



11 Old Jewry,  
London, EC2R 8DU  
United Kingdom  
Tel +44 20 7847 1500  
+44 20 7847 1541  
Fax +44 20 7847 1501  
uk.milliman.com  
oliver.gillespie@milliman.com

March 22, 2020

**Re: The Part VII transfer of part of the long-term business of Legal and General Assurance Society Limited to ReAssure Limited**

**BACKGROUND**

1. It is proposed to transfer a block of long-term insurance business from Legal and General Assurance Society Limited (“**LGAS**”) to ReAssure Limited (“**ReAssure**”).
2. I have been appointed by LGAS and ReAssure to report, pursuant to Section 109 of the Financial Services and Markets Act 2000 (“**FSMA**”), in the capacity of the Independent Expert on the terms of the proposed scheme (the “**Scheme**”) providing for this transfer from LGAS to ReAssure.
3. In my role as Independent Expert for the Scheme, I have produced:
  - A report (“**my Main Report**”) dated 3 July 2019 for the Directions Hearing at the High Court of Justice of England and Wales (the “High Court”) on 11 July 2019 to assist the High Court in its deliberations on the Scheme.
  - An addendum to my Main Report (“**the addendum**”) dated 12 July 2019 following the news that the Initial Public Offering of shares in ReAssure Group plc (“RGP”) had been suspended.
  - A second report (“**my Supplementary Report**”) dated 24 February 2020 to provide the High Court with an updated assessment of the likely effects of the Scheme ahead of the Sanction Hearing at the High Court on 10 March 2020.
  - An addendum to my Supplementary Report (“**the supplementary addendum**”) dated 6 March 2020 providing an update to the Court on the operational readiness of ReAssure, late changes to the Scheme, updates on communications with policyholders in respect of objections and the potential effects of the recent epidemic of coronavirus (“**COVID-19**”).
  - A letter to the High Court (the “**first letter to Court**”) dated 11 March 2020 to provide further information with respect to the Fixed Expense Agreement.
  - A letter to the High Court (the “**second letter to Court**”) dated 12 March 2020 to provide further information with respect to the standards of administration and service that apply to the LGAS and ReAssure policies.
4. My Main Report, my Supplementary Report and both addendums have been made available to policyholders via the Legal & General Group website ([www.legalandgeneral.com](http://www.legalandgeneral.com)) and the ReAssure website ([www.reassure.co.uk](http://www.reassure.co.uk)). The first letter to Court and second letter to Court were made available to objectors that attended the hearing in person.

**THE PURPOSE OF THIS NOTE**

5. On 19 March 2020, Mr Justice Zacaroli sent an email to Counsel that contained a number of questions relating to the potential impact on the policyholders of LGAS and ReAssure as a result of recent changes to the economic environment and potential operational issues arising from the COVID-19 pandemic. In particular, Mr Justice

Zacaroli asked for my opinion on the policyholders' inability to execute trades (including switches) in a period of exceptional market volatility over 11 days prior to the effective migration date.

6. The specific questions raised by Mr Justice Zacaroli were (in his words):
  - i. What, precisely, policyholders will be prevented from doing in that period.
  - ii. Whether they will have full visibility of their funds in that period.
  - iii. How policyholders might be adversely impacted by the first two points in the context of a highly volatile market.
  - iv. What mitigants are to be put in place, and how those will alleviate any adverse impact on policyholders.
7. I have discussed these questions with LGAS and ReAssure and the purpose of this note is to provide my views on these questions in my role as Independent Expert. This note will also be shared with the PRA and FCA.
8. The comments and statements in this note are based on the assumption that normal service standards are adhered to by LGAS and ReAssure respectively – in terms of processing transactions, making payments, and staffing for telephone call centres.
9. Given the ongoing uncertainties due to the effects of the COVID-19 pandemic, both LGAS and ReAssure are making strenuous efforts through their respective major incident management teams to mitigate adverse impacts on existing and transferring customers.
10. As stated in my Main Report, if the Scheme were to be sanctioned by the High Court, the decision over whether or not to proceed with the migration on the target effective dates of 1 to 6 April 2020 would be taken by the respective Boards in accordance with the governance processes discussed in my Main Report, my Supplementary Report and the wider evidence presented to the High Court by the parties. The prevailing operational conditions given the COVID-19 pandemic will be among the key considerations in the decision over whether to commence the migration and/or sign the Transfer Certificate. This assessment will include consideration of any backlogs of work prior to migration, availability of resource over migration weekend itself, and staffing levels to continue operations following the migration.

#### **I: WHAT WILL POLICYHOLDERS BE PREVENTED FROM DOING?**

11. The LGAS portal is not a trading platform on which policyholders can execute trades, rather it provides a way for policyholders to send instructions to LGAS. Policyholders can also communicate such instructions to LGAS by telephone call, by post or by email.
12. From midnight<sup>1</sup> on 24 March 2020, transferring LGAS policyholders will not be able to use the LGAS portal to place requests to switch their funds.
13. All other requests and actions currently available to policyholders, including fund switches via the contact centre (telephone, email or post) will be available to policyholders in the same manner that they are currently.
14. From 8 April 2020, the transferring LGAS policyholders will be able to use the ReAssure portal (called “**ReAssure Now**”) for a variety of functions including to place requests for switches.
15. Policyholder requests for any transactions (including switching funds) that are received after midnight on 24 March 2020 and before 6 April 2020 will be recorded and will be processed as soon as safely possible whether on the Legal & General systems before migration (where such transactions can be completed by LGAS by 31 March 2020) or on the ReAssure system after migration.

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<sup>1</sup> In this note midnight is assumed to be at the end of the day. So if policyholders can use a portal until midnight on 24 March 2020 then they can use it for all of 24 March but not on 25 March.

16. All transactions will be processed in accordance with the terms and conditions of the particular product and within agreed service levels. Where a transaction has straddled the tax year as a result of the migration, it will be processed in such a way as to ensure it falls into the correct tax year.
17. It should be noted that only a small subset (approximately 15%) of the transferring LGAS policyholders are currently registered for the LGAS portal and only a subset of these have products that allow switching via the LGAS portal. Approximately 6% of the transferring LGAS policies are eligible to switch via the LGAS portal and approximately 6% of these (so less than 0.4% of the total transferring LGAS policyholders) have switched funds at least once in the last year (to 18 March 2020) and the vast majority of these have only made one switch request in that period.
18. I am satisfied that this is not a material issue in the context of the Scheme and, given there will remain in place alternative ways to issue switch instructions, the transferring LGAS policyholders (of which there are around 1.0 million) would not be materially adversely affected by their being unable to issue switch instructions via an online portal for a limited period.

## **II: WILL POLICYHOLDERS HAVE FULL VISIBILITY OF THEIR FUNDS IN THAT PERIOD?**

19. Policyholders will be able to view individual valuations of their unit-linked policies via the LGAS portal up to midnight on 5 April 2020 and these will be based on the prevailing unit prices calculated on Legal & General systems up to 3 April 2020.
20. From midnight on 6 April 2020 to midnight on 8 April 2020, individual policy valuations will be available by telephone on calling the ReAssure policy administration phone lines. ReAssure will also publish unit prices on its website from the prices calculated on 6 April 2020 onwards.
21. From midnight on 8 April 2020, policyholders will be able to sign up and access ReAssure Now, and this will show accurate individual policy valuations from this date onwards using up to date unit prices calculated by ReAssure.
22. While individual valuations of unit-linked policies will not be available on an online portal on 6 and 7 April 2020, policyholders will be able to receive individual policy valuations via telephone and see unit prices on the ReAssure website. Therefore, I am satisfied that there would not be a material adverse effect on the transferring LGAS policyholders.

## **III: HOW MIGHT POLICYHOLDERS BE ADVERSELY IMPACTED BY THE FIRST TWO POINTS IN THE CONTEXT OF A HIGHLY VOLATILE MARKET?**

23. As stated above, the transferring LGAS policyholders will not be able to make transaction requests via an online portal from midnight on 24 March 2020 (the “**cut-off date**”). The **migration date** is expected to be 6 April 2020.
24. Transaction requests from the transferring LGAS policyholders that are received (by telephone, post and email) by LGAS after the cut-off date will be recorded and, if they can be completed safely by 31 March 2020, will be processed on the Legal & General systems.
25. If this is not possible then the instructions received from the transferring LGAS policyholders by LGAS will be passed across to ReAssure along with the date the instruction was received and, following the migration date, ReAssure will carry out the instructions received, ensuring that the unit prices applied will correspond to the date of receipt. Both LGAS and ReAssure use ‘forward pricing’ for transactions which means that regardless of when an instruction is received during a particular day, the trade resulting from that instruction will use the closing price of that day.
26. The migration processes are designed to ensure that, as far as possible, the final outcomes for policyholders are the same as they would have been if the migration was not taking place. This is of particular importance for

transaction types which may be driven by the policyholders' reactions to market movements, such as surrender and fund switch requests.

27. In the ordinary course of events, the policyholder outcomes are unaffected by the migration for the large majority of cases, even in volatile markets, because, as explained in paragraph 14.5 of my Main Report, ReAssure has committed that policyholders will not be financially exposed, positively or negatively, due to the stockpiling of transactions.

28. In the current volatile market conditions the possibility of material policyholder detriment has been reconsidered and a small number of cases have been identified where the information available to policyholders may be restricted for a short period as follows:

- A. For policyholders who have requested a switch after midnight on 24 March 2020, the outcome of this switch will not be reflected on online valuations until it is processed by ReAssure after the migration date (unless it can be processed by LGAS before 31 March 2020).
- B. There will be a two-day period (6 and 7 April 2020) following the migration where transferring LGAS policyholders will not have access to individual policy valuations online (as described above).
- C. Policyholders who sign up to ReAssure Now shortly after the migration may log on to obtain an online valuation and may not be able to see an accurate valuation of their policy due to the ongoing processing of the backlog of transaction requests.

It should be noted that this would also be the case were they to call up by telephone and ask for a policy valuation.

29. I consider in the next section of this note the mitigating actions that will be taken by LGAS and ReAssure to ensure that the potential issues above do not have a material adverse effect on policyholders.

#### **IV: WHAT MITIGANTS ARE IN PLACE AND HOW WILL THEY ALLEVIATE ANY ADVERSE IMPACT ON POLICYHOLDERS?**

30. The mitigating actions that will be taken by LGAS and ReAssure to ensure that the potential issues above do not have a material adverse effect on policyholders are as follows:

- A. Switches on or after 25 March 2020 will not be reflected in the online portal.

Under normal LGAS policy conditions, only one switch request can be made at a time and such switch requests could take up to four working days to settle (meaning, after the first request, a further switch could not be requested for five working days). Therefore, there is only a limited period of up to six working days during the migration period where a policyholder may be eligible to make a transaction request and not have online access to an accurate individual policy valuation.

Nevertheless, even in this case, LGAS will continue to publish unit prices on its website up until close of business on 3 April 2020 which will provide policyholders with access to information to enable them to estimate the impact of market movements since making their previous switch and (if they wish) request a further switch through the available channels.

- B. The two days without access to the online portal.

ReAssure will publish unit prices on its website from the prices calculated on 6 April 2020 onwards, and also will be able to give policy valuations by telephone.

- C. After the ReAssure Now portal is available, policyholders may not be able to see an accurate valuation of their policy due to the ongoing processing of the backlog of transaction requests.

ReAssure will be processing any backlog of switch requests received since midnight on 24 March 2020 during the week following the migration date and it is expected that the majority of pending transactions will have been carried out before policyholders will have signed up to the ReAssure Now portal.

This should reduce the risk that that policyholders who sign up to the ReAssure Now portal shortly after the migration do not get an accurate online individual policy valuation (as it would not reflect their transaction request) and the parties are working together to contact such policyholders proactively in order to advise them of this possibility.

31. I am satisfied that these mitigating actions are reasonable and should ensure that the potential issues above do not have a material adverse effect on transferring LGAS policyholders.



Oliver Gillespie

Partner of Milliman LLP

Fellow of the Institute and Faculty of Actuaries