

Supplementary Report of the Chief Actuary  
on the proposed transfer of long-term insurance business  
from  
Legal & General Assurance Society Limited  
to  
ReAssure Limited  
pursuant to Part VII of the Financial Services  
and Markets Act (2000)

21 February 2020

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# LGAS Chief Actuary's Supplementary Report

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## **1 Introduction**

### **1.1 Purpose**

In my capacity as Chief Actuary of the Legal and General Assurance Society ("LGAS") I prepared a report (the "Main Report") for the Directors of LGAS dated 25 June 2019 on the proposed transfer of a block of business (the "Transferring Business") from LGAS to ReAssure Limited ("ReAssure"). The transfer is to be carried out by way of an insurance business transfer scheme under Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000 (the "Scheme").

The purpose of this Supplementary Report is to consider whether the conclusions in the Main Report remain appropriate in light of developments since the date of that report. As such, this Supplementary Report should be read in conjunction with the Main Report. In particular, details of the business to be transferred and the terms of the Scheme are set out in the Main Report and are not repeated here.

As in the case of my Main Report, the primary audience for this Supplementary Report is the Board of Directors of LGAS ("the Board"). However, it may also be used by the Independent Expert, the High Court of England and Wales ("the Court"), the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") and the Chief Actuary of ReAssure. This Supplementary Report has also been shared with the LGAS With-Profits Actuary, and will also be made available to LGAS policyholders via the Legal & General ("L&G") website.

### **1.2 Status and disclosure**

I am a Fellow of the Institute & Faculty of Actuaries, having qualified in 1995, and I hold a Chief Actuary (Life) Practising Certificate issued by the Institute & Faculty of Actuaries. I have over 30 years of experience in the UK life assurance industry, including eight years working for the L&G Group. I became Actuarial Function Holder of LGAS in November 2013 and then Chief Actuary when the Solvency II framework came into effect on 1 January 2016.

I am an employee of L&G Resources Limited, an L&G Group service company which provides services to LGAS. LGAS constitutes a significant part of the Group to which the service company provides services.

My financial and personal interests in the L&G Group are set out in Appendix A to this Supplementary Report. I consider that these do not represent a conflict of interests that would prevent me from assessing the impact of the Scheme on LGAS policyholders and I confirm that my interests in the L&G Group have not influenced me in reaching any of the conclusions in this Supplementary Report.

### **1.3 Other advice and opinions**

The Independent Expert and the LGAS With-Profits Actuary have also prepared supplementary reports to update the conclusions of their main reports in light of more recent

developments. This Supplementary Report should be read in conjunction with the supplementary reports of the Independent Expert and the With-Profits Actuary.

In finalising my Supplementary Report, I have read drafts of the supplementary reports of the Independent Expert and the With-Profits Actuary. Copies of this Supplementary Report have also been provided to the Independent Expert and the With-Profits Actuary.

#### **1.4 Compliance with Actuarial Standards**

This Supplementary Report has been prepared in accordance with, and in my opinion complies with, the Technical Actuarial Standards ("TAS") issued by the Financial Reporting Council. In particular, I believe this report complies with TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance. TAS compliance of the supporting papers, reports and models are considered separately by the relevant authors and reviewers as appropriate.

APS X2, issued by the Institute and Faculty of Actuaries, requires Actuaries to consider the appropriate level of review that should be applied to their work. This Supplementary Report has been subject to an Independent Peer Review by a suitably qualified actuary within L&G and is therefore believed to be compliant with APS X2.

#### **1.5 Structure of report**

This Supplementary Report is structured as follows:

- Section 2 provides an Executive Summary of the Supplementary Report, including the main conclusions.
- Section 3 considers the updated financial position of LGAS and ReAssure as at 30 June 2019 and expected changes since that date.
- Section 4 considers the responses to the LGAS policyholder mailing.
- Section 5 considers other developments since the date of my Main Report.
- Section 6 sets out my conclusions.

## **2 Executive summary**

### **2.1 Financial strength**

Based on the financial information as at 30 June 2019, it remains the case that:

- the solvency position of ReAssure, together with its approved capital management policies, provides sufficient financial strength for the transferring policies and ensures that the risk of ReAssure being unable to pay benefits as they fall due is extremely remote; and
- the implementation of the proposed Scheme is projected to have an immaterial effect on the solvency position of LGAS.
- As observed in my Main Report, a comparison of the levels of surplus and capital coverage in the two entities only provides a snapshot at a point in time. It is also necessary to consider the capital management of the two entities. As described in my Main Report, I have compared the capital management policies of the two entities and consider that the ReAssure policy would provide adequate benefit security for transferring policyholders.

Therefore, I am satisfied that the proposed Scheme would not have a material adverse effect on the benefit security of either the transferring policyholders or the remaining policyholders as at 30 June 2019.

In addition, both LGAS and ReAssure regularly monitor their solvency. I am satisfied that the capital coverage ratio of LGAS remains within, and is still being managed to, its risk appetite. I have also reviewed the estimated solvency position of LGAS and the estimated impact of the transfer at 31 December 2019, and I have been provided with the estimated solvency position of ReAssure, allowing for the estimated impact of the transfer, at 31 December 2019. I have made a comparison of these financial positions and I am satisfied this does not change my conclusions in respect of benefit security, either for transferring or non-transferring policyholders.

More details can be found in Section 3 of this Supplementary Report.

### **2.2 Response to policyholder communications**

Following approval by the Court at the Directions Hearing on 11 July 2019, the communications plan outlined in my Main Report has been put into effect and policyholders and other third parties, such as advisors and trustees, have been contacted to inform them of the nature and effect of the Scheme, with dispensations to waive the obligation to write to some policyholders granted by the Court. Statistics on mailings, responses, queries and objections have been captured daily, and a regular forum was convened to discuss the more complex queries and objections and decide the best response to customers. A weekly

summary of the statistics has been provided to key stakeholders including the PRA, the FCA, the Independent Expert, the LGAS With-Profits Actuary and myself.

All policyholders who have expressed an objection to, or who have indicated they planned to make a representation in respect of, the proposed transfer have been responded to in writing. As at 16 February 2020, a total of 20,838 responses from policyholders and other interested parties have been received in response to the mailing, of which 1,141 have been categorised as objections. The objections amount to 0.14% of the 793,279 mailings sent. Further responses and objections beyond the date of this report are possible.

I have reviewed weekly MI, the approach of the daily forum, and a sample of written responses to policyholders, and I am satisfied that policyholder queries and objections have been managed in a clear, fair, sensitive and robust way.

Of the objections received a number of consistent themes have arisen, which I have commented on in the main body of this Supplementary Report. Overall, having reviewed the nature of the objections raised by policyholders, I am satisfied that the issues raised do not alter my conclusions as set out in the Main Report.

More details can be found in Section 4 of this report.

### **2.3 Other issues**

In this Supplementary Report, I have commented on a number of issues which either I indicated in my Main Report I would revisit, or have subsequently come to my attention. In summary, these are:

- There have been only minor changes to the Scheme, and I am satisfied that these changes will not have any material impact on transferring policyholders.
- The proposed Legal Effective Date and Economic Effective Date of the transfer have been postponed to 6 April 2020 and 1 April 2020 respectively. This supports the desired outcome of a successful migration, which is in the interests of transferring policyholders, and does not change my conclusions in respect of policyholder benefit expectations.
- After the publication of my Main Report, Swiss Re indicated that they no longer intended to proceed with the planned IPO of ReAssure in 2019. Further to this, on 6 December 2019, it was announced that Phoenix Group Holdings plc ("Phoenix") had entered into an agreement to buy ReAssure's parent company from the Swiss Re group. I have met with members of the Phoenix leadership team, who have provided me with a summary of their plans for the ReAssure business and outlined the approach to the management of risk appetite within the Phoenix group. I have compared the risk appetite statements under the respective entities and concluded that the proposed purchase would not result in any material detriment to policyholder benefit security, and does not affect the conclusions set out in my Main Report.
- There have been no further product changes proposed by ReAssure beyond those commented on in my Main Report.

- Based on the information provided to me by the migration programme, by the LGAS and ReAssure second line functions, and by KPMG in an independent report, my conclusions on policyholder benefit expectations in respect of operational readiness are unchanged, and I believe it is reasonable that the entities should proceed towards a transfer of the business.
- There have been no material changes to the proposed Annuity Introducer Agreement as set out in my Main Report, and no further changes are proposed which would have a material impact on policyholders.
- I can confirm I have now received and reviewed a copy of ReAssure's unit-linked principles and practices document, which has been approved by ReAssure's Unit Pricing Committee and reviewed by ReAssure's Fairness Committee, and that the principles and practices set out align to those used by LGAS, except in respect of two exceptions discussed in my Main Report. I am able to conclude that ReAssure's proposed management of unit-linked funds does not present a material detriment to the benefit expectations of transferring policyholders.
- I have been provided with an analysis indicating ReAssure is still operating within its service levels, and have reasonable assurance that the conclusions within my Main Report in respect of customer service remain sound.
- I have reviewed the terms of the BTA Amendment Agreement (July 2019) and I am satisfied that they do not represent a risk of material detriment to transferring or remaining policyholders.
- The estimated ReAssure post-transition solvency position assumes ReAssure will be granted permission to extend the Transitional Measure on Technical Provisions ("TMTP") on the Transferring Business, but this has yet to be approved by the PRA. I have no reason to believe the PRA will not approve this application, and I consider allowance for the TMTP within the ReAssure figures to be a reasonable assumption. In addition, ReAssure figures indicate non-approval would not be likely to lead to a material change in their solvency ratio, and therefore my conclusions regarding the benefit security for transferring policyholders is unchanged.
- In respect of ReAssure's recent purchase of the Quilter heritage business, ReAssure have informed me that this will not result in changes to the capital management policies of ReAssure Group Holdings plc ("RGP") or ReAssure. As a result I have concluded that this does not impact the conclusions in my Main Report.
- I have considered the recent judgment in respect of the proposed transfer of annuity business between Prudential Assurance and Rothesay Life, but on reflection I have not changed the conclusions reached in my Main Report.

More details can be found in Section 5 of this report.

## **2.4 Key conclusions and opinion**

In my opinion, the conclusions of my Main Report still stand. In particular:

- The proposed Scheme will have no material adverse effect on the security and reasonable benefit expectations of the transferring LGAS policyholders.



## LGAS Chief Actuary's Supplementary Report

- The proposed Scheme will have no material adverse effect on the security and reasonable benefit expectations of the remaining LGAS policyholders.
- In respect of both the transferring and remaining policyholders, the proposed Scheme is consistent with the requirement to treat customers fairly.

Based on these considerations, my advice to the Board is, therefore, that there is no reason at present why the Scheme may not proceed, although the Board should consider any update after the date of this report on ReAssure's expected operational readiness to take on the Transferring Business.

### 3 Updated financial information

#### 3.1 LGAS solvency position

##### *Pre-transfer solvency position*

The conclusions in my Main Report were based on the solvency position of LGAS as at 31 December 2018. Figure 3.1 shows the updated position as at 30 June 2019, with the previous 31 December 2018 position for comparison.

**Figure 3.1: LGAS solvency II surplus (management view)**

£m	30 Jun 2019	31 Dec 2018
Own Funds	10,681	10,574
Capital requirements	(7,429)	(7,039)
<b>Surplus</b>	<b>3,253</b>	<b>3,535</b>
Capital coverage ratio	144%	150%

The Own Funds as at 30 June 2019 and 31 December 2018 incorporated L&G management's estimate of the impact of recalculating the TMTP, as this was believed to provide the most up-to-date and meaningful view of the Solvency II position. In line with regulatory guidance, the next formal recalculation will take place no later than January 2020.

The movement in surplus over the first half of 2019 reflects a number of items, principally an increase from operational surplus offset by strain from significant annuity new business, payment of company dividends and the impact of yield movements. The half-year capital coverage ratio of 144% remains within the LGAS risk appetite.

##### *Post-transfer solvency position*

Figure 3.2 below shows the estimated solvency positions of LGAS at 30 June 2019 and 31 December 2018 if the Scheme had been effective at each date.

**Figure 3.2: LGAS solvency II surplus if Scheme had been in effect (management view)**

£m	30 Jun 2019	31 Dec 2018
Own Funds	10,114	10,071
Capital requirements	(6,961)	(6,558)
<b>Surplus</b>	<b>3,153</b>	<b>3,512</b>
Capital coverage ratio	145%	154%

The primary effect of the transfer is to remove the Own Funds and SCR in respect of the With-Profits Fund from the balance sheet, together with the liability to pay the shareholder transfers to ReAssure under the RTA and the associated SCR. The removal of these items leads to a small reduction in the monetary amount of the surplus, and a small increase in the capital coverage ratio (due to the lower aggregate capital requirements).

The reduction in the absolute amount of surplus primarily arises due to:

- the loss of tax synergies between the Transferring Business and the remaining LGAS business; and
- LGAS's share of the expected costs of the transfer, to the extent that these had not already been incurred by 30 June 2019.

### ***Capital management policy***

The results above are consistent with the LGAS capital management policy. There have been no changes to the LGAS risk appetite statement and capital management since I wrote my Main Report.

### ***Developments since 30 June 2019***

The solvency position of LGAS is regularly monitored between formal external half-yearly reporting dates. I am satisfied that the capital coverage ratio of LGAS remains within, and is still being managed to, its risk appetite. I have also reviewed the estimated solvency position of LGAS and the estimated impact of the transfer at 31 December 2019. I am satisfied this information does not change my conclusions in respect of benefit security for non-transferring policyholders.

## **3.2 ReAssure solvency position**

### ***Pre-transfer solvency position***

The conclusions in my Main Report were based on the solvency position of ReAssure as at 31 December 2018. Figure 3.3 shows the updated position as at 30 June 2019, with the previous 31 December 2018 position for comparison.

**Figure 3.3: ReAssure solvency II surplus**

<b>£m</b>	<b>30 Jun 2019</b>	<b>31 Dec 2018</b>
Own Funds	4,312	3,901
Capital requirements	(2,863)	(2,678)
<b>Surplus</b>	<b>1,449</b>	<b>1,223</b>
Capital coverage ratio	151%	146%

### ***Post-transfer solvency position***

Figure 3.4 below shows the estimated solvency positions of ReAssure at 30 June 2019 and 31 December 2018 if the Scheme had been effective at each date.

**Figure 3.4: ReAssure solvency II surplus if Scheme had been in effect**

<b>£m</b>	<b>30 Jun 2019</b>	<b>31 Dec 2018</b>
Own Funds	4,751	4,231
Capital requirements	(3,266)	(3,067)
<b>Surplus</b>	<b>1,485</b>	<b>1,164</b>
Capital coverage ratio	145%	138%

The figures for ReAssure have been provided by the Chief Actuary of ReAssure. Please note that ReAssure has slightly revised the figures at 31 December 2018, and these are different to those shown in my Main Report. These revisions result in only a small movement in capital coverage ratio, and would not have changed the conclusions set out in my Main Report. I note, as outlined in the ReAssure Chief Actuary's Supplementary Report, that the basis of preparation of the pre-transfer figures above at 30 June 2019 is largely unchanged from 31 December 2018, except in respect of longevity stresses for the SCR. It is assumed that ReAssure will be granted permission to extend the TMTP to cover the Transferring Business, although the methodology for calculating TMTP will have to be approved by the PRA. ReAssure has confirmed they do not intend to apply the Volatility Adjustment to the Transferring Business.

At 30 June 2019 both LGAS and ReAssure were being managed with a level of capital in excess of the levels required by their risk appetite statements, and this would remain the case following transfer. Therefore, these financial comparisons do not change my conclusions on benefit security for transferring policyholders as set out in my Main Report.

I have made further comments on ReAssure's assumed use of TMTP for the Transferring Business in Section 5 below.

### ***Capital management policy***

As set out in my Main Report, following exploration of an Initial Public Offering ("IPO") of ReAssure during 2019, new capital policies were approved in respect of ReAssure and RGP, subject to completion of the IPO. As covered in my Main Report, I was satisfied that these policies would have provided adequate benefit security for the transferring policyholders in the event of an IPO. Since then, on 5 December 2019, these capital policies were formally approved for ongoing use (even absent an IPO) by the respective ReAssure Boards.

The results above are consistent with these ReAssure capital management policies.

### ***Developments since 30 June 2019***

I understand that ReAssure carry out regular monitoring of their solvency position and estimate their capital coverage ratio. I have been provided with the estimated solvency position of ReAssure, allowing for the estimated impact of the transfer, at 31 December 2019. I have made a comparison of this against the estimated LGAS solvency position at the same date, and I am satisfied this does not change my conclusions in respect of benefit security for transferring policyholders.

## **3.3 Conclusions from updated financial information**

Based on the financial information as at 30 June 2019, it remains the case that:

- the solvency position of ReAssure, together with its approved capital management policies, provides sufficient financial strength for the transferring policies and ensures that the risk of ReAssure being unable to pay benefits as they fall due is extremely remote; and
- the implementation of the proposed Scheme is projected to have an immaterial effect on the solvency position of LGAS.
- As observed in my Main Report, a comparison of the levels of surplus and capital coverage in the two entities only provides a snapshot at a point in time. It is also necessary to consider the capital management of the two entities. As described in my Main Report, I have compared the capital management policies of the two entities and consider that the ReAssure policy would provide adequate benefit security for transferring policyholders.

Therefore I am satisfied that the proposed Scheme would not have a material adverse effect on the benefit security of either the transferring policyholders or the remaining policyholders as at 30 June 2019.

In addition, as set out above, both LGAS and ReAssure regularly monitor their solvency. I am satisfied that the capital coverage ratio of LGAS remains within, and is still being managed to, its risk appetite. I have also reviewed the estimated solvency position of LGAS and the estimated impact of the transfer at 31 December 2019, and I have been provided with the estimated solvency position of ReAssure, allowing for the estimated impact of the transfer, at 31 December 2019. I have made a comparison of these financial positions and I am satisfied this does not change my conclusions in respect of benefit security, either for transferring or non-transferring policyholders.

## **4 Response to policyholder communications**

### **4.1 Communications to LGAS policyholders and other third parties**

Following approval by the Court at the Directions Hearing on 11 July 2019, the communications plan outlined in my Main Report (see section 5.10) has been put into effect and policyholders and other third parties, such as advisors and trustees, have been contacted to inform them of the nature and effect of the Scheme. The communication package has included direct mailing, press adverts and web content. Throughout the rest of this section of this Supplementary Report I refer to communications to "policyholders", but this should be interpreted as also referring to other third parties, except where explicitly stated.

The policy transfer website was launched on 12 July 2019. The initial direct mailings began on 16 July 2019 and concluded on 21 August 2019, totalling 781,046 communications, including 54,162 advisers. Further follow up mailings took place on 9 September 2019, 19 November 2019 and 28 January 2020. In total 793,279 communications have been issued to policyholders and interested parties up to 16 February 2020. Public notices of the proposed Scheme were placed in the Sun, the Daily Mail, the Times, the Daily Telegraph, the Guardian and the Financial Times newspapers and the London Gazette on 29 July 2019, and further notices in the Belfast Gazette and the Edinburgh Gazette on 2 August 2019. In the Channel Islands, notices were published in the Guernsey Gazette, the Alderney Gazette and the Sark Public Notice Box on both 2 August 2019 and 16 August 2019. In respect of all other EEA states, the PRA was requested at the Directions Hearing to notify the relevant regulators in those states of the Scheme and I understand that this process was begun on 11 July 2019. Those regulators had three months from the date of notification within which to respond. To date, no regulators have objected to the Scheme. If any concerns are raised by the regulators which I consider to have a material detrimental impact on transferring policyholders, I will make my view known to the Board, with a copy included in the final Court submissions. In addition to the regulatory notifications in these states, notices were placed in the international editions of The Times, The Daily Mail and the Financial Times.

As set out in my Main Report, certain dispensations to waive the obligation to write to some policyholders were sought from the Court, and these were granted.

### **4.2 Policyholder responses**

Management of LGAS policyholder responses has been carried out internally, with specifically trained response handling agents. The aim has been to answer the majority of policyholder questions at a single point of contact, although this has not always been possible. A variety of policyholder responses have been captured: by telephone, post and email.

Statistics on mailings, responses, queries and objections have been captured daily, and a regular forum was convened and attended by subject matter expert representatives from both L&G and ReAssure. The more complex queries and objections have been escalated to this forum which discussed the best response to customers. A weekly summary of the statistics

and objections has been provided to key stakeholders including the PRA, the FCA, the Independent Expert, the LGAS With-Profits Actuary and myself.

These statistics capture the source of the query (whether policyholder, trustee, IFA or other party), the originating location (whether UK, Jersey, Guernsey, other EEA state, or rest of world), and the product type. The statistics also capture the following categories of query:

- Business as usual
- Request for documentation
- General enquiries on the proposed transfer
- Objections to, or planned representations in respect of, the proposed transfer

An important part of response management is establishing whether a policyholder has made an objection to the transfer. In some cases, the policyholder has stated definitively, on the telephone or in writing, that they are making an objection. However, any expression of dissatisfaction with the proposed transfer has also been treated as a flag for a potential objection. Where the policyholder has expressed dissatisfaction on the telephone, a specific question has been asked at the end of the call to determine whether they are objecting. Where the policyholder has expressed dissatisfaction in writing, as there has not been an opportunity to determine whether this was an objection in real time, this has been marked as an objection to err on the side of caution. Where it has been ascertained that, following responses to their concerns, a policyholder no longer wishes to object, these have been marked as withdrawn objections.

All policyholders who have expressed an objection to, or who have indicated they planned to make a representation in respect of, the proposed transfer have been responded to in writing. The written responses have been tailored appropriately for the respective objection or representation, and have also highlighted to the policyholder that these had been recorded and would be supplied to the regulators and the Court.

Up to 16 February 2020, a total of 20,838 responses from policyholders and other interested parties have been received in response to the mailing. In aggregate these represent 2.6% of the population that was written to. Of these initial responses, 1,141 have been categorised as objections and 42 as complaints. The remainder comprise general Part VII and business as usual enquiries. The 1,141 objections represent 0.14% of the population that was written to. Further responses and objections beyond 16 February 2020 are possible, and I will comment on those in any future iterations of this report.

I have reviewed weekly MI, the approach of the daily forum, and a sample of written responses to policyholders, and I am satisfied that policyholder queries and objections have been managed in a clear, fair, sensitive and robust way.

Of the objections received and not later withdrawn, a number of consistent themes have arisen. These are discussed in the sections below. Please note that as a single objection may contain more than one theme, some objections have been counted in more than one section below.

### ***Loyalty to L&G***

347 policyholder objections contained concerns about their policy transferring to ReAssure, on the basis that these customers considered themselves a customer of L&G and were loyal to or had specifically chosen the L&G brand.

Whilst brand loyalty and customer identity are understandably important to some policyholders, I do not consider this to be a matter of unfairness per se. A trusted brand can be considered shorthand for a number of more detailed factors associated with an entity including its financial strength, the quality of its product and the expectations of future benefits, the future fair treatment of customers (implied by the governance in place within the organisation) and the customer service they are likely to receive. In each case, I have commented on these underlying factors in my Main Report:

- I noted that the Solvency II regulatory requirements, which are intended to ensure insurance companies can remain solvent after a 1-in-200 year event, would continue to apply to ReAssure after transfer, and that additional security was provided by the ReAssure capital management policy. I concluded that there is no material adverse effect on the benefit security of transferring policyholders.
- I concluded there is no material adverse effect on the benefit expectations of transferring policyholders. In particular:
  - The products policyholders have will be largely unchanged after transfer, and where changes are proposed these are not expected to have a material adverse impact on any group of policyholders.
  - The L&G Mature Savings Chief Risk Officer ("CRO") reviewed ReAssure's current governance structure and the changes proposed to incorporate the Transferring Business, and concluded that ReAssure had a strong existing governance framework in place and that framework, together with the proposed changes, would be sufficient for the Transferring Business. As a result I concluded that the proposed ReAssure governance in respect of transferring policies would not materially impact customer benefit expectations.
- A comparison of service levels by L&G's CRO team and Operations Management team showed a broadly similar performance across a range of processes, and they concluded there was not likely to be any material detriment in the administration or servicing experience for transferring customers.

I have also commented on some of these matters in other sections of this Supplementary Report.

### ***Concern about ReAssure***

542 policyholder objections contained concerns about their policy transferring to ReAssure, on the basis that they had a concern about ReAssure. These concerns included:

- That they were not aware of ReAssure as an entity.
- That they thought ReAssure had a poor reputation.
- That they had previously had a poor personal experience with ReAssure.



- That they believed they would get worse customer service levels from ReAssure.
- That they were worried about the financial strength of ReAssure.
- That they were concerned about the impact of the potential IPO, or the recent suspension of the IPO process.

I have commented on each of these concerns separately below.

- It is not unexpected that a number of policyholders were not aware of ReAssure as an entity. ReAssure is a back book consolidator, and generally has a lower brand recognition than L&G. Nevertheless this of itself is not a matter of fairness. As with loyalty to the L&G brand, which I have commented on above, what matters more than the recognition or awareness of ReAssure is the underlying benefit expectations, financial security, service levels, and fairness of treatment that policyholders can expect.
- Some policyholders had general but unspecified concerns about the reputation of ReAssure. I am not able to comment on unspecific concerns about reputation, but I have separately considered matters which might affect reputation, such as customer service levels.
- The concerns of policyholders who have personally encountered poor service from ReAssure in the past should not be lightly dismissed, and I am sympathetic to such concerns. Nevertheless my conclusions cannot take into account individual instances of past experience, and must instead consider the likely future experience policyholders would typically expect to receive.
- In respect of likely future levels of customer service, as noted above and covered in my Main Report, a review by L&G's CRO team and Operations Management team concluded there was not likely to be any material detriment in the administration or servicing experience for transferring customers.
- In respect of financial security, as noted above and covered in my Main Report, I concluded that there is no material adverse effect on the benefit security of transferring policyholders.
- In respect of the potential IPO, I noted in my Main Report that I have been provided with both a copy of the new capital management policy that ReAssure has approved to take effect following the IPO, and a copy of the capital management for the new IPO holding company. I have concluded that these capital management policies would provide adequate benefit security for policyholders. In addition, some objections mentioned lack of market confidence in ReAssure, citing the recent postponement by ReAssure of the IPO process. Whilst suspension of the IPO may have indicated lack of support at the price that was offered, or other market challenges, it did not change my view of the security to policyholders provided by the capital management policies within the ReAssure entities. In addition, this is superseded by the recent Phoenix announcement, which I have commented on below.
- It was recently announced that Phoenix had entered into an agreement to buy RGP from the Swiss Re group. At the time of writing this has led to a small number of additional queries and 20 objections from policyholders. The objections received to date mainly centre on perceived mismanagement of other policies by Phoenix, and in respect of the additional period of uncertainty resulting from any integration with

Phoenix, or additional risk for policies moving to Phoenix. In respect of the first point, as stated above, while I am sympathetic to concerns of poor service, I must base my conclusions on the likely future treatment of policyholders. In respect of the second point, I am satisfied that further integration with Phoenix would not happen immediately following the Scheme, and that any changes would be subject to appropriate scrutiny from ReAssure and Phoenix second line functions. I have considered the further implications for benefit security, governance and service levels in Section 5 of this Supplementary Report. In addition, in my view the proposed purchase would remove the residual uncertainty associated with the postponed IPO. All policyholders who have made objections will be written to and apprised of this change in circumstances, as well as being made aware of the new proposed date of the transfer.

I have also further commented on some of these matters in other sections of this Supplementary Report.

### ***Process before transfer***

149 policyholder objections contained concerns about their policy transferring to ReAssure, on the basis of the timing or quality of the information received, or the extent to which they believed they had been consulted. A number of policyholders felt that they should have been offered a choice about whether to have their policies transferred to another provider. In addition, some policyholders felt that they had not received warning sufficiently far in advance of the transfer, or that the information that had been sent to them was not clear.

I have considered these objections, and I am satisfied that the approach adopted follows the expected legal and regulatory process for a Part VII transfer. The requirements of a transfer of long-term insurance business are set out in the Financial Services and Markets Act. Such transfers do not require policyholder approval and individual policyholders are not able to opt-out of a given scheme. The transfer is subject to assessment by the Court, taking into account the opinions of the Independent Expert, the PRA and the FCA, with the intention that there are no material adverse effects on policyholders. Although under this process policyholders do not have a right to opt-out of the transfer, they are informed in advance of the transfer and their right to object and make representations to the Court. I am also satisfied that policyholders have been written to in sufficient time under the appropriate regulatory guidelines, in particular FG18/4 - 7.38, which recommend a minimum of six to eight weeks' notice prior to the Sanctions Hearing. Finally, as set out in my Main Report, I am satisfied that the communications plan in respect of transferring policyholders is appropriate, and that the brochure and covering letters adequately describe the proposed transfer.

### ***Process surrounding transfer***

46 policyholder objections contained concerns about their policy transferring to ReAssure, on the basis of the what they might be expected to experience as a result of the transfer process itself. These concerns broadly fell into these further categories:

- Policyholders had a policy due to mature near the date of transfer, or were planning to surrender their policy, and were concerned that the process of transfer might delay receipt of money

- Policyholders were worried about areas of “material concern” raised in the Independent Expert's Main Report relating to the migration plan.
- Policyholders were concerned that the process of transfer could lead to loss or incorrect movement of data, or similar risks associated with a large migration.

I have noted in my Main Report that there is expected to be a short period of disruption on either side of the proposed migration weekend, when some servicing downtime will be experienced. However, this is not reflective of usual customer service levels in ReAssure, but rather a typical consequence of large policy and data migrations of this nature. As stated in my Main Report, I am satisfied that the solutions being developed are intended to minimise the inconvenience to transferring policyholders, although it is impossible rule out any delay.

In respect of the areas of concern raised around the migration plan, and ReAssure's operational readiness to receive the Transferring Business, I have commented on this in Section 5 of this Supplementary Report. There, I have noted that a rigorous process has been put in place to ensure all activities required to operate the Transferring Business have been captured, that detailed workstream plans are in place to transfer these activities, that attestations of readiness from Project Sponsors will be required prior to transfer, and that second line independent views have been provided. I have concluded that, as a result, I consider the overall process around the assessment of operational readiness is robust.

#### ***Treatment of policyholders after transfer***

206 policyholder objections contained concerns about their policy transferring to ReAssure, on the basis of the treatment they might expect after transfer and the impact this might have on the value of their policy, or access to their policy. Concerns centred on the possibility that ReAssure might make additional charges to policies after transfer, or other changes to product terms, or that the value of transferred policies might subsequently decline due to changes in unit value, or poor investment performance or investment management.

Some changes to policy terms, conditions and practices will be adopted by ReAssure as part of the proposed transfer, to facilitate the future administration of the business on ReAssure systems. The Products & Proposition workstream of the transfer programme has undertaken a detailed review of these changes and provided me with their conclusions, which is that none of these changes are expected to result in a material adverse impact on any group of policyholders. ReAssure has also proposed changes to the management of unit-linked business in respect of the time of day assets are valued to calculate unit prices, and also in respect of the metrics used to manage the With-Profits Fund. I have also reviewed these proposed changes and I am satisfied they will have no material adverse effect on the benefit expectations of unit-linked and with-profits policyholders respectively. In addition unit-linked funds will continue to be managed by Legal and General Investment Management (“LGIM”) for at least seven years after the effective date under an Investment Management Agreement, and in respect of the With-Profits Fund, ReAssure have confirmed that in the normal course of events they intend to manage the With-Profits Fund in a manner that is materially the same as it has been managed by LGAS for two years following the transfer (and this includes investment strategy for the fund). Any future changes would have to go through the appropriate level of ReAssure governance, which as I have commented elsewhere, would not

materially impact customer benefit expectations. These conclusions are set out in my Main Report, and the ReAssure approach to strategy for the With-Profits Fund is set out in more detail in the LGAS WPA Main Report.

### ***Policy specific enquiries***

147 policyholder objections contained specific queries about their policy or product transferring to ReAssure. Examples of objections falling into this category include:

- An objection including a question as to why the move did not constitute a change of contractual terms or conditions of sale.
- An objection related to an ongoing complaint with L&G or ReAssure.
- An objection also containing a request to transfer out, or for information to assist a transfer.

This category, by its nature, contains some diverse queries and concerns from policyholders. I have reviewed the responses in this category and I am satisfied that the policyholder questions, objections and complaints have been dealt with in a robust way. Many of these objections also contained other themes covered in this report.

### ***Concerns in relation to Prudential / Rothesay Life ruling***

On 16 August 2019, a ruling in respect of a proposed Part VII transfer between Prudential Assurance Company Limited and Rothesay Life PLC was made by Mr Justice Snowden, which concluded the transfer should not be sanctioned. Following the ruling, a small number of objectors have made reference to this case within their objection, citing this as a reason that their policy should not be transferred.

I have commented in more detail on this ruling in Section 5.13 of this Supplementary Report. There, I have noted that there are in my view sufficient differences between this case and the proposed LGAS transfer, and that this has not led me to change the conclusions in my Main Report.

### ***Other specific concerns***

A small number of other specific concerns have arisen as themes within in the objections, and I have commented on these below:

- That there has been not been proper evaluation of any risks posed by ReAssure taking on the Quilter business. I have commented on this in Section 5.12 of this Supplementary Report, and have concluded that this does not impact the conclusions in my Main Report.
- Concerns relating to cases where the policyholder already has a policy with ReAssure, and that this would lead to increased exposure of risk. It is true that in such cases exposure to ReAssure as an entity has increased. However, as stated in my Main Report, based on the prevailing solvency regime and the capital management policies

in place I consider the likelihood of ReAssure being unable to meet benefits to policyholders as they fall due to be extremely remote.

- A number of queries relating specifically to the LGAS With-Profits Fund ("WPF"). One particular concern has centred on the possibility that ReAssure could change the nature of the WPF in the future, or merge this into another fund. Another concern has centred around the WPF expense deal proposed as part of the Scheme, and whether the transfer of £50m from the WPF as part of this deal represents good value to with-profits policyholders. I have already commented on both of these matters in my Main Report, where I concluded they were not against the interests of with-profit policyholders. I have also taken into consideration the opinion of the LGAS With-Profits Actuary, who is of a similar view.

### ***Non-specific concerns***

There were also a number of objections containing less specific concerns around the transfer. This is not unexpected, as a Part VII process will be unfamiliar to many policyholders. I have reviewed a sample of these and am satisfied they have been dealt with in a robust way, and that policyholders have been given suitable information to help support their decision on whether to object.

### **4.3 Conclusions from policyholder communications**

Overall, having reviewed the nature of the objections raised by policyholders, I am satisfied that the issues raised do not alter my conclusions as set out in the Main Report.