HYMANS ROBERTSON

# CASLP Ltd and Countrywide Assured plc

## Report by the Independent Expert on the proposed transfer of the business of CASLP Ltd to Countrywide Assured plc by means of a Scheme under Part VII of the Financial Services and Markets Act 2000

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For and on behalf of Hymans Robertson LLP

14 July 2023

Contents



Where a term is underlined in this report, this indicates that it is explained in the glossary, which can be found in Appendix 1. A number of abbreviations are also used throughout this report. These are defined where they are first used and also in Appendix 2.

# 1. Introduction

## Background

1.1. Countrywide Assured plc ("Countrywide Assured") and CASLP Ltd ("CASLP") are authorised insurance companies. Both are registered in England & Wales and share the same ultimate parent company, Chesnara plc ("Chesnara"). Countrywide Assured and CASLP (together, "the parties") propose to transfer all of CASLP's business to Countrywide Assured by means of the process set out in Part VII of the Financial Services and Markets Act 2000 ("FSMA").

1.2. This transfer will allow Chesnara and its subsidiaries (collectively, the "Chesnara Group") to consolidate CASLP into Countrywide Assured. This is expected to result in operational efficiencies and economies of scale, such as being able to produce a single set of financial reports rather than two, a simpler group structure, and having to fulfil regulatory responsibilities for one company rather than two. The parties expect that the ultimate benefits will be lower overall running costs, more efficient use of the management team's time, reduced operational risk, and increased dividend capacity.

1.3. Under this process, the parties must make an application to a court to sanction a scheme of transfer (the "Scheme"). When both companies are registered in England & Wales the relevant court is the High Court of Justice in England & Wales (the "Court"). The application made to the Court must also be accompanied by a report on the terms of the transfer (the "Scheme Report"), produced by a person nominated or approved by the Prudential Regulation Authority ("PRA") for that purpose (the "Independent Expert").

1.4. CASLP has a small number of policyholders who were either resident in the Isle of Man, Jersey or Guernsey at the time they took out their policies, or who are currently resident there. Based on legal advice commissioned by the parties, Countrywide Assured and CASLP intend that such policies held by customers in the Isle of Man and Jersey will be transferred pursuant to the Scheme, with no requirement for a separate scheme of transfer in those jurisdictions. Eleven CASLP policyholders are currently resident in Guernsey, of whom two were resident there at the time they took out their policies. Rather than present a separate scheme to the Royal Court of Guernsey, the parties intend to write directly to the two customers for whom a scheme would otherwise be needed, with a view to novating their policies to be with Countrywide Assured.

## Instructions

1.5. I have been instructed jointly by the parties to report in the capacity of Independent Expert on the terms of the Scheme pursuant to Section 109 of FSMA. My appointment as the Independent Expert has been approved by the PRA, them having consulted with the Financial Conduct Authority ("FCA").

1.6. The purpose of my work is to provide a comprehensive Scheme Report on the likely effects of the proposed Scheme. My duty is to the Court, and this Scheme Report is primarily for the purpose of assisting it in considering the Scheme presented to it for sanction under Section 111 of FSMA. While not the primary audience of my Scheme Report, I also expect it to be used by:

- the policyholders of CASLP and Countrywide Assured, to assist them in understanding the likely effects of the proposed Scheme,
- the directors and senior management of CASLP and Countrywide Assured, to assist in the decision whether to present the proposed Scheme to the Court,
- the PRA and the FCA, and
- the professional advisers of any of the above assisting in the development of the implementation of the proposed Scheme.

1.7. My fees for preparing the Scheme Report will be paid by Chesnara.

## Scope of the Scheme Report

1.8. My terms of reference, which include rules on expert evidence, and details of how I have fulfilled them are set out in Appendix 3.

1.9. The Scheme Report considers the likely effects of the terms of the Scheme in general, but its principal focus is to consider the expected impact of the Scheme on the policyholders of CASLP and Countrywide Assured. Consideration is also given to the expected impacts on different classes of business, to assess whether the Scheme is expected to have a greater impact on any particular classes in isolation.

1.10. My terms of reference require me to assess whether the Scheme is expected to have a material adverse effect on any group of policyholders. For the particular Scheme proposed I would consider a material adverse effect to arise if any of the following is true:

- the benefits expected to be paid under a policy reduce as a result of the Scheme,
- the level of service provided to policyholders deteriorates as a result of the Scheme, and
- the security of policyholder benefits is materially reduced as a result of the Scheme.

1.11. My determination of whether the level of benefits expected to be paid under a policy reduces as result of the Scheme has been carried out separately for each of the main classes of business, i.e. unit-linked, other non-linked, and with-profits contracts. The benefits on non-linked contracts are codified in the policies' terms and conditions, and policyholders should reasonably expect there to be no change to their benefits as a result of decisions taken by their insurer, including a decision to transfer business to or accept a transfer of business from another insurer. In assessing the impact of the Scheme on unit-linked and with-profits contracts, I focus on the application of any areas of discretion in the management of the business which may be impacted by the Scheme.

1.12. My determination of whether the security of policyholder benefits is materially reduced as a result of the Scheme is based primarily on the regulatory balance sheets of CASLP and Countrywide Assured, but with consideration given to risks not captured by those balance sheets, such as risks which may emerge after the first year. In particular, my determination will consider how the level of capital held compares to the regulatory requirements, taking into account the risks to which each firm is exposed. For the purpose of these comparisons, no weight will be placed on any excess capital that may be distributed by management through the payment of dividends in line with their established capital management and dividend policies.

## Status, credentials and independence

1.13. I have provided the PRA and the FCA with a statement of my suitability and my independence to fulfil the role of the Independent Expert reporting on the proposed Scheme. My peer reviewer has also provided a similar statement.

1.14. I am a partner of Hymans Robertson LLP ("Hymans Robertson", "we", "us", "our", etc) and a Fellow of the Institute and Faculty of Actuaries ("IFoA"), having qualified in 1999. I have held the Chartered Enterprise Risk Actuary designation since 2011. I hold the Chief Actuary (Life) and With-Profits Actuary practising certificates issued by the IFoA.

1.15. In detailing my independence, the independence of those Hymans Robertson employees who have assisted me in preparing this Scheme Report, and that of my peer reviewer, the following matters were disclosed:

- None of us have provided consulting services to CASLP, Countrywide Assured or any other entity within the Chesnara Group in the past five years, although Hymans Robertson did receive a very modest amount of fee income from CASLP in 2019 from an engagement that did not involve me or my team.

- Our personal remuneration is not influenced by, or related to, the outcome of the proposed Scheme. There are no financial incentives, of which I am aware, that could act as an impediment to our independence.

- None of us, nor any of our immediate families, have any policies, investments, shareholdings or other financial interests in CASLP, Countrywide Assured or Chesnara or its subsidiaries.

### Other advice and opinions

1.16. Jenny Wood, who is the Chief Actuary for CASLP, Rob Goodwin, who is the Chief Actuary for Countrywide Assured, and Karen Miller, who is the With-Profits Actuary for Countrywide Assured, have prepared separate reports on the Scheme for each firm's Board. I have read these reports. I have relied on the information and analysis set out in them, and I note their conclusions in respect of the impact of Scheme on policyholders' benefit expectations and on the future security of those benefits.

### Reliances and Limitations

1.17. The Scheme Report is subject to the terms and conditions (including the reliances and limitations) of an engagement letter with Chesnara dated 10 October 2022.

1.18. Prior to being lodged with the Court, the Scheme Report (or drafts thereof) may also be provided to the management and advisors of CASLP and Countrywide Assured who have a reasonable requirement to have a copy in the execution of their duties or to ensure the effective implementation of the Scheme.

1.19. The parties have provided me with all of the information that I have requested. The principal documents that I have reviewed in preparing the Scheme Report are listed in Appendix 4. I have also had access to and discussions with senior management of CASLP and Countrywide Assured to assist me in completing my report. I have reviewed the information provided and have challenged its accuracy where, based on my experience, it did not immediately appear to be entirely clear, or where there appeared to be inconsistencies. Having considered the explanations and additional information provided by CASLP and Countrywide Assured, I am satisfied with the reasonableness, consistency and completeness of the written and oral information provided. However, I would note that my review is not, and should not be considered to be, a full validation of the information provided. In that context, I have necessarily relied on the information provided to me.

1.20. I have considered whether any elements of the Scheme and its implementation introduce matters which are outside my professional and practical experience as an actuary working in the life insurance and financial services industry. In particular, I have considered whether there are any aspects of the Scheme which rely on legal or tax opinions or advice and which would materially influence my assessment of the Scheme and the conclusions which I have reached. In my opinion, there are no such features present in the Scheme and I have not considered it necessary to seek expert advice on such matters.

1.21. The Scheme Report should be considered in its entirety as individual sections, if taken in isolation, could be misleading. I have, separately, provided a summary of the Scheme Report for inclusion in the communications to be sent to the various groups of policyholders (and, where relevant, distributed to any persons requesting a copy of such communications). Any other purported summary of the Scheme Report or part thereof must not be treated as having been approved or authorised by me.

1.22. The Scheme Report has been prepared on an agreed basis for CASLP and Countrywide Assured and must not be relied upon for any other purpose than that intended, namely to report to the Court on the terms of the Scheme. No liability will be accepted for use of the Scheme Report for any purpose other than for which it was intended, nor for any misunderstanding of any aspect of the Scheme Report by any user. No liability is accepted to any third parties unless it has been accepted in writing. Furthermore, no liability will be accepted under the terms of the Contracts (Rights of Third Parties) Act 1999. Draft versions of the Scheme Report may not be relied upon by any person for any purpose and must not be used or distributed by CASLP or Countrywide Assured (or any other party receiving such a draft).

1.23. This report should not be interpreted as fact or likelihood or expectation of a particular financial outcome. Hymans Robertson accepts no liability of any kind for any resulting loss, whether direct or indirect, from any decisions made using the information contained in this report. Any analysis included is provided “as-is” and without warranty or guarantee of any kind.

1.24. Hymans Robertson does not provide legal services and therefore we accept no liability to CASLP, Countrywide Assured, any other member of the Chesnara Group or to any other third party in respect of any opinions on legal matters. Furthermore, and noting my comments in paragraph 1.20, nothing in this report should be considered to be investment, accounting or tax advice, which are also outside of the scope of our work. The parties will therefore need to take their own advice in respect of any such matters arising out of this report. No part of this Scheme Report should be taken as a recommendation for any person to maintain, surrender, invest further or refrain from investing in policies issued by either CASLP or Countrywide Assured.

1.25. The information in the report has been compiled by Hymans Robertson and is based upon our understanding of legislation and of events at the date of this report. I will prepare a supplementary report for the Sanction Hearing, expected to be held on 29 November 2023, at which the approval of the Scheme will be considered by the Court, to confirm or otherwise update the conclusions set out in the Scheme Report in the light of any changed circumstances.

### Regulatory and Professional Guidance

1.26. The Scheme Report has been prepared in line with the regulatory guidance issued by the PRA, as set out in Statement of Policy “The PRA’s approach to insurance business transfers” January 2022. Its preparation is also in line with the regulations set out in Chapter 18 of the Supervision Manual of the FCA Handbook (“SUP18”) and the FCA’s guidance set out in Finalised Guidance “FG22/1: The FCA’s approach to the review of Part VII insurance business transfers”. Compliance with these requirements is demonstrated in Appendix 5.

1.27. The Financial Reporting Council sets out technical actuarial standards for members of the IFoA. This report is subject to and complies with the following standards:

- Technical Actuarial Standard 100: Principles for Technical Actuarial Work, and
- Technical Actuarial Standard 200: Insurance.

1.28. In addition, the IFoA sets professional standards for its members. This report has been prepared having due regard to APS X2: Review of Actuarial Work and has been subject to independent peer review.

### Structure of the Scheme Report

1.29. The remainder of the Scheme Report is structured as follows:

- Section 2 sets out a summary of the Scheme Report and its conclusions.

- Section 3 provides background to CASLP.
- Section 4 provides background to Countrywide Assured.
- Section 5 provides an outline of the Scheme.
- Section 6 discusses the expected impact of the Scheme on the financial positions of CASLP and Countrywide Assured.
- Section 7 analyses the expected effects of the Scheme on CASLP's policyholders.
- Section 8 analyses the expected effects of the Scheme on Countrywide Assured's policyholders.
- Section 9 analyses the expected effects of the Scheme on other stakeholders.
- Section 10 describes the communications to be made to policyholders in relation to the Scheme and my review of these communications.
- Section 11 discusses other considerations arising from the Scheme.
- Section 12 discusses the potential consequences of the Scheme not completing.
- Section 13 sets out my conclusions.
- Section 14 certifies that the Scheme Report complies with Part 35 of the Civil Procedure Rules, Practice Direction 35 and Guidance for the instruction of Experts in Civil Claims.

I then include a copy of my summary report for policyholders.

The Scheme Report also has seven appendices:

- Appendix 1 provides a glossary for certain terms used throughout the Scheme Report. Where a term is underlined in the Scheme Report, this indicates that it is explained in the glossary.
- Appendix 2 provides definitions of the abbreviations used throughout the Scheme Report.
- Appendix 3 sets out my terms of reference, and how I have fulfilled them.
- Appendix 4 lists the principal documents I have considered and relied upon in preparing the Scheme Report.
- Appendix 5 sets out how the Scheme Report complies with the relevant regulatory rules and guidance.
- Appendix 6 describes the prudential regulatory regime for life insurers authorised in the United Kingdom ("UK").
- Appendix 7 sets out the definitions of risks faced by the parties, as defined in the Chesnara Group risk taxonomy.

# 2. Summary and conclusions

### Background to the parties

2.1. Both CASLP and Countrywide Assured share the same ultimate parent company, Chesnara, they share a largely common senior management team, and they have governance structures that are essentially the same. CASLP's business consists mostly of unit-linked life and pensions products, which also accounts for the vast majority of Countrywide Assured's business.

### Outline of the Scheme

2.2. The Scheme is intended to transfer all of CASLP's policies and all of CASLP's liabilities to Countrywide Assured. CASLP's policies primarily comprise of unit-linked life and pensions business, self-invested personal pensions ("SIPPs") and onshore bonds. There is also a small book of in-payment annuities and some permanent health insurance ("PHI") business. At 31 December 2022 there were 66,628 policies, with best estimate liabilities ("BEL") of £2,544.5m.

2.3. The Scheme will also transfer the vast majority of CASLP's assets to Countrywide Assured, with a small proportion being left in CASLP for specific purposes, such as allowing it to continue to cover its regulatory capital requirements until it is deauthorised. The Scheme will also transfer all of CASLP's insurance, reinsurance, outsourcing and any other contracts to Countrywide Assured.

### Benefit security

2.4. The parties have capital management policies that are materially aligned. Both require the parties to maintain Eligible Own Funds of at least 120% of the regulatory Solvency Capital Requirement ("SCR"), with any Eligible Own Funds in excess of this available to be paid out as dividends to shareholders. In practice, the parties target a higher level of Eligible Own Funds, but dividend payments would be restricted if they resulted in the SCR coverage falling below 120%. I therefore consider the two companies to be of approximately equal financial strength so long as they both comply with their capital management policies.

2.5. Both parties complied with their capital management policies at 31 December 2022 and analysis of Countrywide Assured's pro-forma balance sheet shows that the level of Eligible Own Funds that would have been held on 31 December 2022 had the Scheme become effective on that date would have been sufficient to comply with the capital management policy. There will be no changes to Countrywide Assured's capital management policy as a result of the Scheme.

2.6. Both CASLP and Countrywide Assured currently have regulatory approval to use the Volatility Adjustment ("VA") when valuing certain types of business for Solvency II reporting purposes. The parties intend to continue to apply the VA to the same lines of business following implementation of the Scheme, and have notified the PRA of this intention. This remains a matter for the PRA to approve. In any case, neither party currently relies on the VA to meet its capital management policy and, based on analysis carried out by the parties, it is not expected that Countrywide Assured will rely on it after implementation of the Scheme.

2.7. CASLP's existing insurance and reinsurance arrangements will transfer to Countrywide Assured under the terms of the Scheme, and consequently both parties will gain exposures to each other's insurers and reinsurers. Having assessed these exposures against the parties' Risk Appetite Frameworks, which are materially aligned, I am satisfied that this will not lead to a material adverse effect on benefit security.

2.8. Given the similarities in the types of assets and liabilities held by the parties, they have a broadly similar risk profile. In particular, they have similar exposure to market risks, insurance risks and climate risks. I therefore do not expect the implementation of the Scheme to result in a material change in risk profile for either party.

2.9. While Countrywide Assured is closed to new business, CASLP has two product lines – Onshore Bond and OneSIPP – which are open to new business. The parties' current plans are for these two product lines to remain open to new business in Countrywide Assured following the transfer, subject to management review. The ability to continue to write new business in Countrywide Assured will be subject to continued compliance with its capital management policy.

2.10. Chesnara actively seeks opportunities to acquire further blocks of life insurance business, which may result in future acquisitions being consolidated into Countrywide Assured. These should be expected to increase capital generation within Countrywide Assured, and I note that decisions about them will be subject to Countrywide Assured's Risk Appetite Framework and capital management policy. Transfers of insurance business into Countrywide Assured would also be subject to the safeguards set out in Part VII of FSMA. As such, I am satisfied that Countrywide Assured's business plans are not expected to have a material adverse effect on benefit security.

2.11. Overall, I am satisfied that the Scheme is not expected to have a material adverse effect on the benefit security of any group of policies.

### Benefit expectations

2.12. The Scheme will not change the terms and conditions of any of CASLP's or Countrywide Assured's existing policies. Similarly, the Scheme will not change, and the parties have confirmed that they do not plan to change as a result of the Scheme, any of the following:

- the range of funds available to policyholders,
- the charges and expenses applying to their business, and
- the way in which they manage their business, including the application of any discretion and any capital support arrangements.

2.13. I therefore do not expect the transfer to result in a reduction in the benefits paid to or an increase in premiums required from any of CASLP's or Countrywide Assured's existing policyholders.

2.14. Overall, I am satisfied that the Scheme is not expected to have a material adverse effect on benefit expectations for any group of policyholders.

### Service standards

2.15. Chesnara has entered into a new outsourcing agreement with SS&C Technologies ("SS&C") to ultimately provide outsourced administration for all CASLP policies and certain books of Countrywide Assured policies. The parties are in the process of planning the migration of policy administration to SS&C's systems, which will proceed regardless of the outcome of the Scheme.

2.16. The parties invested a significant amount of management time into the selection of SS&C as the new long-term outsourced service provider, with no material concerns identified in the due diligence process. There is also a contractual commitment from SS&C to deliver the same level of service as currently provided in-house for CASLP policyholders. I therefore believe that it is reasonable to expect that service standards will not deteriorate as a result of the change in policy administration.

2.17. CASLP currently has two wholly-owned subsidiary companies, CASFS Ltd ("CASFS") and CASLPTS Ltd ("CASLPTS"). CASFS provides administration of certain non-insurance products which are not covered by the Scheme, as well as routing client money to CASLP. CASLPTS's principal activity is to act as trustees to pension schemes established under trust and provided by CASLP.

2.18. Ownership of the shares of CASFS and CASLPTS will be transferred to Countrywide Assured by means of a legal process separate to the Scheme, with their governance structures entirely unchanged. They will continue to provide the same services to the Transferred Policies as they currently do, with the same oversight arrangements in place. I am therefore satisfied that there should be no effect on any of CASLP's or Countrywide Assured's existing policyholders.

### Insurers and reinsurers

2.19. The analysis and conclusions set out in paragraphs 2.4 to 2.11 in respect of policyholders apply equally to the parties' insurers and reinsurers. I am therefore satisfied that I do not expect the Scheme to have a material adverse effect on CASLP's insurers and reinsurers whose contracts will be transferred to Countrywide Assured, or on Countrywide Assured's existing reinsurers.

### Outsourced service providers

2.20. The parties plan to migrate the administration of various blocks of business to SS&C as their long-term provider of policy administration. As these plans and associated timelines do not depend on the implementation of the Scheme, I do not expect the Scheme to have a material adverse impact on any of the parties' outsourced service providers.

### Policyholder communications

2.21. I have reviewed the parties' proposed approach to notifying policyholders and other stakeholders of the Scheme. I have reviewed the communication packs that will be sent to policyholders and the information that will appear on the parties' websites. There are certain groups of policyholders to whom the parties do not intend to send the communication packs, which requires waivers from the requirement to otherwise do so. I support the waiver applications that the parties intend to make. I am also satisfied that the communication packs adequately describe the key features of the Scheme and are written in a language that I consider to be appropriate for the intended recipients.

# 3. Background to CASLP

## Background and history

3.1. CASLP was originally established in 1970 as Old Broad Street Securities Assurance Ltd, which in 1974 became Merchant Investors Assurance Company Ltd. It became a subsidiary of the Merchant Investors Group in 1987, with Allianz (UK) Limited taking a 50% shareholding at that time and then taking a majority controlling interest in 1990. In 1992 it transferred its entire sales force to Citibank Life and was effectively closed to new business, before re-entering the independent intermediary market in 1994. In December 2003 it was acquired by Sanlam Netherlands Holding BV (now Sanlam Investment Holdings Limited, "SIH"), a wholly-owned subsidiary of Sanlam Ltd. Its name was changed to Sanlam Life & Pensions UK Ltd in April 2011.

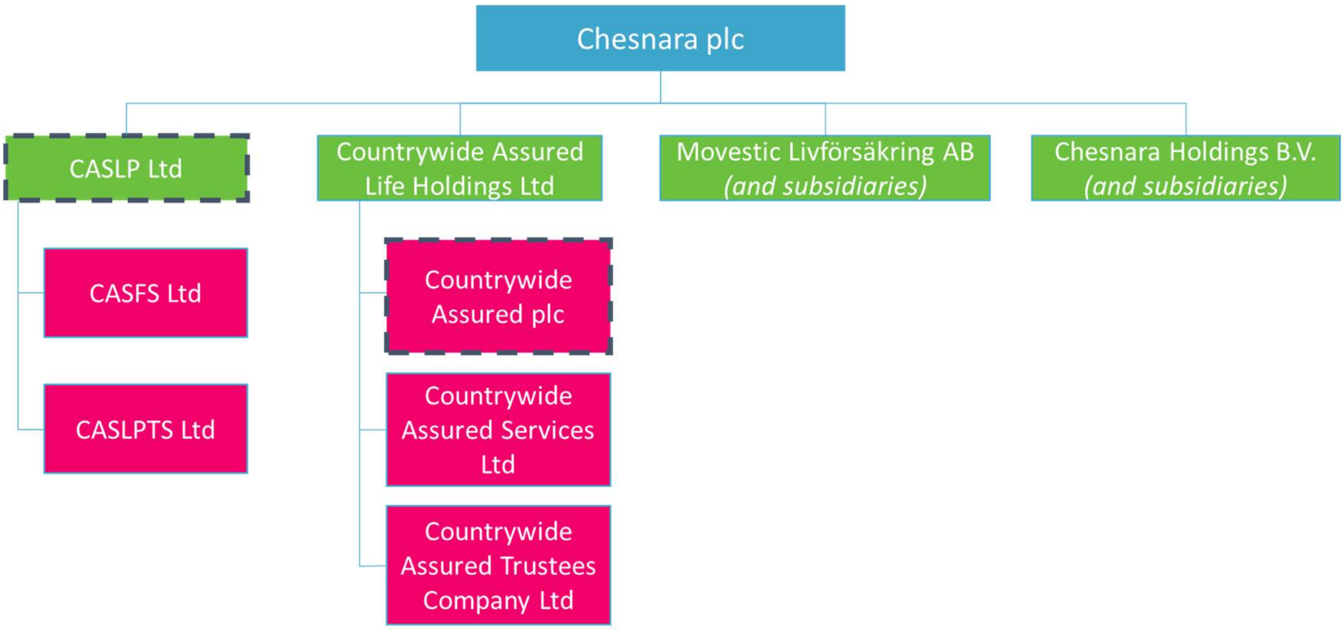
3.2. Chesnara agreed in September 2021 to acquire Sanlam Life & Pensions UK Ltd from SIH. Upon completion of the acquisition in April 2022, it was renamed CASLP Ltd and closed to new business, other than for two products ("Onshore Bond" and "OneSIPP" – see paragraph 3.20 for details) and for contractual increments on existing policies. Sanlam Investments UK Limited ("Sanlam Investments"), a subsidiary of SIH, continues to manage a significant amount of CASLP's assets.

## Group structure

3.3. CASLP is a UK insurance company, wholly owned by Chesnara, as summarised in **Figure 1**. Chesnara is a UK-based public limited company, listed on the London Stock Exchange. As well as its two UK insurance entities, Chesnara has insurance subsidiaries in Sweden (Movestic Livförsäkring AB) and the Netherlands (Chesnara Holdings B.V.), which continue to write new business.

3.4. The ultimate parent is shown in blue, and CASLP and Countrywide Assured are highlighted with dashed lines.

**Figure 1: CASLP's position within the Chesnara Group**




*Source: CASLP Chief Actuary's report on the Scheme*
*The diagram does not include the subsidiaries of the non-UK entities.*

3.5. CASLP has two wholly-owned subsidiary companies, CASFS and CASLPTS. CASFS provides administration of certain non-insurance products which are not covered by the Scheme, as well as routing client money to CASLP. It also acts as scheme administrator of the Sanlam Personal Retirement Scheme, a registered pension scheme established by CASLP to provide personal pensions. CASLPTS's principal activity is to act as trustees to pension schemes established under trust and provided by CASLP.

### Outsourcing

3.6. CASLP currently outsources the following functions related to managing and administering its business:

- investment platform and custody services to Aegon UK plc;
- the provision of archive storage to Iron Mountain (UK) plc;
- the provision of underwriting services to MorganAsh Limited;
- the provisions of payroll services to RSM UK Group LLP;
- fund administration and unit pricing to Curo Fund Services (Pty) Ltd for the 11 managed funds referred to in paragraph 3.23 below;
- the provision of custody services to JPMorgan Chase Bank, N.A;
- investment management, to Sanlam Investments, other than for the externally-managed unit-linked funds referred to in paragraph 3.23 and a non-linked liquidity fund with Deutsche Bank; and
- the provision of IT services and investment operations to Sanlam UK Holdings Limited.

3.7. Sanlam Securities UK ("SSUK") currently provides investment operations (including custodian services and oversight in respect of client money and assets regulation), information technology services (sub-contracted to SCC UK Limited), and information security services. SSUK remains part of Sanlam Ltd but as part of the acquisition of CASLP by Chesnara, a transitional agreement was established so that SSUK would continue to provide these services to CASLP until April 2024.

3.8. Due to the complexity of CASLP's investment universe, which I discuss further in paragraph 3.23, custody services are provided by three different outsourced providers, each of which has responsibility for a sub-set of the total assets. I also note that both SSUK and CASFS provide oversight in respect of client money and assets regulation, each for a different range of client assets.

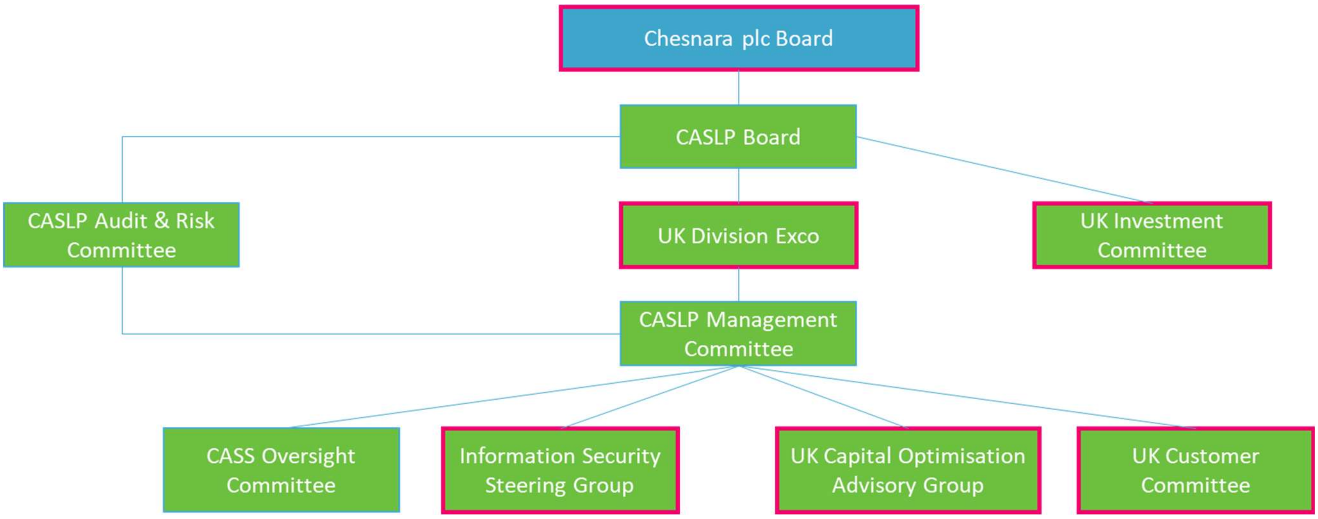
3.9. Policy administration and parts of the unit-linked fund pricing (i.e. other than that outsourced to Curo, as described in paragraph 3.6) are currently carried out "in-house" by CASLP. However, outsourcing of these activities is part of Chesnara's strategic business model and an agreement has been reached with a new long-term outsourced service provider to provide policy administration and unit-linked fund pricing for the CASLP business.

3.10. Under this agreement, existing CASLP administration staff will transfer to the long-term outsourced service provider under the Transfer of Undertakings (Protection of Employment) Regulations 2006. Under current plans, the staff transfer will happen before the Transfer Date. These staff will initially continue to use CASLP's current administration systems and other IT infrastructure until CASLP's administration is migrated onto the outsourced service provider's systems. While no date for this migration has yet been agreed, CASLP's management have informed me that it will happen after the Transfer Date.

### Management and governance

3.11. Since being acquired by Chesnara, CASLP's management and governance has been largely aligned with that of Countrywide Assured. **Figure 2** illustrates CASLP's governance structure. The responsibilities of the boards and committees shown with a pink outline cover both CASLP and Countrywide Assured.

**Figure 2: CASLP's system of governance**




*Source: (1) CASLP Limited Management Responsibilities Map, June 2022, (2) information provided by CASLP's Chief Actuary.*

3.12. CASLP's Board and each of the other committees shown above have terms of reference setting out their purpose, membership, procedures, duties, responsibilities, and reporting requirements. The terms of reference for CASLP's Board were updated following the acquisition of CASLP by Chesnara and are completely aligned with those of the Countrywide Assured Board.

3.13. CASLP's Board comprises the Chair, Chesnara's UK Division Chief Executive Officer ("CEO"), Chesnara's UK Division Chief Finance Officer ("CFO") and at least three non-executive directors. The non-executive directors also make up CASLP's Audit & Risk Committee. CASLP's Board and Audit & Risk Committee are both chaired by independent non-executive directors.

3.14. The membership of the UK Division Executive Committee ("Exco") is comprised of the UK Division CEO, the UK Division CFO, the UK Division Chief Risk Officer, the UK Division Chief Operating Officer, the UK Division Head of Compliance, CASLP's Chief Actuary and Countrywide Assured's Chief Actuary. With the exception of the two Chief Actuaries, all members oversee their respective areas of responsibility in both CASLP and Countrywide Assured.

3.15. The high-level responsibilities of the Committees shown in **Figure 2** are set out below:

- CASLP's Board oversees the management of CASLP, setting direction for CASLP considering the interests of CASLP's shareholders, CASLP's policyholders, and other relevant stakeholders.
- CASLP's Audit & Risk Committee is a sub-committee of the Board with responsibility for setting and overseeing the overall standard for financial and actuarial reporting, compliance, risk management, conduct risk management, internal controls and ethical conduct within the Company.
- The UK Division Exco is responsible for overseeing the management of both CASLP and Countrywide Assured and reports to the Boards of both entities.
- The UK Investment Committee oversees the management of both unit-linked and non-linked investments within CASLP and Countrywide Assured. The terms of reference for the UK Investment Committee have not yet been finalised but are expected to have been approved ahead of the Sanction Hearing. I will provide an update on this in my supplementary report.

- CASLP's Management Committee develops and oversees the implementation of the business plan for CASLP, following direction from the CASLP Board.
- The CASS Oversight Committee is responsible for monitoring CASFS's adherence to the requirements set out in the FCA's Client Assets Sourcebook ("CASS").
- The Information Security Steering Group is responsible for maintaining and developing the information security environment and ensuring compliance with the current data protection laws, across both CASLP and Countrywide Assured.
- The UK Capital Optimisation Advisory Group is responsible for identifying, recommending, managing and prioritising all capital optimisation opportunities across both CASLP and Countrywide Assured.
- The UK Customer Committee focuses on customer outcomes and provides challenge to all areas of CASLP and Countrywide Assured with the aim of ensuring that customers are treated fairly and that fair outcomes are delivered for customers.

3.16. CASLP has two Governance Advisory Arrangements ("GAAs") provided by Zedra Governance Ltd ("Zedra"), which represent the interests of holders of the products within their scope. The scope of the first GAA is CASLP's investment pathways products and the scope of the second GAA is CASLP's workplace personal pension plan products.

3.17. Zedra assesses the value delivered to policyholders and the adequacy and quality of CASLP's policies in relation to Environmental, Social and Governance risks, non-financial considerations and stewardship. The terms of reference for the GAA in respect of each of these groups of policyholders are very similar. The only material difference is that the terms of reference for the pension plan products additionally require an assessment of the information provided by CASLP on costs and charges.

## Business lines

3.18. CASLP's portfolio of insurance business is predominantly composed of unit-linked life and pensions products, SIPPs and onshore bonds. It also contains conventional (i.e. non-linked) life and pensions business, including a small book of in-payment pensions annuities and some PHI business. **Figure 3** below shows CASLP's Solvency II BEL (net of any reinsurance arrangements discussed below) and policy count split by line of business as at 31 December 2022.

**Figure 3: Breakdown of CASLP's BEL at 31 December 2022**

| In-force business by line of business | Number of policies | BEL (£m) |
|---|---|---|
| Unit-linked life | 16,335 | 907.1 |
| Unit-linked pensions | 42,612 | 1,590.4 |
| Non-linked non-annuity | 1,312 | 0.4 |
| Non-linked annuity | 6,369 | 46.6 |
| Total | 66,628 | 2,544.5 |

*Source: CASLP Chief Actuary's report on the Scheme. BEL is shown net of reinsurance*

3.19. CASLP has a number of areas of discretion in the ongoing management of some of its business. Management of unit-linked business is discussed in paragraphs 3.22 to 3.38. Areas of discretion in the management of non-linked business include:

- reviewable premiums on some products with mortality benefits,
- morbidity charges on legacy life and pension contracts,
- inflationary increases on absolute policy fees and minimum charges where an inflationary index is not specified in the policy terms and conditions, and
- the terms on which optional "top-up" policies (e.g. to maintain the sum assured on certain protection products) may be established.

3.20. CASLP is closed to new business, other than for two products ("Onshore Bond", a unit-linked investment bond, and "OneSIPP", a SIPP product for income drawdown by existing policyholders) and for contractual increments on existing policies.

3.21. CASLP holds provisions in respect of potential liabilities arising from historical mis-selling, in particular a c.£4.8m reserve as at 31 December 2022 in relation to policies historically sold by the Merchant Investor salesforce. This liability is largely offset by an insurance contract with Allianz Insurance plc ("Allianz"), described in paragraph 3.39. While other redress payments have been made, these totalled only c.£80k in the 12 months to 30 June 2022 compared to Merchant Investors compensation of c.£2m over the same period. CASLP's management have informed me that Merchant Investors compensations payments have been larger than normal in recent years for known reasons, such as clearing a backlog of claims, and that annual claims are expected to be less than this in future years.

### Management of unit-linked business and unit-linked funds

3.22. CASLP maintains a unit-linked Principles and Practices of Financial Management ("PPFM") document in respect of the operation of all of the unit-linked funds available to its policyholders. This sets out the high-level principles and the lower-level practices adopted in managing its unit-linked funds.

### Investment universe

3.23. CASLP has a relatively complex investment universe, largely driven by the range of funds offered to unit-linked policyholders. There are 11 managed funds which are directly managed by Sanlam Investments, 65 "mirror" funds which are managed by CASLP and which invest directly in externally managed funds, and over 6,000 externally managed funds available via external investment platforms.

3.24. The assets of unit-linked funds may include holdings in externally managed collective investment schemes (e.g. unit trusts, open-ended investment companies or qualified investor schemes), other funds managed by CASLP, or direct holdings of investments.

### Governance of unit-linked funds

3.25. Governance of unit-linked fund management is provided by:

- CASLP's Board, which has overall responsibility for oversight and management of the company's unit-linked business.
- The UK Investment Committee, which has responsibility for overseeing CASLP's management of its unit-linked business. The terms of reference for the UK Investment Committee have not yet been finalised but are expected to have been approved ahead of the Sanction Hearing. I will provide an update on this in my supplementary report.

## Charges on unit-linked business

3.26. CASLP has a range of different types of unit-linked business and, as such, it levies charges through a variety of different mechanisms on different products. For example, these charges may include:

- Product charges, such as deductions made from premiums before they are allocated to units or charges taken by cancelling units.
- Unit fund charges, such as annual management charges, which are applied through the unit fund pricing process.
- Transactional charges, such as bid-offer spreads.
- Charges on underlying investments, such as dilution levies.

3.27. The extent to which CASLP can increase charges (e.g. in response to increased expenses) is outlined in policy terms and conditions. Changes need to be approved by the Board, and as part of the approval process CASLP's Chief Actuary would be asked to provide assurance that they do not breach CASLP's requirement to treat customers fairly. Where changes are permitted by policy terms and conditions, CASLP will normally give affected policyholders at least one month's written notice before increasing charges, although some legacy policies' terms and conditions do not require notification where increases are below a de minimis level.

3.28. CASLP's unit-linked funds, other than those for unit-linked pensions, Individual Savings Accounts and offshore bonds, are subject to UK corporation tax legislation as it applies to life insurance companies. CASLP will as far as possible will charge tax to each such fund as if it was a standalone entity, allowing for income and expenses at a fund level and applying tax at the basic rate applicable to policyholders (currently 20%).

## Management of unit-linked funds

3.29. Of the 11 managed funds managed by Sanlam Investments and 65 "mirror" funds managed by CASLP mentioned in paragraph 3.23, some are dedicated to specific types of business, but many are accessible to different product types with different tax features and different charging structures. These differences are allowed for in the way that unit prices are established.

3.30. CASLP has well established and documented processes for managing its unit-linked business and the underlying unit-linked funds. I have reviewed the processes employed by CASLP and I consider that they are generally reflective of common market practice. Accordingly, I do not consider it to be necessary to set out a detailed description of them here. However, the following paragraphs note areas where CASLP may apply discretion in managing its unit-linked business.

3.31. Policy documents generally give CASLP some discretion to defer any sale of units requested by policyholders. CASLP would not normally expect any deferral to be longer than six months for units invested in property assets or property funds, or one month for all other units.

3.32. CASLP may also take additional actions to protect the interests of all policyholders within a unit-linked fund in the event of adverse external events which result in the unavailability of market values or raise questions about the appropriateness of those values. These may include temporarily suspending trading or unit pricing or diverging from the stated investment strategy. In the event of a current fund value not being available, CASLP may approximate the value by making adjustments to the most recently quoted fund value. CASLP will only take such steps in extreme circumstances and where necessary to protect policyholders.

3.33. CASLP may decide at any time to close a fund, subdivide a fund, or merge together similar funds, and will give one month's notice to policyholders before doing so. In such scenarios, CASLP may offer impacted policyholders the opportunity to switch to any other available funds without charging for doing so.

3.34. Where it is appropriate – for example to ensure that existing or remaining policyholders are not adversely impacted by a large transaction – CASLP has the right to amend the basis on which unit-linked funds are priced.

3.35. CASLP will notify policyholders in the event of material changes to a fund's objective, risk profile or investment strategy. For funds managed internally (i.e. the 11 funds managed by Sanlam Investments), impacted policyholders will be notified before the change. The vast majority of 65 "mirror" funds managed externally are traded on the Cofunds investment platform. CASLP receives notification of any material changes to those funds' objectives, risk profiles or investment strategies and then notify impacted policyholders.

3.36. It is common for insurance companies with unit-linked policies to adopt a process known as box management to reduce transaction expenses. This involves the insurer holding a "box" (i.e. a float) of units in each unit-linked fund, in addition to those allocated to policyholders. The box can be added to when a policyholder sells units in a fund (i.e. the insurer keeps the units on its own account), or used to allocate units to policyholders when policyholders buy them (i.e. the insurer allocates some of its units to policyholders). This means that the insurer does not need to transact every time units are bought or sold by policyholders, potentially reducing expenses. Profits or losses from maintaining boxes accrue to shareholders and not policyholders. CASLP's unit-linked PPFM states that it may use box management to reduce dealing expenses in particular funds, subject to certain limits. Management have advised me it is not extensively used, other than only trading when cumulative "buy" or "sell" instructions exceed the relevant limit, currently £5k in each fund.

3.37. As set out in the terms and conditions for certain products, CASLP has the right to apply an additional charge to particularly large transactions that fund managers expect could dilute the value of units held by other investors. These charges will either be reflected in the unit price or applied as a deduction to the amount invested or divested.

3.38. CASLP endeavours to correct any identified unit pricing errors as soon as is reasonably practical and will compensate policyholders and funds which have suffered a loss as a result of a material error. CASLP defines a material error as one which affects the unit price by more than 0.5%, compensation for which is subject to de minimis levels agreed by CASLP's Board. Errors which impact prices by more than 0.1% but less than 0.5% are investigated for wider implications, but compensation will normally not be paid unless the error is widespread and is expected to have resulted in losses of over £50 for individual retail investors.

### Insurance and reinsurance

3.39. As described in paragraph 3.21, CASLP has an insurance contract with Allianz, which provides cover against mis-selling claims in relation to policies historically sold by the Merchant Investors salesforce, with 100% indemnity for pension mis-selling and 90% indemnity for other mis-selling, expected to increase to 95% in 2026. Over 2020 and 2021 Merchant Investors mis-selling claims were c.£2m each year, but as noted in paragraph 3.21, claims are expected to be lower than this in future years. At 31 December 2022, the expected value of mis-selling claims was £4.8m and the insurance recoverable from the contract was c.£4.3m.

3.40. CASLP also has a relatively small reinsurance treaty in place with Munich Re United Kingdom Life Branch ("Munich Re") in respect of mortality risk on a number of products written between 1988 and 1994 that were in scope of the Securities and Investment Board's mis-selling review. Under the reinsurance treaty, Munich Re will pay 10% of the difference between the policy sum assured required by the review, less the original policy sum assured. The exposure to Munich Re was £(2.8)m at 31 December 2022. This negative exposure is due to CASLP expecting to pay more in future reinsurance premiums to Munich Re than it receives back in reinsurance claims.

3.41. CASLP does not reinsure any of its other risks.

3.42. **Figure 4** provides an overview of the insurance and reinsurance exposures and counterparty credit ratings. The insurance and reinsurance exposures are defined as the expected present value of future cash flows between CASLP and the insurance or reinsurance counterparty, i.e. such that a positive value means that CASLP expects to receive more in future payments from the insurer or reinsurer than it expects to pay in future insurance or reinsurance premiums.

**Figure 4: Breakdown of CASLP's insurance and reinsurance exposures as at 31 December 2022**

| Counterparty | Exposure (£m) | S&P Global Ratings counterparty credit rating |
|---|---|---|
| Allianz | 4.3 | AA |
| Munich Re | -2.8 | AA- |

*Source: (1) CASLP Chief Actuary's report on the Scheme; (2) CASLP's 2022 ORSA*

### Assets

3.43. **Figure 5** shows a high-level breakdown of CASLP's assets as at 31 December 2022.

**Figure 5: CASLP's asset portfolio as at 31 December 2022**

| As at 30 June 2022 | £m |
|---|---|
| Government bonds | 21 |
| Corporate bonds | 46 |
| Collective investment undertakings | 38 |
| Derivatives | 0 |
| Deposits (other than cash equivalent) | 0 |
| Assets held for unit-linked contracts | 2,509 |
| Reinsurance receivables | -0 |
| Receivables (trade, not insurance) | 7 |
| Cash and cash equivalents | 5 |
| Other assets | 1 |
| Holdings in related undertakings | 3 |
| **Total** | **2,630** |

*Source: CASLP Chief Actuary's report on the Scheme*

### Financial position

3.44. **Figure 6** sets out CASLP's regulatory balance sheet as at 31 December 2022. This includes a £25m initial capital injection from Chesnara on 28 April 2022, to restore CASLP's solvency coverage ratio to 130% following a reduction in it from using Chesnara's expense assumptions, which were more onerous than CASLP's. It also allows for the £10m dividend expected to be paid to Chesnara based on the balance sheet at 31 December 2022.

**Figure 6: Regulatory balance sheet of CASLP as at 31 December 2022**

| 31 December 2022 | £m |
|---|---|
| Assets | 2,630.0 |
| Best Estimate Liabilities | 2,544.5 |
| Risk Margin | 12.5 |
| Technical Provisions | 2,557.0 |
| Other liabilities | 13.5 |
| Own Funds | 59.4 |
| Eligible Own Funds | 59.4 |
| Expected dividends | 10.0 |
| Eligible Own funds (post-dividends) | 49.4 |
| Solvency Capital Requirement ("SCR") | 35.3 |
| Excess assets | 14.1 |
| Solvency coverage ratio<br>(Eligible Own Funds (post-dividends) / SCR) | 140% |

*Source: CASLP Chief Actuary's report on the Scheme*

3.45. The £13.5m "other liabilities" includes the Allianz mis-selling provision, a provision for a historical unit-pricing error, deferred tax liabilities, debts owed to credit institutions, and trade payables.

## Solvency II implementation

3.46. Appendix 6 describes the UK prudential regulatory regime, including the concepts of Solvency Capital Requirement ("SCR"), Transitional Measure on Technical Provisions ("TMTP"), the Matching Adjustment ("MA"), and the Volatility Adjustment ("VA").

3.47. CASLP calculates its SCR using the Solvency II Standard Formula. CASLP is required to assess whether the Standard Formula is appropriate for its business, and has stated in its 2022 ORSA that the Standard Formula is considered to be appropriate and does not materiality over- or under-estimate capital requirements.

3.48. CASLP's assessment of the appropriateness of the Standard Formula highlighted that it potentially overstates its equity and lapse risk exposures, by c.£0.5m and c.£3.7m respectively as at 30 June 2022, while potentially understating its operational risk exposure (due to a potentially-heightened short-term staff retention risk arising from the acquisition by Chesnara) and the risks arising through CASFS by c.£0.7m and c.£1.9m respectively. Management notes that these areas broadly offset, with a total potential overstatement at 30 June 2022 of c.£0.9m.

3.49. Additionally, the Standard Formula does not allow for risks that are not considered to be quantifiable, a key example of which is climate change risk, discussed in paragraphs 3.56 to 3.59.

3.50. CASLP has regulatory approval to use the VA in the valuation of conventional annuities, to reduce the impact of short-term market volatility on its regulatory balance sheet. Analysis presented in its Chief Actuary's report on the Scheme shows the estimated impact of the VA to be a reduction in the SCR of c.£0.1m and an increase in Own Funds of c.£1.2m at 31 December 2022. Removing these benefits would together have resulted in a 4% reduction to the solvency coverage ratio, from 140% to 136%, at that date.

3.51. CASLP does not have regulatory approval to use the MA or TMTP.

## Risk profile

3.52. The most significant risks to which CASLP is exposed, as measured by the regulatory balance sheet, are lapse risk, equity risk and expense risk. These risks are typically the most material for insurers holding predominantly unit-linked liabilities. This is shown in **Figure 7**, which sets out the components of CASLP's SCR before any allowance for diversification effects.

**Figure 7: Breakdown of CASLP's SCR (before diversification effects) as at 31 December 2022**

| Risk | Capital requirement (£m) | Percentage of total |
|---|---|---|
| Market: Interest rate risk | 2.0 | 3.5% |
| Market: Equity risk | 8.0 | 13.9% |
| Market: Property risk | 0.4 | 0.7% |
| Market: Spread risk | 6.0 | 10.4% |
| Market: Concentration risk | 0.0 | 0.0% |
| Market: Currency risk | 5.4 | 9.4% |
| Counterparty default risk | 1.4 | 2.4% |
| Life: Mortality risk | 1.0 | 1.7% |
| Life: Longevity risk | 4.2 | 7.3% |
| Life: Disability risk | 0.1 | 0.2% |
| Life: Expense risk | 7.0 | 12.2% |
| Life: Lapse risk | 19.5 | 33.9% |
| Life: Catastrophe risk | 0.1 | 0.2% |
| Operational risk | 2.5 | 4.3% |
| **Total** | **57.6** | **100.0%** |

*Source: CASLP Chief Actuary's report on the Scheme*

3.53. The risks included in **Figure 7** are aligned with the Solvency II Standard Formula definitions of risk, so I do not state those definitions here. In practice, CASLP manages its business in line with the Chesnara Group risk taxonomy, which sets out detailed definitions for the universe of risks to which Chesnara Group considers CASLP to be exposed. The Chesnara Group risk definitions are set out in Appendix 7.

3.54. CASLP has taken credit in the calculation of the BEL and SCR for expense savings expected to be achieved by outsourcing policy administration and unit-linked fund management. These expense savings were calculated based on a best estimate outsourced rate card before final terms were signed with SS&C, with an additional margin to allow for uncertainty over what the final rates would be. Now that the final rate card has been agreed, CASLP has assessed the impact of changes between the assumed rate card and the final commercial terms. The overall impact of allowing for the final rate card and releasing the margin is a c.£1.5m increase in BEL. This is not a material increase given the total BEL of £2,544.5m and does not affect the conclusions I have reached in this report.

3.55. It should be noted that the regulatory balance sheet does not capture all of the risks to which CASLP is exposed. This is partly because the Standard Formula was designed to be generally appropriate for a range of insurance companies across the European Union, rather than necessarily capturing all of the risks faced by a specific firm. The key additional risk identified by CASLP as being relevant is gilt-swap spread risk – the risk of adverse divergence between gilt yields and swap rates. This impacts CASLP's regulatory balance sheet because changes in gilt yields affect the market value of bonds, whereas changes in swap rates, which are used in determining the expected present value of future insurance obligations, will impact the BEL. A divergence between gilt yields and swap rates could therefore lead to different changes in the value of assets and liabilities, such that the value of Own Funds reduces. CASLP has estimated that including an allowance for gilt-swap spread risk within the regulatory balance sheet as at 30 June 2022 would have led to a c.£0.7m increase in SCR.

### Climate change risk

3.56. CASLP considers climate change risk in two categories:

- transition risk, i.e. the risk of losses arising due to the process of change towards a low-carbon economy, including climate-related developments in policy and regulation, technological change and shifting social attitudes; and
- physical risk, i.e. the risk of losses arising as a direct impact of climate-related events such as heatwaves, floods and wildfires.

3.57. CASLP has carried out assessments of its climate risk exposure as part of its ORSA and it considers its main exposure to be on the asset side of the balance sheet, from market and credit risks arising from transition risks. CASLP does not consider itself to be materially exposed to increases in liability values from climate change because:

- it does not write general insurance business and so has no exposure to underwriting risks directly affected by climate change (e.g. insuring homes in flood plains, etc); and
- it is substantially closed to new business and in run-off, and so it is unlikely that its direct liabilities will be materially impacted by longer-term risks associated with climate change. Although CASLP recognises there may be some longer-term impacts on demographic experience, it does not expect this to have a material impact on the value of liabilities.

3.58. The Solvency II Standard Formula is intended to capture the risk of a fall in asset values or an increase in liability values but, because its calibration is based largely on past data, it does not explicitly allow for how these risks may change as a result of changes to the climate. CASLP has therefore carried out both qualitative and quantitative assessments to assess its exposure to climate change risk, using stress and scenario testing.

3.59. While CASLP is exposed to some operational risks associated with climate change such as business interruption from physical events or staff absence and illness from increased warming, it has a business continuity plan to reduce the effects of this risk.

### Capital, risk and liquidity management

3.60. CASLP's capital management policy has been aligned with Countrywide Assured's capital management policy and was approved by the Board in May 2022. CASLP aims to maintain Eligible Own Funds of at least 120% of the regulatory SCR, with Own Funds in excess of this available to be paid out as dividends to Chesnara. In practice, CASLP targets a higher level of Eligible Own Funds, but dividend payments would be restricted if they resulted in the solvency coverage ratio falling below 120%.

3.61. CASLP maintains a Risk Appetite Framework, incorporating various risk appetite statements that set out the firm's strategy for its risks. The specific risks covered by the risk appetite statements are:

- market risks, such as equity, property, currency and interest rate risks,
- credit, counterparty and concentration risks,
- liquidity risk,
- climate change risk,
- insurance risks, such as mortality, disability, longevity, lapse and expense risks,
- operational resilience and operational risk,
- customer and regulatory risks, and
- strategic risks.

3.62. For each risk to which CASLP is exposed, the risk appetite statements set out whether the firm will:

- actively pursue a greater exposure to the risk,
- accept more of the risk, without necessarily actively pursuing it,
- accept the risk subject to the exposure remaining within a set of pre-defined limits,
- attempt to reduce the exposure as much as possible, or
- not tolerate any intentional exposures whatsoever.

3.63. CASLP's Risk Appetite Framework also sets out risk tolerance limits which define target levels of risk which CASLP's current risk exposures are measured against. These are used as guide to drive consideration and discussion of potential actions in cases where CASLP's risk profile deviates from the intended risk profile as set out in the risk appetite statements.

3.64. Following the acquisition of CASLP by Chesnara, CASLP's Risk Appetite Framework was aligned with Countrywide Assured's Risk Appetite Framework.

### Liquidity risk

3.65. CASLP defines liquidity risk as the risk of being unable to meet financial obligations as they fall due owing to the timing of commitments being inconsistent with expectations or a lack of available assets that can be sold quickly to generate cash to meet the commitments.

3.66. The sources of liquidity risk that CASLP's management considers to be most material are:

- higher than expected expenses, particularly in relation to the transition to a new outsourced service provider,
- a reduction in unit-linked charge income, caused by asset value falls or a sudden significant increase in policy lapses,
- delays in claim settlements from Allianz on its mis-selling indemnity cover, and
- a change in asset holdings such that the overall allocation to highly liquid assets (e.g. cash, government bonds and money market funds) reduces.

3.67. CASLP has adopted an approach equivalent to Countrywide Assured for measuring liquidity risk exposures and uses a defined range of different stresses to determine a Liquidity Buffer. The Liquidity Buffer is an amount of liquid capital held in addition to the assets required to meet expected outflows, such that CASLP would be able to meet all expected obligations within the next one-year period, even after allowing for the impact of the stresses considered. The Liquidity Buffer is reviewed annually as part of the ORSA process and was £5m as at 30 June 2022.

3.68. As the majority of CASLP's business is unit-linked, most of its liabilities are invested directly in unit funds which are sold to meet liability claims. As discussed in paragraph 3.31, CASLP has some discretion to defer the cancelation of units and so may be able to delay paying policyholder claims to manage liquidity, although it seeks to avoid doing so as far as possible.

3.69. CASLP's annuity liabilities have relatively predictable cash flows and are backed by a portfolio of fixed income assets where the expected coupon and redemption cash flows in each future time period closely match the expected benefit outgo in that period. This approach largely mitigates liquidity risk on this business.

# 4. Background to Countrywide Assured

## Background and history

4.1. Countrywide Assured was incorporated in 1988 as Hambro Guardian Assurance plc and was formed as a joint venture between Hambros Plc and Guardian Royal Exchange Assurance plc. Hambro Guardian Assurance plc acquired Premium Life Assurance Holdings Limited ("Premium Life") in 1995 and was renamed as Countrywide Assured plc in 1998, becoming part of the Countrywide estate agency group. Countrywide Assured was substantially closed to new business in 2003, and in 2004 was demerged from the Countrywide group, becoming a subsidiary of Chesnara plc, a new listed holding company.

4.2. Countrywide Assured currently has four main blocks of closed-book business, resulting from the 2004 de-merger and subsequent acquisitions. These are:

- **The original Countrywide Assured book** ("Original CA"), which includes Premium Life policies. These are predominantly unit-linked and index-linked income protection and critical illness policies, and pensions and savings business. The Original CA book also contains a small in-payment annuity book and some with-profits policies which are fully reinsured to the Guardian Assurance With-Profits Fund ("GAWPF"). The GAWPF is owned by ReAssure Limited ("ReAssure"), part of Phoenix Group Holdings plc.

- **Ex-City of Westminster Assurance Company Limited** ("CWA") policies acquired by Chesnara from Irish Life and Permanent Group ("Irish Life") in 2005 and transferred into Countrywide Assured in 2006, originally having been acquired by Irish Life from Assurances Générales de France in 1993. This is predominantly unit-linked pensions and savings business, with a small in-payment annuity book.

- **Ex-Save & Prosper** ("S&P") policies acquired by Chesnara from JP Morgan Asset Management (UK) Limited in 2010 and transferred into Countrywide Assured in 2011. This consists of unit-linked, non-linked and with-profits policies, the majority of which are pension plans. Countrywide Assured maintains two with-profits funds in respect of this business – the Save & Prosper Pensions ("SPP") Fund and Save & Prosper Insurance ("SPI") Fund. There are maturity guarantees on all of the ex-S&P with-profits business, either guaranteed minimum pensions or guaranteed minimum fund values.

- **Ex-Protection Life Company Limited** ("PL") policies acquired by Chesnara when it acquired Direct Line Life Insurance Company Limited ("Direct Line Life") in 2013. Direct Line Life was renamed Protection Life Company Limited ("Protection Life") and its business was transferred into Countrywide Assured in 2014 when Protection Life was deauthorised. The PL business consists of term assurances (some of which provide critical illness cover), over 50s plans, and life insurance policies covering individuals who have taken out long-term credit agreements.

4.3. **Figure 8** shows the number of policies and BEL for each block of business set out in paragraph 4.2.

**Figure 8: Number of policies and BEL by business block as at 31 December 2022**

| Block of business | Number of policies | BEL (£m) |
|---|---|---|
| Original CA | 20,522 | 345.7 |
| CWA | 31,052 | 571.5 |
| S&P (excl. SPP & SPI Funds) | 55,410 | 586.6 |
| SPP Fund | 21,510 | 186.8 |
| SPI Fund | 1,646 | 9.8 |
| PL | 71,849 | 54.3 |
| Reinsurance asset | | -171.0 |
| **Total** | **201,989** | **1,583.7** |

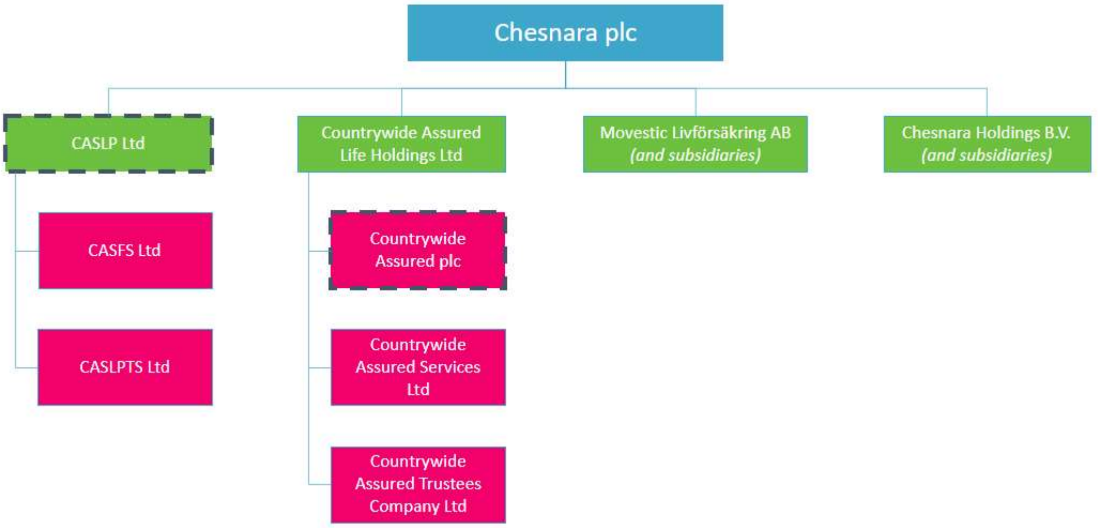
*Source: Countrywide Assured Chief Actuary's report on the Scheme. BEL is shown gross of reinsurance*

4.4. Countrywide Assured manages the SPP and SPI with-profits funds as ring-fenced funds, with all other business managed together in what is referred to in the Scheme as the "Non-Profit Fund". The with-profits policies from the Original CA business discussed in paragraph 4.2 are not ring-fenced, but are fully reinsured to the GAWPF.

## Group structure

4.5. Countrywide Assured's position within the Chesnara Group was shown in **Figure 1**, which is reproduced below as **Figure 9**. While CASLP is directly owned by Chesnara, Countrywide Assured is owned by Countrywide Assured Life Holdings Ltd, which is a direct subsidiary of Chesnara.

**Figure 9: Countrywide Assured's position within the Chesnara Group**




*Source: CASLP Chief Actuary's report on the Scheme.*
*The diagram does not include the subsidiaries of the non-UK entities.*

## Outsourcing

4.6. Countrywide Assured currently outsources the following functions related to managing and administering its business:

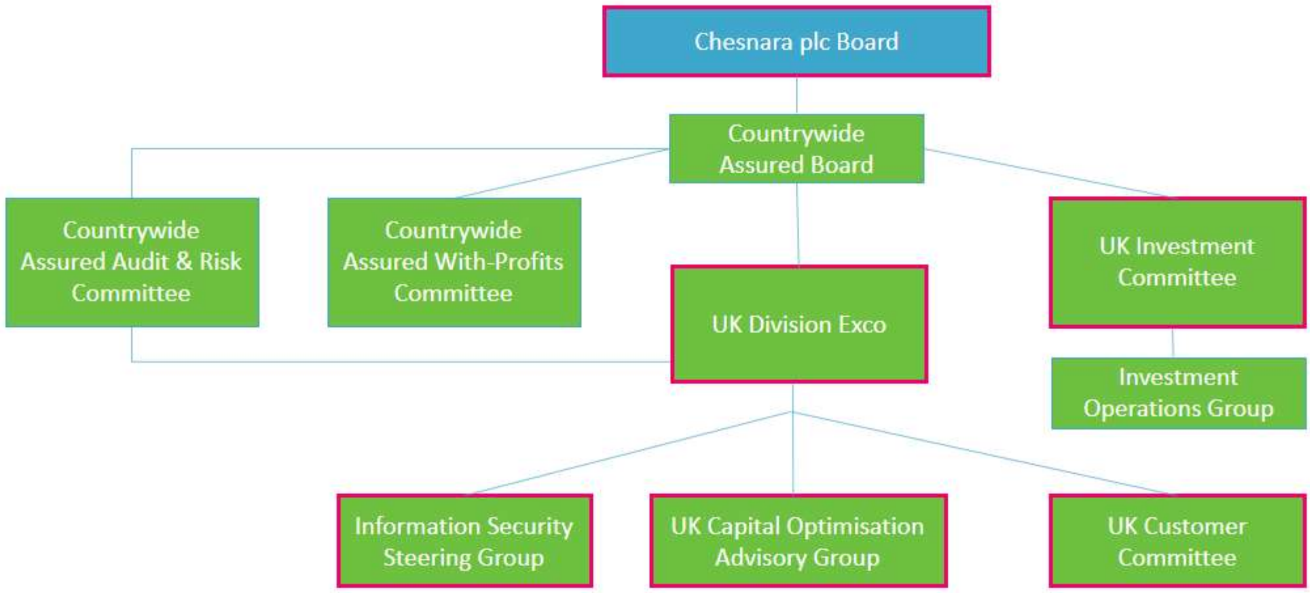
- the administration of the Original CA, S&P (including the SPP and SPI with-profits funds) and the majority of PL business, to HCL Insurance BPO Services Limited ("HCL");
- the administration of the CWA business, to Capita Life & Pensions Regulated Services Limited ("Capita");
- the administration of a small amount of non-linked PL protection business, to Outsourced Professional Administration Limited;
- investment management, to Schroder Investment Management Limited ("Schroders");
- the provision of actuarial modelling and valuation services to Willis Towers Watson Limited ("WTW"); and
- the role of Countrywide Assured's With-Profits Actuary to Karen Miller of WTW.

4.7. Chesnara's strategic operational model is to have strong outsourcing partners to support its long-term business plans and provide certainty over long-term costs. An agreement has been reached with SS&C, to provide policy administration for the Countrywide Assured business currently administered by HCL. As a result of this, Countrywide Assured will end existing arrangements with HCL, and the administration of that business will transfer to SS&C following completion of the contractual notice period with HCL. While the timing of the migration is not yet known, I have been advised by management that the migration of CASLP's business to SS&C (described in paragraph 3.9) will be completed before the migration of the Countrywide Assured business begins, allowing Countrywide Assured to benefit in respect of its existing business from lessons learned from the migration of CASLP's business.

## Management and governance

4.8. **Figure 10** illustrates Countrywide Assured's governance structure, which is similar to that of CASLP as shown in **Figure 2**. The responsibilities of the boards and committees shown with a pink outline cover both CASLP and Countrywide Assured.

**Figure 10: Countrywide Assured's system of governance**




*Source: (1) Countrywide Assured Corporate Responsibilities Map, (2) information provided by CASLP's Chief Actuary.*

4.9. Countrywide Assured's Board comprises the Chair, Chesnara's UK Division CEO, Chesnara's UK Division CFO and at least three independent non-executive directors. The independent non-executive directors also make up the Audit & Risk Committee. Countrywide Assured's Board and Audit & Risk Committee are both chaired by independent non-executive directors.

4.10. Countrywide Assured's With-Profits Committee advises Countrywide Assured's Board in relation to the firm's with-profits policyholders, i.e. in the SPP and SPI funds, as well as those reinsured to the GAWPF. The remit of Countrywide Assured's With-Profits Committee is to consider whether its with-profits policyholders are being treated fairly, that any potential conflicts of interests between with-profits policyholders and shareholders are effectively addressed, and that Countrywide Assured is managing its with-profits business in accordance with the respective with-profits PPFM documents. The With-Profits Committee reports to but remains independent of Countrywide Assured's Board.

4.11. The Board and each committee have terms of reference setting out their purpose, membership, procedures, duties and responsibilities, and reporting requirements. I have reviewed the terms of reference for the Board and the Audit & Risk Committee and note that they are aligned to those of CASLP.

4.12. As discussed in paragraph 3.14, the remits of the UK Division Exco, UK Investment Committee, Information Security Steering Group, UK Capital Optimisation Advisory Group and UK Customer Committee cover both CASLP and Countrywide Assured. The high-level responsibilities of the other Committees shown in **Figure 10** are set out below:

- Countrywide Assured's Audit & Risk Committee is a sub-committee of the Board with responsibility for setting and overseeing the overall standard for financial and actuarial reporting, compliance, risk management, conduct risk management, internal controls and ethical conduct within the Company. Its terms of reference are aligned with those of the CASLP Audit & Risk Committee.
- Countrywide Assured's Investment Operations Group which reports to the UK Investment Committee and has responsibility for operational management of the unit-linked funds administered by HCL.

4.13. Countrywide Assured also has a GAA with Zedra (the same firm used by CASLP) in respect of its workplace personal pension plan products. The terms of reference for Countrywide Assured's GAA are identical to those for the CASLP GAA that covers workplace personal pension plan products.

### Business lines

4.14. As discussed in paragraph 4.2, Countrywide Assured's portfolio of insurance business consists of unit-linked products (including protection, savings and pensions business), non-linked business, with-profits business, and a mix of life and pensions annuities, some of which are deferred.

4.15. **Figure 11** below shows Countrywide Assured's Solvency II BEL (net of any reinsurance arrangements discussed below) split by line of business as at 31 December 2022. It also shows the number of policies in each line of business.

**Figure 11: Breakdown of Countrywide Assured's BEL at 31 December 2022**

| In-force business by line of business | Number of policies | BEL (£m) |
|---|---|---|
| Unit-linked life | 24,529 | 348.5 |
| Unit-linked pensions | 70,840 | 999.0 |
| Non-linked non-annuity | 75,972 | 30.6 |
| Annuity | 7,280 | 8.9 |
| CA with-profits | 212 | 0.2 |
| SPP with-profits | 21,510 | 186.8 |
| SPI with-profits | 1,646 | 9.8 |
| Total | 201,989 | 1,583.7 |

*Source: Countrywide Assured Chief Actuary's report on the Scheme. BEL is shown net of reinsurance*

4.16. Countrywide Assured has a number of areas of discretion in the ongoing management of some of its business. Management of unit-linked business is discussed in paragraphs 4.19 to 4.34 and management of with-profits business is discussed in paragraphs 4.35 to 4.39. Areas of discretion in the management of non-linked business (excluding with-profits) include:

- inflationary increases on absolute policy fees where an inflationary index is not specified in the policy terms and conditions,
- determination of reviewable premiums,
- conditions for reinstating a policy after it has lapsed,
- policy alterations including the possibility of changing the sum assured or policy term,
- rates of interest for late payment, and
- policy cancellation for certain types of policy under conditions such as a change of employment or moving overseas.

4.17. Countrywide Assured is closed to new business and in run-off, only accepting contractual increments to existing policies.

4.18. Countrywide Assured holds small provisions in respect of potential liabilities arising from historical mis-selling: c.£0.2m in respect of endowment mis-selling and c.£0.25m in respect of pension mis-selling, as at 31 December 2022.

## Management of unit-linked business and unit-linked funds

### Management

4.19. Countrywide Assured maintains a unit-linked PPFM document in respect of the operation of all of the unit-linked funds available to its policyholders. This sets out the high-level principles and the lower-level practices adopted in managing its unit-linked funds. A policyholder-friendly version is available on the company's website.

### Investment Universe

4.20. Countrywide Assured has a variety of different books of unit-linked business which have been incorporated following acquisitions. All of Countrywide Assured's assets, including those held to back unit-linked liabilities, were migrated to and consolidated in Schroders in 2020 resulting in a simplified investment structure.

4.21. There are approximately 170 funds available to Countrywide Assured's unit-linked policyholders, spread across the various books of business. Each of these c.170 funds hold units in one or more of 18 underlying funds managed by Schroders. The underlying funds primarily include holdings in collective investment schemes (e.g. open-ended investment companies and unit trusts) and all have their own discretionary investment mandates and guidelines.

### Governance of unit-linked funds

4.22. Governance of unit-linked fund management is provided by:

- Countrywide Assured's Board, which has overall responsibility for oversight and management of the company's unit-linked business.
- The UK Investment Committee, which has responsibility for overseeing Countrywide Assured's management of its unit-linked business. The terms of reference for the UK Investment Committee have not yet been finalised but are expected to have been approved ahead of the Sanction Hearing. I will provide an update on this in my supplementary report.
- The Investment Operations Group, which has responsibility for operational management of the unit-linked funds administered by HCL.

### Charges on unit-linked business

4.23. Countrywide Assured's historically-acquired unit-linked business has a range of policyholder charges and mechanisms for deducting these charges, albeit all broadly as discussed in paragraph 3.26. The extent to which Countrywide Assured can increase charges (e.g. in response to increased expenses) is outlined in policy terms and conditions. Any change to charges needs to be approved by the Board. As part of this approval process, the Chief Actuary would be asked to provide assurance that this change did not breach Countrywide Assured's requirement to treat customers fairly.

4.24. Countrywide Assured will normally give at least one month's notice in writing to impacted policyholders before increasing the level of charges. While the terms and conditions on some policies do not require policyholders to be notified in advance of variations in charges, all policyholders receive an annual statement which includes all charges levied.

4.25. Countrywide Assured's unit-linked funds, other than those for unit-linked pensions, are subject to UK corporation tax legislation as it applies to life insurance companies. Where possible, tax charges are calculated as if each fund was a standalone entity, allowing for income and expenses at a fund level and applying tax at the basic rate applicable to policyholders (currently 20%).

### Management of unit-linked funds

4.26. As outlined in paragraph 4.21, there are c.170 funds available to unit-linked policyholders, spanning across the different types of unit-linked business within Countrywide Assured. There may be some products with different tax features and different charging structures. These differences are allowed for in the way that unit prices are established.

4.27. Countrywide Assured has established and documented processes for managing its unit-linked business and the underlying unit-linked funds. I have reviewed the processes employed by Countrywide Assured and I consider that they are generally reflective of common market practice. Accordingly, I do not consider it to be necessary to set out a detailed description of these procedures. However, as I did for CASLP, I include the following paragraphs to note areas where Countrywide Assure may apply discretion in managing its unit-linked business.

4.28. Policy documents generally give Countrywide Assured some discretion to defer transactions in exceptional circumstances to ensure the fair treatment of all policyholders. Deferrals are assessed on a case-by-case basis but management would not normally expect any deferral to be longer than six months for units invested in property assets or property funds, or one month for all other units.

4.29. In extreme circumstances, Countrywide Assured may take additional actions to protect the interests of all policyholders within a unit-linked fund, such as suspension of trading, suspension of unit prices or diverging from the stated investment strategy. The company will consider factors such as the expected duration of the situation and estimated financial impacts on policyholders and shareholders in determining the most appropriate course of action.

4.30. Countrywide Assured is able to merge or close unit-linked funds, subject to a set of specified conditions and procedures and will give one month's notice to policyholders before doing so. In such scenarios, Countrywide Assured would offer impacted policyholders the opportunity to switch to any other available fund without charge.

4.31. Countrywide Assured has the right to amend the basis on which unit-linked funds are priced if it considers that to be appropriate, for example to ensure that existing or remaining policyholders are not adversely impacted by a large transaction. Specifically, for any transaction in excess of 5% of the existing fund size, the pricing basis is reviewed to ensure policyholders are not adversely impacted by the transaction.

4.32. As described in paragraph 3.36, insurance companies with unit-linked policies often adopt a process known as box management to reduce transaction expenses. Countrywide Assured currently only uses box management for CWA and S&P funds.

4.33. Countrywide Assured endeavours to correct all unit-linked pricing errors within a week of identification, with errors which impact prices by more than 0.1% investigated to determine the extent to which any policyholders have been impacted. Countrywide Assured will compensate policyholders who have suffered a loss of over £10 or funds where the loss exceeds 0.1% of the fund value.

4.34. Some CWA cash funds include a guarantee that the unit price will not reduce. This is managed by Countrywide Assured making a cash injection from the Non-Profit Fund whenever needed to stop the relevant unit price reducing. Countrywide Assured does not explicitly value this guarantee as there are only c.£3.1m of CWA cash funds for products with this feature.

## Management of with-profits business

4.35. As discussed in paragraph 4.4, there are three blocks of with-profits business within Countrywide Assured:

- The SPP ring-fenced with-profits fund, which on 31 December 2022 had assets of £198m.
- The SPI ring-fenced with-profits fund, which on 31 December 2022 had assets of £12m.
- The Original CA with-profits business, which is fully reinsured to the GAWPF and on 31 December 2022 had reinsured liabilities of £32m.

4.36. Countrywide Assured maintains a PPFM document in respect of the operation of each of the SPP and SPI with-profits funds. These documents set out the high-level principles and the lower-level practices adopted in managing the business.

4.37. For the SPP and SPI with-profits funds, assets are maintained in three distinct sub-funds:

- Policyholder Asset Shares – this is the accumulated value of policy premiums less charges.
- Guarantee Fund – Countrywide Assured can make a weekly guarantee charge against the Policyholder Asset Shares of up to 1.5% p.a., which is credited to the Guarantee Fund. This charge is reviewed at least annually. To the extent that the Guarantee Fund is larger than is required to meet the cost of guarantees, the surplus is transferred to the Policyholder Asset Shares.
- Shareholder Fund – Policyholder Asset Shares are subject to an annual management charge in addition to the guarantee charge, and in some instances to risk charges. The accumulation of these charges sits in the Shareholder Fund and all expenses allocated to the with-profits fund are deducted from it. If the with-profits fund requires capital support, this is provided by the Non-Profit Fund and allocated to this sub-fund.

4.38. Countrywide Assured has a rule modification from the FCA which allows it to make distributions to the Non-Profit Fund from the Shareholder Fund element of the SPP and SPI with-profits funds without having to comply with the notification requirements set out in section COBS 20.2.19A of the FCA's Conduct of Business Sourcebook, COBS. Any such distributions are conditional upon: (i) there being consideration by Countrywide Assured's With-Profits Actuary as to whether this would result in a material risk to the security of policyholder's benefits, the investment policy of the fund, or compliance with the funds' PPFMs; and (ii) a written report from the With-Profits Actuary being provided to the FCA 21 days in advance. There is no required link between the amounts distributed to policyholders and the amounts distributed to the Non-Profit Fund.

4.39. Under the reinsurance agreement (in respect of the Original CA with-profits business) to the GAWPF, ReAssure manages the reinsured policies as if they were direct policyholders in the GAWPF. In particular, ReAssure is responsible for managing (in line with the GAWPF's with-profits PPFM) key aspects of discretion on these policies, including setting investment strategy and determining bonus rates to apply. ReAssure informs Countrywide Assured of bonus rates to be applied to policies. Countrywide Assured use these bonus rates to pay policyholder benefits as they fall due, reclaiming the pay-out values from ReAssure. The GAWPF is responsible for any burn-through costs arising.

## Reinsurance

4.40. Countrywide Assured uses reinsurance to manage the risks that it faces and has a number of different reinsurance treaties in place with different counterparties. **Figure 12** below sets out Countrywide Assured's reinsurance exposures by counterparty, defined as the expected present value of future cash flows between Countrywide Assured and the reinsurance counterparty, i.e. such that a positive value means that Countrywide Assured expects to receive more in future payments from the reinsurer than it expects to pay in future reinsurance premiums

**Figure 12: Breakdown of Countrywide Assured's reinsurance exposures at 31 December 2022**

| Counterparty | Exposure (£m) | S&P Global Ratings counterparty credit rating |
|---|---|---|
| ReAssure | 68.7 | AA- |
| Monument Re Limited ("Monument Re") | 47.0 | N/A |
| Swiss Re Europe S.A., UK Branch ("Swiss Re") | 35.5 | AA- |
| Munich **Re** UK Life Branch ("Munich Re") | 12.2 | AA- |
| Phoenix Life Ltd ("Phoenix") | 5.1 | AA- |
| RGA Reinsurance Company (Barbados) Ltd. ("RGA") | 1.9 | AA- |
| Aviva Life & Pensions UK Limited ("Aviva") | -2.0 | AA- |
| Miscellaneous | 2.6 | AA- |
| **Total** | **171.0** | **N/A** |

*Source: Countrywide Assured Chief Actuary's report on the Scheme*

4.41. The largest exposure is to ReAssure and arises from the reinsurance of the original Countrywide Assured with-profits business as well as some reinsurance on unit-linked business.

- Under the with-profits reinsurance agreement, ReAssure manages the reinsured policies as if they were direct policyholders in the GAWPF, as discussed in paragraph 4.39.
- Under the unit-linked agreement, ReAssure provides 50% quota share reinsurance for certain unit-linked policies under which ReAssure makes payments to Countrywide Assured of 50% of the claim values for in-scope policies.

Countrywide Assured's exposure to ReAssure is mitigated by the terms of the reinsurance agreement which provides that, in the event of ReAssure's insolvency, the reinsured liabilities rank equally with ReAssure's direct policyholders.

4.42. The second largest exposure is to Monument Re, in relation to a reinsurance arrangement entered into at the end of 2021 under which Monument Re makes payments to Countrywide Assured to cover the cost of benefit payments on annuity policies within the CWA and PL blocks of business. Countrywide Assured mitigates the counterparty default risk by holding as collateral on its balance sheet assets to match the expected annuity payments. Monument Re does not have an external credit rating published by a ratings agency, but Countrywide Assured monitors Monument Re's solvency coverage ratio on a quarterly-basis and in its 2022 ORSA noted that it considered Monument Re's solvency position to be equivalent to an AA-rated entity.

4.43. The third largest exposure is to Swiss Re and arises from one major treaty (c.£35.5m as at 31 December 2022) and a number of smaller treaties. Under the largest treaty, Swiss Re provide 90% quota share reinsurance for term assurance business in the PL business. The smaller treaties cover protection business, generally also on a quota share basis.

4.44. The remaining smaller exposures arise in respect of:

- 50% quota share reinsurance provided by Munich Re on endowment and term assurance policies held in the PL business.
- 100% reinsurance provided by Phoenix on selected unit-linked policies in the S&P business.
- Quota share reinsurance provided by RGA on endowment and term assurance policies in the PL business, with the percentage cover varying by treaty.
- Quota share reinsurance provided by Aviva on selected protection products in the Original CA block.
- Small legacy exposures to Hannover Re UK Life Branch and SCOR SE, shown in **Figure 12** as "miscellaneous".

## Assets

4.45. **Figure 13** shows a high-level breakdown of Countrywide Assured's assets as at 31 December 2022.

**Figure 13: Countrywide Assured's asset portfolio as at 31 December 2022**

| As at 31 December 2022 | £m |
|---|---|
| Government bonds | 110 |
| Corporate bonds | 28 |
| Collective investment undertakings | 298 |
| Derivatives | 0 |
| Deposits (other than cash equivalents) | 1 |
| Assets held for unit-linked contracts | 1,396 |
| Insurance and intermediaries receivables | 2 |
| Reinsurance receivables | 21 |
| Receivables (trade, not insurance) | 3 |
| Cash and cash equivalents | 9 |
| Other assets | 0 |
| **Total** | **1,868** |

*Source: Countrywide Assured Chief Actuary's report on the Scheme*

4.46. In **Figure 13**, the assets included in collective investment undertakings are mainly comprised of assets backing the ring-fenced SPP and SPI with-profits business invested with Schroders. It also includes collateral held against the annuity reinsurance treaty and assets invested with external fund managers which are held for liquidity purposes.

4.47. Countrywide Assured holds a slightly higher allocation to bonds than CASLP, reflecting the slightly wider variation of types of business held by Countrywide Assured.

## Financial position

4.48. **Figure 14** sets out Countrywide Assured's regulatory balance sheet as at 31 December 2022. It allows for dividends expected to be paid to Chesnara based on the balance sheet at 31 December 2022.

**Figure 14: Regulatory balance sheet of Countrywide Assured as at 31 December 2022**

| 31 December 2022 | £m |
|---|---|
| Assets | 1,867.9 |
| Best Estimate Liabilities | 1,583.7 |
| Risk Margin | 14.9 |
| Technical Provisions | 1,598.6 |
| Other liabilities | 136.8 |
| Own Funds | 132.6 |
| Eligible Own Funds | 132.6 |
| Expected dividends | 46.0 |
| Eligible Own funds (post-dividends) | 86.6 |
| Solvency Capital Requirement ("SCR") | 64.6 |
| Excess assets | 21.9 |
| Solvency coverage ratio<br>(Eligible Own Funds (post-dividends) **/** SCR**)** | 134% |

*Source: Countrywide Assured Chief Actuary's report on the Scheme*

4.49. The "other liabilities" included in **Figure 14** are provisions, such as those held for accrued claims, reinsurance payables, deferred tax liabilities and trade payables.

## Solvency II implementation

4.50. Appendix 6 describes the UK prudential regulatory regime.

4.51. Like CASLP, Countrywide Assured calculates its SCR using the Solvency II Standard Formula. Countrywide Assured is required to assess whether the Standard Formula is appropriate for its business, and it has stated in its 2022 ORSA that the Standard Formula is considered to be appropriate and does not materiality over- or under-estimate capital requirements in respect of any single risk.

4.52. As was the case with CASLP's assessment, Countrywide Assured's assessment identified a small number of specific risks where there was potential for slightly under- or over-stating capital requirements, but these offset to some extent. In particular, as at 31 December 2021 Countrywide Assured estimated that the Standard Formula overstated its lapse risk exposure by c.£5.1m, overstated its expense risk exposure by c.£5.8m and understated its operational risk exposure by c.£3.4m. This net overstatement of c.£7.5m is largely offset by the impacts of allowing for the key risks faced by Countrywide Assured which are not included within the Standard Formula. These are discussed in paragraph 4.61.

4.53. Countrywide Assured has regulatory approval to use the VA to reduce the impact of short-term market volatility on its regulatory balance sheet. Countrywide Assured applies the VA in respect of its non-linked business. Analysis presented in its Chief Actuary's report on the Scheme shows the estimated the impact of the VA to be a reduction in the SCR of c.£2.0m and an increase in Own Funds of c.£1.9m at 31 December 2022. Removing these benefits would together have resulted in a 7% reduction to the solvency coverage ratio, from 134% to 127%, at that date.

4.54. Like CASLP, Countrywide Assured does not have regulatory approval to use the MA or TMTP.

### Regulatory permissions

4.55. Countrywide Assured has the same regulatory permissions in respect of long-term insurance business as CASLP, with the exception of two permissions pertaining to pensions business. Those permissions are relevant to the OneSIPP product currently provided by CASLP (described in paragraph 3.20), as follows:

- dealing in investments as principal in rights under a personal pension scheme; and
- dealing in investments as principal in rights to or interests in investments (security).

4.56. Countrywide Assured has applied for a Variation of Permission to add the permissions referred to in paragraph 4.554.55. I will provide an update on this application in my supplementary report.

### Risk profile

4.57. The most significant risks to which Countrywide Assured is exposed, as measured by the regulatory balance sheet, are equity risk, lapse risk and expense risk. These risks are also the most significant risks to which CASLP is exposed as set out in paragraph 3.52. This is shown in **Figure 15** below, which gives the components of Countrywide Assured's SCR (before diversification) effects).

**Figure 15: Breakdown of Countrywide Assured's SCR (before diversification effects) as at 31 December 2022**

| Risk | Capital requirement (£m) | Percentage of total |
|---|---|---|
| Market: Interest rate risk | 5.1 | 4.2% |
| Market: Equity risk | 35.4 | 29.0% |
| Market: Property risk | 2.1 | 1.7% |
| Market: Spread risk | 8.3 | 6.8% |
| Market: Concentration risk | 1.3 | 1.1% |
| Market: Currency risk | 10.3 | 8.4% |
| Counterparty default risk | 3.5 | 2.9% |
| Life: Mortality risk | 3.8 | 3.1% |
| Life: Longevity risk | 2.6 | 2.1% |
| Life: Disability risk | 0.3 | 0.2% |
| Life: Expense risk | 13.5 | 11.1% |
| Life: Lapse risk | 26.2 | 21.5% |
| Life: Catastrophe risk | 2.0 | 1.6% |
| Heath underwriting risk | 5.0 | 4.1% |
| Operational risk | 2.7 | 2.3% |
| **Total** | **122.1** | **100.0%** |

*Source: Countrywide Assured Chief Actuary's report on the Scheme*

4.58. The risks included in **Figure 15** are aligned with the Solvency II Standard Formula definitions of risk. Countrywide Assured uses the Chesnara Group risk taxonomy which sets out detailed definitions for the universe of risks to which Chesnara Group considers Countrywide Assured to be exposed. Countrywide Assured manages its business in line with the risk taxonomy rather than the Standard Formula definitions of risk. The Chesnara Group risk definitions are set out in Appendix 7.

4.59. Countrywide Assured's small exposure to health underwriting risk arises mainly from legacy critical illness and protection business in the legacy PL business.

4.60. Countrywide Assured has taken credit in the calculation of the BEL and SCR for expense savings expected to be achieved by moving outsourced administration from HCL to SS&C. These expense savings were based on a best estimate outsourced rate card before final terms were signed with SS&C, with an additional margin to allow for uncertainty over what the final rates would be. The outsourcing agreement has now been signed and the impact of allowing for the final rate card and releasing the margin is a c.£2.4m reduction in BEL. This is not a material reduction given the total BEL of £1,583.7m and does not affect the conclusions I have reached in this report.

4.61. It should be noted that the regulatory balance sheet does not capture all of the risks to which Countrywide Assured is exposed, partly for the same reasons discussed in the context of CASLP in paragraph 3.55. The key risks not included within the Standard Formula which have been identified by Countrywide Assured as being relevant are equity volatility risk, interest rate volatility risk and gilt-swap spread risk. Equity and interest rate volatility risk arise due to the impact of guarantees within the SPP and SPI with-profits funds, and gilt-swap spread risk impacts Countrywide Assured as described for CASLP in paragraph 3.55. Management's estimate of the combined impact of including an allowance for these risks within the regulatory balance sheet as at 31 December 2021 was an increase in SCR of c.£5.0m (c.£2.0m from equity volatility risk, c.£1.7m from interest rate volatility risk and c.£1.3m from gilt-swap spread risk).

### Climate change risk

4.62. Countrywide Assured categorises climate change risk into transition risks and physical risks, with the same definitions as used by CASLP, as set out in paragraph 3.56.

4.63. Countrywide Assured has carried out qualitative and quantitative assessments of its climate risk exposure as part of its ORSA and the company considers its main exposure to be from market and credit risks arising from transition risks. Countrywide Assured does not consider itself to be materially exposed to changes in liabilities for the same reasons as CASLP, as discussed in paragraph 3.57. The Solvency II Standard Formula is intended to capture the risk of a fall in asset values or an increase in liability values but, because its calibration is based largely on past data, it does not explicitly allow for how these risks may change as a result of changes to the climate. Countrywide Assured has therefore carried out both qualitative and quantitative assessments to assess its exposure to climate change risk, using stress and scenario testing.

4.64. As with CASLP, while Countrywide Assured is exposed to some operational risks associated with climate change, such as business interruption from physical events or staff absence and illness from increased warming, it also has a business continuity plan to reduce the effects of this risk.

### Capital, risk and liquidity management

4.65. As discussed in paragraph 3.60, Countrywide Assured and CASLP's capital management policies were aligned in May 2022. Countrywide Assured aims to maintain Eligible Own Funds of at least 120% of the regulatory SCR, with any Own Funds in excess of this available to be paid out as a dividend to Chesnara. In practice, Countrywide Assured targets a higher level of Eligible Own Funds, but dividend payments would be restricted if they resulted in the solvency coverage ratio falling below 120%. Additionally, Countrywide Assured aims to maintain Eligible Own Funds within the SPP and SPI with-profits funds to cover 75% of the fund's SCR. Own Funds in excess of 75% of the SCR can be distributed back to the Non-Profit Fund in line with the waiver described in paragraph 4.38.

4.66. Countrywide Assured has identified and specified a number of management actions which would be implemented sequentially in the event of Eligible Own Funds falling below the target level in the with-profits funds. Market movements over 2022 resulted in Eligible Own Funds falling below the target level of 75% for the SPP and SPI with-profits funds. In December 2022, on the advice of the With-Profits Committee, Countrywide Assured's Board agreed to inject £2.1m into the SPP with-profits fund. No injection was made to the SPI with-profits fund as solvency was expected to improve alongside market conditions and at 31 December 2022 both funds had Eligible Own Funds in excess of 75% of their SCR.

4.67. Countrywide Assured maintains a Risk Appetite Framework with risk appetite statements and risk tolerance limits. The risks covered by Countrywide Assured's risk appetite statements and risk tolerance limits are equivalent to those set out in paragraph 3.61 for CASLP.

### Liquidity risk

4.68. Countrywide Assured defines liquidity risk in the same way as CASLP, i.e. the risk of being unable to meet financial obligations due to the timing of commitments being inconsistent with expectations or due to a lack of available assets that can be quickly sold to generate the cash required to meet commitments.

4.69. Countrywide Assured's management do not consider liquidity risk to be a major risk, due to the substantial value of liquid assets held. However, the sources of short-term liquidity risk considered by Countrywide Assured to be most material are:

- higher than expected expenses,
- a reduction in unit-linked charge income caused by asset value falls or a mass lapse event,
- higher than expected death claims,
- delays in receiving claims payments from reinsurers,
- a change in asset holdings such that the overall allocation to highly liquid assets (e.g. cash, government bonds and money market funds) reduces, and
- investment returns on non-linked business being lower than expected.

4.70. Countrywide Assured also maintains a Liquidity Buffer set in line with its liquidity risk appetite and liquidity risk tolerance limits, defined and determined in the same way as discussed for CASLP in paragraph 3.67. The Liquidity Buffer at 30 June 2022 was £15m, and is determined allowing for all lines of business held by Countrywide Assured. The Liquidity Buffer is reviewed annually as part of the ORSA.

4.71. As the majority of Countrywide Assured's business is unit-linked, most of its liabilities are invested directly in unit funds which would be sold in the event of an unexpected increase in liability claims. As discussed in paragraph 4.28, Countrywide Assured has some discretion to defer the cancelation of units and so may be able to delay paying policyholder claims to manage liquidity, although it seeks to avoid doing so as far as possible.

4.72. Countrywide Assured's annuity liabilities are reinsured to Monument Re, as described in paragraph 4.42, which helps to mitigate liquidity risk on this business.

# 5. Outline of the Scheme

### Provisions of the Scheme

5.1. The parties propose that the Scheme should become effective on 31 December 2023 (the "Transfer Date"). The Scheme is intended to transfer to Countrywide Assured the whole business, undertakings and associated activities of CASLP as at the Transfer Date (the "Transferred Business"), although it does make provision for "Excluded Policies", which will not transfer at the Transfer Date. Excluded Policies include:

- any policies which are not capable of being transferred pursuant to FSMA at the Transfer Date, for example any policies held by a person on a stated political sanctions list ("Sanctioned Policies"), and
- any further policies issued by CASLP as a result of a right or option under an Excluded Policy being exercised.

5.2. The Scheme makes provision for "Residual Liabilities" and "Residual Assets", which include any liabilities or assets which are intended to transfer under the Scheme but which cannot be transferred on the Transfer Date for any reason. Any Excluded Policies, Residual Liabilities and Residual Assets will be retained by CASLP until the impediment to their transfer has been removed, at which point they will be transferred to Countrywide Assured. Any Excluded Policies, other than any which are Sanctioned Policies, will be fully reinsured to and administered by Countrywide Assured until such time as they are transferred, under the "Excluded Policies Reassurance Arrangement". The parties have advised me that they expect there to be no Excluded Policies, Sanctioned Policies, Residual Liabilities or Residual Assets.

5.3. CASLP has advised me that none of its policyholders are currently subject to political sanctions. Should any of CASLP's policyholders become politically sanctioned prior to the Transfer Date, their policies would become Sanctioned Policies and would not be included within the Excluded Policies Reassurance Arrangement.

5.4. The rights and obligations of Transferred Policies will be unchanged by the Scheme and the approach to the management of unit-linked business will not be changed. All existing administrative, investment management, insurance and reinsurance arrangements within CASLP will be transferred unaltered by the Scheme. There will be no changes to terms or service level agreements with third parties.

5.5. CASLP's unit-linked policyholders will have access to the same range of unit funds after transfer as they did before it. As is common, the Scheme makes provision for Countrywide Assured to be able to merge, divide or close any unit-linked fund after the transfer if it considers it to be impractical or not in the best interests of policyholders to maintain them. This is subject to certain governance requirements, including that Countrywide Assured's Board takes prior advice on the matter from the firm's Chief Actuary and sets out appropriate provisions to ensure that no policyholders would be financially disadvantaged.

5.6. The Scheme will not transfer the shares in CASFS or CASLPTS from CASLP to Countrywide Assured. These will be transferred via a separate legal process, which is intended to take effect at around the same time as the Scheme.

5.7. The Scheme will also move "Transferred Assets" to Countrywide Assured from CASLP. Paraphrasing the Scheme slightly, the "Transferred Assets" are:

- all property of CASLP, held in whatever capacity, which relates to the Transferred Business at the Transfer Date, and

- the Transferred Pension Schemes, these being pension schemes currently provided by CASLP which, after the transfer, will be provided by Countrywide Assured.

5.8. Some "Residual Assets" may remain in CASLP, which could include:

- any assets attributable to the Transferred Business which are not capable of being transferred pursuant to FSMA at the Transfer Date,
- any assets that the parties agree between them should not transfer, although the parties do not expect there to be any such assets, and
- any assets required to meet CASLP's Capital Resources Requirement.

5.9. With effect from the Transfer Date, and subject to the terms of the Scheme, Countrywide Assured will become entitled to all CASLP's rights, benefits and powers in connection with the Transferred Policies.

5.10. The Scheme will transfer all of CASLP's insurance and reinsurance contracts to Countrywide Assured. Their terms and conditions will not be amended except to transfer to Countrywide Assured any rights or duties which are currently ascribed to CASLP.

5.11. The Scheme will transfer all of CASLP's outsourced contracts to Countrywide Assured without amendment, except to transfer to Countrywide Assured any rights or duties which are currently ascribed to CASLP.

5.12. Any proceedings, claims, complaints or rights to compensation which relate to the Transferred Business in favour of or against CASLP will be continued by or against Countrywide Assured.

5.13. The costs incurred preparing and bringing into effect the Scheme will be paid by Chesnara. This includes my fees, Court fees, Counsel's fees, and all other project costs.

## Planned actions following the Scheme

5.14. Once the Scheme becomes effective and once all Excluded Policies and Residual Liabilities have been transferred to Countrywide Assured, CASLP plans to apply to the PRA for deauthorisation as an insurance company. Assuming that that application succeeds, CASLP is then expected to commence the process of winding up and any Residual Assets will be transferred to Countrywide Assured.

5.15. Following the Scheme, Countrywide Assured intends to continue to pursue its current business plan as a consolidator of closed UK life insurance business.

5.16. CASLP and Countrywide Assured have appointed a new long-term outsourced service provider. It is expected that the physical migration of CASLP's existing policies on to the new outsourced service provider's systems will take place after the Transfer Date. The migration of the existing Countrywide Assured policies, which are currently administered by HCL, is expected to happen after the migration of CASLP's policies, and following completion of the notice period with HCL.

## Motivation for the Scheme

5.17. The Scheme will allow the Chesnara Group to consolidate two closed books of predominantly unit-linked business into a single entity. This is expected to result in operational efficiencies and economies of scale, such as being able to produce a single set of financial reports rather than two, a simpler group structure, having to fulfil regulatory responsibilities for one company rather than two, and reduced operational risk. These lower running costs, alongside some expected tax synergies and capital diversification benefits, are expected to increase overall dividend capacity.

5.18. The parties have shared with me independent advice which confirms that gaining a tax advantage is not one of the main purposes of the Scheme. I consider this advice more fully in paragraph 11.18.

### Alternatives to the Scheme

5.19. The parties have advised me that they have not considered any alternatives to the Scheme as Chesnara acquired CASLP with the express intention of transferring its business into Countrywide Assured.

### Contingency for the Scheme not proceeding

5.20. The parties have advised me that if the Scheme is not sanctioned, they would assess the impediments to it having been sanctioned and, if possible, seek to remove them with a view to implementing the Scheme at a future date. Until that point, CASLP and Countrywide Assured would continue to be managed as separate insurance companies within the Chesnara Group and would continue to share a broadly common management team and to be managed in broadly the same way. Plans to migrate policy administration to the new long-term outsourced service provider would continue to progress independently of the Scheme.

5.21. I consider the consequences of the Scheme not proceeding in Section 12.

# 6. Financial positions of CASLP and Countrywide Assured on the Transfer Date

## Pro-forma financial positions

6.1. **Figure 16** below sets out an estimate of Countrywide Assured's regulatory balance sheet as it would have been on 31 December 2022, had the Scheme been effective at that date. It also shows, for comparison, the regulatory balance sheets for both CASLP and Countrywide Assured on 31 December 2022. The analysis allows for expected dividends for calendar year 2022.

**Figure 16: Regulatory balance sheets pre- and post-Scheme**

| As at 31 December 2022 (£m) | CASLP pre-Scheme[1] | Countrywide Assured pre-Scheme[2] | Countrywide Assured post-Scheme[2] |
|---|---|---|---|
| Total Assets | 2,630.0 | 1,867.9 | 4,497.9 |
| BEL | 2,544.5 | 1,583.7 | 4,128.2 |
| Risk Margin | 12.5 | 14.9 | 26.6 |
| Other Liabilities | 13.5 | 136.8 | 150.3 |
| Total Liabilities | 2,570.5 | 1,735.4 | 4,305.1 |
| Own Funds | 59.4 | 132.6 | 192.8 |
| Eligible Own Funds | 59.4 | 132.6 | 192.8 |
| Dividends | 10.0 | 46.0 | 56.0 |
| Eligible Own Funds (post-dividends) | 49.4 | 86.6 | 136.8 |
| SCR | 35.3 | 64.6 | 99.1 |
| Excess assets | 14.1 | 21.9 | 37.8 |
| Solvency coverage ratio | 140% | 134% | 138% |

*Source: (1) CASLP Chief Actuary's report on the Scheme; (2) Countrywide Assured Chief Actuary's report on the Scheme*

6.2. Following the Transfer Date the parties do not expect any policyholders to remain in CASLP and so its residual financial position should not impact benefit security for current CASLP policyholders. However, as noted in paragraph 5.1, the Scheme makes provision for Excluded Policies which, if there were any and except in the case of any Sanctioned Policies, would be fully reinsured to Countrywide Assured until such time as they are able to be transferred.

6.3. It is expected that the only Residual Assets left in CASLP following implementation of the Scheme will be assets held to cover the capital requirement, equal to the minimum permitted by regulation, which is

€4.0m (equivalent to c.£3.4m at 31 December 2022). The SCR will drop away entirely once the firm is deauthorised, at which point the remaining assets can be transferred to Countrywide Assured.

6.4. The post-Scheme balance sheet assumes that CASLP has already been wound up and all Residual Assets have been transferred to Countrywide Assured. The parties have confirmed that any costs associated with winding up CASLP will be borne by Chesnara Group and so won't impact the post-Scheme balance sheet. In practice, there will be a period after the Transfer Date, and before CASLP is formally deauthorised and wound up, where assets covering the minimum capital requirement will still need to be held by CASLP. While this is a minor limitation of the parties' analysis, I am satisfied that Countrywide Assured is expected to remain within its capital policy prior to any final surplus being transferred across.

6.5. CASLP and Countrywide Assured have already aligned their management functions and have plans to move to SS&C the administration of the CASLP business and the administration of the Countrywide Assured business currently administered by HCL. As discussed in paragraphs 3.54 and 4.60, the 31 December 2022 regulatory balance sheets had an allowance for the resulting expected expense savings and a margin for uncertainty, which has now been assessed against the final rate card agreed with SS&C. The overall impact is a c.£1m reduction in BEL. At an individual portfolio level, the impacts are marginally larger, with a c.£1.5m increase in BEL for CASLP and a c.£2.4m reduction for Countrywide Assured. The parties have advised me that these offsetting effects are largely driven by Countrywide Assured having proportionately more non-linked business, which has a lower rate card than unit-linked. As I noted in paragraphs 3.54 and 4.60, this is not material in the context of the total BEL and does not affect the conclusions I have reached in this report.

6.6. An expected benefit from the transfer is a reduction in ongoing running costs from operational efficiencies and economies of scale, such as being able to produce a single set of financial reports rather than two, a simpler group structure, and having to fulfil regulatory responsibilities for one company rather than two. These are expected to emerge over time, and Countrywide Assured's 2022 ORSA places a c.£3.2m total value on these future savings, compared to a standalone assessment.

6.7. **Figure 16** shows that, once the Scheme is implemented, Countrywide Assured's Risk Margin will be slightly (c.£0.8m) lower than the sum of the Risk Margins from the pre-Scheme regulatory balance sheets. This arises from diversification benefits from combining the two businesses.

6.8. **Figure 16** also shows that, once the Scheme is implemented, Countrywide Assured's SCR will be very slightly (c.£0.9m) lower than the combined SCRs of the pre-Scheme regulatory balance sheets. This also arises from increased diversification from bringing the two blocks of business together. This benefit is slightly offset by the capital held in respect of CASFS being slightly higher following implementation of the Scheme.

6.9. The parties also expect there to be certain tax benefits as a result of the Scheme, estimated in the Countrywide Assured 2022 ORSA as an additional c.£6.8m Loss Absorbing Capacity of Deferred Tax, which would result in a further reduction to the SCR. This has not been allowed for in the Countrywide Assured post-Scheme pro-forma balance sheet in **Figure 16**.

### Capital management policies

6.10. As described in paragraphs 3.60 and 4.65, the capital management policies of CASLP and Countrywide Assured are aligned. I also note that CASLP and Countrywide Assured apply the same stress and scenario testing within their 2022 ORSAs, as defined at Chesnara Group level. I am satisfied that applying the same stresses to two companies with similar mixes of business is appropriate noting, that while the methodology is the same, the differing balance sheets will mean the absolute impacts of some stresses will differ. These stresses were applied on a pro-forma basis to Countrywide Assured assuming that the transfer took place on 30 June 2022. Given the alignment of the firms' existing capital management policies, and that Countrywide Assured was able to withstand the defined stresses on a pro-forma basis (i.e. assuming that the transfer took place on 30 June 2022), I am content that Countrywide Assured's capital management policy is expected to remain appropriate following implementation of the Scheme.

6.11. As can be seen in **Figure 16**, the capital positions of both CASLP and Countrywide Assured were sufficiently strong for combined dividends of c.£56m to be expected to be paid to Chesnara, with solvency coverage ratios remaining well above 120%. The pro-forma Countrywide Assured capital position also shows that had the Scheme been implemented on 31 December 2022, Countrywide Assured would have also been able to pay the same level of expected dividend (i.e. c.£56m) to Chesnara without reducing its solvency coverage ratio below 130%. I am therefore satisfied that the implementation of the Scheme should not be expected to affect Countrywide Assured's ability to meet its capital management policy.

## Risk profiles

6.12. **Figure 17** below shows the extent to which different risks contribute to the SCR as at 31 December 2022, for both CASLP and Countrywide Assured, compared to the pro-forma Countrywide Assured balance sheet. No SCR is shown for CASLP post-Scheme as this is expected simply to be the minimum capital requirement permitted by regulation which has no risk breakdown.

**Figure 17: Breakdown of CASLP and Countrywide Assured's SCRs including the impact of the Scheme as at 31 December 2022**

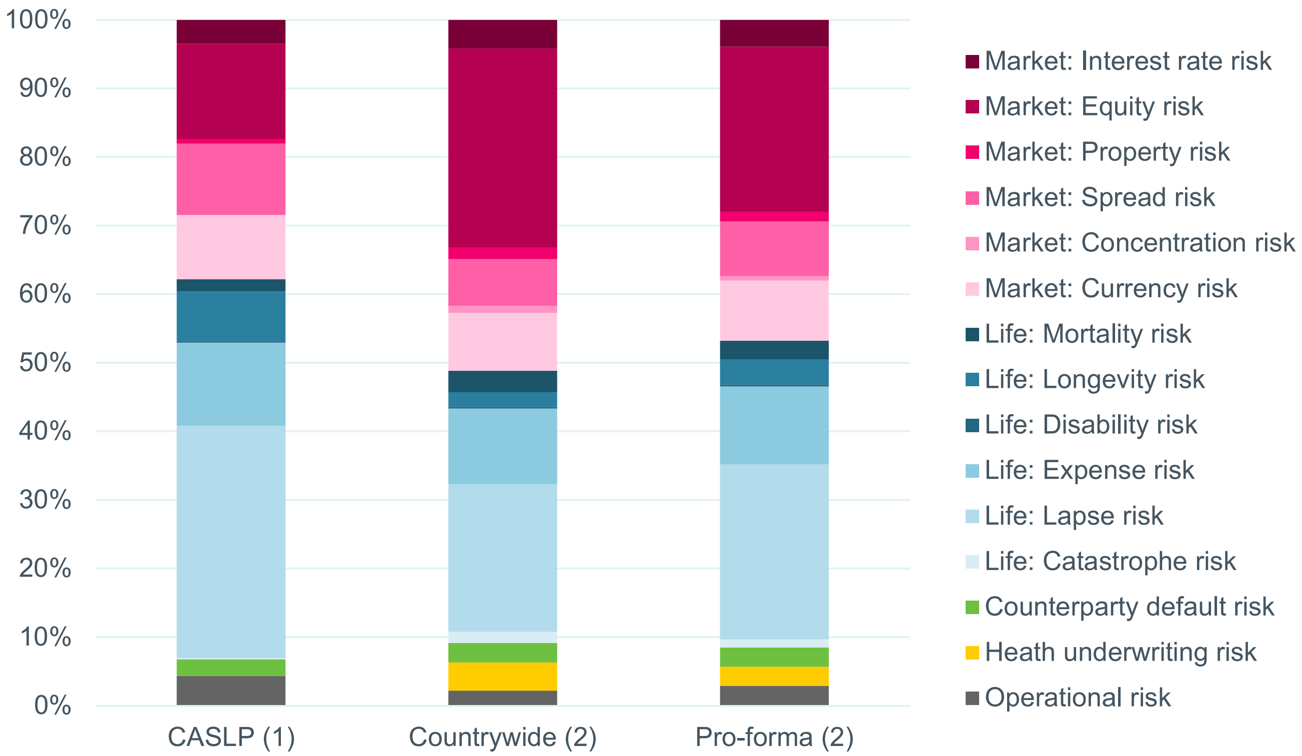
| Risk | CASLP actual pre-Scheme[1] | Countrywide Assured actual pre-Scheme[2] | Countrywide Assured pro-forma post-Scheme[2] | Difference between pro-forma and CASLP actual | Difference between pro-forma and Countrywide Assured actual |
|---|---|---|---|---|---|
| Market risk | 38% | 51% | 47% | 9% | -4% |
| Life underwriting risk | 55% | 40% | 45% | -11% | 5% |
| Health underwriting risk | 0% | 4% | 3% | 3% | -1% |
| Counterparty default risk | 2% | 3% | 3% | -1% | 0% |
| Operational risk | 4% | 2% | 3% | -1% | 1% |

*Source: (1) CASLP Chief Actuary's report on the Scheme; (2) Countrywide Assured Chief Actuary's report on the Scheme*

6.13. **Figure 17** shows that CASLP has a slightly higher relative exposure to life underwriting risks than Countrywide Assured, and that Countrywide Assured currently has a slightly higher relative exposure to market risks. Countrywide Assured has a small exposure to health underwriting risk whereas CASLP has none. Exposures to counterparty default risk and operational risk are similar.

6.14. **Figure 18** below compares the total undiversified SCRs at 31 December 2022 for CASLP, Countrywide Assured and the pro-forma regulatory balance sheet assuming that the Scheme was effective at that date, broken down into the individual Standard Formula risk types.

**Figure 18: Breakdown of undiversified capital requirements by risk type**




*Source: (1) CASLP Chief Actuary's report on the Scheme; (2) Countrywide Assured Chief Actuary's report on the Scheme*

6.15. As can be seen, the difference in life underwriting risks is largely due to CASLP's higher relative exposure to longevity risk (7.3% compared to 2.1% of total undiversified SCR) and lapse risk (33.9% compared to 21.5% of total undiversified SCR). CASLP has a higher exposure to longevity risk as its annuity liabilities are not reinsured, whereas Countrywide Assured's are. CASLP's higher exposure to lapse risk is due to its higher relative proportion of unit-linked policies.

6.16. The difference in market risks is largely due to Countrywide Assured's higher relative exposure to equity risk (29.0% compared to 13.9% of total undiversified SCR). This because of:

- Countrywide Assured's balance sheet being more sensitive to equity stresses due to the equity assets held to back with-profits liabilities and the impact of guarantees on with-profits policies,
- a higher overall exposure to equities within the unit-linked funds held within Countrywide Assured than those held within CASLP, and
- a higher proportion of Countrywide Assured's charge income being based on the value of unit-linked funds, and so charge income is more sensitive to equity movements than for CASLP.

6.17. I have reviewed the risk appetite statements and risk tolerance limits of both entities. The approaches are aligned, and I am comfortable that most differences are simply reflective of the respective size of each business or the nature of each business. As such, I do not set out a detailed description of the similarities and instead highlight the most significant differences:

- Market concentration risk is not a material risk for either party, but CASLP has a simpler approach to setting its market concentration risk tolerance limits, as this risk is less material to CASLP than Countrywide Assured. Countrywide Assured intends to review the approach taken to concentration risk in respect of the Transferred Assets following implementation of the Scheme.

- As discussed in paragraph 5.16, CASLP will be moving to an outsourced business model following the transfer. In preparation for this change, CASLP has largely adopted Countrywide Assured's operational risk appetite statements, with some additions to reflect operational risks from transitioning to an outsourced business model for the first time.

- Routing of client money to CASLP is currently carried out by CASFS, a non-insurance subsidiary of CASLP which must adhere to the FCA's CASS requirements. CASLP's Risk Appetite Framework includes risk appetite statements and risk tolerance limits to reflect the risks of possible breaches of CASS by CASFS. As a regulated insurance company Countrywide Assured is not subject to CASS rules concerning client money when it receives premiums for its own account, and so it has no equivalent risk tolerance limit. Countrywide Assured's management have informed me that the current CASLP risk tolerance limit relating to possible CASS breaches will be incorporated into the Countrywide Assured Risk Appetite framework following implementation of the Scheme.

- The mortality risk tolerance limits for CASLP and Countrywide Assured reflect the direction of changes in mortality rates to which each business is exposed. For CASLP this is the risk of improvements in mortality rates while for Countrywide Assured this is the risk of worsening mortality rates. Following implementation of the Scheme, management expect to incorporate an additional risk tolerance limit into Countrywide Assured's Risk Appetite framework for improvements in mortality, although it is expected that its overall exposure to mortality risk will still be to worsening mortality rates.

6.18. **Figure 19** below compares the undiversified Standard Formula SCR for each risk to its associated risk tolerance limit in line with the parties' Risk Appetite Frameworks. In the case of Countrywide Assured after the implementation of the Scheme, comparison is made to an estimate of its updated risk tolerance limits following the implementation of the Scheme. All figures are as at 31 December 2022. The total diversified SCR is also shown, although there is no corresponding risk tolerance limit.

**Figure 19: undiversified Standard Formula SCR by risk type pre- and post-Scheme**

| Risk | CASLP pre-Scheme | | Countrywide Assured pre-Scheme | | Countrywide Assured post-Scheme | |
|---|---|---|---|---|---|---|
| | SCR[1] | Risk tolerance limit[2] | SCR[3] | Risk tolerance limit[4] | SCR[3] | Estimated risk tolerance limit[5] |
| Market: Interest rate risk | £2.0m | £4m | £5.1m | £10m | £7.1m | £14m |
| Market: Equity risk | £8.0m | £35m | £35.4m | £85m | £43.1m | £120m |
| Market: Property risk | £0.4m | £2.5m | £2.1m | £6m | £2.5m | £8.5m |
| Market: Spread risk | £6.0m | £12.5m | £8.3m | £30m | £14.3m | £42.5m |
| Market: Concentration risk | £0.0m | £0.1m | £1.3m | N/A | £1.1m | N/A |
| Market: Currency risk | £5.4m | £7.5m | £10.3m | £20m | £15.7m | £27.5m |
| Counterparty default risk | £1.4m | £10m | £3.5m | £25m | £5.0m | £35m |
| Life: Combined mortality and catastrophe risk | £1.1m | £7.5m | £5.8m | £20m | £7.0m | £27.5m |
| Life: Longevity risk | £4.2m | £10m | £2.6m | £25m | £6.7m | £35m |
| Life: Disability risk | £0.1m | £4m | £0.3m | £10m | £0.4m | £14m |
| Life: Expense risk | £7.0m | £12.5m | £13.5m | £30m | £20.4m | £42.5m |
| Life: Lapse risk | £19.5m | £25m | £26.2m | £70m | £45.7m | £95m |
| Life: Catastrophe risk | £0.1m | N/A | £2.0m | N/A | £2.1m | N/A |
| Heath underwriting risk | £0.0m | N/A | £5.0m | N/A | £5.0m | N/A |
| Operational risk | £2.5m | N/A | £2.7m | N/A | £5.2m | N/A |
| Total diversified SCR | £35.3m | | £64.6m | | £99.1m | |

*Source: (1) CASLP Chief Actuary's report on the Scheme; (2) CASLP Risk Appetite Framework; (3) Countrywide Assured Chief Actuary's report on the Scheme; (4) Countrywide Assured Risk Appetite Framework ; (5) Estimated by adding the parties' individual limits.*

6.19. As shown in **Figure 19**, both CASLP and Countrywide Assured currently comply with the quantitative risk tolerance limits set out in their respective Risk Appetite Frameworks.

6.20. Countrywide Assured has advised me it will update its risk tolerance limits following the implementation of the Scheme to reflect the new enlarged balance sheet and combined risk exposure. Countrywide Assured's management have informed me that for most quantitative risk tolerance limits (such as those included in **Figure 19**), it expects that updated limits will be broadly equal to the sum of the current CASLP and Countrywide Assured limits, with adjustments made for expected diversification impacts.

6.21. The pro-forma analysis also shows that had the Scheme been effective at 31 December 2022 and had the Countrywide Assured risk tolerance limits been updated to be the sum of the current CASLP and Countrywide Assured risk tolerance limits, Countrywide Assured would have complied with the quantitative risk tolerance limits.

6.22. I therefore do not consider any changes to the mix of risks affecting the parties as a result of the Scheme to constitute a material adverse effect to the benefit security for any group of policyholders.

### Regulatory approvals

6.23. As discussed in paragraphs 3.50 and 4.53, both CASLP and Countrywide Assured currently have regulatory approval to apply the VA within the valuation of certain non-linked liabilities. The pro-forma regulatory balance sheet of Countrywide Assured shown in **Figure 16** assumes that this approval is retained and that the VA continues to be used within the valuation of the same liabilities.

6.24. I do not expect the implementation of the Scheme to affect the assets held to back CASLP's and Countrywide Assured's existing business or how they are managed. In order to determine whether they continue to satisfy the regulatory requirements for using the VA, CASLP and Countrywide Assured currently need to notionally hypothecate assets to the liabilities that are valued using it, and I would expect this approach to be continued by Countrywide Assured following the implementation of the Scheme. Countrywide Assured has advised me that it has notified the PRA of its intention to continue to apply the VA to all lines of business to which CASLP and Countrywide Assured currently apply the VA.

6.25. While I believe that it is reasonable to assume that Countrywide Assured will retain its regulatory approval to apply the VA, and to assume that it will be able to apply the VA to the same liabilities to which it is currently applied within CASLP and Countrywide Assured, this is ultimately a matter for the PRA to approve. I will provide an update on this in my supplementary report.

6.26. In any case, I have been provided with the estimated impact of not retaining eligibility for the VA following the implementation of the Scheme, based on the pro-forma Countrywide Assured regulatory balance sheet as set out in **Figure 16**. This is a c.£3m decrease in Eligible Own Funds and c.£2.1m increase in SCR, which together result in a c.6% reduction to the solvency coverage ratio, from 138% to 132%. I do not consider this to have a material impact on Countrywide Assured's ability to comply with its capital management policy.

6.27. The balance sheets shown in **Figure 16** assume that Countrywide Assured will continue to calculate its SCR using the Standard Formula. I am satisfied that the Standard Formula will continue to remain appropriate for this purpose. In reaching this conclusion, I have relied on the standalone assessments of the appropriateness of the Standard Formula that both CASLP and Countrywide Assured carried out within their 2022 ORSAs, as discussed in paragraphs 3.47 and 4.51, which concluded that the Standard Formula remained appropriate for their respective risk profiles. I have also assessed the risk profiles of CASLP and Countrywide Assured in **Figure 17** and **Figure 18** above and found them to be broadly similar. As the risk profile of Countrywide Assured is not expected to change materially as a result of the Scheme, I am content that it is reasonable to consider that the Standard Formula will remain appropriate following the implementation of the Scheme. Management have advised me that Countrywide Assured will carry out a formal assessment of the continued appropriateness of the Standard Formula for the combined business as part of the first ORSA produced following implementation of the Scheme.

### Quality of capital

6.28. The quality of Own Funds held by CASLP and Countrywide Assured is also relevant to the security of policyholder benefits. In their 2022 ORSAs, both CASLP and Countrywide Assured concluded that their Own Funds were of a high quality and would be categorised as Unrestricted Tier 1, with no additional capital considered to be necessary to allow for the quality of Own Funds. The parties have advised that following implementation of the Scheme, the assets of Countrywide Assured would continue to be categorised as Unrestricted Tier 1, and so I am satisfied that the Scheme should not have a material impact on the quality of Own Funds.

### Events since 31 December 2022

6.29. The analysis shown in this section is based on data and market conditions at 31 December 2022, i.e. the most recent reported financial results. Since this date financial markets have remained relatively stable. For example, the 10-year UK gilt yield was 3.66% at 31 December 2022 and 3.49% at 31 March 2023, while the FTSE was 7,451.74 on 31 December 2022 and 7,631.74 on 31 March 2023.

6.30. In March 2023, Silicon Valley Bank collapsed and Credit Suisse wrote down its “Additional Tier 1” debt, a type of subordinated debt where bondholders are repaid before shareholders but after all other types of debt. CASLP and Countrywide Assured have both confirmed that they have no exposure to Silicon Valley Bank and had no Additional Tier 1 debt with Credit Suisse.

6.31. CASLP has a small (c.£0.3m) holding in a Credit Suisse bond, which matures in December 2024. Countrywide Assured has a very small indirect exposure to Credit Suisse via c.£1.5m of assets held across certain unit-linked funds (borne by policyholders) and a c.£0.02m exposure in the S&P business. Given their sizes, I am satisfied that these exposures to Credit Suisse do not impact my conclusion on the security of policyholder benefits.

6.32. I asked the parties to provide me with their most recent financial results and have received estimated solvency coverage ratios at 31 March 2023. Both parties remain within their capital management policies. I am therefore satisfied that nothing has changed which would impact my conclusion on the security of policyholder benefits.

6.33. In May 2023, the proposed transfer of a block of individual protection business from Canada Life Limited (“Canada Life”) to Countrywide Assured was announced. I have considered this in paragraphs 11.1 to 11.3.

# 7. Impact of the Scheme on Transferred Policies

7.1. In this section I consider the potential impacts of the Scheme on the holders of Transferred Policies, specifically with reference to benefit security, benefit expectations, service standards, and the expected impacts on changes to governance and management arising from Transferred Policies moving from CASLP to Countrywide Assured.

## Benefit security

7.2. The effect of the Scheme on the security of benefits for Transferred Policies can be assessed by considering the relative financial strength of the provider of the benefits. I do this by considering the differences between the capital management policies of the two firms, whether Countrywide Assured is expected to continue to comply with its capital management policy following the implementation of the Scheme, the risks to which the Transferred Policies are exposed, and the quality of capital held by the provider in respect of the risks.

## Capital management policy

7.3. As discussed in Section 3, the capital management policies of CASLP and Countrywide Assured are materially aligned, including that any Own Funds in excess of 120% of the regulatory SCR are available to be paid out of either company in the form of dividends. In practice, the parties target a higher level of Eligible Own Funds, but dividend payments would be restricted if they resulted in the solvency coverage ratio falling below 120%. I would therefore consider the two companies to be of approximately equal financial strength at a point in time so long as they both complied with their capital management policies.

7.4. In relying on the protection afforded by the parties' capital management policies, I have considered the regulatory guidance that firms should not make changes to capital management policies solely to facilitate the payment of dividends or other business plans. Supervisory Statement SS4/18 "Financial management and planning by insurers" states that:

"*The PRA expects any significant change to an insurer's risk appetite only to be made by the board following an overall discussion on the risks and capital requirements of the business. Most insurers review their strategy and business plans on an annual basis, in the context of the insurer's risk profile, a process which inherently includes reviewing the risk appetite, and a review may also be appropriate following some major external event. The PRA does not however expect the risk appetite to be changed solely to justify, or regularise, particular actions, such as the assumption of a new risk, a change in investment policy, or a dividend payment.*"

It should be noted that, when the PRA refers to "risk appetite" in the Supervisory Statement SS4/18, I take this to include the capital management policy, since the same Supervisory Statement says that "*The insurer's risk appetite statement is expected to include the risk appetite for the levels of capital that are to be maintained in reasonably foreseeable market conditions.*"

7.5. As shown in **Figure 16**, the Eligible Own Funds and SCR for the pro-forma combined Countrywide Assured entity are expected to be similar to the sum of the Eligible Own Funds and SCRs for the pre-Scheme entities (save for some diversification benefits). The pre-dividend solvency coverage ratios for CASLP and Countrywide Assured as at 31 December 2022, and for the pro-forma Countrywide Assured balance sheet at the same date, are all well above 120%, and remain so even after the payment of expected dividends.

7.6. As well as considering Countrywide Assured's pro-forma solvency position immediately after the implementation of the Scheme, I have also considered how the position is expected to evolve over time. Projections provided by the parties show that, in the absence of further acquisitions, but assuming that the proposed transfer is implemented, Countrywide Assured's pre-dividend solvency coverage ratio is expected to improve fairly steadily over calendar years 2023 to 2027. This is partly a result of the parties expecting to see real-world (i.e. achieved) investment returns exceed the risk-free rates used in the construction of the base position, as well as the release of the Risk Margin and the SCR as the business runs off. In particular, the projections show that the pre-dividend solvency coverage ratio in future years exceeds 120%, allowing dividends to be paid in line with the capital management policy.

7.7. If Countrywide Assured acquires additional blocks of business in the future, then this might result in a slight reduction in the solvency coverage ratio but I do not consider this to constitute a material adverse effect on benefit security, since decisions about acquisitions will be subject to the capital management policy. I would also tend to expect any such reductions to be relatively short-term, given that further acquisitions should be expected to have a positive impact on Countrywide Assured's ability to generate capital in the longer-term.

### Balance of risks

7.8. **Figure 18** compared the total undiversified SCRs as at 31 December 2022 for CASLP, Countrywide Assured and the pro-forma regulatory balance sheet assuming that the Scheme was effective at that date, broken down by risk types. To assess the significance of the changes in risks to which existing CASLP policyholders are exposed, the relevant comparison is of the risk profile of CASLP before the implementation of the Scheme to that of Countrywide Assured after its implementation. CASLP policyholders will become proportionately more exposed to market risks and less exposed to underwriting risks following implementation of the Scheme. In particular, there will be a larger relative equity risk exposure and a smaller relative lapse exposure. These differences are driven by the different mix of product types in the post-Scheme Countrywide Assured compared to the business mix in CASLP.

7.9. CASLP does not have any with-profits business but, following implementation of the Scheme, the Transferred Policies will become part of the Countrywide Assured Non-Profit Fund, which has exposure to the three blocks of with-profits business discussed in paragraph 4.35, as follows:

- While the SPP and SPI with-profits funds are ring-fenced, any burn-through cost would fall to Countrywide Assured's Non-Profit Fund. This means that Transferred Policies, which are to transfer to the Non-Profit Fund, will become exposed to that risk, in which regard I note that:

  - Burn-through risk is allowed for by Countrywide Assured in its assessment of capital requirements and risk tolerance limits.

  - Countrywide Assured's 2022 ORSA includes projections of the SPP and SPI with-profits funds' financial position over the five-year business planning period which show that Eligible Own Funds are expected to increase as the business runs off over that period. Management have also advised me that projections of the SPP and SPI with-profits funds over run-off show that no capital support is expected to be needed from the Non-Profit Fund.

  - In line with market practice, and as noted in paragraph 4.66, Countrywide Assured has a management action plan for the SPP and SPI with-profits funds. This sets out how it would exercise discretion to protect the solvency position of the funds in adverse circumstances, including de-risking the funds' investment strategy and setting up an internal risk transfer.

  Given these points, I therefore consider there to be no material adverse effect on Transferred Policies from the SPP and SPI with-profits funds.

- The original CA with-profits business sits within the Non-Profit Fund, but is fully reinsured to the ReAssure GAWPF. As noted in paragraph 4.39, the GAWPF is responsible for any burn-through costs arising on this line of business, so there is no additional risk exposure for the Transferred Policies.

7.10. As set out in paragraph 6.22, and noting my comments at paragraph 7.9, I am satisfied that the change in balance of risks will not have a material adverse effect on the benefit security of Transferred Policies.

7.11. Under the Scheme, the assets currently held by CASLP will transfer to Countrywide Assured, other than any Residual Assets. The parties have advised me that there are no planned changes to the assets held to back existing Countrywide Assured business. The asset holdings of Countrywide Assured after the implementation of the Scheme will therefore be composed of the current asset holdings of each pre-Scheme entity. **Figure 20** below provides a high-level comparison of the assets held by CASLP and Countrywide Assured as at 31 December 2022.

**Figure 20: Assets held by CASLP and Countrywide Assured as at 31 December 2022**

| | CASLP[1] | | Countrywide Assured[2] | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Government bonds | 21 | 0.8% | 110 | 5.9% |
| Corporate bonds | 46 | 1.7% | 28 | 1.5% |
| Collective investment undertakings | 38 | 1.4% | 298 | 16.0% |
| Derivatives | 0 | 0.0% | 0 | 0.0% |
| Deposits (other than cash equivalents) | 0 | 0.0% | 1 | 0.1% |
| Assets held for unit-linked contracts | 2,509 | 95.4% | 1,396 | 74.7% |
| Insurance and intermediaries receivables | 0 | 0.0% | 2 | 0.1% |
| Reinsurance receivables | 0 | 0.0% | 21 | 1.1% |
| Receivables (trade, not insurance) | 7 | 0.3% | 3 | 0.2% |
| Cash and cash equivalents | 5 | 0.2% | 9 | 0.5% |
| Other assets | 1 | 0.0% | 0 | 0.0% |
| Holdings in related undertakings | 3 | 0.1% | 0 | 0.0% |
| **Total** | **2,630** | **100.0%** | **1,868** | **100.0%** |

*Source: (1) CASLP Chief Actuary's report on the Scheme; (2) Countrywide Assured Chief Actuary's report on the Scheme*

7.12. As can be seen, the majority of the assets held by both CASLP and Countrywide Assured are those held to back unit-linked contracts. Countrywide Assured holds relatively more government bonds than CASLP, reflecting a higher proportion of non-linked business, although I do not consider the difference ultimately to be that significant. Countrywide Assured holds a sizeable portion of (c.16%) of its assets in collective investment undertakings, whereas CASLP's holding of assets in collective investment undertakings is much lower (c.1%). As noted in paragraph 4.46, the majority of these assets in Countrywide Assured are those held to back with-profits policies within the SPP and SPI with-profits funds, which are ring-fenced from the Countrywide Assured Non-Profit Fund (which Transferred Policies will become part of following implementation of the Scheme).

7.13. I do not consider the differences in relative asset holdings for any of the other asset classes listed in **Figure 20** to be material. I therefore do not expect any material adverse effect on expected benefit levels or benefit security of the holders of Transferred Policies to arise from changes in their asset risk exposures following implementation of the Scheme.

7.14. CASLP's existing insurance and reinsurance arrangements with Allianz and Munich Re will be transferred to Countrywide Assured following implementation of the Scheme, and the terms of the arrangements will not change. Transferred Policies will therefore continue to be protected by the existing insurance and reinsurance arrangements following implementation of the Scheme.

7.15. As discussed in paragraphs 4.40 to 4.44, Countrywide Assured has a number of existing reinsurance arrangements. These will also be unchanged following implementation of the Scheme, and so while these will not be extended to directly apply to Transferred Policies, Transferred Policies will gain an exposure to risks arising from these arrangements following implementation of the Scheme, including the risk of reinsurer default and operational and reputational risks arising from the arrangements.

7.16. CASLP and Countrywide Assured both manage their insurance and reinsurance counterparty risk exposure through monitoring the credit rating of counterparties. The risk appetite statements and risk tolerance limits of both parties are equivalent with regard to reinsurance counterparty risk, with both requiring a credit rating of at least "A" for each insurance and reinsurance counterparty. As shown in **Figure 4**, Allianz has a credit rating of AA and Munich Re has a credit rating of AA-, both of which are in line with the credit ratings (or Countrywide Assured's equivalent internal assessment where no rating exists) of the insurance and reinsurance counterparties used by Countrywide Assured. They are also in compliance with both CASLP's and Countrywide Assured's risk tolerance limits for reinsurance counterparty risk. I therefore do not consider the exposure to Countrywide Assured's existing reinsurance arrangements to constitute a material adverse effect on the security of benefits to the holders of Transferred Policies.

### Climate change risk

7.17. CASLP and Countrywide Assured have carried out qualitative and quantitative assessments of their climate risk exposures within their ORSAs and have identified they are primarily exposed on the asset-side of the balance sheet, through market and credit risks. Through reviewing and comparing each company's assessment, I am satisfied that there are no material differences in the sources of climate risk to which the companies are exposed, largely because of similarities in the business they write and the assets in which they invest. I am therefore comfortable that the Scheme will not materially increase the climate risks to which the Transferred Policies are exposed.

7.18. CASLP and Countrywide Assured have carried out climate scenario analysis on their asset portfolios to understand their exposures to climate risks. I have reviewed the results of this analysis for each entity and compared the losses under each scenario to understand CASLP's and Countrywide Assured's relative exposure to climate risks.

7.19. The results of this exercise show the impact under similar climate-related stresses to be broadly equivalent on the unit-linked funds. For clarity, the analysis for CASLP is limited to assets invested by Sanlam Investments, which cover around 40% of its unit-linked assets under management. However, there is no particular reason to believe that results of the same analysis applied to the other unit-linked funds would be materially different, and so I am satisfied that this is not likely to be a material limitation in CASLP's analysis.

7.20. CASLP is a little more relatively exposed to climate change risks than Countrywide Assured on assets backing non-linked business. This is largely because of Countrywide Assured's relatively greater exposure to cash and fixed interest funds which have limited exposure to climate risks. However, neither party is materially exposed to climate change risk from its non-linked business, and indeed each party's modelling shows that its non-linked exposure is proportionately smaller than its unit-linked exposure. For clarity, the analysis for CASLP is again limited to assets invested by Sanlam Investments, which cover around two-thirds of its non-linked assets under management. As this covers the majority of these assets, I am satisfied that this is not likely to be a material limitation in the CASLP's analysis.

7.21. After reviewing both parties' assessments, and for the reasons discussed in the immediately preceding paragraphs, I am satisfied that differences in climate change risk do not present a material risk to the holders of Transferred Policies (or for that matter to Countrywide Assured's existing policyholders).

7.22. CASLP and Countrywide Assured have some exposure to operational risks associated with climate change. Both parties have business continuity plans in place and the ability to work from home, which reduces the risk of disruption if staff are unable to attend the offices. As such, I do not expect the Scheme to materially alter the extent to which Transferred Policies are exposed to operational risks resulting from climate change.

### Quality of capital

7.23. As discussed in paragraph 6.28, the quality of Countrywide Assured's Own Funds following the Scheme is expected to be equivalent to the quality of CASLP's Own Funds prior to the Scheme, both consisting entirely of Unrestricted Tier 1 Own Funds. I am therefore satisfied that there will be no material adverse effect to the benefit security of the Transferred Policies in relation to the quality of capital held after implementation of the Scheme.

### Liquidity risk

7.24. I have examined CASLP's and Countrywide Assured's approach to monitoring liquidity risk and am satisfied that the approach adopted is equivalent, with risk tolerance limits being set based on each company's expected cash outgoings plus a Liquidity Buffer (as discussed in paragraphs 3.67 and 4.70). Since both parties currently have regulatory approval to the use the VA, they are also required to maintain a liquidity plan which considers the risks that could increase liquidity requirements and/or reduce available liquidity. I therefore do not expect holders of Transferred Policies to become materially more exposed to liquidity risk following implementation of the Scheme, and so do not consider there to be a material adverse impact on holders of Transferred Policies arising from liquidity risk.

### Position within Chesnara Group

7.25. CASLP's immediate parent is Chesnara, whereas Countrywide Assured's is Countrywide Assured Life Holdings Ltd. I have considered whether this means that the transfer of policies from CASLP to Countrywide Assured may have a material adverse effect on the benefit security for the Transferred Policies. I have not identified any reasons why this may be the case.

### Business plans

7.26. Countrywide Assured is materially closed to new business and it has no plans to market new insurance contracts to policyholders. However, Chesnara's strategic business model as a consolidator of UK life insurance business is expected to result in future acquisitions being consolidated into Countrywide Assured. These should be expected to increase Countrywide Assured's exposure to market and insurance risks, the details of which would depend on the size and risk profiles of business acquired.

They may also increase Countrywide Assured's exposure to operational and expense risks if it is insufficiently prepared for them, as well as the risk of potentially mis-pricing any acquisitions.

7.27. Notwithstanding these points, any such acquisitions should be expected to increase capital generation within Countrywide Assured, and I note that decisions about them will be subject to Countrywide Assured's Risk Appetite Framework and capital management policy.

7.28. Finally, I note that any future transfers of insurance business into Countrywide Assured would be subject to the safeguards set out in Part VII of FSMA. These safeguards include the requirement for an Independent Expert to opine on whether the transfer is expected to have a material adverse effect on any group of policyholders which, if Countrywide Assured were to acquire a further block of business after this Scheme was implemented, would include the policyholders to be transferred by this Scheme. Acquisitions of the economic interest in portfolios of insurance business can also be achieved by way of reinsurance. While I understand that this is not part of Countrywide Assured's current strategy, and that it is instead focused on acquisitions that involve the transfer of insurance policies, any such reinsurance transactions would need to comply with Countrywide Assured's capital management policy and would also be subject to regulatory oversight.

7.29. Given these considerations, I am satisfied that Countrywide Assured's business plans are not expected to give rise to any risks that would have a material adverse effect on benefit security of the Transferred Policies.

## Benefit expectations

### Unit-linked policies

7.30. As discussed in Section 3, the Transferred Policies are predominantly unit-linked in nature, with a smaller number of in-payment annuities.

7.31. The Scheme will not change the terms and conditions of unit-linked Transferred Policies. Similarly, the Scheme will not change, and the parties have confirmed that they do not plan to change as a result of the Scheme, any of the following:

- the way in which they manage their unit-linked business, including the application of discretion as discussed in paragraphs 3.31 to 3.38,
- the charges applying to that business,
- their unit-linked PPFMs,
- the range of unit-linked funds available to policyholders, or
- the asset managers.

7.32. I am therefore satisfied that the unit-linked benefit expectations of Transferred Policies will not be materially adversely affected by the Scheme.

7.33. As discussed in paragraph 5.5, the Scheme contains a provision to allow Countrywide Assured to alter the unit-linked fund arrangements of Transferred Policies in certain circumstances. However, I note that the ability to merge, divide or close any unit-linked fund is one commonly held by life insurance companies administering unit-linked business, and that CASLP currently has very similar powers. I therefore do not expect this provision to have a material adverse impact on the benefit expectations of Transferring Policyholders. In reaching this conclusion I note that:

- The parties have confirmed that they have no current plans to change the unit-linked fund arrangements of Transferred Policies.
- Following the implementation of the Scheme, Countrywide Assured's ability to make such changes will be subject to the governance requirements described in paragraph 5.5.
- While there are some differences in each party's current approaches to the use of box management and to compensating for unit pricing errors, I consider policyholders to have no reasonable benefit expectations from either of these aspects of management discretion.

### Non-linked policies

7.34. The premiums payable and benefits due under the majority of non-linked policies are codified in the policy terms and conditions, which will not be altered by the Scheme. As discussed in paragraph 3.19, CASLP has some non-linked business where there is management discretion over future premiums, benefits and charges.

7.35. Management have confirmed that they do not plan to change their approach to applying such discretion following the implementation of the Scheme. Furthermore, as the Scheme will not change the way in which management apply such discretion, I am therefore content that the benefit expectations of Transferred Policies will not be materially adversely affected by the Scheme.

### Service standards

7.36. While the exact timing has still to be confirmed, I understand that SS&C will become responsible for the administration of the CASLP business prior to the Transfer Date, with existing CASLP administration staff being transferred to SS&C under a Transfer of Undertakings (Protection of Employment) ("TUPE") arrangement. As the policies will initially continue to be administered on CASLP's systems, with a migration to SS&C's systems planned for Q3 2024, I do not expect there to be a material adverse impact on service standards as a result of the Scheme.

7.37. As the planned migration is not part of the Scheme, and as neither the migration nor the Scheme depend on each other, I have not considered the impact of the proposed migration on service standards in detail. However, I note that the parties invested a significant amount of management time into the selection of SS&C as the long-term outsourced service provider, with no material concerns identified in the due diligence process. SS&C have provided assurances to the parties that they will be able to deliver the migration of all in-scope products and so be able to service the products as designed. There is also a contractual commitment from SS&C to deliver the same level of service as currently provided in-house for CASLP policyholders. I therefore believe that it is reasonable to expect that service standards will not deteriorate as a result of the change in policy administration.

7.38. Client money is currently routed through CASFS to CASLP. CASFS is a non-insurance subsidiary of CASLP, the shares of which are being transferred to Countrywide Assured via a separate legal process, as discussed in paragraph 5.6. Client money will continue to be routed through CASFS for the Transferred Policies without interruption throughout this process. As noted in paragraph 5.2, both parties do not expect there to be any Excluded Policies, and so they do not expect any policies to remain in CASLP after the Transfer Date. Nevertheless, management have confirmed that CASFS will be able to continue to route client money to CASLP should this be required after the Transfer Date.

### Governance and management

7.39. As noted in paragraphs 4.8 to 4.13, Countrywide Assured's governance structure is essentially the same as CASLP's. While the parties have different Boards and Audit & Risk Committees, the terms of reference for CASLP's Board and Audit & Risk Committee were updated following the acquisition of CASLP by

Chesnara. There are no material differences when compared to the terms of reference for the equivalent Countrywide Assured bodies.

7.40. As discussed in paragraph 3.12, the following management committees have already been aligned with remits that cover both parties: UK Division Exco, UK Investment Committee, Information Security Steering Group, UK Capital Optimisation Advisory Group and UK Customer Committee.

7.41. As discussed in paragraph 3.16, CASLP currently has two GAAs, one in respect of workplace personal pension plan products and one in respect of investment pathways products. While Countrywide Assured also has a GAA in respect of its workplace personal pension plan products provided by the same provider under identical terms of reference, I have been advised by the parties that the three existing GAAs will remain in place following the Scheme, with no planned changes to the terms of reference or any operational aspects of the current arrangements.

7.42. CASLP's Management Committee, which has responsibility for developing and overseeing the implementation of the business plan for CASLP, as described in paragraph 3.15, has no equivalent committee in Countrywide Assured, which is closed to new business. Management have confirmed that CASLP's Management Committee will not remain following implementation of the Scheme, with its responsibilities mapped into the terms of reference for the UK Division ExCo.

7.43. CASLP's CASS Oversight Committee's responsibilities are currently limited to CASLP, with no equivalent committee in Countrywide Assured. The parties have advised me that they intend to transfer the CASS Oversight Committee to Countrywide Assured, with identical terms of reference.

7.44. Although not included within the scope of the Scheme, CASLP's subsidiaries (CASFS and CASLPTS) are to become subsidiaries of Countrywide Assured. The parties have informed me that the shares in these entities will transfer to Countrywide Assured via a separate legal process, with the governance structures of CASFS and CASLPTS entirely unchanged. As they will continue to provide the same services to the Transferred Policies as they currently do, with the same oversight arrangements in place, I am satisfied that there should be no effect on the Transferred Policies. Conversely, I am also satisfied that the Scheme should not have a material impact on the operations and governance of CASFS and CASLPTS.

7.45. As such, I do not expect the Scheme to have a material adverse effect on the governance and management of Transferred Policies.

### Regulatory permissions

7.46. As noted in paragraph 4.56, Countrywide Assured is in the process of applying for a Variation of Permission to add the permissions referred to in paragraph 4.55. This is needed in order to be able to accept the transfer of CASLP's OneSIPP policies, and the Court cannot sanction the Scheme as currently proposed until the Variation of Permission has been approved. I will comment on the outcome of the Variation of Permission application in my supplementary report.

### Eligibility for the Financial Services Compensation Scheme and the Financial Ombudsman Service

7.47. It is my understanding that policies held with a firm authorised by the PRA are currently protected by the Financial Services Compensation Scheme ("FSCS") if that firm should suffer an insolvency event. Like CASLP, Countrywide Assured is an insurer authorised by the PRA. My understanding is therefore that the transfer of a long-term insurance policy from CASLP to Countrywide Assured will not affect that contract's eligibility for FSCS compensation. The level of compensation received will also be unaffected, including for any holders of Transferred Policies who also hold other contracts of insurance with Countrywide Assured, since level of compensation that may be received in respect of long-term insurance contracts is currently 100% of the insured claim.

7.48. The holders of Transferred Policies that were sold in the UK are currently able to bring complaints against CASLP to the Financial Ombudsman Service ("FOS"). Following the implementation of the Scheme, the holders of the Transferred Policies sold in the UK will be able to bring complaints against Countrywide Assured to FOS. I note that any complaints made to FOS by holders of the Transferred Policies that are outstanding at the Transfer Date will be transferred to Countrywide Assured and handled and settled by Countrywide Assured under the terms of the Scheme.

7.49. The holders of Transferred Policies that were sold in the Channel Islands are currently able to bring complaints against CASLP to the Channel Islands Financial Ombudsman ("CIFO"). Following the implementation of the Scheme, the holders of Transferred Policies that were sold in the Channel Islands will be able to bring complaints against Countrywide Assured to the CIFO. I note that any complaints made to the CIFO by holders of the Transferred Policies that are outstanding at the Transfer Date will be transferred to Countrywide Assured and handled and settled by Countrywide Assured under the terms of the Scheme.

# 8. Impact of the Scheme on Countrywide Assured's Existing Policyholders

8.1. In this section I consider the potential impacts of the Scheme on Countrywide Assured's existing policyholders, specifically with reference to benefit security, benefit expectations, service standards, and the expected impacts on changes to governance and management, following the implementation of the proposed Scheme.

## Benefit security

8.2. Consistent with my approach in Section 7 in relation to the Transferred Policies, I assess the effect of the Scheme on the security of benefits for Countrywide Assured's existing policyholders by considering its impact on Countrywide Assured's financial strength. Specifically, I consider whether Countrywide Assured is expected to comply with its capital management policy following the implementation of the Scheme, the risks to which the firm is exposed, and the quality of capital held.

### Capital management policy

8.3. Countrywide Assured's capital management policy will not change as a result of the Scheme. As shown in **Figure 16**, analysis of Countrywide Assured's pro-forma balance sheet shows that the level of Eligible Own Funds that would have been held on 31 December 2022 had the Scheme become effective on that date would have been sufficient to comply with the capital management policy. I am therefore content that the Scheme will not lead to a material adverse effect on the benefit security of Countrywide Assured's existing policyholders.

8.4. As discussed in paragraph 7.6, I have also considered how the solvency coverage ratio is expected to evolve following the Transfer Date, noting it is expected to improve fairly steadily over calendar years 2023 to 2027.

8.5. As discussed in paragraph 6.26, analysis of Countrywide Assured's pro-forma balance sheet at 31 December 2022 shows that it would have held sufficient Eligible Own Funds to comply with its capital management policy had the Scheme become effective at that date, even if it were unable to apply the VA to the Transferred Policies to which CASLP currently applies it.

### Balance of risks

8.6. **Figure 18** compared the total undiversified SCRs as at 31 December 2022 for CASLP, Countrywide Assured and the pro-forma regulatory balance sheet assuming that the Scheme was effective at that date, broken down by risk types. To assess the significance of the changes in risks to which existing Countrywide Assured policyholders are exposed, the relevant comparison is of the risk profile of Countrywide Assured before the implementation of the Scheme to that of Countrywide Assured after its implementation. Countrywide Assured policyholders are expected to become proportionately less exposed to market risks and more exposed to underwriting risks following implementation of the Scheme, although the proportionate impacts are expected to be smaller than for CASLP policyholders owing to Countrywide Assured's total SCR before implementation of the Scheme being larger than that of CASLP. In particular, the most material changes to Countrywide Assured's balance of risks are expected to be a lower relative exposure to equity risk and a greater relative exposure to lapse risk.

8.7. As mentioned in paragraph 4.42, Countrywide Assured agreed a reinsurance arrangement with Monument Re in 2021 which removed longevity risk on annuities within the CWA and PL blocks of business. Countrywide Assured currently has no plans to reinsure the annuities transferred from CASLP following implementation of the Scheme, although Countrywide Assured's management have informed me that this may be considered in the future.

8.8. As set out in paragraph 6.22, I am satisfied that the change in balance of risks will not have a material adverse effect on the benefit security of Countrywide Assured's current policies, including the expected increase to Countrywide Assured's exposure to longevity risk.

8.9. As was shown in **Figure 20**, the Transferring Assets of CASLP will not introduce any new material asset exposures to Countrywide Assured and so I do not expect any material adverse impact on expected benefit levels or benefit security of Countrywide Assured's existing policies to arise from changes in their asset risk exposures following implementation of the Scheme.

8.10. As noted in paragraph 7.14, CASLP's existing insurance and reinsurance arrangements with Munich Re and Allianz will transfer to Countrywide Assured under the terms of the Scheme. Consequently, Countrywide Assured will gain exposure to the risks associated with these arrangements. I have considered the impact of these new exposures below.

- Countrywide Assured already has an exposure to Munich Re through its own reinsurance arrangement. Countrywide Assured's exposure to Munich Re is positive, such that it would incur a loss if Munich Re defaulted. On the other hand, CASLP has a negative exposure and expects to have to pay money to Munich Re over time. Consequently, Countrywide Assured's overall exposure to the default of Munich Re might reduce following implementation of the Scheme, although this might depend on the application of "rights of offset" terms of the reinsurance agreements, which I have not considered.

- Countrywide Assured has no existing exposure to Allianz. However, I note that the transferring exposure of c.£4m is smaller than Countrywide Assured's exposure to most of its existing reinsurance counterparties. The credit rating of Allianz is AA and is therefore in line with that of Countrywide Assured's existing reinsurance counterparties. I am therefore satisfied that the new exposure to Allianz is unlikely to be material.

### Climate change risk

8.11. As discussed in paragraphs 7.17 to 7.22, I have analysed the climate risk assessments of CASLP and Countrywide Assured, including their qualitative assessments and quantitative analysis. As is the case for Transferred Policies, I am comfortable that the exposure to climate risk for Countrywide Assured's existing policyholders will not change materially as a result of the Scheme.

### Quality of capital

8.12. As discussed in paragraph 6.28, the quality of Countrywide Assured's Own Funds following the Scheme is expected to be equivalent to the quality of Countrywide Assured's Own Funds prior to the Scheme, each consisting entirely of Unrestricted Tier 1 Own Funds. I am therefore satisfied that there will be no material adverse effect to the benefit security of Countrywide Assured's existing policies in relation to the quality of capital held after implementation of the Scheme.

### Liquidity risk

8.13. As discussed in paragraph 7.24, I have examined CASLP's and Countrywide Assured's approach to monitoring liquidity risk, and I am satisfied that the approach adopted is equivalent. As both entities currently have regulatory approval to the use the VA, they are required to maintain a liquidity plan which considers the risks that could increase liquidity requirements and/or reduce available liquidity. I therefore do not expect Countrywide Assured to become materially more exposed to liquidity risk following implementation of the Scheme, and so do not consider there to be a material adverse impact on Countrywide Assured's current policyholders arising from liquidity risk.

### Business plans

8.14. While Countrywide Assured is closed to new business, CASLP has two product lines – Onshore Bond and OneSIPP, discussed in paragraph 3.20 – which are open to new business. The parties' current plans are for these two product lines to remain open to new business in Countrywide Assured following the transfer, subject to management review. The ability to continue to write new business in Countrywide Assured will be subject to continued compliance with its capital management policy.

## Benefit expectations

### Unit-linked policies

8.15. The Scheme will not change the terms and conditions of Countrywide Assured's existing unit-linked policies. Similarly the Scheme will not change, and Countrywide Assured has confirmed that it does not plan to change as a result of the Scheme, any of the following:

- the way in which it manages its unit-linked business, including the application of discretion as discussed in paragraphs 4.28 to 4.34,
- the charges applying to that business,
- its unit-linked PPFM, and
- the range of unit-linked funds available to policyholders.

8.16. I am therefore satisfied that the unit-linked benefit expectations of Countrywide Assured's existing unit-linked policyholders Transferred Policies will not be materially adversely affected by the Scheme.

### Non-linked policies

8.17. The premiums payable and benefits due under the majority of non-linked policies are codified in the policy terms and conditions, which will not be altered by the Scheme. As discussed in paragraph 4.16, Countrywide Assured has some non-linked business where there is management discretion over future premiums, benefits and charges. Management have confirmed that they do not plan to change their approach to applying such discretion following the implementation of the Scheme. As the Scheme will not change the way in which management apply such discretion, I am therefore satisfied that there will be no material adverse impact on the benefit expectations of Countrywide Assured's existing non-linked policyholders following implementation of the Scheme.

### With-profits policies

8.18. CASLP's business will be transferred into Countrywide Assured's Non-Profit Fund. The Scheme will not change the terms and conditions of Countrywide Assured's existing with-profits policies. Similarly the Scheme will not change, and Countrywide Assured has confirmed that it does not plan to change as a result of the Scheme, any of the following:

- the management of three blocks of with-profits business as described in paragraphs 4.35 to 4.39, including the application of discretion required to manage that business (such as setting bonus rates for policies in the SPP and SPI with-profits funds and the allocation of expenses to these funds),
- the PPFMs for the SPP and SPI with-profits funds or for the with-profits business which is reinsured to the GAWPF, and
- the funds' capital support arrangements.

8.19. I am therefore satisfied that there will be no material adverse effect on the benefit expectations of Countrywide Assured's with-profits policyholders following implementation of the Scheme.

8.20. The Own Funds from the Transferred Policies will increase the overall Eligible Own Funds within the Non-Profit Fund. As discussed in paragraphs 7.9 and 7.10, burn-through risk from the with-profits funds is not expected to be material, but the increase to overall Eligible Own Funds from the Transferred Policies will reduce the risk to existing Countrywide Assured policyholders.

### Service standards

8.21. As discussed in paragraph 4.6, Countrywide Assured currently outsources the administration for its existing policies, with the majority administered by HCL and Capita. These arrangements will not be affected by the Scheme and so I am satisfied that the Scheme will have not have a material adverse impact on service standards for Countrywide Assured's existing policyholders.

8.22. As noted in paragraph 4.7, Countrywide Assured has entered an agreement with SS&C to provide outsourced administration for certain policies. This will involve terminating the current outsourcing arrangement with HCL and migrating that business on to SS&C's system, and will proceed regardless of whether or not the Scheme is implemented. While the exact timing of this process has still to be confirmed, it will take place after implementation of the Scheme, after the completion of the contractual notice period. This will also be after CASLP's business has been migrated to SS&C's system.

8.23. As the planned migration is not part of the Scheme, and as neither the migration nor the Scheme depend on each other, I have not considered the impact of the proposed migration on service standards in detail. However, I note that the parties invested a significant amount of management time into the selection of SS&C as the long-term outsourced service provider, with no material concerns identified in the due diligence process. SS&C have provided assurances to the parties that they will be able to deliver the migration of all in-scope products and so be able to service the products as designed. There is also a contractual commitment from SS&C to deliver the same level of service as currently provided by HCL. I therefore believe that it is reasonable to expect that service standards will not deteriorate as a result of the change in policy administration.

### Governance and management

8.24. Other than changes described in paragraph 8.25 which are needed to accommodate the Transferred Policies, Countrywide Assured's management have confirmed that they do not intend to make any changes to the firm's management or governance structures as a result of the Scheme, including the various terms of reference.

8.25. The consequential changes referred to in paragraph 8.24 are that:

- As noted in paragraph 7.43, the parties intend to transfer the CASS Oversight Committee to Countrywide Assured, with no changes to the terms of reference.
- As noted in paragraph 7.41, the parties intend to constitute CASLP's existing GAAs in Countrywide Assured, in addition to its own GAA. All GAAs will continue to operate separately, with unchanged terms of reference.

8.26. As noted in paragraph 7.44, CASLP's subsidiaries (CASFS and CASLPTS) are to become subsidiaries of Countrywide Assured. For the same reasons set out there I do not expect the transfer of CASFS and CASLPTS to have a material adverse impact on Countrywide Assured's existing policyholders. As also set out in paragraph 7.44, I am also satisfied that the Scheme should not have a material impact on the operations and governance of CASFS and CASLPTS.

8.27. As such, I am content that Countrywide Assured's management and governance structures will continue to be appropriate following the Scheme, since the Transferring Business is similar in nature to

Countrywide Assured's existing business, and I do not expect the Scheme to have a material adverse effect on the governance and management of Transferred Policies.

# 9. Other stakeholders

### CASLP's insurers and reinsurers

9.1. As noted in paragraph 5.10, the Scheme will transfer all of CASLP's insurance and reinsurance contracts to Countrywide Assured. Insurers and reinsurers may be exposed to the risk of default by cedants, for example if the present value of the future premiums to be paid by the cedant exceeds the present value of the claim payments that are expected to be made to the cedant under the insurance or reinsurance arrangement. As discussed in paragraphs 3.39 to 3.42, CASLP has a positive exposure to the default of Allianz, and a negative exposure to Munich Re. This means that Allianz has a negative exposure to CASLP and that Munich Re has a positive exposure to CASLP.

9.2. To manage this risk, insurers and reinsurers will typically set limits on their exposures to cedants, in which regard I note that Countrywide Assured does not currently have any insurance or reinsurance arrangements with Allianz. Notwithstanding that Allianz is negatively exposed to CASLP, the transfer to Countrywide Assured of CASLP's indemnity cover with Allianz will therefore not lead to Allianz breaching counterparty exposure limits for Countrywide Assured.

9.3. As noted in paragraphs 3.40 and 4.40, Munich Re has reinsurance arrangements in place with both CASLP and Countrywide Assured. Munich Re has a positive exposure to the default of CASLP, but a negative exposure to the default of Countrywide Assured. Following implementation of the Scheme, Munich Re's aggregate exposure to CASLP and Countrywide Assured will not change, but it will be consolidated into one entity. Munich Re's exposure to Countrywide Assured in isolation will therefore increase as a result of the Scheme. However, this exposure will not be larger than its existing exposure to CASLP, on which basis I am content that the implementation of the Scheme will not adversely affect Munich Re.

9.4. Furthermore, the analyses set out in Section 7 in relation to financial strength, capital management policies, risk profile, and governance arrangements also apply equally to CASLP's current insurers and reinsurers as they do to holders of Transferred Policies. I am therefore satisfied that the Scheme is not expected to have a material adverse effect on CASLP's insurers and reinsurers.

### Countrywide Assured's reinsurers

9.5. With the exception of Munich Re on whom I commented in paragraph 9.3, none of Countrywide Assured's existing reinsurers have reinsurance arrangements in place with CASLP and so the implementation of the Scheme will not directly impact their exposure to Countrywide Assured. Furthermore, the analyses set out in Section 8 in relation to financial strength, capital management policies, risk profile, and governance arrangements apply not only to Countrywide Assured's existing policyholders but also to Countrywide Assured's current reinsurers. I am therefore satisfied that the Scheme is not expected to have a material adverse effect on Countrywide Assured's reinsurers.

### Outsourced service providers

9.6. I have discussed in various places (including paragraphs 3.9, 3.10 and 4.7) the parties' plans to migrate the administration of various blocks of business to SS&C as their long-term provider of policy administration. As these plans and associated timelines do not depend on the implementation of the Scheme, I do not expect the Scheme to have a material adverse impact on any of the parties' outsourced service providers.

### Transferred pension schemes

9.7. Eight pension schemes currently provided by CASLP comprise part of the Transferred Assets under the Scheme. These pension schemes will be provided by Countrywide Assured following the implementation of the Scheme. CASLPTS is trustee to some of these pension schemes, while the relevant principal employers act as trustee to the others. While it is likely that CASLPTS will already be aware of the proposed Scheme and the resulting change of provider, the parties have confirmed that they intend to formally notify CASLPTS and, where necessary, the relevant principal employers as the trustees of these schemes.

# 10. Policyholder communications

10.1. CASLP and Countrywide Assured have set out their plans regarding notifying policyholders and other stakeholders (including their respective insurers, reinsurers, outsource providers, and other partners) of the proposed transfer.

## Structure and content of communications

10.2. CASLP intends to issue a communications pack to holders of Transferred Policies shortly after the Directions Hearing, which is scheduled to be held on 26 July 2023. That pack will include:

- a cover letter,
- a policyholder circular which contains a summary of the Scheme, a notice (the "Legal Notice") stating that the application for the Scheme has been made in the appropriate form, the date of the proposed Sanction Hearing (29 November 2023), and information on how to raise any objections, and
- a summary of my Scheme Report, included within the policyholder circular.

10.3. In addition to this, full versions of the Scheme document and this report will be made available on the websites of both CASLP and Countrywide Assured, and paper copies will be provided free of charge on request. Further information, including questions and answers relating to the transfer will also be available on the websites of both CASLP and Countrywide Assured.

10.4. I have reviewed the communication pack that will be sent to holders of Transferred Policies and the information to be posted on the CASLP and Countrywide Assured websites. I consider it to be generally consistent with the information I would expect policyholders and other stakeholders to receive in connection with the proposed Scheme. I also believe that the language used is appropriate for the intended recipients. I am therefore comfortable with the content of the proposed communications.

10.5. Countrywide Assured does not intend to notify its existing policyholders and has sought a waiver in respect of this. This waiver, and those for CASLP, are discussed further within the rest of this section.

## Wider publication

10.6. CASLP and Countrywide Assured have jointly developed a proposal which sets out how the parties intend to meet the wider notification requirements of FSMA. In particular, the parties will:

- publish the Legal Notice in each of the London, Edinburgh and Belfast Gazettes, as well as in The Financial Times, The Times, The Daily Mail and the Daily Mirror, this notice having first been approved by the PRA in consultation with the FCA,
- publish the following items on their websites and make paper copies available on request without charge:
  - the full Scheme document,
  - questions and answers relating to the proposed transfer,
  - CASLP Chief Actuary's report on the Scheme,
  - Countrywide Assured Chief Actuary's report on the Scheme,
  - Countrywide Assured With-Profits Actuary's report on the Scheme, and
  - this report in full.

10.7. For certain business sold through an independent financial advisor for whom CASLP has an address, the policyholder circular will also be sent to the advisor.

10.8. For trust-based pension policies, a notification will be provided to the trustees, as well as the beneficiaries themselves, other than where the trustee is CASLPTS.

### Policyholder support

10.9. The policyholder circular identifies a number of ways in which policyholders can receive support in relation to the proposed Scheme. Specifically, further information or support in answering questions will be available from various sources, namely:

- on written request to the postal address detailed in the policyholder circular.
- through contacting a dedicated team who will deal with all requests and queries in relation to this transfer. An email address and telephone number are provided for this team in the policyholder circular and the Legal Notice.
- on the websites of both CASLP and Countrywide Assured.

### Policyholder queries

10.10. The communication strategy also outlines plans for dealing with communications received, setting out target service levels, and detailing plans for monitoring the management information relating to communications. Employees will also receive training to ensure they understand their obligations and the formal requirement to collect the responses.

10.11. The information sent to policyholders, and responses or objections received, will be tracked by the parties. This information will be shared with the PRA, with the FCA, and with me, on a weekly basis. I will review and comment on the key areas of feedback received from policyholders in my supplementary report.

### Waivers sought

10.12. The Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 (the "Communication Regulations") set out notification requirements (the "Notification Requirements") in relation to the transfer of insurance business. Under the Communication Regulations, an insurer may seek sanction from the High Court pursuant to Regulation 4(2) for waivers in respect of some of the Notification Requirements, and this is common practice for firms undertaking a transfer of insurance business.

10.13. Precedent has been established in the courts for firms seeking waivers from the High Court. Precedent dictates several factors (the "Aviva Factors") that would be relevant to an application for waivers. The Aviva Factors are:

- the impossibility of contacting policyholders,
- the practicality of contacting policyholders,
- the utility of contacting policyholders,
- the availability of other information channels through which notice of the application can be made available,
- the proportionality of strict compliance,

- the impact of collateral commercial concerns, and
- the object of the transfer itself and its likely impact on policyholders.

10.14. CASLP plans to seek waivers, or otherwise not make direct notification of the proposed Scheme, in the following situations:

- to "gone-away" policyholders, i.e. those for whom CASLP does not hold the policyholder's up-to-date address, identified through CASLP's gone-away tracing process,
- to policyholders who have in place attorneys with a power of attorney arrangement where the attorney's address has specifically been notified,
- to policyholders other than the nominated main policyholder, on policies where there are multiple policyholders who live at the same address,
- to beneficiaries or dependents who would receive a benefit following the death of the policyholder,
- to minors, i.e. where the policyholder is under the age of 18, and
- where individuals have become policyholders without CASLP having been notified.

10.15. Notwithstanding CASLP's intention to contact all policyholders, other than where waivers are sought, it is inevitable that some policyholders will not be able to be contacted, for example where policyholders have changed address but have not informed the parties. In this case, CASLP's procedures for re-establishing contact with gone-away policyholders would commence, and the communication pack would be sent to any policyholders with whom contact is re-established.

10.16. Countrywide Assured plans to seek a waiver in respect of all of its existing policyholders.

10.17. I have considered the Notification Requirements and the Aviva Factors when assessing the proposed communication plan and the waivers being sought. I discuss below each waiver being sought.

### Gone-away policyholders

10.18. CASLP has an established gone-away reporting tracing process which all gone-away policies will have been through when first identified as gone-away, and then every three years thereafter. The initial project to screen and trace gone-away policies was conducted using a third-party tracing agent, Equiniti.

10.19. I have been advised by the parties that gone-away policyholders represented c.24% of CASLP policyholders as at December 2022. CASLP has therefore re-engaged Equiniti, to carry out an additional bulk tracing exercise to attempt to trace all gone-away policies within CASLP prior to the planned mailing exercise. This exercise is planned to complete in July 2023.

10.20. Where up-to-date contact details are found, the communication pack will be issued (or re-issued) to the policyholder, but CASLP intends to seek a waiver from notifying any policyholders for whom up-to-date contact details cannot be found. I support this application on the grounds that I consider it to be impossible to notify any policyholders whose contact details are unknown. I also note that the Scheme will be publicised on the parties' websites and in the press.

### Attorneys

10.21. Where the policyholder has a power of attorney agreement in place, and an attorney's contact details have been provided, the parties propose to mail the attorney rather than the policyholder. Where attorney details are not held, the communication pack will be sent to the policyholder.

10.22. I consider this approach to be appropriate as I believe that it is reasonable to assume that if an attorney has chosen not to provide their contact details, then both they and the policyholder are satisfied that it is not necessary for the attorney to receive information directly. On the other hand, where an attorney's contact details have been provided, it is appropriate for that attorney to receive information directly, on all matters, including the proposed Scheme. In this latter case, the parties are seeking a waiver from notifying the policyholder, which I support on the grounds that the utility of additionally contacting these policyholders is likely to be limited.

### Policies with multiple policyholders

10.23. CASLP has historically only written to the main policyholder nominated on such policies and intends to seek a waiver from separately notifying other policyholders who reside at the same address, instead providing a single notification addressed to all policyholders. Where there are multiple policyholders who live at different addresses, notification will be provided to each address.

10.24. I support this application on the grounds that the utility of writing separately to multiple policyholders resident at the same address is likely to be limited.

### Beneficiaries and dependents

10.25. CASLP also intends to seek a waiver from notifying any individuals who are not named policyholders but may be entitled to some form of policy benefit as a result of the death of the named policyholders. CASLP holds contact details for the main named policyholder, but it does not hold the contact details for all with a beneficial interest in the policy. CASLP therefore intends to send the communication pack to the main named policyholders. I consider this approach to be appropriate given the impracticality of contacting individuals for whom no contact details are held.

10.26. In the case of deceased policyholders, notification will be sent to the address held for the policyholder's personal representatives or executors (if known) but not to any other dependents or beneficiaries. An alternative to seeking this waiver would be for CASLP to contact the families of the deceased policyholders in order to attempt to find contact details for the executors or the dependents or beneficiaries. As the benefits payable under these policies will not be affected by the Scheme, and taking into account CASLP's wish to avoid causing the deceased policyholders' families undue distress, I support these proposals.

### Minors

10.27. Where the policyholder is under the age of 18, the communication pack will be sent via a nominated adult, usually the policyholder's legal guardian. This aligns with the parties' ordinary means of communicating with such policyholders.

10.28. As the utility of sending the pack to such policyholders is likely to be low until they are of an appropriate age and competence to understand its contents, I consider this to be an appropriate approach.

### Unknown policyholders

10.29. There may be certain situations where CASLP does not hold any information about the holders of certain policies, such as contingent annuities written on an "any spouse" basis. CASLP intends to seek a waiver from contacting such policyholders.

10.30. As was discussed in the case of gone-away policyholders in paragraph 10.20, it will not be possible to directly contact policyholders for whom CASLP does not hold contact details. CASLP will therefore rely on wider publications about the Schemes to notify these policyholders. Given the lack of alternatives and that CASLP is exceeding regulatory requirements in respect of the number of national newspapers in which information is published, I consider this to be appropriate.

### Countrywide Assured's existing policyholders

10.31. Countrywide Assured intends to seek a waiver from communicating directly with any of its existing policyholders. Its principal rationale for making this waiver request is two-fold, namely that:

- From a customer experience and customer outcomes perspective, it considers the Scheme to be a "ring-fenced lift and drop" of CASLP policies into Countrywide Assured. In particular, there are no changes to terms and conditions, charges, the funds available to its policyholders, or to the outsourced service provider and therefore service standards as a result of the Scheme – meaning that it considers there to be limited utility in notifying its policyholders.
- It estimates the costs of notification to be c.£800k, which it considers to be disproportionate, having regard to the expected limited utility in notifying policyholders.

10.32. As detailed in paragraph 4.2, Countrywide Assured has made a number of historical acquisitions. Waivers from directly contacting its then-existing policyholders were sought and obtained when the CWA and PL books were acquired, albeit that the transferring CWA and PL policyholders were notified. On the other hand, a corresponding waiver was not requested at the time of the S&P Part VII transfer, and therefore notification was made to Countrywide Assured's then-existing policyholders. Countrywide Assured have advised me that that particular notification resulted in very low levels of enquires (c.0.35% of policyholders), with no objections being raised in respect of what was arguably a more complex Scheme than that being presented here.

10.33. In making the waiver request, Countrywide Assured notes that information on the Scheme will be available to its policyholders indirectly, on its website, and in a number of national newspapers, as described in paragraph 10.6.

10.34. On balance, given the limited utility to policyholders, the disproportionate cost of a potential mailing, and the availability of information via other channels, I agree that the waiver application from directly contacting Countrywide Assured's existing policyholders is reasonable. In forming my views on this proposed waiver request, I was mindful that it is a material one: the proposed Scheme will increase the policy count in Countrywide Assured by c.33% and the total value of assets under management by c.141% (c.26% excluding unit-linked funds). However, I am persuaded by Countrywide Assured's assessment of the Scheme as a "lift and drop" exercise and therefore that the costs of direct notification are disproportionate to the benefits to its existing policyholders. Relevant to this consideration is that all of Countrywide Assured's existing policyholders should be aware that Countrywide Assured is a closed book consolidator as they have either been transferred in as a result of one of the historical acquisitions as described in paragraph 4.2, or written to at the time of the S&P Part VII transfer in 2011.

### Other stakeholders

10.35. As discussed in paragraph 10.1, CASLP and Countrywide Assured also intend to notify other interested stakeholders, including their respective insurers, reinsurers, outsourced service providers, and other partners. For the avoidance of doubt, this includes the trustees of the eight pension schemes currently provided by CASLP that comprise part of the Transferred Assets, as discussed in paragraph 9.7. I consider this to be appropriate.

### Conclusion

10.36. For the proposed communications plan, I am comfortable with the approach for holders of Transferred Policies. Furthermore, I am comfortable with the wider communication strategy, the waivers being sought (including from contacting Countrywide Assured's existing policyholders), and the support to be offered to policyholders and other interested stakeholders.

# 11. Other considerations arising from the Scheme

### Acquisition of a portfolio of individual protection business from Canada Life

11.1. In May 2023, the proposed transfer of a block of individual protection business from Canada Life to Countrywide Assured was announced. Countrywide Assured has provided me with pro-forma impacts of that proposed transfer on its 31 December 2022 regulatory balance sheet (i.e. excluding CASLP) as well as on its pro-forma 31 December 2022 regulatory balance sheet (i.e. also including CASLP). This analysis shows that Countrywide Assured, with or without the business to be transferred from CASLP, is expected to remain within its capital management policy after the proposed transfer from Canada Life. I am therefore satisfied that this announcement does not change my assessment of the security of policyholder benefits after the proposed transfer covered by this Scheme Report.

11.2. The proposed transfer from Canada Life to Countrywide Assured will also take place by means of the transfer process set out in Part VII of FSMA, separate to the CASLP transfer and expected to be considered by the Court in 2024. I have been nominated by Canada Life and Countrywide Assured as Independent Expert for that transfer, which at the date of this Scheme Report remains subject to regulatory approval.

11.3. Ahead of the planned Part VII transfer, Canada Life has already reinsured the protection portfolio to Countrywide Assured, with an effective date of 31 December 2022. For the avoidance of doubt, the effects of that reinsurance arrangement are not reflected in either the Countrywide Assured regulatory balance sheet set out in **Figure 16** or pro-forma Countrywide Assured (i.e. including CASLP) regulatory balance sheet also set out in **Figure 16**. While this is a limitation of the analysis presented in this Scheme Report, I am satisfied that is not a material limitation as the proposed transfer does not affect Countrywide Assured's ability to comply with its capital policy, with or without the business to be transferred from CASLP, as discussed in paragraph 11.1. I will consider in my supplementary report the impact of the reinsurance from Canada Life to Countrywide Assured both in the base Countrywide Assured regulatory balance sheet and in the pro-forma Countrywide Assured (i.e. including CASLP) regulatory balance sheet.

### Proposed changes to the UK prudential regulatory regime

11.4. The Solvency II regulatory regime came into effect in the European Union in 2016, and its provisions were later incorporated into UK law in preparation for the UK's decision to withdraw from the European Union. In October 2020, HM Treasury ("HMT") announced a review of Solvency II, noting that, since it had been developed to apply across the European Union, there were certain areas of it that could better reflect the particular structures, products and business models of the UK insurance sector.

11.5. HMT's stated objectives of the review are:

- "to spur a vibrant, innovative, and internationally competitive insurance sector,"
- "to protect policyholders and ensure the safety and soundness of firms," and
- "to support insurance firms to provide long-term capital to underpin growth, including investment in infrastructure, venture capital and growth equity, and other long-term productive assets, as well as investment consistent with the Government's climate change objectives."

11.6. **Figure 21** shows the progress of the review so far.

**Figure 21: Key milestones in HMT's review of Solvency II**

| Date | Development |
|---|---|
| October 2020 | HMT published call for evidence on the major areas of the review. |
| July 2021 | HMT published its response to the call for evidence. It stated that the Government had asked the PRA to model different options to better understand which combination of reforms would best meet the Government's objectives and what the aggregate impact would be. |
| July 2021 | The PRA announced a quantitative impact study that was intended to assist its analysis of potential reform options. |
| April 2022 | HMT published a consultation in which it stated that in some areas of reform the way forward seemed clear. The consultation sought evidence on the likely impact of those reforms to help determine the precise form that they needed to take. |
| April 2022 | The PRA published a discussion paper on the detail of particular reforms. |
| November 2022 | HMT published a more detailed package of reform proposals following the results of its April 2022 consultation, with some of the earlier proposals having been amended following feedback from the industry. |
| February 2023 | The PRA announced that consultations on the proposed reforms will take place in June and September 2023. |
| June 2023 | HMT published draft regulations outlining proposed changes.<br><br>The PRA published the first of the two consultation papers covering proposed reforms. |

11.7. In February 2023, the PRA announced that it intends to publish two consultations on the proposed reforms, the first of which was published in June 2023. The second consultation paper is expected to be published in September 2023, and the PRA's expectation is that by the end of 2023 firms will have a good understanding for how the new regime will operate, allowing them to start to adapt their plans.

11.8. The PRA's June 2023 consultation paper outlined a number of key reforms, expected to be implemented from 31 December 2024, including:

- changes to the calculation of TMTP;
- changes to the Solvency II internal model framework, including a new capital add-on to facilitate internal model permissions;
- allowing insurance groups greater flexibility in the methods available to calculate the group SCR;
- removal of branch capital requirements and the branch Risk Margin for the purposes of ongoing supervision of third-country branches;
- streamlining of certain reporting requirements to better reflect the composition and activities of the UK insurance market;

- the introduction of an optional mobilisation stage for new insurers under which they can operate, albeit with restrictions, while completing the final aspects of their development;
- an increase to the thresholds below which small insurers do not need to operate within the Solvency II regime; and
- various currency redenominations (from EUR to GBP), notably in relation to absolute floor of the minimum capital requirement within the PRA Rulebook.

11.9. The majority of the proposed changes, which are subject to change following a period of ongoing industry consultation, have little direct bearing on either party. For example, neither party has permission to use TMTP and both parties determine their SCR using the Standard Formula as opposed to their own internal model. Of most direct relevance to the parties are the PRA's proposals in relation to streamlined regulatory reporting and – a point that may be relevant to CASLP ahead of its planned deauthorisation as an insurer following the implementation of the Scheme (see paragraph 5.14) – a small (c.£0.1m) increase in the minimum capital requirement from c.£3.4m at 31 December 2022 (see paragraph 6.3) to £3.5m.

11.10. For the avoidance of doubt, the changes outlined above do not affect my conclusion that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders. I will re-assess this in my supplementary report in light of any proposed changes following the industry consultation referred to in paragraph 11.9, alongside the expected implications of the second consultation expected in September 2023.

11.11. Key reforms included in the draft regulations published by HMT in June 2023 included:

(i) changing the calculation of the Risk Margin, in particular reducing the cost of capital rate from 6% to 4%, and

(ii) making it easier to include a wider range of assets in MA portfolios.

11.12. HMT expects that the reform of the Risk Margin will be in force in legislation by 31 December 2023 and changes to the MA rules to be in place no later than June 2024.

11.13. The proposals published by HMT in November 2022 referred to "reforming reporting and administrative requirements to reduce EU-derived burdens". While reporting reform was not mentioned in the draft regulation published by HMT in June 2023, I expect there may well be further updates from HMT in this area. Similarly, the November 2022 proposals included proposed changes to the way in which the MA is calculated, which were not reflected in the draft regulations published in June 2023. Again, and in line with the PRA's expectation as described in paragraph 11.7, I expect more details to be published later in the year.

### Proposed reforms to the Risk Margin

11.14. Under the proposed reforms, paragraph 11.11(i) would be expected to decrease the size of the Risk Margins that are held on the regulatory balance sheets of CASLP and Countrywide Assured, and so would increase the Eligible Own Funds for both parties. The parties' capital management policies set out the target level of Eligible Own Funds that must be held over and above the SCR, and so, all else being equal, any reduction in the Risk Margin would be expected to increase the amount of Eligible Own Funds in excess of the target level, albeit this could then be paid out in dividends.

11.15. Both parties currently comply with their capital management policies, and Countrywide Assured is expected to continue to comply following the implementation of the Scheme. The proposed reforms to the Risk Margin would be expected to make it more likely that each firm will comply with its capital management policy immediately before the Transfer Date, and that Countrywide Assured will continue to comply after the Transfer Date, all else being equal. I therefore do not expect the proposed reforms to the Risk Margin to affect my conclusion that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders.

### Proposed reforms to the Matching Adjustment

11.16. Paragraph 11.11(ii) refers to the assets that insurers are permitted to use to back annuity liabilities that are valued using the MA. The proposed reforms will not materially change the way in which the MA is calculated but will increase the universe of assets that can be used to back annuity liabilities and be eligible for the MA. Neither CASLP nor Countrywide Assured has regulatory approval to the use the MA, and neither currently has any plans to apply for it. I therefore do not expect the proposed reforms to the MA to affect my conclusion that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders.

### Tax

11.17. The parties have confirmed that they do not expect the Scheme to result in any changes to the taxation treatment of the Transferred Policies.

11.18. The parties have shared with me independent tax advice commissioned by them in connection with the Scheme. This advice sets out that £15.5m of tax relief relating to the utilisation of excess management expenses is expected as a result of the Scheme to arise sooner than it would do otherwise, but this is noted as a timing benefit rather than an absolute one. The advice further notes that there may be alternative means for the parties to achieve this benefit, and that this is not one of the main purposes of the Scheme. While I am not a tax expert, I consider this advice to be reasonable and have therefore relied on it.

### Operational resilience

11.19. On 29 March 2021, the FCA published policy statement PS21/3 “Building operational resilience”, containing new rules and guidance on requirements to strengthen the operational resilience of the financial services sector. These came into force on 31 March 2022, and require firms to perform mapping and scenario testing of their operational resilience as soon as possible after the March 2022 implementation date, and by no later than 31 March 2025. “Mapping” refers to identifying and documenting the people, processes, technology, facilities and information that support important business services. “Scenario testing” refers to testing their robustness in a range of severe but plausible scenarios inside and outside of a firm’s control.

11.20. CASLP, Countrywide Assured and their outsourced service providers have business continuity plans which are reviewed and tested on a regular basis. The plans consider a range of scenarios including unavailability of premises, loss of IT, loss of a key supplier and loss of key people.

11.21. Additionally, CASLP and Countrywide Assured are both undertaking wider operational resilience programmes in line with the regulatory guidance, to identify business critical services and put in place contingency arrangements. CASLP’s ORSA notes plans to align its operational resilience programme with that of Countrywide Assured.

### Consumer Duty requirements

11.22. In July 2022, the FCA published policy statement PS22/9 “A new Consumer Duty” setting out final rules and guidance which are intended to strengthen consumer protection by ensuring that firms act to deliver good outcomes for customers. The Consumer Duty will come into force on 31 July 2023 for products that are open to new business, and on 31 July 2024 for products that are closed to new business.

11.23. Detailed Consumer Duty plans have been agreed by CASLP's and Countrywide Assured's Boards, with an aligned approach including Board reporting across both parties. I therefore do not expect the introduction of Consumer Duty to affect my conclusion that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders.

### War in Ukraine

11.24. The parties have advised me that they have sought to review their asset portfolios to identify any exposures to either Russia or Ukraine, such as securities issued by either government or companies domiciled there:

- CASLP has no exposure to Russia or Ukraine within either the asset portfolios managed by Sanlam Investments or the non-linked liquidity fund with Deutsche Bank. CASLP does not have a full look-through to the assets underlying the many externally-managed unit-linked funds referred to in paragraph 3.23 (which account for around 60% of its assets under management) and so it is unable to confirm the level of exposure to Russia or Ukraine which come from those funds. However, I note that any such exposures would be indirect, via certain unit-linked funds, and so they would not give me cause for concern in the context of the proposed transfer.

- Countrywide Assured's asset portfolios contain no direct exposure to Russia, but there is a small indirect exposure to Ukraine, of less than £0.5m, within the SPI with-profits fund managed by Schroders. This fund is ring-fenced from Countrywide Assured's Non-Profit Fund, although as noted in paragraph 7.9, any burn-through cost associated would be borne by the Non-Profit Fund. Given the size of the exposure relative to the SPI fund, this does not give me cause for concern in the context of the proposed transfer.

### COVID-19 pandemic

11.25. The parties were able to continue their business without any significant interruption during the periods of significant COVID-19-related restrictions in 2020 and 2021. CASLP and Countrywide Assured reviewed their operational resilience in response to COVID-19 and, as set out in their ORSAs, both parties have regular testing programmes in place for business continuity, covering a range of scenarios including unavailability of premises, loss of key supplier and loss of IT. I am therefore satisfied that the parties have appropriate contingency plans to be able to continue to operate their business in the event of disruption being caused by any new restrictions imposed in response to the ongoing COVID-19 pandemic.

### Implementation of IFRS 17

11.26. Following many years of development, the International Accounting Standards Board's new insurance accounting standard, International Financial Reporting Standard 17 ("IFRS 17") became effective from 1 January 2023. The Chesnara Group will be required to publish its IFRS 17 results for the first time as at 30 June 2023.

11.27. Both CASLP and Countrywide Assured are currently progressing with the implementation of IFRS 17 in support of the Chesnara Group requirements. I have been advised by the Chief Actuaries of CASLP and Countrywide Assured that the implementation of IFRS 17 is not expected to impact the way in which they manage their business. In particular, IFRS 17 will not impact the capital management policies of CASLP or Countrywide Assured. I therefore do not expect the implementation of IFRS 17 to affect my conclusion that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders.

### Future operation of the Scheme

11.28. The provisions of the Scheme deal largely with the transfer of the Transferred Business, rather than placing requirements on how Countrywide Assured manages its business (including the Transferred

Business) after the Transfer Date. If the Scheme is sanctioned by the Court the parties will be legally obliged to implement it, and their directors will be responsible for ensuring that this happens.

11.29. For practical purposes, the Scheme provides that the parties may amend it in order to correct a manifest error or to make an amendment which is considered to be “minor or technical”. The PRA and FCA have the right to object to any such amendment, and the parties must give them 28 days’ notice. Other types of amendment to the Scheme can be made only through an application to the Court. The PRA and FCA must be given at least six weeks’ notice, and would have the right to be heard by the Court. Such an application would need to be accompanied by a report from me or another independent actuary certifying that the proposed amendment was not expected to materially adversely affect either the holders of the Transferred Policies or Countrywide Assured’s policyholders.

11.30. Overall, I am satisfied that the Scheme contains sufficient safeguards to ensure that it operates as intended.

# 12. Consequences of the Scheme not completing

12.1. As part of my assessment of the Scheme, I have considered the consequences of it not completing as planned. If this were to happen then, as noted in paragraph 5.20, the status quo would persist in the short-term, with CASLP and Countrywide Assured remaining as separate authorised insurance companies within the Chesnara Group. Both would remain materially closed to new business, other than contractual increments and the two products that are currently open for CASLP. Chesnara would seek to remove the initial impediments to the Scheme and would look to transfer all of CASLP's assets and liabilities into Countrywide Assured at a later date. Chesnara would also continue to pursue new transactional opportunities.

12.2. In constructing its regulatory balance sheet, CASLP's allowance for future expenses is less than those currently being incurred. This difference is largely attributable to savings expected to arise from the planned outsourcing of policy administration to SS&C, which will happen regardless of the outcome of the Scheme. The expense assumptions used also include some savings expected to be made as a direct consequence of the Scheme, such as the streamlining of a single management framework. Consequently, should the Scheme not be implemented as planned, the value of CASLP Own Funds is expected to reduce as a result of these direct expense savings not materialising. However, management have informed me that the loss of any direct expenses savings from the Scheme not being implemented is not expected to result in CASLP being unable to comply with its capital management policy.

12.3. Like CASLP, Countrywide Assured's allowance for future expenses is also less than those currently being incurred, and for the same reasons. Similarly, Countrywide Assured's management do not expect the loss of any direct expenses savings from the Scheme not being implemented to lead to Countrywide Assured being unable to comply with its capital management policy.

12.4. As noted in paragraph 3.7, CASLP has a transitional agreement with SSUK, under which SSUK will continue to provide investment operations, information technology services, and information security services to CASLP until April 2024. I have been informed by management that this agreement will end in April 2024, regardless of whether the Scheme has been implemented.

12.5. As noted in paragraph 5.2, the parties do not expect there to be any Excluded Policies, and so do not expect any policies to remain in CASLP after the Transfer Date. However, management have confirmed that client money will continue to be able to be routed through CASFS to CASLP should it be required, even after the shares in CASFS have been transferred to Countrywide Assured via a separate legal process.

# 13. Summary of conclusions

13.1. I am satisfied that the Scheme is not expected to have a material adverse effect on the benefit security of any group of policies.

13.2. I am satisfied that the Scheme is not expected to have a material adverse effect on the benefit expectations of any group of policyholders.

13.3. I do not expect the Scheme to result in any changes to the standards of service for, or the management and governance of, any group of policies.

13.4. I am therefore satisfied that the Scheme is equitable to all classes and generations of CASLP's and Countrywide Assured's policyholders.

13.5. I am satisfied that I do not expect the Scheme to have a material adverse effect on CASLP's insurers and reinsurers whose contracts will be transferred to Countrywide Assured, or on Countrywide Assured's existing reinsurers.

13.6. I am also satisfied that I do not expect the Scheme to have a material adverse effect on any of the parties' outsourced service providers.

# 14. Certificate of compliance

14.1. I understand that my duty in preparing the Scheme Report is to help the Court on all matters within my expertise and that this duty overrides any obligation I have to those instructing me and/or paying my fees. I have complied with this duty.

14.2. I am aware of the requirements applicable to experts as set out in Part 35 of the Civil Procedure Rules, Practice Direction 35, and the related Guidance for the instruction of experts in civil claims. I understand my duty to the Court.

14.3. I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions that I have expressed represent my true and complete professional opinions on the matters to which they refer.

14.4. I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Stephen Makin

**Stephen Makin FFA CERA**
**Independent Expert**

**For and on behalf of Hymans Robertson LLP**

**14 July 2023**

# Summary report for policyholders

## Introduction

1. CASLP Ltd, which I refer to as CASLP, and Countrywide Assured plc, which I refer to as Countrywide Assured, share the same ultimate parent company, Chesnara plc, which I refer to as Chesnara. CASLP and Countrywide Assured share a largely common management team, but have their own Boards and Board committees.
2. CASLP and Countrywide Assured wish to transfer all of CASLP's insurance policies to Countrywide Assured. To do this, they must make an application to the High Court of Justice in England & Wales. The application must include a report by an Independent Expert on the terms of the transfer. I have been instructed jointly by CASLP and Countrywide Assured to fulfil this role, and my appointment has been approved by the UK's insurance regulators. I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 1999, and a partner of Hymans Robertson LLP, an actuarial consultancy firm.
3. This is my report for the policyholders of CASLP and Countrywide Assured. It is a summary of my full report to the Court, which is available on both firms' websites or from either firm on request. That report sets out the detailed scope of my work, the standards applying to it, and the information I have used in preparing it. Nothing in either report is or should be viewed as being investment, accounting, legal or tax advice, including to CASLP and Countrywide Assured or their policyholders.
4. The main focus of my work is to consider whether the proposed transfer is expected to affect the benefits paid to any group of policyholders, or to significantly reduce either the security of those benefits or the standards of services provided to policyholders. I have considered the expected impact of the proposed transfer on both CASLP's current policyholders whose policies will be transferred to Countrywide Assured, and on Countrywide Assured's existing policyholders.

## The impact of the transfer on benefits expected to be paid to policyholders

### Policyholders transferring from CASLP to Countrywide Assured

5. There will be no change to the terms and conditions of policies transferring from CASLP, except to refer to Countrywide Assured rather than CASLP. There will be no change to the way in which these policies are managed, including charges, expenses, and the range of funds available. I therefore do not expect the transfer to result in either a reduction in the benefits paid to or an increase in premiums required from any of CASLP's current policyholders whose policies are to be transferred to Countrywide Assured.

### Countrywide Assured's existing policyholders

6. As for CASLP, there will be no change to the terms and conditions of Countrywide Assured's existing policies. Similarly, there will be no change to the way in which these policies are managed, including charges, expenses, and the range of funds available. I therefore do not expect the transfer to result in a reduction in the benefits paid to or an increase in premiums required from any of Countrywide Assured's existing policyholders.

## The security of policyholder benefits

### Policyholders transferring from CASLP to Countrywide Assured

7. I do not expect the transfer to significantly reduce the security of benefits for policyholders transferring from CASLP to Countrywide Assured.
8. Both CASLP and Countrywide Assured maintain internal policies which ultimately govern the financial resources that are retained within each firm rather than being paid to shareholders in the form of dividends. These policies require CASLP and Countrywide Assured to hold financial resources beyond those required by the regulations. The policies are essentially the same for both companies, so I regard both as having the same financial strength provided that they comply with their policies. Countrywide Assured currently holds a level of financial resources that complies with its policy, and I am satisfied that the level of financial resources that it expects to have following the transfer will also comply with its policy.
9. Furthermore, both CASLP and Countrywide hold similar types of insurance policies and are exposed to similar risks. I have considered the risks faced by both CASLP and Countrywide Assured, and I am satisfied that the transfer should not materially change the risks that CASLP policyholders are exposed to.

10. I have also considered how Countrywide Assured's financial position is expected to change in the years following the transfer, and am satisfied that the company's financial position is not expected to materially worsen over the coming years as a result of the transfer.

### Countrywide Assured's existing policyholders

11. I do not expect the transfer to significantly reduce the security of benefits for Countrywide Assured's existing policyholders.
12. Countrywide Assured has confirmed that the transfer will not result in any changes to its internal policy which governs the level of financial resources that it holds. As noted in paragraph 8, I am satisfied that the level of financial resources that Countrywide Assured expects to hold following the transfer will comply with its policy.
13. As noted in paragraph 9, CASLP and Countrywide Assured hold similar types of insurance policies and are exposed to similar risks. I therefore do not expect the transfer to have a material impact on the risks faced by Countrywide Assured's existing policies.

## Service standards

### Policyholders transferring from CASLP to Countrywide Assured

14. The transfer should have no direct impact on the service standards of policyholders transferring from CASLP to Countrywide Assured.
15. The administration of CASLP's policies is currently carried out in-house but ahead of implementation of the Scheme responsibility for this will move to a new provider, SS&C Technologies. As this change in administration is separate to the Scheme it is beyond the scope of my report, but based on the information provided to me by CASLP I do not expect there to be a reduction in the standard of service received by CASLP's existing policyholders.

### Countrywide Assured's existing policyholders

16. The transfer should have no direct impact on the service standards of Countrywide Assured's existing policyholders.
17. Countrywide Assured has entered an agreement with SS&C Technologies to provide outsourced administration for certain policies currently outsourced to HCL Insurance BPO Services Limited. As this change is separate to the Scheme it is beyond the scope of my report, but based on the information provided to me by Countrywide Assured I do not expect there to be a reduction in the standard of service received by the relevant policyholders.

## Conclusion

18. Based on the information provided to me by CASLP and Countrywide Assured, I conclude that the proposed transfer is not expected to affect the benefits expected to be paid to any group of policyholders, or to significantly reduce the security of those benefits, or the standards of service received by policyholders.
19. Before the final Court hearing, expected to be held on 29 November 2023, at which the Court will decide whether or not the transfer may proceed, I will prepare a supplementary report discussing any significant developments that have occurred since my full report was finalised, commenting on whether they cause me to change my conclusions.

Stephen Makin

**Stephen Makin FFA CERA**
**Independent Expert**

**For and on behalf of Hymans Robertson LLP**

**14 July 2023**

# Appendix 1: Glossary

| Term | Definition |
|---|---|
| Annuity | A contract of insurance under which an insurer pays a regular income, usually until the death of the insured. |
| Aviva factors | A number of factors which precedent dictates to be relevant to an application for waivers from the Notification Requirements. |
| Best Estimate Liabilities | In Solvency II, the best-estimate valuation of liabilities refers to the discounted value (i.e. in today's terms) of expected future obligations that an insurer expects to have to pay. The cash flows underlying the valuation are "best-estimate" in the sense of being "expected". They may therefore be considered to be neither pessimistic nor optimistic. Further information is given in Appendix 6. |
| Bid-offer spread | The difference between the prices at which a unit in a unit-linked fund can be bought for (the offer price) and sold at (the bid price). |
| Bonus | Uplifts to with-profits policy values which may be declared throughout a policy's term and at the point of claim. Once declared, bonuses become part of the policy's guaranteed benefits. |
| Burn-through | Any excess of the value of guaranteed benefits on with-profits policies in a with-profits fund over the value of assets in the fund. |
| Capital Resources Requirement | This term is defined fully in the Scheme, but in essence it means the higher of the relevant Solvency II capital requirement and the amount required by CASLP's capital management policy. |
| Client money | Money that a firm holds or receives from a policyholder in the course of or in connection with its regulated activities. |
| Collective investment schemes | Funds managed by professional managers which invest in a range of underlying assets. Individual investors buy (or are allocated) shares (or units) in the fund, with their money being pooled together with that of other investors, and spread over all of the assets held in the fund. |
| Critical illness | A form of, or benefit on a, life insurance product that usually pays a lump sum amount to the policyholder upon diagnosis of certain (and usually serious) illnesses, disabilities, or diseases. The illnesses, disabilities and diseases covered will be set out in policy terms and conditions. |
| Deferred annuity | A contract of insurance under which the insurer pays a regular income starting at a specified future date. Once payments start being made, they usually continue until the death of the insured. |
| Dilution levies | Charges which can be applied to specific (and usually large) trades in collective investment schemes where that trade could otherwise impact the underlying value to the detriment of the remaining investors. |

| Term | Definition |
|---|---|
| Diversification | The reduction in risk (and therefore capital requirements) that results from an expectation that adverse outcomes from one risk can be offset by more favourable outcomes from others. This arises from not all risks being expected to occur at the same time. |
| Eligible Own Funds | Own Funds that an insurer is permitted to use to cover its SCR.<br><br>The regulations categorise various Own Funds items into tiers according to their loss absorbency, degree of subordination, and term. The regulations also specify limits on the amount of Own Funds in each tier that may be used to cover the SCR. Further information is given in Appendix 6. |
| Endowment | Usually used to refer to an "endowment assurance", this is a life insurance product that pays an amount to the policyholder at the end of the contract (if the policyholder is still alive then) or a specified amount on the policyholder's earlier death. |
| Excluded Policies | This term is defined fully in the Scheme, but in essence it means any of CASLP's policies that cannot be transferred to Countrywide Assured at the Transfer Date for any reason (although the parties do not expect there to be any such policies). |
| Excluded Policies Reassurance Arrangement | This term is defined fully in the Scheme, but in essence it means an arrangement whereby any Excluded Policies, other than Sanctioned Policies, will be fully reinsured to and administered by Countrywide Assured until such time as they are able to be transferred. |
| Gone-away policyholders | Those policyholders for whom CASLP or Countrywide Assured does not hold an up-to-date address. |
| Income protection | An insurance policy that provides the policyholder with a regular income if they become unable to work due to illness or injury. The conditions for the commencement of payments will be defined in the policy terms and conditions, but broadly cover scenarios where the individual is no longer able to carry out the responsibilities of defined types of employment due to illness or injury. |
| Index-linked | Policies under which the benefits are wholly or partly determined by reference to the value of or fluctuations in an index. |
| Loss Absorbing Capacity of Deferred Tax | An allowance for the change in the value of deferred (i.e. future) taxes resulting from the effect on those taxes of losses arising from the stresses applied in the calculation of the SCR. |
| Liquidity Buffer | An amount of liquid capital held in addition to the assets required to meet expected outflows, such that CASLP or Countrywide Assured is expected to be able to meet all cash flows over the next year under pre-determined stresses. |

| Term | Definition |
|---|---|
| Matching Adjustment | When determining the BEL, the standard approach is to discount future liability cash flows using the "basic risk-free rate", which is a prescribed discount rate based on swap yields.<br><br>For certain lines of business, a Matching Adjustment may be added to the basic risk-free rate when the insurer has regulatory approval to do so. The value of the Matching Adjustment is derived from the spread on the assets held by the insurer to back the relevant business. Further information is given in Appendix 6. |
| Non-linked | Insurance products where the premiums and benefits are prescribed in the policy terms and conditions. In particular, pay-outs are not impacted by the performance of assets held to back the liabilities. Non-linked policies do not participate in the insurer's profits. |
| Non-Profit Fund | All policies, liabilities and assets within Countrywide Assured other than those within the ring-fenced SPP and SPI with-profits funds. This is referred to as the "Remaining Part" in the CASLP and Countrywide Assured Chief Actuaries' reports. |
| Notification Requirements | The notification requirements set out in the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001. |
| Own Funds | The total of:<br><br>• the excess of assets over liabilities, according to the regulatory balance sheet, less the amount of own shares held by the insurer, and<br><br>• subordinated liabilities.<br><br>Further information is given in Appendix 6. |
| Own Risk and Solvency Assessment | A process that insurers are required by regulation to carry out on a regular basis to identify and assess the risks to which they are exposed, and the capital required to support their risk profiles, approved risk tolerance limits and their business strategies. |
| Permanent Health Insurance | An insurance policy that provides the policyholder with a regular income if they become incapacitated due to illness or injury. The conditions for the commencement of payments will be defined in the policy terms and conditions, but often cover scenarios where the individual is no longer able to carry out certain activities of daily living due to illness or injury. |
| Principles and Practices of Financial Management | A document which sets out the high-level principles and lower-level practices employed by an insurer in managing a particular type of fund or business. |
| Quota share | A type of reinsurance contract under which the reinsurer is entitled to receive a specified proportion of all premiums received by the cedant from a portfolio of insurance contracts, in exchange for the reinsurer paying the same proportion of all claims incurred on the portfolio. |

| Term | Definition |
|---|---|
| Regulatory balance sheet | A balance sheet showing assets and liabilities recognised and valued in accordance with the Solvency II regulations. |
| Reinsurance | Insurance protection taken out by an insurer to limit its exposure to losses on its direct insurance contracts. |
| Reinsurer | The entity providing reinsurance. |
| Residual Assets | This term is defined fully in the Scheme, but in essence it means any assets which are intended to transfer under the Scheme but which cannot be transferred for any reason. |
| Residual Liabilities | This term is defined fully in the Scheme, but in essence it means any liabilities which are intended to transfer under the Scheme but which cannot be transferred for any reason. |
| Restricted Tier 1 Own Funds | The second highest quality of the four categories of Own Funds. Further information is given in Appendix 6. |
| Risk appetite statements | Risk appetite statements are expressions of the extent to which CASLP or Countrywide Assured wishes to accept specific risks, as set out in the Risk Appetite Framework. |
| Risk Margin | This is an addition to the Solvency II best-estimate liabilities. Its calculation is prescribed by the Solvency II rules, and it is intended to represent the amount in excess of the best-estimate liabilities that would have to be paid to another insurer in order for it to agree to take on the underlying insurance obligations. Further information is given in Appendix 6. |
| Risk tolerance limits | Quantitative target levels of risk against which CASLP's or Countrywide Assured's current risk exposures are measured. |
| Sanctioned Policies | This term is defined fully in the Scheme, but in essence it means any policies of CASLP the holders of which are on a political sanctions list. |
| Self-invested personal pensions | An individual pension product under which policyholders can choose the specific assets or funds in which they invest their premiums, subject to certain regulatory requirements. They are eligible for certain tax-related incentives. |

| Term | Definition |
|---|---|
| Solvency II | The name given to the regulatory regime that UK insurers are required to comply with. The regime is currently identical to that with which insurers in the EU are required to comply, the legislation having been written into UK law after Brexit.<br><br>Solvency II imposes quantitative requirements on insurers, for example relating to how assets and liabilities are measured, and how much capital insurers are required to hold.<br><br>Solvency II imposes qualitative requirements, for example relating to governance and risk management processes and controls.<br><br>Solvency II also places disclosure requirements on insurers, relating to what and to whom insurers must report on their financial health. |
| Solvency Capital Requirement | Under Solvency II, insurers are required to hold a Solvency Capital Requirement. The Solvency Capital Requirement is specific to each insurer and is calculated based on the risks that each insurer faces. It aims to ensure that an insurer holds enough Own Funds to withstand certain stress events. Further information is given in Appendix 6. |
| Solvency coverage ratio | This is a measure of financial strength of an insurer, calculated as the value of its Eligible Own Funds divided by its Solvency Capital Requirement. |
| Standard Formula | A prescribed approach to calculating the Solvency Capital Requirement which insurers must use unless they have regulatory approval to use their own internal model. Further information is given in Appendix 6. |
| Technical Provisions | Liabilities held on the regulatory balance sheet in respect of future benefit payments under contracts of insurance and the expenses of administering those contracts. Usually calculated as the sum of the Best Estimate Liabilities and the Risk Margin. Further information is given in Appendix 6. |
| Term assurance | A type of life insurance policy that provides defined cover, usually against death but sometimes also against being diagnosed with certain critical illnesses, for a specified period of time. |
| Tier 2 Own Funds | The third highest quality of the four categories of Own Funds. Further information is given in Appendix 6. |
| Tier 3 Own Funds | The lowest quality of the four categories of Own Funds, which typically comprises deferred tax assets. Further information is given in Appendix 6. |
| Transfer Date | The date on which the Scheme will take effect, which is expected to be 31 December 2023. |
| Transferred Assets | This term is fully defined in the Scheme, but in essence it means all of CASLP's assets at the Transfer Date, including the Transferred Pension Schemes, save for any Residual Assets. |

| Term | Definition |
|---|---|
| Transferred Business | This term is fully defined in the Scheme, but in essence it means the Transferred Assets, Transferred Liabilities, and Transferred Policies collectively. |
| Transferred Liabilities | This term is fully defined in the Scheme, but in essence it means all of CASLP's liabilities, which includes liabilities under the Transferred Policies, but also all other liabilities of the company, both actual and contingent. |
| Transferred Pension Schemes | This term is fully defined in Schedule 1 of the Scheme, but in essence it means the eight pension schemes currently provided by CASLP that form part of the Transferred Assets. |
| Transferred Policies | This term is fully defined in the Scheme, but in essence it means all of CASLP's policies in force at the Transfer Date other than Excluded Policies. |
| Transitional Measure on Technical Provisions | A deduction from the Technical Provisions for insurance contracts written before Solvency II came into effect, based on the difference between the Technical Provisions calculated in accordance with Solvency II and those calculated in accordance with the previous regulatory regime. Further information is given in Appendix 6. |
| Undiversified | Before allowing for diversification. |
| Unit-linked | A type of insurance product where the policy value is linked to the value of the units held in underlying assets or investment funds. |
| Unrestricted Tier 1 Own Funds | The highest quality of the four categories of Own Funds. Further information is given in Appendix 6. |
| Variation of Permission | A request made to the PRA or FCA by a firm wishing to make changes to its permitted regulated activities as recorded on the UK's Financial Services Register, available for inspection at https://register.fca.org.uk/s/. |
| Volatility Adjustment | When determining the BEL, the standard approach is to discount future liability cash flows using the so-called "basic risk-free rate", this being a prescribed discount rate based on swap yields. Insurers may apply for regulatory approval to add a Volatility Adjustment to the basic risk-free rate. Further information is given in Appendix 6. |
| With-profits | Insurance products which give policyholders the right to participate in certain profits of the insurance company, usually applied as bonuses. Other common features include guarantees and the smoothing of investment returns. |
| With-profits fund | Fund of assets held to back with-profits policies and meet other liabilities related to the company's with-profits policyholders, usually ring-fenced from the rest of the insurance company. |

| Term | Definition |
|---|---|
| With-Profits Committee | A governance committee (established in line with rule COBS 20.5.1R of the FCA's Conduct of Business Sourcebook, COBS) responsible for assessing, reporting on, and providing clear advice and recommendations to the firm's Board on matters affect the firm's with-profits funds, including:<br>• the way in which each with-profits fund is managed by the firm,<br>• whether the firm is complying with its with-profits PPFM, and<br>• whether the firm has appropriately addressed any conflicting interests of with-profits policyholders, other policyholders, and shareholders. |

# Appendix 2: Abbreviations

| Abbreviation | Definition |
|---|---|
| Allianz | Allianz Insurance plc |
| Aviva | Aviva Life & Pensions UK Limited |
| BEL | Best Estimate Liabilities |
| Canada Life | Canada Life Limited |
| Capita | Capita Life & Pensions Regulated Services Limited |
| CASFS | CASFS Ltd |
| CASLP | CASLP Ltd |
| CASLPTS | CASLPTS Ltd |
| CASS | Client Assets Sourcebook |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| Chesnara | Chesnara plc |
| Chesnara Group | Chesnara plc and its subsidiaries |
| CIFO | Channel Islands Financial Ombudsman |
| Countrywide Assured | Countrywide Assured plc |
| Communication Regulations | The Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 |
| Court | The High Court of Justice in England and Wales |
| CWA policies | Policies originally sold by City of Westminster Assurance Company Limited |
| Direct Line Life | Direct Line Life Insurance Company Limited |
| Exco | Executive Committee |
| FCA | Financial Conduct Authority |
| FOS | Financial Ombudsman Service |
| FSCS | Financial Services Compensation Scheme |
| FSMA | Financial Services and Markets Act 2000 |

| Abbreviation | Definition |
|---|---|
| GAA | Governance Advisory Arrangement |
| GAWPF | Guardian Assurance With-Profits Fund |
| HCL | HCL Insurance BPO Services Limited |
| HMT | HM Treasury |
| Hymans Robertson | Hymans Robertson LLP |
| IFoA | Institute and Faculty of Actuaries |
| IFRS 17 | International Financial Reporting Standard 17 |
| Independent Expert | The person responsible for preparing the Scheme Report in accordance with Section 109(2) of FSMA |
| MA | Matching Adjustment |
| Monument Re | Monument Re Limited |
| Munich Re | Munich Re United Kingdom Life Branch |
| Original CA policies | Policies originally sold by Countrywide Assured Ltd |
| ORSA | Own Risk and Solvency Assessment |
| PHI | Permanent Health Insurance |
| Phoenix | Phoenix Life Ltd |
| PL policies | Policies originally sold by Direct Line Life Insurance Company Limited, which was renamed Protection Life Company Limited |
| PPFM | Principles and Practices of Financial Management |
| PRA | Prudential Regulation Authority |
| Premium Life | Premium Life Assurance Holdings Limited |
| Protection Life | Protection Life Company Limited |
| ReAssure | ReAssure Limited |
| S&P policies | Save & Prosper policies, acquired by Countrywide Assured Ltd from JP Morgan Asset Management |
| RGA | RGA Reinsurance Company (Barbados) Ltd. |
| Sanlam Investments | Sanlam Investments UK Limited |

| Abbreviation | Definition |
|---|---|
| Scheme | The proposed scheme of transfer, the terms of which I have been instructed to report on in the capacity of Independent Expert |
| Scheme Report | The report on the terms of the Scheme required under section 109(1) of FSMA |
| Schroders | Schroder Investment Management Limited |
| SCR | Solvency Capital Requirement |
| SIH | Sanlam Investment Holdings Limited |
| SIPP | Self Invested Personal Pension |
| SPP | Save & Prosper Pensions |
| SPI | Save & Prosper Insurance |
| SSUK | Sanlam Securities UK |
| SUP18 | Chapter 18 of the Supervision Manual of the FCA Handbook |
| Swiss Re | Swiss Re Europe S.A., UK Branch |
| The parties | CASLP Ltd and Countrywide Assured Ltd |
| TMTP | Transitional Measure on Technical Provisions |
| TUPE | Transfer of Undertakings (Protection of Employment) |
| UK | United Kingdom |
| VA | Volatility Adjustment |
| WTW | Willis Towers Watson Limited |
| Zedra | Zedra Governance Ltd |

# Appendix 3: Compliance with terms of reference

## Material adverse effect

| Requirement | Section of the Scheme Report |
|---|---|
| I will assess the expected impact of the Scheme on each of the following groups:<br>• CASLP's policyholders, noting that all will be transferred to Countrywide Assured as part of the Scheme, | Section 7 |
| • Countrywide Assured's existing policyholders, | Section 8 |
| • Any of CASLP's reinsurers whose contracts of reinsurance will be transferred to Countrywide Assured as part of the Scheme, | Paragraphs 9.1 to 9.4 – I have considered insurers and reinsurers. |
| • Countrywide Assured's reinsurers, and | Paragraph 9.5 |
| • Any other interested parties. | The interests of outsource service providers is discussed in paragraph 9.6 and the interests of the Transferred Pension Schemes in paragraph 9.7. |
| As part of this assessment, I will consider whether the Scheme is expected to have a similar impact on all policyholders/reinsurers within each of these groups, or whether there are any sub-groups – for example, different groups or different generations of policyholders – for which the Scheme is expected to have a greater impact. In particular, I will assess whether the Scheme is expected to have a material adverse effect on any group of policyholders or reinsurers. | I have considered the impact on each of these groups and sub-groups through-out sections 7, 8 and 9. For example, paragraphs 7.30 to 7.33 discuss the impact on benefit expectations of unit-linked policies and paragraphs 7.34 to 7.35 discuss that of non-linked policies. |
| The Scheme report will set out my definition of "material adverse effect". This definition will encompass both the impact of the Scheme on benefit security and its impact on benefit expectations. | Paragraphs 1.10 to 1.12 |

**Benefit security**

| Requirement | Section of the Scheme Report |
|---|---|
| As part of the assessment of the expected impact of the Scheme on policyholder benefit security, I will consider the current financial positions of CASLP and Countrywide Assured – as measured by their Solvency II Pillar 1 balance sheets – and how these are expected to change following the implementation of the Scheme. | Paragraphs 6.1 to 6.9 |
| I will also compare the capital management policies (or equivalent) of the two parties and consider whether any differences have implications for the benefit security of the transferring policyholders. I will consider the management actions – for example the payment of dividends – that may be taken following the implementation of the Scheme, according to the capital management policies, and the implications for different groups of interested parties. | Paragraphs 6.10 to 6.11, 7.3 to 7.7, and 8.3 to 8.5. |
| If appropriate, I will consider the financial strengths of the parties on other bases, such as those used for Own Risk and Solvency Assessments ("ORSAs"). This might be relevant if, for example, the capital management policies refer to bases other than Solvency II Pillar 1. | The capital policies and ORSAs of the parties do not refer to any bases other than Solvency II Pillar I. |
| As part of assessing the impact of the Scheme on the Solvency II Pillar 1 balance sheets, I will consider its potential impact on Countrywide Assured's Solvency II approvals. | Paragraphs 6.23 to 6.27 |
| Countrywide Assured currently uses the Solvency II Standard Formula to calculate its Pillar 1 capital requirements. I will consider Countrywide Assured's assessment of whether and why the Standard Formula will continue to remain appropriate following the implementation of the Scheme. | Paragraph 6.27 |
| I will consider the impact of the Scheme on the risks faced by different groups of interested parties. For these purposes I will consider the capital held against different risks under Solvency II Pillar 1, as well as the parties' assessments of the risks faced in their ORSAs. This assessment will consider any risks not captured by the Solvency II Pillar 1 capital requirements, such as those which may emerge after the first year, a particular example of which is climate change risk. | Paragraphs 6.28, 7.8 to 7.16, 8.6 to 8.10 |
| When assessing the expected financial positions and risk profiles of the parties before and after the implementation of the Scheme, I will consider the implications of any changes in investment strategy that result from the implementation of the Scheme. I will also consider Countrywide Assured's ability to manage any assets transferred as part of the Scheme and to identify, measure, manage, monitor and mitigate any risks posed by these assets. | Paragraphs 7.11 to 7.13, 8.9 |

### Benefit expectations

| Requirement | Section of the Scheme Report |
|---|---|
| I will consider the impact of any changes to policy terms and conditions needed to allow the Scheme to be effected. | Paragraphs 7.31, 7.34, 8.15, 8.17 and 8.18 |
| I will consider whether CASLP and/or Countrywide Assured have discretion over the benefits paid under certain policies. If this is true for the transferring contracts then I will consider whether Countrywide Assured would be expected to exercise this discretion in a different way to how CASLP has exercised it in the past. If it applied to Countrywide Assured's existing policies then I will consider whether the transfer is expected to impact the way in which Countrywide Assured exercises this discretion. Particular examples might include reviewable premiums or charges, or non-contractual options that are currently offered to policyholders. | Paragraphs 7.31 to 7.35 and 8.15 to 8.18 |
| I will consider any tax consequences of the Scheme insofar as they affect transferring policyholders. | Paragraphs 11.17 and 11.18 |

### Service standards

| Requirement | Section of the Scheme Report |
|---|---|
| I will consider how the transferring business will be administered following the implementation of the Scheme, and whether this is expected to affect the standard of service experienced by policyholders. | Paragraphs 7.36 to 7.38, 8.21 to 8.23 |

### Communications to policyholders

| Requirement | Section of the Scheme Report |
|---|---|
| I will consider the accuracy, completeness and transparency of the communications that will be sent to policyholders advising them of the parties' intention to implement the Scheme. This will include consideration of whether the communications provide sufficiently clear and accurate information in relation to policyholders' rights under the Scheme, such as the right to object to the Scheme and have that objection heard by the Court. | Paragraphs 7.36 to 7.38, 8.21 to 8.23 |
| I will consider and opine on any applications made by the parties of waive the requirement to send communications to particular groups of policyholders. | Paragraphs 10.12 to 10.34 |
| I will consider the parties' plans in relation to wider notification of the Scheme including press advertisements. | Paragraphs 10.6 to 10.8 |
| I will prepare a summary of my report for inclusion in the communications to be sent to policyholders. | Included at the end of the Scheme Report |

### Governance

| Requirement | Section of the Scheme Report |
|---|---|
| I will compare CASLP's governance arrangements, Countrywide Assured's current governance arrangements, and how Countrywide's governance arrangements are expected to change as a result of the implementation of the Scheme. I will then assess any implications for particular groups of policyholders. | Paragraphs 7.39 to 7.45, 8.24 to 8.27 |

### Consequences of not implementing the Scheme

| Requirement | Section of the Scheme Report |
|---|---|
| I will consider the likely effects on policyholders if the Scheme is not implemented. I will also determine whether the parties have considered any alternatives to implementing the Scheme and, if so, why these were not proceeded with. | Section 12 |

# Appendix 4: Documents considered

The principal documents reviewed in preparing the Scheme Report were:

- advanced draft of the Scheme,
- CASLP Chief Actuary's report on the Scheme,
- Countrywide Assured Chief Actuary's report on the Scheme,
- Countrywide Assured With-Profits Actuary's report on the Scheme,
- communication packs to be sent to CASLP's policyholders,
- advanced draft of the witness statement from the CEO of CASLP and Countrywide Assured,
- legal advice received in relation to the Scheme, tax advice received in relation to the Scheme,
- Countrywide Assured's Solvency and Financial Condition Report as at 31 December 2021,
- CASLP's Own Risk and Solvency Assessment as at 30 June 2022,
- Countrywide Assured's Own Risk and Solvency Assessment as at 30 June 2022 and 30 June 2021,
- CASLP's capital management policy,
- Countrywide Assured's capital management policy,
- risk policy and risk strategy documents that cover both parties,
- CASLP's unit-linked Principles and Practices of Financial Management,
- Countrywide Assured's unit-linked Principles and Practices of Financial Management,
- sample policy terms and conditions,
- CASLP's insurance and reinsurance contracts,
- Countrywide Assured's reinsurance contracts,
- terms of reference for CASLP's management and governance committees,
- terms of reference for Countrywide Assured's management and governance committees,
- documents from both parties containing responses to my questions.

# Appendix 5: Compliance with regulatory rules and guidance

## FCA Handbook (Supervision chapter)

| Rule | Requirement from SUP 18.2 | Section of the Scheme Report |
|---|---|---|
| 18.2.31 | A scheme report must accompany an application to the court to approve an insurance business transfer scheme. This report must be made in a form approved by the appropriate regulator. | Before it is submitted to the Court, the form of this Scheme Report will have been approved by the PRA in consultation with the FCA. |
| 18.2.31A | When the appropriate regulator has approved the form of a scheme report, the scheme promoter may expect to receive written confirmation to that effect from that regulator. | Information only, no requirements |
| 18.2.32 | There may be matters relating to the scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert should therefore contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form his own opinion on such issues, which may differ from the opinion of the regulators. | I have contacted the PRA and FCA, who highlighted the Variation of Permission discussed in 4.56 and 7.46. |
| 18.2.33 | The scheme report should comply with the applicable rules on expert evidence and contain the following information:<br><br>(1) who appointed the independent expert and who is bearing the costs of that appointment; | 1.5, 1.7 |
| | (2) confirmation that the independent expert has been approved or nominated by the appropriate regulator; | 1.5 |
| | (3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role; | 1.13, 1.14 |
| | (4) whether the independent expert has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest; | 1.15 |
| | (5) the scope of the report; | 1.8 to 1.12 |
| | (6) the purpose of the scheme; | 1.1, 1.2 |
| | (7) a summary of the terms of the scheme in so far as they are relevant to the report; | Section 5 |

| Rule | Requirement from SUP 18.2 | Section of the Scheme Report |
|---|---|---|
| | (8) what documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided; | 1.19, Appendix 4: Documents considered |
| | (9) the extent to which the independent expert has relied on:<br><br>(a) information provided by others; and | 1.19 and 1.20 |
| | (b) the judgment of others; | The parties have provided me with the legal and tax advice that they have received. 1.4 and 11.18 |
| | (10) the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable; | 1.19 and 1.20 |
| | (11) his opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:<br><br>(a) transferring policyholders; | Section 7 |
| | (b) policyholders of the transferor whose contracts will not be transferred; and | There are no such policyholders. |
| | (c) policyholders of the transferee; | Section 8 |
| | (11A) his opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme; | 9.1 to 9.5 |
| | (12) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to policyholders' consideration of the scheme; and | Not applicable |
| | (13) for each opinion that the independent expert expresses in the report, an outline of his reasons. | Accompanying each conclusion |
| 18.2.34 | The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, by reinsurers, by others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances. | Throughout the report. |

| Rule | Requirement from SUP 18.2 | Section of the Scheme Report |
|---|---|---|
| 18.2.35 | The summary of the terms of the scheme should include:<br><br>(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and | 3.39, 3.40, 5.10 |
| | (2) a description of any guarantees or additional reinsurance that will cover the Transferred Business or the business of the transferor that will not be transferred. | Not applicable |
| 18.2.36 | The independent expert's opinion of the likely effects of the scheme on policyholders should:<br><br>(1) include a comparison of the likely effects if it is or is not implemented; | Sections 7 and 8. Section 12 discusses consequences of the scheme not completing. |
| | (2) state whether he considered alternative arrangements and, if so, what; | 5.19 |
| | (3) where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences he considers may be material to the policyholders; and | As required in Sections 7 and 8. |
| | (4) include his views on:<br><br>(a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; | 7.2 to 7.29<br><br>8.2 to 8.14 |
| | (b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect:<br><br>(i) the security of policyholders' contractual rights; | 7.2 to 7.29<br><br>8.2 to 8.14 |
| | (ii) levels of service provided to policyholders; or | 7.36 to 7.38<br><br>8.21 to 8.23 |
| | (iii) for long-term insurance business, the reasonable expectations of policyholders; and | 7.30 to 7.35<br><br>8.15 to 8.20 |
| | (c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations. | 11.17 and 11.18 |
| 18.2.37 | The independent expert is not expected to comment on the likely effects on new policyholders, that is, those whose contracts are entered into after the effective date of the transfer. | No requirements, only clarification. |

| Rule | Requirement from SUP 18.2 | Section of the Scheme Report |
|---|---|---|
| 18.2.38 | For any mutual company involved in the scheme, the report should:<br>(1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders;<br>(2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and<br>(3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without. | Neither party is a mutual company |
| 18.2.39 | For a scheme involving long-term insurance business, the report should:<br>(1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits; | 8.18 to 8.20 |
| | (2) if any such rights will be diluted by the scheme, how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders; | Rights will not be diluted |
| | (3) describe the likely effect of the scheme on the approach used to determine:<br>(a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and | 8.18 to 8.20 |
| | (b) the levels of any discretionary charges; | 8.18 to 8.20 |
| | (4) describe what safeguards are provided by the scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm; | 11.29 |
| | (5) include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders; | Section 13 |
| | (6) state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders; and | Section 13 |
| | (7) state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented. | 11.29, 11.30 |

| Rule | Requirement from SUP 18.2 | Section of the Scheme Report |
|---|---|---|
| 18.2.40 | Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable him to understand the wider picture. Likewise he will need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow him to understand in broad terms how the business will be run. | 7.26 to 7.29, 8.14 |
| 18.2.41 | A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions he considers ought to be made, unless either:<br>(1) the information required is not available and will not become available in time for his report, for instance it might depend on future events; or<br>(2) otherwise, he is unable to report on this aspect in the time available. | Not applicable |

*Source: https://www.handbook.fca.org.uk/handbook/SUP/18/?view=chapter*

**Statement of Policy: The PRA's approach to insurance business transfers**

| Paragraph | Requirement from PS1/22 | Section of the Scheme Report |
|---|---|---|
| 2.27 | Under section 109 of FSMA, a scheme report must accompany an application to the court to approve an insurance business transfer scheme. This report must be made in a form approved by the PRA (following consultation with the FCA). | Appendix 3 sets out my terms of reference and how I have fulfilled them.<br><br>Before it is submitted to the Court, the form of this Scheme Report will have been approved by the PRA in consultation with the FCA. |
| 2.27A | The PRA's assessment of whether to approve the form of the scheme report considers if the report is in an appropriate form to be submitted to the court to assist its assessment of the scheme. The PRA expects to take into consideration whether the report:<br><br>(1) covers in sufficient detail all the issues that appear to the PRA to be relevant; and<br><br>(2) incorporates appropriate reasoning. | |
| 2.27B | The PRA would generally expect a scheme report to contain at least the information specified in 2.30 and 2.32–2.33 below before it would be able to consider approving the form of the report. | |
| 2.28 | When the PRA has approved the form of a scheme report, the scheme promoter(s) may expect to receive written confirmation to that effect. | Information only, no requirements. |
| 2.29 | There may be matters relating to the scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert would therefore be expected to contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form their own opinion on such issues, which may differ from the opinion of the regulators. | I have contacted the PRA and FCA, who highlighted the Variation of Permission discussed in 4.56 and 7.46. |
| 2.30 | The scheme report should comply with the applicable rules on expert evidence and contain the following information:<br><br>(1) who appointed the independent expert and who is bearing the costs of that appointment; | 1.5, 1.7 |
| | (2) confirmation that the independent expert has been approved or nominated by the PRA; | 1.5 |
| | (3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role; | 1.13, 1.14 |
| | (4) whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest; | 1.15 |

| Paragraph | Requirement from PS1/22 | Section of the Scheme Report |
|---|---|---|
| | (5) the scope of the report; | 1.8 to 1.12 |
| | (6) the purpose of the scheme; | 1.1, 1.2 |
| | (7) a summary of the terms of the scheme in so far as they are relevant to the report; | Section 5 |
| | (8) what documents, reports and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided; | 1.19, Appendix 4: Documents considered |
| | (8A) any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible; | Sections 3 and 4 |
| | (9) the extent to which the independent expert has relied on:<br><br>(a) information provided by others; and | 1.19 and 1.20 |
| | (b) the judgement of others; | The parties have provided me with the legal and tax advice that they have received.<br><br>1.4 and 11.18 |
| | (10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable; | 1.19 and 1.20 |
| | (11) Their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:<br><br>(a) transferring policyholders; | Section 7 |
| | (b) policyholders of the transferor whose contracts will not be transferred; and | There are no such policyholders. |
| | (c) policyholders of the transferee; | Section 8 |
| | (d) any other relevant policyholder groupings within the above that the independent expert has identified. | 7.30 to 7.35 and 8.15 to 8.20 |
| | (12) Their opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme; | 9.1 to 9.5 |

| Paragraph | Requirement from PS1/22 | Section of the Scheme Report |
| --- | --- | --- |
| | (12A) their definition of 'material adverse' effect; | 1.10 to 1.12 |
| | (13) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme; and | Not applicable |
| | (14) for each opinion that the independent expert expresses in the report, an outline of their reasons. | Accompanying each conclusion |
| | (15) an outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders. | Not applicable |
| 2.31 | The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, reinsurers, and others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances. | Throughout |
| 2.31A | The independent expert is ultimately responsible and accountable for the opinions and conclusions expressed in the scheme report, including where reliance has been placed on others. Therefore where the independent expert has placed reliance on others, they must be clear why they are content to do so. | 1.19 and 1.20 |
| 2.32 | The summary of the terms of the scheme should include:<br><br>(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and | 3.39, 3.40, 5.10 |
| | (2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred. | Not applicable |
| 2.33 | The independent expert's opinion of the likely effects of the scheme on policyholders should:<br><br>(1) include a comparison of the likely effects if it is or is not implemented; | Sections 7 and 8. Section 12 discusses consequences of the Scheme not completing. |
| | (2) state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with; | 5.19 |

| Paragraph | Requirement from PS1/22 | Section of the Scheme Report |
|---|---|---|
| | (2A) analyse and conclude on how groups of policyholders are affected differently by the scheme, and whether such effects are material in the independent expert's opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion; | As required in sections 7, 8 and 9. |
| | (3) include their views on:<br><br>(a) the likely effect of the scheme at firm and policyholder level on the ongoing security of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing; | 7.2 to 7.29<br><br>8.2 to 8.14 |
| | (aa) the transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the event there is a material deterioration of their balance sheets; | 7.8 to 7.16 |
| | (aaa) the likely effects of the scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to emerge after the first year or that are not fully captured by the regulatory capital requirements; | 7.2 to 7.29<br><br>8.2 to 8.14<br><br>In particular, 7.26 to 7.29 and 8.14 |
| | (aaaa) whether the transferee'(s') existing (or proposed, where applicable) capital model would remain appropriate following the scheme; | 6.27 |
| | (b) the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, claims handling, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to:<br><br>(i) the security of policyholders' contractual rights; | 7.2 to 7.29<br><br>8.2 to 8.14 |
| | (ii) levels of service provided to policyholders; or | 7.36 to 7.38<br><br>8.21 to 8.23 |
| | (iii) for long-term insurance business, the reasonable expectations of policyholders; and | 7.30 to 7.35<br><br>8.15 to 8.20 |

| Paragraph | Requirement from PS1/22 | Section of the Scheme Report |
|---|---|---|
| | (c) the likely cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations; and | 11.17 and 11.18 |
| | (d) the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the scheme or related transactions. | 7.8 to 7.22<br><br>8.6 to 8.11 |
| 2.34 | The independent expert is not expected to comment on the likely effects on new policyholders, that is those whose contracts are entered into after the effective date of the transfer. | No requirements, only clarification. |
| 2.35 | For any mutual company involved in the scheme, the report should:<br><br>(1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders;<br><br>(2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and<br><br>(3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without | Neither party is a mutual company. |
| 2.36 | For a scheme involving long-term insurance business, the report should:<br><br>(1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits; | 8.18 to 8.20 |
| | (2) if any such rights will be diluted by the scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders; | Rights will not be diluted |
| | (3) describe the likely effect of the scheme on the approach used to determine:<br><br>(a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and | 8.18 to 8.20 |
| | (b) the levels of any discretionary charges; | 8.18 to 8.20 |
| | (4) describe what safeguards are provided by the scheme against a subsequent change of approach to these matters (in 2.36(1)–(3)) that could act to the detriment of existing policyholders of either firm; | 11.29 |

| Paragraph | Requirement from PS1/22 | Section of the Scheme Report |
|---|---|---|
| | (5) include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders; | Section 13 |
| | (6) state whether the independent expert is satisfied that for each firm, the scheme is equitable to all classes and generations of its policyholders; and | Section 13 |
| | (7) state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented. | 11.29 and 11.30 |
| 2.37 | Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the independent expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow them to understand in broad terms how the business will be run. The PRA expects the independent expert to comment on how any such plans (including other insurance business transfers involving the parties to the scheme) would impact the likely effects of the scheme at firm and policyholder level. | Not applicable |
| 2.38 | A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions they consider ought to be made, unless:<br><br>(1) the information required is not available and will not become available in time for their report, for instance it might depend on future events; or<br><br>(2) they are unable to report on this aspect in the time available.<br><br>Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of FSMA. The PRA considers any such reductions having regard to its statutory objectives. Section 113 of FSMA allows the court, on the application of the PRA, to appoint an independent actuary to report on any such post-transfer reduction in benefits. | No such proposal |
| 2.39 | The PRA expects the independent expert to provide a supplementary report for the final court hearing. Any supplementary reports will form part of the scheme report required to be produced under section 109 of FSMA and must also comply with 2.30-2.37. | I have undertaken to provide this in 1.25. |

| Paragraph | Requirement from PS1/22 | Section of the Scheme Report |
|---|---|---|
| 2.40 | The purpose of the supplementary report is for the independent expert to provide an update on any relevant new information or events that have occurred since the date of the scheme report and to provide an opinion on whether they have affected the transfer. Matters that should be considered include, but are not limited to:<br><br>(1) the most recent audited and unaudited available financial information in respect of the transferor and transferee, which the PRA would expect to have been internally validated;<br><br>(2) any recent economic, financial or regulatory developments; and<br><br>(3) any representations made by policyholders or affected persons that raise issues not previously considered in the scheme report. | I have undertaken to provide this in 1.25. |
| 2.40A | In circumstances where there has been a duration between the directions hearing and the final court hearing of six months or more, it may be appropriate for the independent expert to produce an updated scheme report rather than a supplementary report. The PRA would assess this report as set out in 2.27A. | Not applicable |

*Source: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-approach-to-insurance-business-transfers*

**Finalised Guidance FG22/1: The FCA's approach to the review of Part VII insurance business transfers**

| Paragraph | Guidance from FG22/1 | Section of the Scheme Report |
|---|---|---|
| 6.1 | The PRA is responsible for approving the form of the IE's report but it must consult us before doing so. Our review will not just be limited to a high-level check of whether the report covers the appropriate topics (see SUP 18 for details). It also aims to ensure that there has been detailed analysis and challenge of the Applicants' position, so we can be satisfied that it is appropriate for the Court to rely on the conclusions. | Information only, no requirements |
| 6.2 | The IE report should be easy to read and understandable by all its users and for the IE to pay attention to the following:<br>• Technical terms and acronyms should be defined on first use. | Throughout |
| | • There should be an executive summary that explains, at least in outline, the<br>proposed transfer and the IE's conclusions. | Section 2 |
| | • The business to be transferred should be described early in the report. | 1.1 |
| | • The detail given should be proportionate to the issues being discussed and the materiality of the transfer when seen as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long. | Throughout |
| | • IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand. | Throughout |
| 6.3 | IE reports should consider and compare:<br>• reasonable benefit expectations, including impact of charges | 7.30 to 7.35<br><br>8.15 to 8.20 |
| | • type and level of service. | 7.36 to 7.38<br><br>8.21 to 8.23 |
| | • management, administration and governance arrangements | 7.36 to 7.45<br><br>8.21 to 8.27 |
| | • where the scheme includes Employers' Liability/ Public Liability claimants and Run Off Claims, we expect the IE to include their view of the quality of the firms' Employers' Liability tracing arrangements | Not applicable |
| | • where there are significant changes during the process, for example due to pandemic or economic fluctuations, we expect the IE to have adequately reflected on these in the supplementary report or for firms to consider whether the proposal has materially altered and needs a fuller reconsideration or delay to the process | Not applicable |
| 6.4 | We also sometimes see an imbalance between factual description and supporting analysis. IE reports often include a very detailed description of the transaction and background but much less analysis of the effect on each Policyholder group's reasonable expectations. Our concern here is that the IE often uses the detailed description of the background to compensate for the lack of analysis and challenge of the Applicants. | Sections 6 to 9 |
| The level of reliance on the Applicants assessments and assertions | | |

| Paragraph | Guidance from FG22/1 | Section of the Scheme Report |
|---|---|---|
| 6.6 | IE should demonstrate that they have questioned the adequacy of the assessments. We may also expect the IE to have asked the Applicants to undertake additional work or provide more evidence to support their assertions to ensure that the IE can be satisfied on a specific point. | Throughout. See for example, 6.4, 7.19, 11.1, 11.3. |
| 6.7 | We expect the IE to explain any challenges they made to the Applicants about such underlying information and the outcome in their report, rather than just stating the final position. | Throughout |
| 6.8 | Where conclusions are supported solely or largely by statements like 'I have discussed with the firm's management, and they tell me that…' followed by 'I have no reason to doubt what they have told me…' In these circumstances:<br>• Where a feature of the proposed transfer forms a significant part of the IE's own assessment of the scheme's impact, we will ask the IE to review relevant underlying material. We do not expect them to just rely on the Applicants' analysis of the material and subsequent assertions.<br>• If there are concerns about matters that fall outside the IE's sphere of expertise, like legal issues, we expect the Applicants to give the IE any advice that they have received. If the issue is significant or remains uncertain, we expect the IE to make sure the Applicants obtained appropriate advice from a suitably qualified independent subject matter expert. | The parties have provided me with the legal and tax advice that they have received. |
| 6.9 | We also expect the IE to challenge calculations carried out by the Applicants if there is cause for doubt on review of the scheme and supporting documents. As a minimum, we will expect the IE to:<br>• review the methodology used and any assumptions made, to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate<br>• challenge the factual accuracy of matters that, on the face of the documents or considering the IE's knowledge and experience, appear inconsistent, confusing or incomplete | Section 6 |
| 6.10 | We also expect the IE to challenge the Applicants where the documents provided contain an insufficient level of detail or analysis. | Additional information has been requested when necessary |
| | Balanced judgements and sufficient reasoning | |
| 6.11 | IEs will sometimes state that they are satisfied by referencing certain features of the scheme … In these circumstances we will expect to see both the evidence and the IE's reasoning that led to their conclusion. | Throughout. See for example 10.34. |

| Paragraph | Guidance from FG22/1 | Section of the Scheme Report |
|---|---|---|
| 6.12 | We have also seen many examples of schemes where the Applicants have stated that there will be no material adverse impact to Policyholders. However, from the report it is unclear whether the IE is certain that there will most likely not be an adverse impact or whether it is their best judgement but lacks certainty. In these instances, we expect IEs to consider the following:<br>• Where the IE takes the view that there is probably no material adverse impact, we expect the IE to challenge the Applicants about further work they could undertake to enable the IE to be satisfied to a greater degree.<br>• We accept that it is not the IE's role to suggest a different scheme or propose changes to a scheme (unless it is to propose mitigations against possible harm). However, we believe that they should be able to challenge the Applicants to be confident that their report's conclusions are robust. Applicants and IEs should know that they will need to consider how any proposed changes/mitigations will affect all Policyholder groups. | Throughout |
| 6.13 | When finalising their report, we expect the IE to have checked that the documents they are relying, and forming judgements, on are the most up-to-date available. | Confirmed |
| 6.14 | Market conditions may have changed significantly since the IE's analysis was carried out and they formed their judgement. In these cases, we will expect the Applicants to discuss any changes with the IE and for the IE to update their report as necessary. | No significant changes. |
| Sufficient regard to relevant considerations affecting Policyholders | | |
| 6.15 | We will expect to see IE consideration of all relevant issues for each individual group of Policyholders in all firms involved, as well as how an issue may affect each group. Our expectations of the IE when giving their opinion include the:<br>• current and proposed future position of each Policyholder group<br>• potential effects of the transfer on each of the different Policyholder groups<br>• potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated | Sections 6and 8. |
| 6.16 | To support this, we will expect the IE to consider whether the groups of affected Policyholders have been identified appropriately. For example, this could include instances where certain Policyholder groups' services are provided by an outsourced function which is changing, but other Policyholder groups do not. | Sections 6 and 8. |
| 6.17 | We will also expect the IE to review and give their opinion on administrative changes affecting Policyholders and claimants. | 7.36 to 7.38<br><br>8.21 to 8.23 |
| 6.18 | Where the transferring business involves employers' liability policies the IE should consider the quality of the firms' tracing procedures. | Not applicable |
| 6.19 | IEs should also review and give their opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer. | No reinsurance was entered into in anticipation of transfer. |

| Paragraph | Guidance from FG22/1 | Section of the Scheme Report |
|---|---|---|
| 6.20 | The IE may identify particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected. Here we will want to see the IE take into account the Transferor's obligations under Principle 6 (Customers' interests) of our Principles for Businesses. | No such sub-groups. |
| 6.21 | When a loss is expected for a subgroup of Policyholders, we will expect to see IE consideration and analysis of alternatives, even if the IE does not consider this loss to be material. | No such sub-groups. |
| 6.22 | We will expect to see this analysis even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may. For example, we will expect to see this analysis where:<br>• some Policyholders within a group/sub-group will suffer higher charges post-transfer because the Transferee has a different charging structure<br>• some Policyholders within a group/sub-group had free access to helplines that will no longer be available or have a significantly altered service after the transfer | Not applicable |
| 6.23 | When an IE is assessing the potential material adverse impacts on various groups of Policyholders, we may feel they have reached their conclusion based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups. | Information only, no requirements |
| 6.24 | As a specific example, we might consider the right of Policyholders to make a claim on the FSCS following a cross-border general insurance transfer | Information only, no requirements |
| 6.25 | In summary, we expect to see the consideration, evidence of challenge, and reasoning to support the IE's opinion that a change due to the Part VII transfer will not materially and negatively affect a group of Policyholders. | Throughout |
| | Commercially sensitive or confidential information | |
| 6.26 | Often the IE will need to consider commercially sensitive or confidential information as part of their decision-making process. In these circumstances, we remind IEs of their duty as an independent expert to consider Policyholder interests, as this information will not be publicly available. Examples include:<br>• where 'whistle-blower' information relevant to the scheme received is forwarded to the IE by the firm<br>• where we are aware of enforcement action in progress with one of the Applicants | Additional information may be provided to the regulators as required. |
| 6.27 | In these situations, we expect to see the analysis and the information that is relied on and require it to be sent separately from the IE Report. It is also possible that the Court may want to see this information without it being publicly disclosed. The IE may wish to consider sending a separate document with further details, solely for the Court's use and not for public disclosure. Please note that this is at the Court's discretion. | |

| Paragraph | Guidance from FG22/1 | Section of the Scheme Report |
|---|---|---|
| | The level of reliance on the work of other experts | |
| 6.28 | For large scale and complex insurance business transfers we accept that the IE may rely on the analytical work of other qualified professionals, often to prevent their own work becoming disproportionately time consuming. However, we will still expect the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work. | The parties have provided me with the legal and tax advice that they have received. |
| 6.29 | We expect the IE to have obtained a copy of relevant significant legal advice given to the Applicants, subject to appropriate arrangements to safeguard any legal professional privilege. This should be in writing or transcribed, and approved by the advisor. It should also be in a final form for the IE to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report. | Confirmed |
| 6.30 | The IE may refer to factors that are outside their sphere of expertise and rely on advice received by the Applicants. They should consider whether or not to get their own independent advice on the relevant issue. This situation occurs most often with legal advice, and we discuss our expectations in further detail below. | 1.20 |
| 6.31 | We accept that it is not necessary for IEs to get separate independent legal advice in all cases. However, we do expect that the IE will have given due consideration to whether or not they need to get their own advice | |
| 6.32 | The IE's key consideration is whether it is reasonable for them to rely on the advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. We may challenge IEs who rely on the Applicants' legal advice and merely state they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers. Our decision to challenge will depend on how complex the legal issue is | These factors have been taken into consideration when reaching the conclusion in 1.20 |
| 6.33 | In deciding whether to get independent legal advice, we will expect the IE to consider, amongst other things, the following:<br>• The significance of the issue and the degree of potential adverse effect on Policyholders if the position turns out to be different from what the legal advice considers likely.<br>• How much the IE relies on the legal advice to reach their conclusions. Also, if they did not rely on the legal advice, will the report contain too little information to justify the view that there is no material adverse impact?<br>• The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances.<br>• Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks. | |
| 6.34 | Alternatively, the IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point | 1.20 |

| Paragraph | Guidance from FG22/1 | Section of the Scheme Report |
|---|---|---|
| 6.35 | Finally, the IE should consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders. This could require further legal advice to explain how Policyholders may be affected or additional proposals to mitigate the risks. | Not applicable |
| | Ambiguous language or a lack of clarity | |
| 6.42 | At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. We will look for any overly general reliance, as it indicates a lack of critical assessment or challenge | 1.17 to 1.25 |
| 6.43 | Some examples we have seen and challenged IEs on include:<br>• Where a conclusion in the report is that the IE 'takes comfort' from certain matters, as opposed to 'being satisfied' having taken various matters into account.<br>• Where the conclusion is uncertain. For example, 'I am satisfied that there is no material adverse effect. However...' but it is unclear how the qualification affects or undermines the conclusion.<br>• Where the conclusions are caveated, we will review whether these are reasonable in the circumstances. If the caveats involve areas that the IE has not considered, we will consider if it is reasonable for them not to do further work to satisfy themselves and remove the caveat.<br>• It is also important that the caveat does not undermine the report or the IE's ability to be satisfied on the relevant point. For example, the conclusion may be caveated by 'on the basis of information provided to me'. In these cases, we may ask if the IE should be carrying out their own analysis of the underlying documentation or if they require further information or documentation to be satisfied without making a qualification. | Information only, no requirements |
| 6.44 | In summary, where the report does not seem to reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly:<br>• That the IE has considered and is satisfied about the likely level of impact on a specific point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty. It should also include any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert.<br>• How the IE satisfied themselves about the uncertainty they have identified and how they have formed an opinion on any potential impact. | Not applicable |

| Paragraph | Guidance from FG22/1 | Section of the Scheme Report |
|---|---|---|
| | Demonstrating challenge | |
| 6.45 | To ensure the IE report is complete, thorough and considered we expect to see challenge from all involved parties. This includes evidence that Applicants have made appropriate challenges, especially where they believe there are issues the IE has not fully addressed. It is in Applicants' interests to make sure that the Court, regulators and Policyholders can rely on the IE report, taking into account the IE's disclaimers. We consider that Applicants can make these challenges without compromising the IE's independence. We expect a confirmation that the near-final version of the IE's report had the relevant challenge at the time it was submitted. | The parties have reviewed drafts of the Scheme Report |
| 6.46 | To ensure effective two-way challenge we will expect the IE to engage with FCA or PRA- approved senior management function holders at the Applicant firm. This can be senior actuaries, including possibly the Chief Actuary, the CFO or Senior Underwriters. | Engagement through regular meetings and sharing drafts |
| 6.47 | The Applicants should also check the draft IE report before submission to the regulators and make sure it is accurate. | Confirmed |
| | Technical actuarial guidance | |
| 6.48 | We expect IEs who are both qualified and unqualified members of the Institute & Faculty of Actuaries to pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, especially those for compiling actuarial reports. | 1.26 to 1.28 |
| 6.49 | The revised versions of the TAS which came into force with effect from 1 July 2017 (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance) specifically applies to technical actuarial work to support Part VII transfers. | 1.26 to 1.28 |
| 6.50 | It is important to note paragraph 5 of TAS 100 states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information'. We also highlight paragraph 5.2 of TAS 100 which states that 'the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'. | 1.26 to 1.28 |
| 6.51 | Qualified IEs and peer reviewers should also note the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries. IEs and peer reviewers should adhere to the required standards of their professional body at the time when they do the work | 1.26 to 1.28 |
| | Review of the communications strategy | |
| 7.3 | We expect IEs to include consideration of the proposed communications strategy and any supporting requests for dispensations from the Transfer Regulations in their report. We also expect to see evidence that the IE has challenged proposed communications that are not clear and fair and do not adequately explain the transfer and the potential effect on Policyholders and how this is addressed. | Section 10 |

*Source: https://www.fca.org.uk/publications/finalised-guidance/fg22-1-fcas-approach-review-part-vii-insurance-business-transfers*

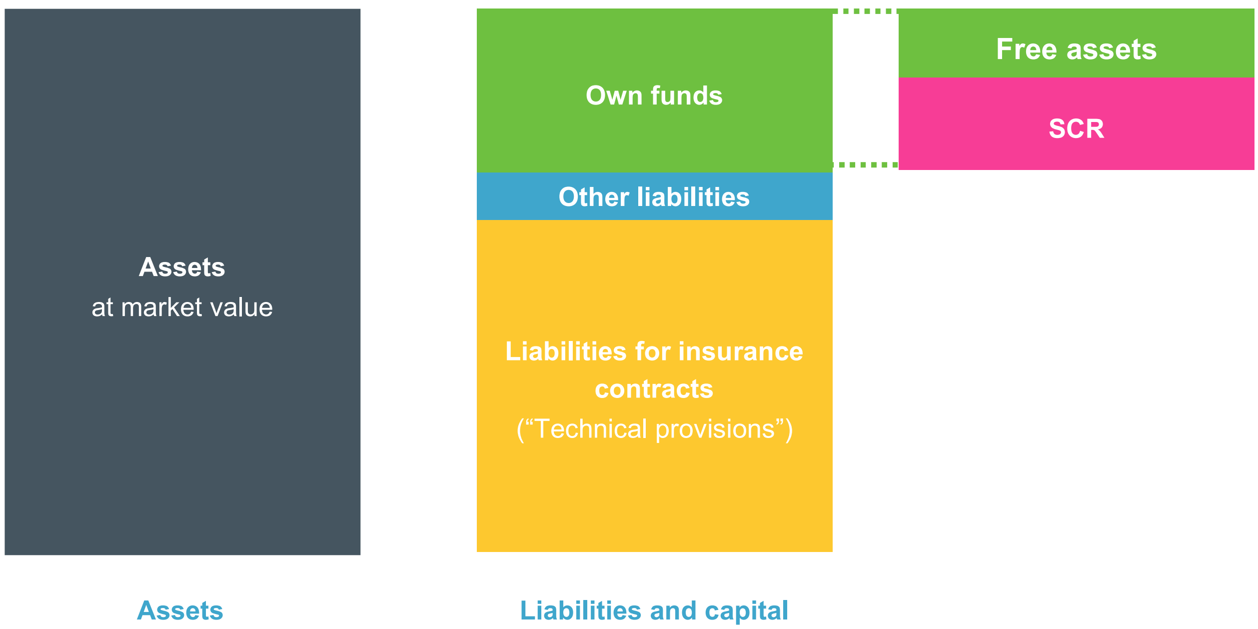
# Appendix 6: UK prudential regulatory regime

A6.1. In this Appendix, we explain in general simplified terms some of the key elements of the current solvency regime for UK-based insurance companies, which is termed "Solvency II". The regime is currently identical to that with which insurers in the European Union are required to comply, the legislation having been written into UK law after Brexit.

A6.2. An insurer is required to hold assets the value of which exceeds the value of its liabilities, where both assets and liabilities are valued in accordance with the regulations. The regulatory value of assets is generally based on market values while the regulatory value of liabilities is generally assessed on a best estimate market-consistent basis.

A6.3. In addition to holding assets sufficient assets to cover the value of its liabilities, an insurer must maintain a certain amount of excess assets over and above the value of its liabilities. This works by first calculating the amount of "Own Funds" an insurer has, broadly defined as the value of its assets less the total value of its liabilities. This is then compared to the amount of Own Funds that the insurer is required to have, referred to as the "Solvency Capital Requirement" ("SCR").

**Figure A6.1 Illustrative insurance company balance sheet**




### Balance sheet liability

A6.4. Life insurers are required to establish reserves for future benefit payments and expenses, referred to as "Technical Provisions". Technical Provisions are intended to represent the amount that the insurer would need to pay to immediately discharge its obligations by transferring the business to another insurer in an arm's length transaction. Since the price of such a transaction is not readily observable in the financial markets, a theoretical transfer value is determined, equal to a Best Estimate Liability plus a component called the "Risk Margin". The basic tenet of the balance sheet presentation is that it is market consistent: assets are valued at the values achievable in the market and the Technical Provisions are derived using inputs from financial markets.

### Best estimate liability

A6.5. The Best Estimate Liability ("BEL") is calculated by projecting future cash flows using assumptions that are neither optimistic nor pessimistic. The discount rate that is used to place a present value on these cash flows is equal to the risk-free interest rate, with the basic risk-free rate being based on swap yields.

### Risk Margin

A6.6. The Risk Margin is the amount added to the BEL to bring the Technical Provisions up to the theoretical transfer value. It is calculated based on the idea that, as well as the expected cost of paying the benefits and expenses, the hypothetical insurer taking on the business would also incur the cost of holding capital against those risks that it cannot hedge. The Risk Margin is the present value, using the basic risk-free curve, of the cost, mandated by Solvency II at 6% pa, associated with holding this capital.

A6.7. "Non-hedgeable" risks primarily relate to insurance risks such as mortality, longevity, persistency and expenses. In practice of course, insurers can take steps to hedge their exposure to these risks by, for example, using reinsurance. The regulations are based on the assumption that the markets for transferring these risks are not sufficiently deep, liquid and/or transparent for the risks to be classed as "hedgeable". (For the avoidance of doubt, the phrases "hedgeable risks" and "non-hedgeable risks" are not used in the regulations. I used them here only to aid my explanation.)

### Adjustments permitted to the basic approach for calculating Technical Provisions

A6.8. Insurers can apply to the PRA for permission to use a number of adjustments which are allowed under Solvency II, the purpose typically being to ensure a more stable balance sheet position or to smooth in the implementation of Solvency II. The main adjustments include a "Matching Adjustment" and a "Volatility Adjustment", both of which are adjustments to the risk-free rate used to value certain classes of business, and the Transitional Measure on Technical provisions ("TMTP").

### Matching Adjustment

A6.9. As described above, the standard approach when determining the BEL is to discount future liability cash flows using the so-called "basic risk-free rate", this being a prescribed discount rate based on swap yields.

A6.10. For certain lines of business, a Matching Adjustment may be added to the basic risk-free rate when the insurer has regulatory approval to do so. The quantum of the Matching Adjustment is derived from the spread on the assets held by the insurer to back the relevant business.

A6.11. The Matching Adjustment is typically used in the valuation of annuities in payment and deferred annuities.

A6.12. Insurers must meet a number of requirements in order to receive regulatory approval to apply the Matching Adjustment.

### Volatility Adjustment

A6.13. For lines of business where the Matching Adjustment is not incorporated in the liability discount rate, insurers may apply for regulatory approval to incorporate a Volatility Adjustment in the discount rate instead.

A6.14. Like the Matching Adjustment, the Volatility Adjustment is an addition to the basic risk-free rate, although the magnitude of this addition is generally lower for Volatility Adjustment than for the Matching Adjustment.

A6.15. The requirements for obtaining regulatory approval to use the Volatility Adjustment are generally less onerous than the requirements relating to the Matching Adjustment.

A6.16. The Volatility Adjustment is most commonly used in the valuation of annuities in payment and deferred annuities (other than those for which the Matching Adjustment is used); certain with-profits liabilities including guarantees, and protection business.

### Transitional Measure on Technical Provisions

A6.17. Insurers may apply for regulatory approval to use the TMTP in the valuation of business written before Solvency II came into force.

A6.18. TMTP is a deduction from the Solvency II Technical Provisions. The size of this deduction was initially calculated when Solvency II came into force on 1 January 2016. At this date, the maximum value of the deduction was equal to the difference between the Solvency II Technical Provisions and the Technical Provisions calculated in accordance with the previous regulatory regime.

A6.19. The size of the deduction was capped so the total "financial resources requirement" under Solvency II, after TMTP had been taken into account, was no lower than the equivalent measure under the previous regulatory regime. The "financial resources requirement" is generally taken to mean the sum of the Technical Provisions, other liabilities and capital requirements.

A6.20. Having established the size of the TMTP on 1 January 2016, insurers are required to linearly reduce its value over the 16-year period from 1 January 2016 to 1 January 2032.

A6.21. In addition to this gradual reduction, insurers may also apply for regulatory approval to recalculate the value of TMTP to reflect changes in their business, in the financial markets, or other operating conditions. These recalculations generally occur every two years from the start of Solvency II, or following a material change in a firm's risk profile.

### Own Funds

A6.22. Own Funds are broadly defined as assets less liabilities, although subordinated debt may also count as Own Funds if it meets certain requirements.

A6.23. Solvency II ranks Own Funds according to quality based on three properties:

- Loss absorbency: higher quality Own Funds (such as share capital) can absorb losses while the insurer is still a going concern.
- Subordination: the more subordinated the Own Funds, the higher its quality.
- Term: longer-dated obligations are higher quality than shorter dated ones.

A6.24. Based on these properties, the regulations rank Own Funds into four "tiers" as shown in Figure A6.2 below.

**Figure A6.2 Tiering of Own Funds**

| Tier | Typical examples |
|---|---|
| “Unrestricted” Tier 1 (highest quality) | Share capital, retained earnings |
| “Restricted” Tier 1 | Perpetual subordinated debt that meets certain criteria, including the ability to absorb losses while the insurer is still a going concern (e.g. by being written down if the firm suffers a stress event) |
| Tier 2 | Dated subordinated debt |
| Tier 3 | Deferred tax assets. Insurers are permitted to include deferred tax assets on their regulatory balance sheets. This increases the excess of assets over liabilities and thus increases Own Funds. However, these Own Funds are considered only to be of Tier 3 quality. |

A6.25. There are limits around how much Restricted Tier 1, Tier 2 and Tier 3 Own Funds may be counted when determining an insurer’s solvency. Own Funds that satisfy these limits are referred to as “Eligible Own Funds”. The limits are:

- the total amount of Tier 2 and Tier 3 Own Funds can be no more than half of the amount of the SCR,
- the total amount of Tier 3 Own Funds can be no more than 15% of the amount of the SCR, and
- No more than 20% of the total Tier 1 Own Funds can be made up of Restricted Tier 1 items (any Restricted Tier 1 Own Funds above this amount are re-categorised as Tier 2).

### Solvency Capital Requirement

A6.26. The regulations require an insurer to maintain a level of capital in excess of its Technical Provisions, this being referred to as the “Solvency Capital Requirement” (“SCR”). It is calculated by determining the amount by which the insurer’s Own Funds could fall over the course of one year such that the probability that the fall in Own Funds exceeds the SCR is 0.5%. The SCR is sometimes described as the amount by which Own Funds would fall following a “1-in-200 one-year event”.

### Standard Formula

A6.27. The SCR may be determined using either a standard model (referred to in Solvency II as the “Standard Formula”) or the firm’s own internal model.

A6.28. The Standard Formula sets out prescribed stresses to each of the main risk categories which impact either the BEL or the value of the assets. Each prescribed stress represents a 1-in-200 one-year event but, since it is unlikely that all of the stresses will occur to this extent at the same time, a process (called “diversification”) is applied to produce a lower capital requirement than the amount arrived at by simply adding up the individual capital components.

A6.29. Since the Standard Formula is intended to be generally appropriate, if firms consider that it does not adequately reflect the nature of the risks to which they are exposed in the context of the controls that they operate, then they may develop an internal model to provide a better fit. The insurer must apply to the PRA for approval to use an internal model. The regulations impose tests and standards on a firm’s internal model and the PRA must consider whether these have been met before granting approval. The internal model is not simply about the risk calibration and the capital calculation, but a wider-ranging model of risk governance and management.

### Minimum Capital Requirement

A6.30. As well as the SCR, the regulations also require an insurer to maintain a Minimum Capital Requirement ("MCR") which is typically lower than the SCR. The MCR is calculated as the sum of various components, each of which is a percentage of a particular metric relating to the firm in question such as Technical Provisions, written premiums and administration expenses incurred. This amount is then subject to a floor of 25% of the SCR and a cap of 45% of the SCR, all the while subject to an absolute minimum value of €4.0m (equivalent to c.£3.4m as at 31 December 2022).

### Regulatory intervention

A6.31. If an insurer's Eligible Own Funds fall below the value of its SCR, then it must submit a recovery plan to the PRA within two months which sets out the measures that the insurer intends to take to restore compliance with the SCR within a period of six months.

A6.32. If an insurer's Eligible Own Funds fall below the value of its MCR then it must submit a short-term finance scheme to the PRA within one month which must restore compliance with the MCR within a period of three months. If the PRA regards the finance scheme as being "manifestly inadequate", or if it subsequently transpires that the finance scheme fails to restore compliance with the MCR within the three-month period, then the PRA will withdraw authorisation to carry on insurance business.

# Appendix 7: Chesnara risk definitions

A7.1. In this Appendix, we set out the definitions for the risks faced by CASLP and Countrywide Assured, as defined in the Chesnara Group risk taxonomy.

A7.2. **Interest rate risk:** the risk that relates to the sensitivity of the values of assets, liabilities and financial instruments to:

- parallel shift in the yield curve with interest rates changing at the same rate across bonds of different duration;
- changes in the relationship between interest rates of different terms;
- changes in the EIOPA long-term interest rate used to discount liabilities under SII (the Ultimate Risk Free Rate is a long-term fixed rate representing yields beyond which there is available market data to derive from market instruments);
- changes in the volatility of market interest rates; and
- the difference between the fixed rate component of a given swap and the yield on a Treasury item or other fixed-income investment with a similar maturity.

A7.3. **Equity risk:** the risk that relates to the sensitivity of the values of assets, liabilities and financial instruments to changes:

- in the level of market prices of equities; and
- in the volatility of market prices of equities,

A7.4. **Property risk:** the risk that relates to the sensitivity of the values of assets, liabilities and financial instruments to changes:

- in the level or in the volatility of market prices of property; and
- in the volatility of market prices of property.

A7.5. **Spread risk:** the risk that relates to the sensitivity of the values of assets, liabilities and financial instruments to changes:

- in the level of credit spreads over the risk-free interest rate term structure; and
- in the volatility of credit spreads over the risk-free interest rate term structure.

A7.6. **Concentration risk:** the risk stemming from:

- concentration of default risk with a single counterparty;
- geographical concentration of counterparties;
- excess investment in a single industry; and
- general lack of diversification in the asset portfolio.

A7.7. **Currency risk:** the risk that relates to the sensitivity of the values of assets, liabilities and other financial instruments to changes:

- in the level of currency exchange rates; and
- in the volatility of currency exchange rates.

A7.8. **Counterparty default risk:** the risk relating to:

- Risks arising from a reinsurance counterparty not meeting their commitments
- Risks arising from an outsourcer counterparty not meeting commitments
- Risks arising from a supplier not meeting commitments
- Risks of a Bank Deposit counterparty not meeting commitments
- Risks of a Corporate counterparty not meeting commitments
- Risks of a Government (Domestic) counterparty not meeting commitments
- Risks of a Government (Non-domestic) counterparty not meeting commitments; and
- Risks of a Derivative counterparty not meeting commitments.

A7.9. **Mortality risk:** the risk of adverse financial business outcomes where an increase in the mortality rate leads to an increase in claims and/or the value of insurance liabilities resulting from:

- changes in the level of mortality rates;
- changes in the trend of mortality rates; and
- an outbreak of a pandemic disease resulting in a one-off spike in claims.

A7.10. **Longevity risk: the risk of adverse financial business outcomes where a decrease in the mortality rate leads to an increase in the value of insurance liabilities resulting from:**

- changes in the level of mortality rates;
- changes in the trend of mortality rates;
- changes in the volatility of mortality rates.

A7.11. **Disability risk: the risk of adverse financial business outcomes, resulting from:**

- changes in the level of disability, sickness and morbidity rates;
- changes in the trend of disability, sickness and morbidity rates; and
- changes in the volatility of disability, sickness and morbidity rates.

A7.12. **Expense risk: the risk of adverse financial business outcomes, resulting from:**

- increase in the base expenses incurred in servicing insurance or reinsurance contracts;
- changes in the trend of the expenses incurred in servicing insurance or reinsurance contracts;

- a change in the impact of inflation on the expenses;
- changes in the volatility of the expenses incurred in servicing insurance or reinsurance contracts; and
- a single unexpected material expense occurrence.

A7.13. **Lapse risk: the risk of adverse financial business outcomes, resulting from:**

- changes in the level of the rates of policy lapses, terminations, renewals and surrenders;
- changes in the trend of the rates of policy lapses, terminations, renewals and surrenders; and
- a one-off spike in the amount of immediate lapses.

A7.14. **Catastrophe risk: the risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events.**

A7.15. **Operational risk: the risk relating to:**

- Risk of adverse impacts on key business outcomes and/or financial performance arising from conduct-related issues;
- Risk of regulatory censure or business interference;
- Risk of adverse impacts on key business outcomes and/or financial performance arising from people-related issues;
- Risk of adverse impacts on key business outcomes and/or financial performance arising from the execution of key processes;
- Risk of adverse impacts on key business outcomes and/or financial performance arising from the financial crime;
- Risk of adverse impacts on key business outcomes and/or financial performance arising in relation to Countrywide Assured's physical assets.

A7.16. **Income Protection risk: the risk of adverse financial business outcomes, resulting from:**

- frequency of insured events higher than expected;
- severity of insured events higher than expected; and
- timing (occurrence and duration) of claim settlements.

A7.17. **Unemployment risk: the risk of adverse financial business outcomes, resulting from:**

- frequency of insured events higher than expected;
- severity of insured events higher than expected; and
- timing (occurrence and duration) and amount of claim settlements.

A7.18. **Revision risk: the risk of adverse variation of an annuity value during the next year, where that annuity is already in payment as a result of a non-life claim but where revision is necessary on account of an unanticipated worsening of the underlying claim condition due to:**

- fluctuations in the level of the revision rates applied to annuities;
- fluctuations in the trend of the revision rates applied to annuities; and
- fluctuations in the volatility of the revision rates applied to annuities.

A7.19. **Derivative risk: the risk relating to the sensitivity of the value of derivatives or effectiveness of the derivative arising from changes:**

- in the level of prices of the assets or instruments on which the derivative is based;
- in the volatility of prices of the assets or instruments on which the derivative is based; and
- in the value of the future assets underlying the derivatives value compared with the liability it is intended to hedge.

A7.20. **Liquidity risk: the risk of being unable to meet financial obligations due to:**

- timing of commitments being inconsistent with expectation or planning; and
- lack of available liquid assets.

A7.21. **Interdependency risk:** the risk arising from the relationships between different asset classes resulting in the probability or impact of one adverse movement being combined with another, including:

- High dependence resulting in adverse movement in one asset resulting in a high likelihood of another asset value declining, meaning the impact of adverse movements in one or more assets results in non-linear impact on the financial results. For example, the combined impact of two asset stresses occurring at the same time is greater than the sum of the two when applied in isolation.

A7.22. **Reinvestment risk:** the risk of adverse financial outcomes resulting from movements in the market resulting in rates of return achievable differing to that assumed:

- when assessing the return on new investments, such as the assumed return achievable on new premiums; and
- When assessing the reinvestment rate on maturing existing investments.

A7.23. **Design risk:** the risk of poor business outcomes stemming from ineffective strategy design caused by:

- inaccurate assumptions;
- modelling errors;
- poor choices or judgements; and
- insufficient diversification.

A7.24. **Execution risk:** the risk of poor business outcomes through ineffective execution of strategy stemming from:

- poor or inconsistent reputation;

- ineffective business planning;
- failing to achieve divestments defined in the business strategy;
- a corporate structure that is not aligned to successfully execute the strategy;
- ineffective corporate governance;
- insufficient shareholder communication resulting in mismanagement of expectations or loss of support from shareholders; and
- lack of competitiveness affecting profit margins or ability to transact in chosen markets.

A7.25. **External change risk:** the risk of adverse impacts on key business outcomes and/or financial performance stemming from material changes in:

- the legislative environment, including taxation law;
- the political environment and it's requirements of the market/business;
- the regulatory environment;
- culture and society behaviour; and
- the climate such as heatwaves, flood, wildfire, storms, increased weather variability, rising mean temperature and sea level rises.

A7.26. **Internal change risk:** the risk of adverse impacts on key business outcomes and/or financial performance stemming from:

- ineffective implementation of operational/business changes;
- late implementation of operational/business changes; and
- above budget implementation of operational/business changes.

A7.27. **Strategic acquisition capability risk:** the risk of reduced capability to complete acquisitions stemming from:

- lack of availability of business/books for sale or lack of awareness of their availability;
- the impact of material cumulative sunk due diligence costs where the acquisition does not proceed;
- lack of available funding/cash to finance an acquisition, or lack of funding available at a satisfactory price;
- insufficient Group skilled people to support due diligence completion or integration of acquisitions;
- insufficient Divisional resourcing to support completion or integration of acquisitions;
- insufficient target resourcing to support completion or integration of acquisitions without risking expected value;
- local or group regulatory challenges to deals resulting in delays or blockages, unreasonable terms (e.g. buffers) or increased costs; and

- lack of support from shareholders to the strategy or to specific acquisitions.

A7.28. **Strategic acquisition execution risk:** the risk of poor execution of acquisition arising from:

- ineffective or untimely governance or financial position and prospects activity;
- untimely, inaccurate and ineffective completion of payment;
- failure in taking ownership for critical IT systems or data in a timely and effective manner;
- failure to secure physical assets/facilities in a timely and effective manner;
- failure to successfully transfer target contracts in a timely and effective manner or meet transferred contractual rights and obligations;
- failure to successfully take ownership of processes from target in a timely and effective manner;
- failure to successfully secure Business Continuity/Disaster Recovery capability in a timely and effective manner;
- negative impact of brand value/reputation of either target or Group;
- insufficient or untimely communications with existing or new staff resulting in poor staff retention;
- insufficient or untimely communications with existing or new distributors resulting in loss of distribution capability;
- insufficient or untimely communications with existing customers resulting in material drop in their retention; and
- ineffective warranty / indemnity in the circumstances that these need to be used.

A7.29. **Strategic acquisition benefits realisation risk:** the risk that benefits are not realised following execution as a result of:

- failing to deliver fair customer outcomes during or after the acquisition process;
- failing to maintain customer service levels during or after the acquisition process;
- price being paid or decision taken based on inaccurate data resulting in reduced value, profit or cash flow;
- price being paid or decision taken based on misinterpreted data resulting in reduced value, profit or cash flow;
- price being paid or decision taken without taking account of key data available or the key data/information is not available resulting in reduced value, profit or cash flow;
- new business volumes / profits decline as a result of the acquisition compared with the acquisition assumption;
- scale economy targets (value/timescales)/consolidated entity projected outcomes not being achieved resulting in reduced value, profit or cash flow;
- regulatory objectives are not met as a result of the acquisition resulting in censure or business interruption;

- a difference in assumptions versus experience resulting in the value of business being lower than expected;
- asset quality is not as expected resulting in the value of business being lower than expected; and
- unexpected costs or redress arising from issues occurring pre-completion resulting in the value of business being lower than expected.

A7.30. **Infrastructure failure risk:** the risk of adverse impacts on key business outcomes and/or financial performance stemming from:

- IT application failure and unsupported applications;
- loss of servers or reliable access to them, the data they contain or functionality etc;
- loss of email exchange server or reliable, multi-location access to it;
- data storage failure or unreliable access to data storage;
- network failure or unreliable performance of it;
- failures in IT utility service including data communications, mobile communications and maintenance agreements;
- failures in the recovery of systems and data;
- destruction of IT assets through fire, flood, explosion etc; and
- failure to maintain adequate licenses to enable lawful business functioning.

A7.31. **Cyber attack risk:** the risk of adverse impacts on key business outcomes and/or financial performance stemming from:

- software which is specifically designed to disrupt, damage or gain access to a computer system for ransom or destruction purposes;
- emails purporting to be from reputable companies in order to induce individuals to reveal information;
- multiple compromised systems attacking a target, such as a server, website or other network resource;
- unauthorised intrusion into single or multiple computer(s) or a network;
- unauthorised access by any party through manipulation of hardware/firmware;
- stolen certificates procured and utilised to achieve unsolicited access to systems or applications;
- spies and informants obtaining confidential information or system access;
- exploiting vulnerabilities in archaic hardware;
- attacks on third-party service providers' IT systems; and
- advanced persistent threats whether targeted or otherwise.

A7.32. **Policyholder data security risk:** the risk of adverse impacts on key business outcomes and/or financial performance stemming from:

- insecure storage of policyholder data;
- holding inaccurate policyholder data;
- sustained or repeated loss of access to policyholder data;
- permanent loss of policyholder data;
- misplaced or leaked policyholder data; and
- corruption of existing policyholder data arising through data input errors or processing failures.

A7.33. **Corporate data security risk:** the risk of adverse impacts on key business outcomes and/or financial performance stemming from:

- insecure storage of confidential company data;
- holding inaccurate company data;
- sustained or repeated loss of access to company data;
- permanent loss of confidential;
- misplaced or leaked confidential company data; and
- corruption of existing corporate data arising through data input errors or processing failures.

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