

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

July 2019

Oliver Gillespie FIA





Table of Contents

1.	THE COMPANIES INVOLVED IN THE TRANSFER.....	1
2.	THE PROPOSED TRANSFER.....	1
3.	MY CONSIDERATIONS WITH RESPECT TO THE PROPOSED TRANSFER	1
4.	THE EFFECT OF THE TRANSFER ON THE TRANSFERRING LGAS POLICIES.....	2
5.	THE EFFECT OF THE TRANSFER ON THE EXISTING REASSURE POLICIES	4
6.	THE EFFECT OF THE TRANSFER ON THE NON-TRANSFERRING LGAS POLICIES.....	5
7.	THE REASSURE IPO.....	6
8.	MY CONSIDERATIONS IN RESPECT OF THE FAIR TREATMENT OF CUSTOMERS	6
9.	MY CONCLUSIONS	7

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’s business is based on the acquisition of the closed blocks of in-force life insurance business of other life insurance companies either through reinsurance agreements or by means of legal transfers of business and this has led to ReAssure undertaking a large number of transfers of business since its first acquisitions in 1983.
- 1.6 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”) as a multiple of the level of assets required by the appropriate regulatory regime. The RA Statement will typically include details of the required governance around

the RA Statement including the required response to a breach and how the RA Statement might be changed.

- **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 I summarise these sections below.

4. The effect of the Transfer on the transferring LGAS policies

4.1 I analyse the effects of the proposed Transfer on the transferring LGAS policyholders in Section 8 and 9 of my main report.

THE EFFECT OF THE TRANSFER ON THE SECURITY OF THE BENEFITS OF THE TRANSFERRING POLICIES

4.2 If the proposed Transfer were to proceed, the security of benefits under the transferring policies would be derived from ReAssure rather than from LGAS as currently.

4.3 As the analysis in Section 8 of my main report shows, I am satisfied that this reliance on the financial strength of ReAssure, its risk appetite statement and its group support would not have a material adverse effect on the security of the benefits of the transferring LGAS policies.

THE EFFECT OF THE TRANSFER ON THE PROFILE OF RISKS TO WHICH THE TRANSFERRING POLICIES ARE EXPOSED

4.4 If the Transfer were to go ahead, the transferring policies would become policies of ReAssure and be directly exposed to the risk profile of a different company that has written different business, through different distribution channels, to policyholders with different demographic profiles.

4.5 Whilst the Transfer would result in a change to the risk exposures of the transferring policies, the Transfer would have no effect on the regulatory regime to which the business would be subject as both firms are subject to the same Solvency II regime and to regulation by the PRA and FCA, and the Solvency Capital Requirement ("SCR") calculated in accordance with the Solvency II regime will continue to reflect the risk exposures of ReAssure which will, after the Transfer, include the transferring LGAS business.

4.6 Therefore, I am satisfied that, this would not have a material adverse effect on the security of the benefits of the transferring policies.

THE EFFECT OF THE TRANSFER ON THE REASONABLE EXPECTATIONS OF THE TRANSFERRING POLICYHOLDERS IN RESPECT OF THEIR BENEFITS

4.7 The transferring business consists of with-profits, unit-linked, and non-profit business and in Section 8 of my main report I consider the effects of the proposed Transfer on the policyholders' reasonable expectations in respect of their benefits on each of these types of product separately.

4.8 The intention from ReAssure is that, after the Transfer, the transferring business would be managed in materially the same way as it would have been had the Transfer not happened and the business remained in LGAS.

4.9 That said, ReAssure is a different company to LGAS and has different management and governance structures and therefore, one would expect there to be some changes for the transferring policies after the Transfer and I cover the proposed changes in Section 8 of my main report.

- 4.10 I am satisfied that the Transfer would not have a material adverse effect on the reasonable expectations of the transferring policyholders.

THE EFFECT OF THE TRANSFER ON THE STANDARDS OF ADMINISTRATION AND SERVICING APPLIED TO THE TRANSFERRING LGAS POLICIES

- 4.11 If the proposed Transfer were to go ahead, ReAssure would take over the administration of the majority of the transferring business. 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.
- 4.12 If this migration plan were to be completed by the Legal Effective Date then I am satisfied that there would not be a material adverse effect on the standards of the administration and servicing applied to the transferring LGAS policies.
- 4.13 However, at the time of writing this report, ReAssure and LGAS have identified some areas of material concern with the migration plan that are being monitored closely by the ReAssure Board and the LGAS Board.
- 4.14 Both firms have provided assurance that these areas of concern are being addressed, that the migration plan has been revised, and that they are confident that the migration can be successfully delivered in time for the Legal Effective Date. It is expected that some additional manual processes will be in place for a period after the Legal Effective Date while building and testing of systems is completed.
- 4.15 It is the responsibility of the ReAssure Board and the LGAS Board to ensure that this migration is implemented successfully and without any material detriment 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. In particular I will rely on the Boards of the firms to ensure that the migration project is given the appropriate priority, that the required planning is carried out, and that the required resources are secured, such that the status of the migration project is quickly improved to an acceptable level.
- 4.16 Although uncertainty is not unexpected at this stage in migration projects of this complexity, the High Court will not sanction the Scheme until it is satisfied that there would not be a material adverse effect on policyholders. The firms have established readiness checkpoints to monitor and resolve these uncertainties and these will need to be passed before a decision is made by the ReAssure and LGAS Boards to seek an Order from the High Court to implement the Scheme.
- 4.17 I will report on the progress with the migration plan in my Supplementary Report for the Sanctions Hearing.

THE EFFECT OF THE TRANSFER ON THE MANAGEMENT AND GOVERNANCE APPLIED TO THE TRANSFERRING LGAS POLICIES

- 4.18 A number of changes have recently been made to the governance framework within ReAssure in order to maintain the current level of governance of the transferring business within LGAS.
- 4.19 I have reviewed the ReAssure governance framework and I am satisfied that the level of oversight, including independent oversight, provided by the proposed framework is such that the proposed Transfer would not have a material adverse impact on the standards of governance applied to the transferring business.

Conclusion in respect of the transferring LGAS policies

- 4.20 I am satisfied that the proposed Transfer would not have a material adverse effect on:
- The security of the benefits of the transferring policies of LGAS;
 - The reasonable expectations of the transferring policyholders of LGAS in respect of their benefits; or
 - The standards of administration, service, management and governance that apply to the transferring LGAS policies.
- 4.21 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.

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

5. The effect of the Transfer on the existing ReAssure policies

5.1 I analyse the effects of the proposed Transfer on the existing ReAssure policyholders in Section 10 of my main report.

THE EFFECT OF THE TRANSFER ON THE SECURITY OF THE BENEFITS OF THE EXISTING REASSURE POLICIES

5.2 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.

5.3 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.

THE EFFECT OF THE TRANSFER ON THE PROFILE OF RISKS TO WHICH THE EXISTING REASSURE POLICIES ARE EXPOSED

5.4 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.

THE EFFECT OF THE TRANSFER ON THE REASONABLE EXPECTATIONS OF THE EXISTING REASSURE POLICIES IN RESPECT OF THEIR BENEFITS

5.5 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.

5.6 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.

THE EFFECT OF THE TRANSFER ON THE STANDARDS OF ADMINISTRATION AND SERVICING APPLIED TO THE EXISTING REASSURE POLICIES

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

5.8 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.

5.9 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.

5.10 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.

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

THE EFFECT OF THE TRANSFER ON THE MANAGEMENT AND GOVERNANCE OF THE EXISTING REASSURE POLICIES

- 5.12 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.
- 5.13 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.

CONCLUSION FOR THE EXISTING REASSURE POLICIES

- 5.14 I am satisfied that the Transfer would not have a material adverse effect on:
- The security of the benefits of the existing ReAssure policies;
 - The reasonable expectations of the existing ReAssure policyholders in respect of their benefits; or
 - The standards of administration, service, management and governance that apply to the existing ReAssure policies.
- 5.15 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.
- 5.16 I will provide an update on these in my Supplementary Report.

6. The effect of the Transfer on the non-transferring LGAS policies

- 6.1 I analyse the effects of the proposed Transfer on the non-transferring LGAS policyholders in Section 11 of my main report.

THE EFFECT OF THE TRANSFER ON THE SECURITY OF THE BENEFITS OF THE NON-TRANSFERRING LGAS POLICIES

- 6.2 Currently, the non-transferring LGAS policies derive their security of benefits from being part of LGAS and this is derived from the financial strength available to provide security for the benefits of the non-transferring policies under the LGAS RA Statement and the external support available from the L&G Group. This would not change as a result of the implementation of the Transfer and therefore if the Transfer were to go ahead I am satisfied that there would not be a material adverse effect on the security of the benefits of the non-transferring LGAS policies.

THE EFFECT OF THE TRANSFER ON THE PROFILE OF RISKS TO WHICH THE NON-TRANSFERRING LGAS POLICIES ARE EXPOSED

- 6.3 I am satisfied that, although the Transfer would cause a change to the profile of risks to which the non-transferring LGAS policies are exposed, this would not have a material adverse effect on the security of the benefits of the non-transferring LGAS business.

THE EFFECT OF THE TRANSFER ON THE REASONABLE EXPECTATIONS OF THE NON-TRANSFERRING LGAS POLICYHOLDERS IN RESPECT OF THEIR BENEFITS

- 6.4 If the Transfer were to go ahead, there would be no change to the terms and conditions, the methodology used to determine claim and surrender benefits, the charges that apply, or the exercise of discretion in respect of the management of the unit-linked funds for the non-transferring LGAS policies.
- 6.5 I am satisfied that the Transfer would not have a material adverse effect on the reasonable expectations of the non-transferring LGAS policyholders in respect of their benefits.

THE EFFECT OF THE TRANSFER ON THE STANDARDS OF ADMINISTRATION, SERVICING, MANAGEMENT AND GOVERNANCE APPLIED TO THE NON-TRANSFERRING LGAS POLICIES

6.6 If the Transfer were to go ahead there would be no change to the administration and servicing, the asset management arrangements, or the governance and management of the non-transferring LGAS policies.

6.7 I am satisfied that the Transfer would not have a material adverse effect on the standards of administration, servicing, management and governance that apply to the non-transferring LGAS policies.

CONCLUSION FOR THE NON-TRANSFERRING LGAS POLICIES

6.8 I am satisfied that the Transfer would not have a material adverse effect on:

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

7. The ReAssure IPO

7.1 On 3 August 2018, the Swiss Re Group announced that it was exploring the possibility of an Initial Public Offering (“IPO”) of shares in the ReAssure Group in 2019.

7.2 In anticipation of a potential IPO, a new public parent company (“ReAssure Group plc” or “RGP”) has been set up, of which ReAssure is now a subsidiary.

7.3 On 14 June 2019, RGP confirmed its intention to proceed with the IPO but, on 11 July 2019, subsequent to date on which my main report was issued, it was announced that the IPO process had been suspended. As such it remains uncertain as to whether the IPO will proceed and, if it does, when that might happen.

7.4 A change of ownership resulting from the IPO could potentially lead to changes to the availability of parental capital support for ReAssure and to the management and governance of the insurance business within ReAssure. It is not expected that the ReAssure IPO would lead to any changes to the administration or servicing of the insurance business within ReAssure.

7.5 In terms of the different groups of policies considered in Sections 8, 9, 10 and 11 of my main report, it is only the transferring LGAS policies for whom the impact of the Transfer could be affected by the IPO. I analyse the effects of the ReAssure IPO in Section 12 of my main report and, in summary, I am satisfied that:

- If the risk appetite statement applicable to the post-IPO company were to be at least as strong as the ReAssure IPO RA Statement there would not be a material adverse effect on the security of the benefits and reasonable benefit expectations of the transferring policies.
- There exist sufficient controls to ensure that there would not be a material adverse effect on the standards of administration, service, management and governance that apply to the transferring policies.

7.6 I analyse the effects of the ReAssure IPO, if it were to proceed, in Section 12 of my main report.

8. My considerations in respect of the fair treatment of customers

8.1 I analyse the effects of the Transfer on the fair treatment of customers in Section 13 of my main report.

THE APPROACH TO COMMUNICATIONS WITH POLICYHOLDERS

8.2 LGAS will send a mailing pack to the LGAS transferring policyholders (subject to dispensations).

8.3 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).

8.4 LGAS and ReAssure intend to seek waivers from the regulatory requirements to send a written notice to certain groups of policyholders as set out in Section 12 of my main report and I am satisfied that the applications for waivers are reasonable.

THE COSTS OF THE TRANSFER

8.5 The costs of the Transfer will be split between the shareholder funds of LGAS and ReAssure.

8.6 An expense deal will be implemented for the LGWPF, which will provide with-profits policyholders with certainty in respect of future expenses levied to the fund. In return the fund will make a £50m contribution to the cost of migration. I am satisfied that when considered together the expense deal and the £50m contribution will not have a material adverse effect on the reasonable expectations of the with-profits policyholders in the LGWPF in respect of their benefits. This is covered in Sections 7 and 8 of my main report.

8.7 I am satisfied that this allocation of the costs of the Transfer is reasonable.

9. My conclusions

9.1 I confirm that I have considered the issues affecting the policyholders of LGAS and ReAssure separately, as set out in Sections 8 to 14 of my main report and that I do not consider further subdivisions (other than those in this report) to be necessary.

9.2 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.

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

9.4 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.

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