details on the effects of the Transfer on the transferring LGAS policyholders and on the non-transferring LGAS policyholders can be found in my main report.

4. The effect of the Transfer on the security of the benefits of the existing ReAssure policies

4.1 If the proposed Transfer were to proceed, the security of benefits under the existing ReAssure policies would continue to be derived from ReAssure but a large amount of business would be transferred into ReAssure from LGAS.

4.2 As the analysis in Section 10 of my main report shows, I am satisfied that the Transfer would not have a material adverse effect on the security of the benefits of the existing ReAssure policies.

5. The effect of the Transfer on the profile of risks to which the existing ReAssure policies are exposed

5.1 I am satisfied that, although the Transfer would cause a change to the profile of risks to which the existing ReAssure policies are exposed, this would not have a material adverse effect on the security of the benefits of the existing ReAssure policies.

6. The effect of the Transfer on the reasonable expectations of the existing ReAssure policies in respect of their benefits

6.1 If the Transfer goes ahead there would be no change to:

- The terms and conditions of the existing ReAssure policies;
- The methodology used to calculate the amounts that are used to pay policyholders for claims and surrenders under with-profits, unit-linked and non-profit existing ReAssure policies;
- The charges that apply to the existing ReAssure policies;
- The exercise of discretion by ReAssure in respect of the management of the with-profits and unit-linked business; or
- The rights of the existing with-profits policyholders of ReAssure to any future distributions from the inherited estates.

6.2 I am satisfied that the Transfer would not have a material adverse effect on the reasonable expectations of the existing ReAssure policyholders in respect of their benefits.

7. The effect of the Transfer on the standards of administration and servicing applied to the existing ReAssure policies

7.1 As a result of the Transfer, ReAssure would take over the administration of the majority of the transferring business.

7.2 The IT systems used to administer and service the transferring business would not transfer across to ReAssure and a plan has been put in place to migrate the policy data from the current LGAS administration systems to the ReAssure administration systems.

7.3 There are some areas of material concern regarding the migration plan that are being monitored closely by the ReAssure Board and the LGAS Board.

7.4 It is the responsibility of the Boards to ensure that this migration is implemented successfully and without any material detrimental impact to either transferring policyholders or existing ReAssure policyholders and I will rely on the ReAssure Board and the LGAS Board to ensure that this is the case.

7.5 I will report on the progress with the migration plan in my Supplementary Report for the Sanctions Hearing.

8. The effect of the Transfer on the management and governance of the existing ReAssure policies

8.1 I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the principles and practices used in the management of the existing business of ReAssure, the governance of the with-profits policies in the WLWPF, the NMWPF and the GAWPF, or the governance of the other ReAssure policies.

8.2 I am therefore satisfied that the implementation of the Transfer would not have a material adverse effect on the standards of management and governance that apply to the existing ReAssure policies.

9. The approach to communications with policyholders

9.1 Due to the size of the transferring business compared to the existing business of ReAssure, ReAssure will send a letter (the "Part VII Letter") to the existing ReAssure policyholders to make them aware of the Transfer (subject to dispensations).

9.2 ReAssure intends to seek waivers from the regulatory requirements to send a written notice to certain groups of policyholders and I am satisfied that this application is reasonable.

10. The costs of the Transfer

10.1 The costs of the Transfer will be split between the shareholder funds of LGAS and ReAssure and I am satisfied that this allocation of the costs of the Transfer is reasonable.

11. My conclusions

11.1 I confirm that I have considered the issues affecting the policyholders of ReAssure, as set out in Sections 10 to 14 of my main report and that I am satisfied that the Transfer would not have a material adverse effect on:

- The security of the benefits of the policies of LGAS and ReAssure;
- The reasonable expectations of the policyholders of LGAS and ReAssure in respect of their benefits;
or
- The standards of administration, service, management and governance that apply to the LGAS and ReAssure policies.

11.2 I am satisfied that the Transfer is equitable to all classes and generations of LGAS and ReAssure policyholders.

11.3 As noted above there are some areas of material concern regarding the migration plan that are being monitored closely by the ReAssure Board and the LGAS Board. The Transfer will not be able to proceed until a decision is made by the ReAssure and LGAS Boards to seek an Order from the High Court to implement the Scheme and the High Court is satisfied that the implementation of the Scheme would not have a material adverse effect on policyholders.

11.4 I will provide an update on these in my Supplementary Report.